

CONCEPTS AND STRUCTURE OF THE FINANCIAL MARKET

Senior Lecturer at the Tashkent Institute of Management and Economics

Astanov Khabibulla Ziyodullaevich



Annotation *This article analyzes the theoretical and practical aspects of the concepts and structure of the financial market. It discusses different approaches to the classification and segmentation of financial markets presented in economic literature. The paper examines the essence, components, and functions of the money market and the capital market, as well as their interrelation in ensuring financial stability and economic growth. Special attention is given to the role of financial intermediaries, globalization processes, and the development of international financial reporting standards that influence the functioning of modern financial systems.*

Keywords: *financial market, money market, capital market, globalization, financial intermediaries, investment, liquidity, financial stability, economic growth, financial instruments.*

In economic literature, various approaches are proposed for structuring the financial market. Recently, another segmentation of the financial market has been increasingly used in economic studies. This trend is associated with the development and deepening of the process of internationalization of economic relations, as well as with globalization — that is, the blurring of boundaries between national markets and international integration in the credit and financial sectors.

Globalization processes, in turn, have led to the development of unified international standards for financial reporting and the transition of all countries to these standards. This has contributed to the standardization of certain concepts in finance, credit, and accounting, as well as to the adaptation of national legislative

and regulatory frameworks of participating countries to these standards, allowing for a new perspective on the market and its structural components.

The **financial market** is a market where the redistribution of free monetary resources (money capital) and savings between various economic entities is carried out through transactions with financial assets. Financial assets include national and foreign currencies in cash or in bank accounts, as well as gold, securities, and derivative financial instruments.

The concept of the “financial market” can be viewed from two perspectives — as a set of financial institutions and as a system of economic relations. In the first case, the financial market includes all organizations and institutions designed to redistribute capital based on market principles of supply and demand (or close to them). In this sense, the financial market represents a system of institutions that are part of it (market participants — investors, issuers of securities; intermediaries — exchanges and over-the-counter market organizers; market infrastructure — depositories, registrars, clearing and settlement organizations, and others).

In the second case, the financial market is a system of economic relations aimed at the formation, distribution, and redistribution of capital. Unlike commodity markets, financial markets are all markets where capital is sold.

The market mechanism of interaction between participants implies that each participant has the right to free entry to the market, to freely interact with other participants, and that the relationships between participants are informationally transparent, which allows the comparison of their financial positions. Relationships between participants in financial markets can be established directly or through financial intermediaries. The savings accumulated by certain investors through bank and non-bank financial intermediaries become investment capital placed in financial assets.

Typically, depending on the maturity of assets, the financial market is divided into the **money market** and the **capital market** — this classification is used by the World Bank and the International Monetary Fund.

The segmentation of the financial market can be carried out according to several indicators. One of the main criteria for segmentation is the purpose of redistribution, which implies the division of the financial market into its structural components — the money market and the capital market. Sometimes the money market is considered as the market for short-term loans, and the capital market — as the market for long-term loans.

The **money market** is a market for relatively short-term (not exceeding one year) operations in which liquidity is redistributed, i.e., the redistribution of free funds takes place. It deals with liquid assets that can serve as means of payment for various obligations. It is known that the most liquid assets are cash in the form of banknotes and balances on current (settlement) and correspondent accounts of commercial banks. Government short-term securities also have high liquidity and can be used to settle obligations of their holders. In addition, the money market trades short-term commercial debt obligations (such as bills of exchange and commercial papers) issued by highly rated firms and corporations, which are often in the form of securities and are accepted by market participants as instruments for debt settlement. The money market mainly serves the turnover of working capital of enterprises and organizations, as well as the short-term liquidity of banks and the state.

The most clearly defined segment of the money market is the **interbank market (interbank loans market)**, which represents a set of short-term mutual credit relations between banks. In it, short-term and very short-term banking resources are redistributed. In countries with developed market economies, operations for buying and selling resources on the interbank market are highly standardized and carried out online. Such operations are characterized by extremely

short maturities — from a few hours to several days. In the United States, the interbank market exists in the form of the “**federal funds market**”, i.e., free monetary reserves of commercial banks placed in accounts with the Federal Reserve Banks, which are “sold” for short terms to market participants experiencing liquidity shortages.

The money market typically includes the market for short-term bank loans, the bill market, and the market for short-term, highly liquid, and reliable government (and in some countries, corporate) securities. Through the short-term bank loans market, enterprises obtain the funds necessary to fulfill their settlement obligations.

The main participants of the money market are banks, including the **Central Bank**, which enters the interbank segment of this market with the supply of money determined within the framework of monetary policy. When excessive liquidity accumulates in the money market, the Central Bank ties up excess resources by investing them in various financial instruments, including its own deposits and bonds, thereby sterilizing the money supply. During a recession, on the contrary, it expands the money supply through refinancing channels, open market operations, and currency interventions.

In the **capital market**, free capital is redistributed and invested in various profitable financial assets. In this market, relatively long-term operations are carried out that ensure the formation of companies’ equity capital, the attraction of investments, and the redistribution of corporate control. There is no strict boundary between the money market and the capital market: the same instruments may circulate in both (for example, first-class bonds). The difference between these segments of the financial market lies in the functions they perform.

The main function of the **money market** is to regulate the liquidity of all market participants and the economy as a whole. With a developed money market, each participant can place temporarily free funds in reliable, highly liquid, and profitable instruments, or, conversely, quickly raise additional liquid resources when

necessary. The Central Bank constantly monitors the money market and the movement of interest rates. When interest rates rise and liquidity shortages occur, it expands refinancing operations, conducts interventions in the national currency, and buys securities from market participants, resulting in an increase in the money supply and stabilization of money market rates. Excess liquidity among market participants leads to increased demand for goods, foreign currency, and other profitable assets, which, without a corresponding increase in supply, causes general price growth and inflation. Under such conditions, the Central Bank conducts operations to absorb excess liquidity — selling foreign currency and securities, and placing commercial banks' excess reserves in its deposit accounts. Thus, the overall liquidity of the economy is regulated.

The **functions of the capital market** include the formation and redistribution of capital of economic agents, the implementation of corporate control (through stock prices that reflect the market value of companies), investment for development purposes, and the execution of speculative operations as a mechanism for achieving dynamic market equilibrium.

The main difference between the **money market** and the **capital market** lies in the liquidity of traded assets and the maturity of obligations:

- In the money market, highly liquid short-term obligations (with maturities of up to one year) are traded;
- In the capital market, long-term obligations (with maturities of more than one year) and less liquid securities compared to money market instruments are traded.

In both markets, free capital and cash can be transferred from owners to borrowers through **direct financing** and **indirect financing** channels.

In **direct financing**, funds are transferred directly from owners to borrowers without intermediaries. There are two traditional forms of direct financing: **equity financing** and **debt-based financing**.

Equity financing refers to any arrangement in which a company receives funds for investment in exchange for giving the investor a share in the business. A **share (stock)** is a document certifying the investor's right to a portion of the company's ownership.

Debt-based financing refers to any contract under which a company receives funds for investment with the obligation to repay them in the future with agreed interest. In this case, the creditor does not acquire any ownership rights in the company. The most common documents confirming the issuance of loans to a company are **securities** representing obligations to repay debt with interest within a certain period. These include **bonds, bills of exchange, and commercial papers**. The purchase, sale, and resale of stocks, bonds, and other securities by households and firms are carried out on **securities markets**.

In **indirect financing**, the funds transferred from owners to borrowers pass through special institutions that attract free resources from economic entities under various conditions and then invest them in various forms of financial assets on their own behalf. Such institutions are called **financial intermediaries**, including banks, investment funds, and insurance companies.

References

1. Witt U. How evolutionary is Schumpeter's theory of economic development? // Industry and Innovation. Vol. 9. Numbers 1/2. April/August 2002. P. 7-22.
2. Х.З. Астанов "Пул-кредит орқали мувофиқлаштириш" ўқув қўлланма. Тошкент –иқтисодиёт 2015 й.
3. Бельзецкий А. И. Финансы и финансовый рынок: Учебно-методический комплекс. Минск: Изд-во МИУ, 2010. С. 276-277.
4. Большой экономический словарь. Под ред. Азрилияна А., Н. – М.: Институт новой экономики, 1999. – С. 307.

5. Дворецкая А. Е. Рынок капитала в системе финансирования экономического развития. М.: Анкил, 2007. С. 16.
6. Долан Э. Дж, Кэмпбелл К. Д. и др. Деньги, банковское дело и денежно-кредитная политика. М.: Туран, 1996.
7. И. Бернар, Жан-Клод Колли. Толковый экономический и финансовый словарь. Том 1.– М.: Международные отношения, 1994. – С. 144.
8. Кенэ Ф. Избранные экономические произведения. М.: Соцэкгиз, 1960.
9. Корпоративные финансы: Учебник для вузов / Под ред. М. В. Романовского, А. И. Вострокнутовой. СПб.: Питер, 2011. С. 105-106.
10. Международные стандарты финансовой отчетности. М.: Аскери-АССА, 2008. С. 1012.