"MOLIYA, PUL VA KREDIT"
mahalliy va xalqaro miqyosidagi ilmiy-ommabop elektron jurnal
2025-yil, sentabr-oktabr. №1-son
@mpk_journal
https://mpkjournal.com

ISSUES OF ENHANCING THE LIQUIDITY OF GOVERNMENT SECURITIES AND PROMOTING INVESTOR PARTICIPATION

DAVLAT QIMMATLI QOG'OZLARINING LIKVIDLIGINI OSHIRISH HAMDA INVESTORLAR ISHTIROKINI FAOLLASHTIRISH MASALALARI

[1]Kholikov Khamidulla Vaydulla ugli

[1]PhD, Senior specialist, The Central Bank of the Republic of Uzbekistan
G-mail: *khamidullakholikov@gmail.com*

Abstract
Annotatsiya

Eng. - This article analyzes strategies for improving market liquidity and expanding the investor base, with a primary focus on institutional, regulatory, and operational measures. It also emphasizes the importance of ensuring transparency in the issuance process, diversifying types of government securities, developing an active trading environment in the secondary market, and broadening the participation of institutional and retail investors. Drawing on international experience, the article provides practical recommendations for emerging economies, particularly based on Uzbekistan's ongoing reforms aimed at developing the national government securities market and enhancing the depth of the financial system.

Uzb. - Ushbu maqolada bozor likvidligini yaxshilash va investorlar bazasini kengaytirish strategiyalari tahlil qilinadi, bunda institutsional, normativ-huquqiy va operatsion choralar asosiy e'tiborga olinadi. Shuningdek, maqolada emissiya jarayonining shaffofligini ta'minlash, davlat qimmatli qog'ozlari turlarini diversifikatsiya qilish, ikkilamchi bozorda faol savdo muhitini rivojlantirish hamda institutsional va chakana investorlar ishtirokini kengaytirish zarurligiga alohida urg'u beriladi. Xalqaro tajribaga tayangan holda, maqolada rivojlanayotgan mamlakatlar uchun, xususan O'zbekistonning milliy davlat qimmatli qog'ozlari bozorini rivojlantirish va moliya bozorini yaxshilash yo'lidagi islohotlari asosida, amaliy tavsiyalar ilgari surilgan.

Keywords:
Kalit so'zlar:

❖ *government securities, market liquidity, investor participation, primary market, secondary market, public debt management, financial market development, emerging economies.*

❖ *davlat qimmatli qog'ozlari, bozor likvidligi, investorlar ishtiroki, birlamchi bozor, ikkilamchi bozor, davlat qarzini boshqarish, moliya bozorini rivojlantirish, rivojlanayotgan mamlakatlar.*

Introduction.

The enhancement of liquidity and the promotion of investor participation in the primary and secondary markets for government securities are fundamental pillars of a well-functioning financial system. A liquid and transparent government securities market not only ensures the efficient financing of fiscal deficits but also strengthens monetary policy transmission, supports financial stability, and provides a benchmark yield curve for the development of private capital markets.

Globally, government securities account for a significant share of financial assets – representing over 40% of total outstanding bonds worldwide according to the Bank for International Settlements (BIS, 2024) – highlighting their central role in the structure of modern financial systems.

Market liquidity, defined as the ability to buy or sell securities quickly without causing significant price changes, is crucial for ensuring investor confidence and reducing borrowing costs for governments. According to the International Monetary Fund data, countries with deeper and more liquid domestic bond markets experience up to 20% lower borrowing spreads compared to those with less developed markets. This underscores the importance of active secondary markets and diverse investor bases, including banks, pension funds, insurance companies, and retail investors, in supporting stable and efficient public debt markets.

In emerging economies, the development of liquid government securities markets faces several challenges, including limited investor diversity, insufficient market-making activity, and inadequate trading infrastructure. Despite these challenges, progress is being made: the size of local currency government bond markets in emerging economies has increased from USD 11 trillion in 2010 to over USD 23 trillion in 2023 (World Bank, 2024), reflecting growing recognition of their role in mobilizing domestic savings and supporting fiscal sustainability.

For Uzbekistan, improving liquidity and investor participation in the government securities market is a strategic component of its ongoing economic and financial reforms. Since the reintroduction of domestic government bonds in 2018, the market has expanded steadily, with increasing issuance volumes and growing participation from commercial banks and institutional investors. However, challenges remain in fostering active secondary trading and broadening the investor base beyond the banking sector. Strengthening transparency, developing an efficient market infrastructure, and implementing incentives for long-term investors are key to transforming Uzbekistan's government securities market into a deep, liquid, and inclusive segment of the financial system.

Ultimately, enhancing liquidity and encouraging investor participation are not only technical objectives – they are essential for building fiscal resilience, reducing financing costs, and supporting sustainable economic development. Drawing on international best practices and empirical evidence, this article aims to analyze the institutional and policy measures required to advance these goals in the context of emerging economies, with a particular focus on Uzbekistan's evolving government securities market.

Literature Review.

The efficiency and liquidity of government securities markets are central to the effectiveness of public debt management and financial stability. Liquidity, as defined by Kyle (1985), refers to the market's ability to absorb large transactions with minimal impact on prices. High liquidity lowers transaction costs, facilitates price discovery, and enhances investor confidence. According to Amihud and Mendelson (1991), liquid markets attract more investors by providing flexibility and reducing the cost of trading, creating a virtuous cycle of participation and stability [1; 2].

The structure of the primary market plays a critical role in shaping liquidity outcomes. Duffie (1996) emphasizes that predictable issuance patterns, transparent auction procedures, and credible government communication help build investor trust and ensure stable demand. Similarly, Greenwood and Vayanos (2014) argue that governments should manage debt issuance strategically to create benchmark bonds that serve as reference points for pricing and encourage secondary market trading [3; 4].

In the context of secondary markets, Fleming (2003) finds that the presence of market makers and electronic trading platforms significantly enhances liquidity by narrowing bid–ask spreads and increasing trading frequency. Pagano (1989) further highlights the role of information dissemination and transparency, arguing that investors are more willing to trade in markets where information asymmetry is minimized [5; 6].

Investor participation is another crucial determinant of market depth. Allen and Gale (1994) and Holmström and Tirole (1998) note that a diverse investor base – including commercial banks, pension funds, insurance companies, and retail investors –improves market efficiency and risk distribution. Pension funds and insurance companies, in particular, provide stable long-term demand that enhances liquidity and reduces volatility [7; 8].

Empirical research by Hördahl and Tristani (2014) demonstrates that liquidity is positively associated with macroeconomic stability and predictable monetary policy. Stable inflation and interest rate expectations encourage investors to hold government securities, thereby increasing trading activity. Similarly, Krishnamurthy (2002) observes that governments that issue in a regular and transparent manner tend to enjoy lower risk premiums, which, in turn, foster more active secondary market participation [9; 10].

Several studies have explored policy interventions that can strengthen liquidity and participation. Dunne, Moore, and Portes (2007) find that consolidating debt into benchmark issues and lengthening maturities can enhance market depth and support the creation of a reliable yield curve. Meanwhile, Beber, Brandt, and Kavajecz (2009) show that improving transparency and market-making obligations boosts trading activity, especially during periods of uncertainty [11; 12].

From a comparative perspective, Claessens, Klingebiel, and Schmukler (2007) argue that countries with robust legal and institutional frameworks tend to develop more liquid government bond markets. They emphasize that investor protection, efficient settlement systems, and consistent regulation reduce transaction risks and attract long-term investors [13].

For emerging economies, Eichengreen and Luengnaruemitchai (2006) find that market depth and liquidity depend heavily on macroeconomic credibility, the quality of institutions, and the development of financial intermediaries. These factors are particularly relevant for countries like Uzbekistan, where domestic government securities markets are still evolving. Drawing from these insights, Brunnermeier and Pedersen (2009) suggest that maintaining adequate market liquidity requires both sound economic policies and micro-level mechanisms such as collateralized trading and active market-making [14; 15].

In summary, the literature indicates that improving liquidity and promoting investor participation in government securities markets requires a combination of macroeconomic stability, transparent issuance strategies, diversified investor bases, and strong institutional frameworks. Theoretical and empirical studies alike underscore that these elements reinforce one another – deepening liquidity, lowering borrowing costs, and fostering overall financial stability.

Research Methodology.

To examine the issues addressed in this study, a comprehensive methodological approach has been applied, utilizing systematic analysis, scientific reflection, analysis and synthesis, as well as induction and deduction methods.

Analysis and Discussion of Results.

The global government securities market, valued at over $135 trillion in outstanding debt as of 2024, forms a cornerstone of modern financial systems, providing essential instruments for fiscal financing, monetary policy implementation, and market stability. Within this structure, market liquidity and active investor participation are recognized as two critical dimensions determining the efficiency and resilience of both primary and secondary markets for government securities. A liquid market facilitates continuous trading, narrow bid-ask spreads, and efficient price discovery, while a diverse investor base enhances stability and supports demand across maturities.

Empirical evidence highlights that liquidity in government bond markets directly affects borrowing costs and fiscal sustainability. More liquid securities typically carry lower yields, reducing government financing costs. Similarly, active secondary markets increase transparency and improve pricing efficiency, which in turn strengthen confidence among primary market participants. Deep and liquid bond markets contribute to the effectiveness of monetary policy by influencing the transmission of interest rates across maturities.

The experience of countries such as Malaysia, Thailand, and Chile illustrates that fostering market liquidity and investor participation is vital for sustaining bond market development. These economies have implemented effective measures including the establishment of primary dealer systems, benchmark bond programs, and electronic trading platforms, which have improved price transparency and ensured regular issuance calendars. As a result, these reforms attracted both domestic institutional investors—such as pension funds, insurance companies, and mutual funds—and foreign investors seeking stable, local-currency-denominated returns.

In developing economies, including Uzbekistan, enhancing liquidity and promoting investor participation remain essential priorities for the evolution of government securities markets. The concentration of holdings among a limited number of financial institutions, coupled with low secondary market trading activity, constrains efficient price formation and limits market depth. Encouraging broader participation –through incentives for institutional investors, greater involvement of non-bank financial institutions, and improved access for retail investors – can significantly enhance liquidity and reduce market volatility.

Broad investor participation is essential for building a deep and liquid government securities market; however, several structural, institutional, and macroeconomic challenges continue to hinder its effective realization, particularly in emerging markets like Uzbekistan. As illustrated in Figure 1 below, several structural and institutional barriers constrain broad investor participation in the government securities market. The market remains highly concentrated, with commercial banks dominating holdings and trading, limiting price discovery and liquidity. Weak institutional investors – such as pension and insurance funds – further restrict long-term demand.

Figure 1. Key barriers to broad investor participation in government securities markets[1]

[1] *The figure prepared by the author.*

Retail participation is minimal due to limited financial literacy, high entry barriers, and inadequate digital access. In the secondary market, low turnover and wide bid–ask spreads discourage trading, while the absence of active market makers reduces liquidity. Additionally, complex regulations, inconsistent tax treatment, and limited transparency in yield and trading data deter both domestic and foreign investors. Macroeconomic instability, including inflation and exchange rate volatility, compounds these issues by undermining investor confidence and willingness to engage in long-term investments.

Addressing these challenges requires comprehensive and well-coordinated policy actions aimed at strengthening market infrastructure, diversifying the investor base, and creating a transparent and stable environment that supports active participation in both primary and secondary markets. As shown in Figure 2 below, enhancing liquidity and promoting investor participation in the government securities market requires a comprehensive policy framework built on seven key pillars. The figure highlights that diversifying the investor base—through institutional investors, retail participation, and digital platforms—is central to expanding market depth. Supporting measures such as strengthening market infrastructure and developing active secondary markets ensure continuous trading and efficient price discovery.

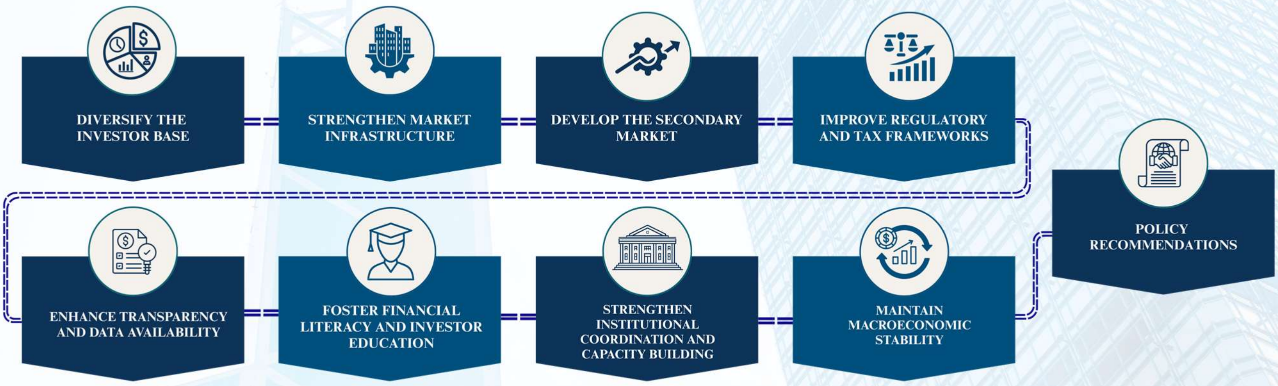

Figure 2. Key policy measures to enhance liquidity and investor participation in government securities markets[2]

Moreover, regulatory and tax reforms, along with greater transparency and data dissemination, are critical to improving investor confidence. The figure also underscores the importance of financial literacy initiatives to attract new participants and macroeconomic stability to sustain long-term investment. Collectively, these policies form an integrated approach to building a more liquid, inclusive, and resilient government securities market in Uzbekistan.

Table 1

International best practices for enhancing liquidity and investor participation*

Country	Key Practices	Impact on Market
Malaysia	*Introduced Sukuk (Islamic bonds); established primary dealer system; transparent auction schedules.*	*Broadened investor base and improved liquidity.*
South Korea	*Developed K-Bond electronic trading platform; real-time data transparency.*	*Enhanced trading efficiency and market depth.*

[2] *The figure prepared by the author.*

Chile	*Built strong pension fund demand; ensured fiscal and monetary stability.*	*Increased long-term liquidity and investor confidence.*
United States	*Standardized benchmark bonds; deep repo market; predictable issuance.*	*World's most liquid and efficient bond market.*
India	*Launched Retail Direct platform; diversified issuance (T-bills, inflation bonds).*	*Expanded retail participation and market inclusiveness.*
Mexico	*Transparent electronic auctions; open framework for foreign investors.*	*Improved credibility and attracted global capital.*
Indonesia	*Issued Retail and Green Sukuk; active investor engagement.*	*Promoted sustainability and broadened participation.*

**The table prepared by the author using the countries information.*

The Table 1 above illustrates international best practices adopted by various countries to enhance liquidity and broaden investor participation in the primary and secondary markets for government securities. The examples highlight how countries such as Malaysia and Indonesia diversified their markets through Sukuk and innovative retail products, while South Korea and the United States improved liquidity through advanced trading infrastructure and active market-making systems. Chile and Mexico demonstrate the importance of macroeconomic stability, transparent auctions, and predictable issuance policies in sustaining investor confidence. Meanwhile, India's Retail Direct platform showcases the growing role of digital access in expanding retail participation. Collectively, these practices underscore that transparency, infrastructure modernization, diversified instruments, and inclusive investor policies are critical pillars for developing a liquid and resilient government securities market.

The government securities market in Uzbekistan is heavily bank-dominated, with the majority of participants – over 30 commercial banks—actively engaged in all three UZCE segments: currency, money, and government securities markets. Major institutions such as the National Bank for Foreign Economic Activity, Asaka Bank, Agrobank, and Ipoteka Bank play a central role in primary market participation and liquidity provision. These banks are the main buyers of government bonds, often holding them to meet liquidity and regulatory requirements, which, while ensuring stability, limits active secondary trading. The Central Bank of Uzbekistan (CBU) participates across all market segments (A/B/C categories), acting as a key regulator and market stabilizer. Its involvement ensures orderly market operations and supports liquidity management. The CBU's open market operations, including the issuance and trading of short-term notes, serve as important tools for monetary policy transmission and yield curve formation.

While the market remains concentrated in the banking sector, there is growing participation from non-bank financial institutions, including investment companies such as Freedom Finance, Portfolio Investments, and Leader Finance Capital. These entities primarily operate in the secondary market, providing brokerage and asset management services that enhance liquidity and facilitate access for institutional and retail investors. However, their presence is still limited compared to banks, indicating the need for further diversification of the investor base. Uzbekistan's institutional investor base – including pension funds, insurance companies, and mutual funds – remains underdeveloped. The absence of large-scale institutional investors reduces consistent long-term demand for government securities and constrains secondary market depth. In contrast, countries with strong institutional participation (e.g., Chile, Malaysia) experience greater market stability and liquidity. Retail participation in government securities is still very limited. Most government bonds are traded among institutional participants, with households lacking direct access channels such as online trading platforms or savings bonds. Enhancing financial literacy, simplifying bond purchase procedures, and introducing retail-focused instruments could significantly expand this segment.

Foreign participation remains modest, represented mainly by Bank of Georgia, which operates under category B. Regulatory and currency conversion barriers, as well as limited market depth, currently discourage broader foreign investment. Over time, reforms aimed at improving transparency, liquidity, and macroeconomic stability could make the Uzbek bond market more attractive to international investors.

The analysis of the investor base indicates that Uzbekistan's government securities market is in a developing stage, characterized by a strong concentration in the banking sector and limited diversity among non-bank, institutional, and foreign investors.

To foster a more balanced and liquid market, Uzbekistan should:

❖ Broaden the participation of investment funds, insurance companies, and pension funds;

❖ Facilitate retail investor access through digital platforms and low-denomination bonds;

❖ Encourage foreign investor entry by improving market infrastructure and ensuring policy predictability.

A diversified and inclusive investor base will not only enhance market liquidity but also strengthen fiscal resilience and financial sector stability – key objectives in Uzbekistan's ongoing capital market reforms.

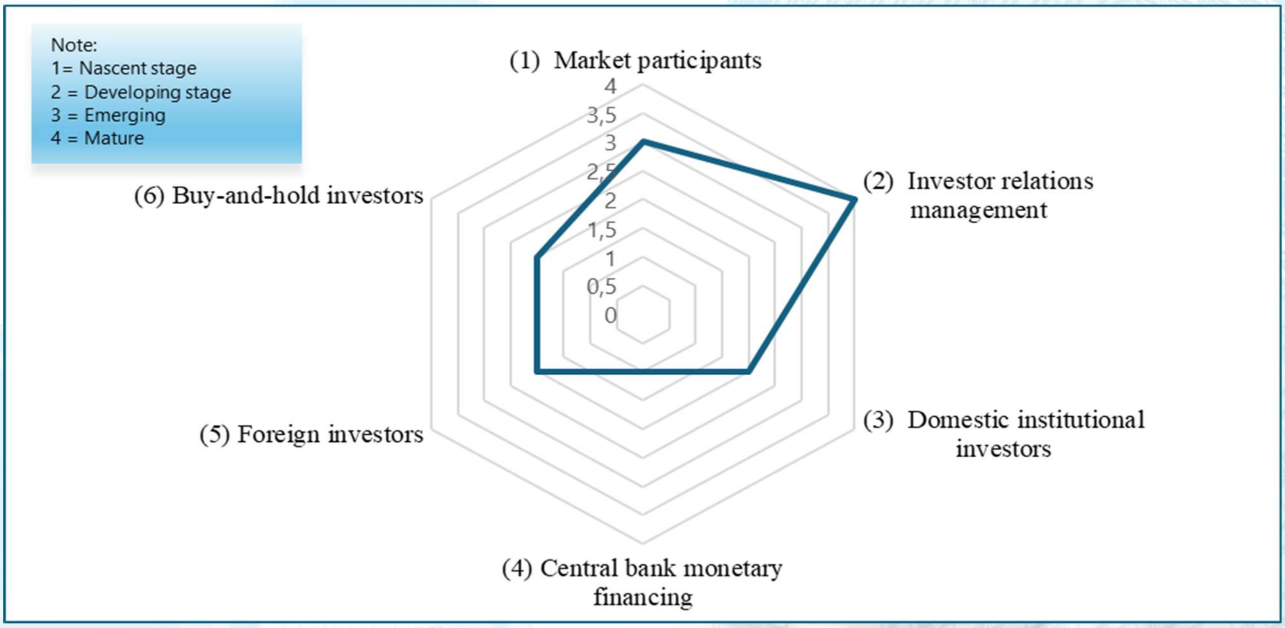

Figure 3. The assessment of the Investor Base of the local government securities market of the Republic of Uzbekistan [16; 17]

Figure 3 above illustrates the current assessment of the investor base in Uzbekistan's local currency government securities market. A well-diversified and resilient investor base is essential for ensuring stability, liquidity, and efficiency in both the primary and secondary markets. However, the assessment reveals that Uzbekistan's investor base remains at a developing stage of development, with several critical areas requiring institutional and policy improvements. While market participants exhibit moderate activity, indicating a gradual increase in trading and investment interest, investor relations management and domestic institutional investor participation are developing significantly. The limited presence of institutional investors such as pension funds, insurance companies, and investment funds constrains long-term demand and inhibits the formation of a stable yield curve. Similarly, the foreign investor segment is at a nascent stage, reflecting both structural barriers – such as capital flow restrictions and underdeveloped market infrastructure – and insufficient transparency and market data availability. Moreover, the scarcity of buy-and-hold investors, who typically provide long-term market stability, further exacerbates short-term fluctuations and limits secondary market liquidity.

To address these challenges, Uzbekistan should adopt a comprehensive investor diversification strategy. This includes the development of institutional investors – such as pension and insurance sectors should be prioritized through regulatory reforms and incentives that encourage long-term investment in government securities. Attracting foreign investors will also require macroeconomic stability, improved accessibility to market information, and harmonization with international standards in settlement and taxation procedures. Encouraging a mix of domestic, foreign, and long-term investors will enhance liquidity, improve price discovery, and support the long-term goal of creating a mature, stable, and investor-friendly government securities market in Uzbekistan.

Conclusion and Recommendations.

The improvement of liquidity and the promotion of broad investor participation in the primary and secondary markets for government securities are fundamental to developing a robust, efficient, and resilient domestic debt market. Liquidity serves as the backbone of any well-functioning securities market – ensuring that government bonds can be easily traded, accurately priced, and efficiently allocated. At the same time, expanding the investor base fosters competition, enhances price discovery, and stabilizes demand, thereby lowering borrowing costs for the government and strengthening fiscal sustainability.

In the case of Uzbekistan, where the local government securities market is still at a developing stage, enhancing liquidity and broadening investor participation hold particular significance. The current market structure – dominated mainly by commercial banks – limits diversity in demand and restricts secondary market activity. Introducing measures to attract institutional investors such as pension funds, insurance companies, mutual funds, and non-bank financial institutions can improve market depth and stability. Equally, encouraging the participation of retail investors through simplified access mechanisms and greater financial literacy initiatives can further democratize investment opportunities.

Moreover, the establishment of a transparent and efficient market infrastructure –such as electronic trading platforms, active primary dealer systems, and reliable settlement mechanisms – will play a crucial role in stimulating trading activity. Regular and predictable issuance calendars, clear communication of debt strategies, and consistent coordination between the Ministry of Economy and Finance, the Central Bank, and the securities exchange are also essential for building investor confidence and ensuring a continuous supply of high-quality assets.

International experience demonstrates that countries with deep and liquid government securities markets – such as Japan, South Korea, and Malaysia – benefit from lower funding costs, better monetary policy transmission, and increased resilience to external shocks. Adopting best practices from these economies can help Uzbekistan strengthen its market architecture and attract both domestic and foreign investors to its government bond market.

In conclusion, improving liquidity and expanding investor participation are mutually reinforcing objectives that can significantly enhance Uzbekistan's government securities market. A comprehensive strategy combining institutional reforms, market infrastructure development, and investor diversification will not only strengthen public debt management but also contribute to broader financial market development. Over time, a more liquid and inclusive government securities market will serve as a cornerstone for macroeconomic stability, fiscal sustainability, and the country's long-term economic transformation.

References:

1. *Kyle, A. S. (1985). Continuous Auctions and Insider Trading. Econometrica, 53(6), 1315–1335.*
2. *Amihud, Y., & Mendelson, H. (1991). Liquidity, Maturity, and the Yields on U.S. Treasury Securities. Journal of Finance, 46(4), 1411–1425.*
3. *Duffie, D. (1996). Special Repo Rates. Journal of Finance, 51(2), 493–526.*
4. *Greenwood, R., & Vayanos, D. (2014). Bond Supply and Excess Bond Returns. Review of Financial Studies, 27(3), 663–713.*
5. *Fleming, M. J. (2003). Measuring Treasury Market Liquidity. Federal Reserve Bank of New York Economic Policy Review, 9(3), 83–108.*
6. *Pagano, M. (1989). Trading Volume and Asset Liquidity. Quarterly Journal of Economics, 104(2), 255–274.*
7. *Allen, F., & Gale, D. (1994). Limited Market Participation and Volatility of Asset Prices. American Economic Review, 84(4), 933–955.*
8. *Holmström, B., & Tirole, J. (1998). Private and Public Supply of Liquidity. Journal of Political Economy, 106(1), 1–40.*
9. *Hördahl, P., & Tristani, O. (2014). Inflation Risk Premia in the Euro Area and the United States. International Journal of Central Banking, 10(3), 1–34.*
10. *Krishnamurthy, A. (2002). The Bond/Old-Bond Spread. Journal of Financial Economics, 66(2–3), 463–506.*
11. *Dunne, P., Moore, M., & Portes, R. (2007). Benchmark Status in Fixed-Income Asset Markets. Journal of Business Finance & Accounting, 34(9–10), 1615–1634.*
12. *Beber, A., Brandt, M. W., & Kavajecz, K. A. (2009). Flight-to-Quality or Flight-to-Liquidity? Evidence from the Euro-Area Bond Market. Review of Financial Studies, 22(3), 925–957.*
13. *Claessens, S., Klingebiel, D., & Schmukler, S. L. (2007). Government Bonds in Domestic and Foreign Currency: The Role of Macroeconomic and Institutional Factors. Review of International Economics, 15(2), 370–413.*
14. *Eichengreen, B., & Luengnaruemitchai, P. (2006). Why Doesn't Asia Have Bigger Bond Markets? BIS Papers, No. 30.*
15. *Brunnermeier, M. K., & Pedersen, L. H. (2009). Market Liquidity and Funding Liquidity. Review of Financial Studies, 22(6), 2201–2238.*
16. *The official website of the World Bank – www.worldbank.org*
17. *The official website of the International Monetary Fund (IMF) – www.imf.org*