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## Stock Market Development Practice in Uzbekistan

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**Abstract:** This article explores the experience of the development of the stock market in Uzbekistan, shows the role of the state in supporting the development of it, analyzes negative factors affecting the development of the stock market, and also develops scientific and practical recommendations for the development of it.

**Key words:** stock market, market capitalization, free traded shares, investors, shareholders, IPO, state regulator.

### Introduction

The stock market plays an important role in the economy as an intermediary, which allows the redistribution of funds from those who have free resources to those who need them. The stock market is an alternative source of financing for business in Uzbekistan. Until now, business in the country mainly depends on bank financing, which is expensive and often unavailable. The stock market offers a different kind of capital - equity, which is not debt. In particular, this allows companies not to increase debt and, by issuing shares, to attract long - term capital for growth. This leads to improved financial health and sustainability of local companies and gives them the opportunity to invest in projects that were previously unavailable.

In recent years, there has been a strong emphasis on the development of the stock market in Uzbekistan, with the aim of increasing the capitalization of free traded shares to at least \$ 8 billion by “Uzbekistan - 2030” strategy [1]. If we take into account that in 2023, this figure was \$ 340 million [2], then by 2030, the stock market of Uzbekistan should grow by more than 20 times.

In Uzbekistan, which has set such an ambitious goal, many important legislative acts aimed at development of the stock market are being adopted; over the past 3 years, the regulator responsible for the stock market has been changed; the infrastructure of the stock market is being improved; much attention has been paid to the development of the stock exchange; assistance has been provided to domestic companies to go to IPO, as well as efforts are being made to increase the attractiveness of the stock market for foreign investors.

However, it is worth mentioning that the stock market in Uzbekistan is at the initial stage of its development, while continuing to grow. In such conditions, it is natural to have a number of problems, including the insufficient liquidity of shares, the inactivity of domestic institutional investors, low amount of foreign players in the stock market, and others. The development of scientific and practical recommendations for the elimination of such problems is of urgent importance.

### Literature Review

The problems of the development of the stock market are one of the current topics studied by many foreign, CIS (in particular, Russia), as well as local scientists and researchers.

American researcher Daniel Jivani has studied stock market development strategies in his scientific research, and in his opinion, in order to develop the stock market in any country, first of

all, it is necessary to pay great attention to the formation of the skills of the population how to participate in this market and how to make a profit [3]. Another group of American scientists, Malcolm Baker and Jeffrey Wurgler, have studied in their scientific research that the development of stock markets has a positive effect on the growth of investment flows in the country and the improvement of the investment environment [4].

Russian researcher Chirkova E. V. in her research work, she substantiated that the development of the stock market leads to investment growth, and for this she mentioned the need for a systematic, step – by - step and scientific approach [5]. Another group of Russian researchers Seibel' N. Yu. and Koval'chuk A. V. studied the problems of the Russian stock market in their scientific research, arguing that the stock market plays a necessary role in converting population savings into investments as an important instrument of economic growth [6].

Local experts A. Nazirov, G. Paresishvili, A. Akhmedov, V. Erzikov and others have been giving their scientific and practical based opinions on the issues of stock market development in our country in recent years. They argue that it is necessary to create an effective monitoring system for the implementation of adopted and implemented legislative acts on the development of the stock market, the country should make the stock market convenient for foreign investors, and the development of the stock exchange should finally be an extremely important link in the development of the stock market.

As can be seen from the above, the problems of stock market development are being studied by many scientists, researchers and experts, indicating that there are sufficient resources for studying the problem presented in this article.

### **Research Methodology**

The purpose of the research is to study the stock market development practice in our country, to analyze the existing problems and shortcomings in this regard, as well as to develop scientific and practical recommendations for the development of the stock market. To highlight the problem in the research, the legislative acts adopted in our country in recent years in order to develop the stock market have been widely used. In addition, scientific works and opinions of foreign, including American, CIS countries, especially Russian, as well as local scientists, researchers and experts, and based on their use, a scientific and practical assessment was made of the development of the stock market in our country.

At the same time, the data on the official websites of domestic companies operating in the field of the stock market was thoroughly analyzed. This analysis was reflected in the research in the form of tables and diagrams.

In general, during the research, great attention was paid to the use of primary and secondary research sources. In the primary research sources, methods of mutual interviews with local specialists and representatives of the population were used by the author, while in secondary research sources, legislation acts, scientific literature and data on official websites of domestic companies were used.

### **Analysis And Results**

As we mentioned above, in recent years, there has been a strong emphasis on the development of the stock market in Uzbekistan, with the aim of increasing the capitalization of free traded shares to at least \$ 8 billion by “Uzbekistan - 2030” strategy. If we take into account that in 2023, this figure was \$ 340 million [see Diagram 1], then by 2030, the stock market of Uzbekistan should grow by more than 20 times.

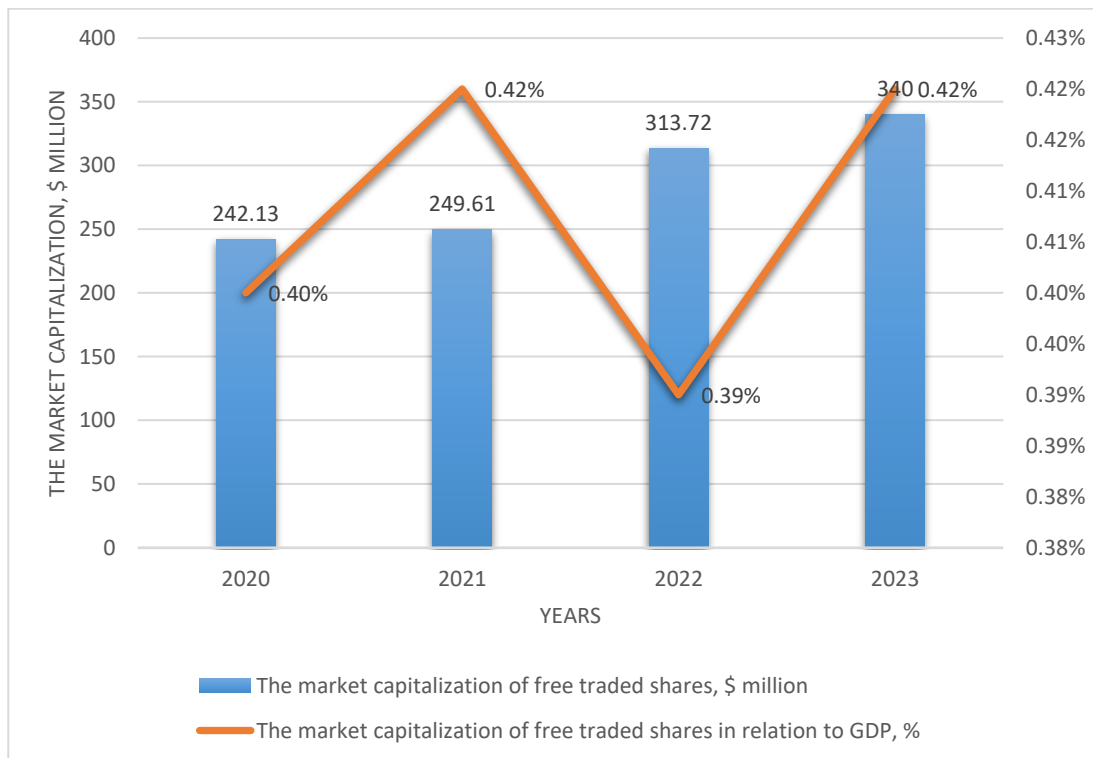
Another important legislative act - by the Resolution of the President of the Republic of Uzbekistan dated September 2, 2023 No. RP 291 “On additional measures for the development of the capital market”, the National Agency of prospective projects was established as the main responsible organization for the implementation of such important plans as above [7]. At this point, it should be noted that the adoption of this Resolution was an important step towards timely

elimination of existing problems in the country’s stock market, as well as further improvement of the development of it.

The fact is that the Ministry of Economy and Finance was designated as the regulator of the capital market in the country by the Decree of the President of the Republic of Uzbekistan dated April 13, 2021 No. DP - 6207 “On measures for the further development of the capital market”. The Decree, along with providing an expanded list of measures to be implemented by the of 2023, assigned high-level tasks to the Ministry of Economy and Finance. However, due to the fact that by 2023 these tasks were not performed as expected, as we have already said, by the Resolution of the President of the Republic of Uzbekistan dated September 2, 2023 No. RP - 291, the regulatory task was assigned to the National Agency of prospective projects.

If we pay attention to the diagram 1, in 2023 the market capitalization of free traded shares increased by about \$ 100 million compared to 2020. At a glance, there has been an upward trend in the development of the stock market in the country over the past 4 years. At the same time, despite the positive result in this regard, a reasonable question arises as to “why the task of regulating the stock market was transferred from one organization to another with the Resolution of the President of the Republic of Uzbekistan dated September 2, 2023 No. RP – 291”. In order to find an answer to this question, we would like to draw your attention to Diagram 2.

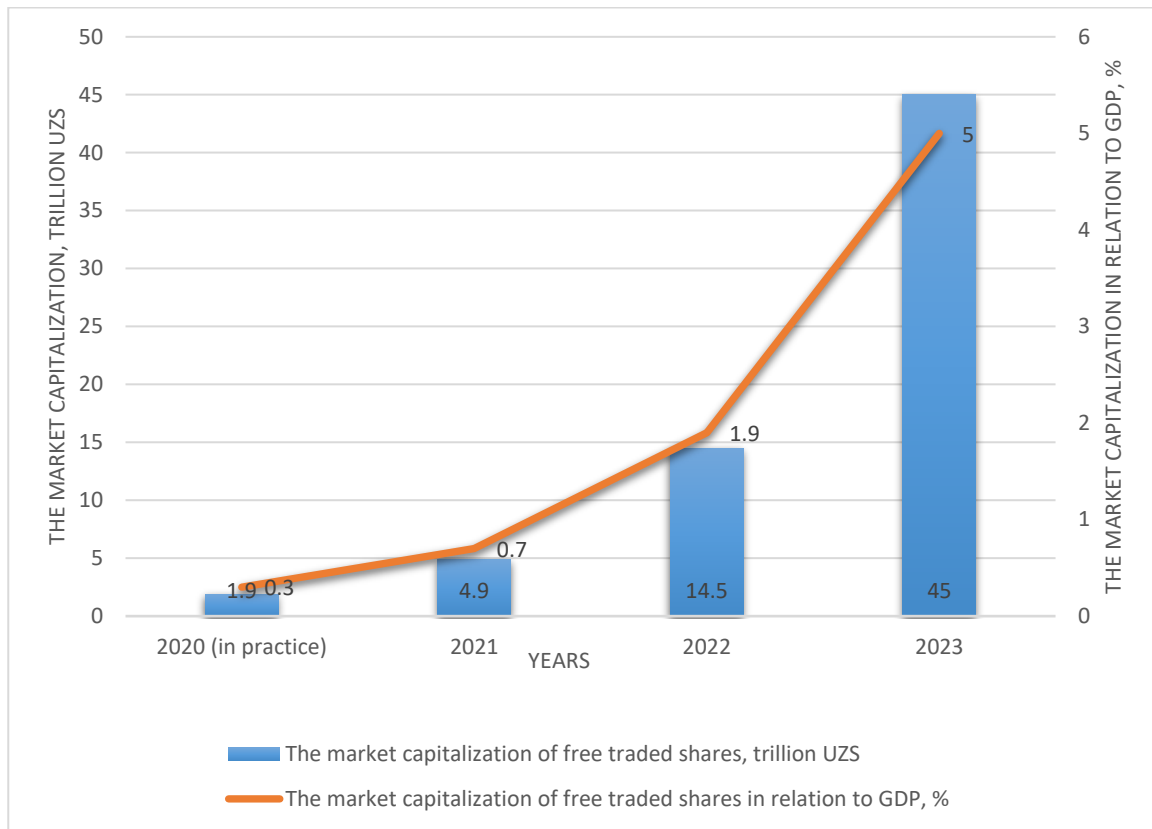
Diagram 2 shows the plan of the market capitalization of free traded shares for 2021 – 2023, defined by the Decree of the President of the Republic of Uzbekistan dates April 13, 2021 No. DP - 6207. If you pay attention to the Diagram, in 2023, according to the plan, the market capitalization of free traded shares should be 45 trillion UZS. This is the equivalent to \$ 3.7 billion. However, if you look at the data on Diagram 1, in practice this figure was \$ 340 million in 2023, which means that the plan was completed only around 10%. Diagram 2 shows that according to the plan, market capitalization of free traded shares should be 5% in relation to gross domestic product (GDP). But, if we pay attention to the data in Diagram 1, in practice this figure was 0.42%.



**Diagram 1. The market capitalization of free traded shares in the stock market of Uzbekistan in 2020 - 2023 [8]**

From the analysis of the data presented in these diagrams, it can be seen that although over the past 4 years there has been an increase in the market capitalization of free traded shares, it has

been far from the planned numbers. Now, we can say that we found an answer to the above - mentioned question, that is, “why the task of regulating the stock market was transferred from one organization to another with the Resolution of the President of the Republic of Uzbekistan dated September 2, 2023 No. RP – 291”. In general, the transfer of such a responsible task from one organization to another is an important step towards solving the existing problems, and we want to dwell on these problems that caused such a decision below:



**Diagram 2. The market capitalization of free traded shares planned for 2021-2023 [9]**

- as the main reason for the failure in the development of the stock market, it can be shown that the IPO of the largest companies and commercial banks in the country during 2021 – 2023, that is, the public placement of their shares through the stock exchange, did not take place as expected;
- to a certain extent, there was also a slowdown in the formation of new tools aimed at popularizing the stock market of Uzbekistan among investors. In other words, instruments such as exchange – traded funds, mortgages and islamic securities, as well as crowdfunding, have ceased to be implemented;
- since the Ministry of Finance and Economy, the previous regulator of the stock market, was simultaneously the owner of the Single software - technical complex of the stock market and the Unified portal of corporate information, as well as a shareholder of a number of companies, the resulting conflict of interest has to some extent prevented its implementation of measures aimed at developing the stock market;
- the liquidity of shares is still not sufficient, in other words, the number of investors operating in the stock market and the number of interesting securities actively traded on the stock exchange remain insufficient;
- The activity of domestic institutional investors (pension funds, insurance companies and mutual funds), as well as foreign players, is not at a high level and so on.

In general, in order to eliminate the existing problems in the development of the stock market, many positive measures are being implemented by the government of our country, which, as we

mentioned above, the Resolution of the President of the Republic of Uzbekistan dated September 2, 2023 No. RP - 291 can be a clear proof of our opinion.

### **Conclusion And Suggestions**

Based on the above analysis and results, and taking into account the fact that the development of the stock market in Uzbekistan is one of the most relevant problems of today, we will cite our recommendations in this regard below:

*Firstly*, Uzbekistan should be connected to the international stock market by creating a bridge with international depositories such as Clearstream, and global custodians in the form of large foreign banks, which will provide access to their clients, including large institutional investors, to our securities market. In addition, if we build relationships with international depositories and global custodian banks, then there will be more foreign players in the stock market;

*Secondly*, to develop the stock market, it is necessary to conduct IPOs of large state - owned companies, including commercial banks. If state - owned companies and commercial banks are well prepared, then very successful IPOs can be carried out. First, they should be prepared for an IPO, having done the following work in advance: improve their corporate governance and financial reporting; learn how to actively work with foreign and domestic investors; regularly report to shareholders on significant facts; put the interests of minority shareholders at the forefront; appoint independent members to the supervisory board; make management fully accountable to the supervisory board;

*Thirdly*, significant attention should also be paid to the development of an educational system aimed at increasing the level of financial literacy of the population and training citizens on the basics of investing, as well as development of a system for providing consulting services aimed at the development of trading strategies and the right selection of assets for investors to minimize the level of risk they face and ensure that they get out to a good level of profitability, etc.

In conclusion, we would like to say that Uzbekistan has all the prerequisites to develop a stock market that meets international standards, to be an interesting country for foreign investors, where they can earn money and at the same time share their knowledge and experience with us, while simultaneously creating new workplaces here. As a result, the economy and incomes of the population will grow and everyone will benefit. And, we hope that the recommendations developed in this article will make its worthy contribution to this.

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