



Barriers to Growth: Analyzing the Development Challenges in Uzbekistan's Stock Market

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Abstract: This thesis explores the multifaceted barriers obstructing the growth and advancement of Uzbekistan's stock market. By scrutinizing regulatory hurdles, economic constraints, investor sentiments, technological limitations, and cultural factors, this study aims to provide a comprehensive understanding of the challenges restraining the expansion and efficiency of the stock market in Uzbekistan. Through an in-depth analysis of these impediments and proposing actionable strategies, this research contributes to the discourse on fostering a resilient and flourishing stock market ecosystem in Uzbekistan, thereby fostering broader economic growth and prosperity.

Key words: Stock Market Development, Uzbekistan Economy, Growth Obstacles, Regulatory Frameworks, Investor Sentiments

Introduction

Uzbekistan's financial market is undergoing major changes aimed at improving the investment climate and boosting economic growth. Key efforts include selling state-owned shares, reducing government involvement in the economy, and protecting private property rights. It's important to modernize how state assets are managed and to strengthen the role of private property. Additionally, turning the capital market into a key driver of economic growth is vital for the country's sustainable development.

Recent reforms have focused on the securities market, aiming to improve the legislative framework, strengthen investor rights' protection, regulate the capital market effectively, and foster cooperation with international financial institutions. However,



despite these initiatives, several pressing issues and deficiencies hinder the capital market's further development. These challenges need to be addressed to create a competitive environment and stimulate increased liquidity in the stock market.

Enhancing structural reforms in Uzbekistan's economy and boosting its competitiveness through the diversification and modernization of key industries are crucial for the successful implementation of the “Development Strategy of New Uzbekistan for 2022-2026.” A major priority is to increase financial resources within the economy by raising the stock market's turnover from 200 million to 7 billion US dollars over the next five years (decree, 2022).¹ To achieve this goal, it is essential to take significant steps to develop the national stock market, enhance its role in the financial system, and improve its effectiveness in driving the country's economic growth.

Literature review

In the era of globalization, creating the necessary conditions for the development of Uzbekistan's stock market is crucial for attracting investments and integrating into the global financial system. This literature review synthesizes key studies that address various aspects of stock market development, focusing on the barriers and opportunities for growth in Uzbekistan's context.

The theoretical and practical aspects of stock market development have been extensively studied by many foreign economists. For instance, Braley Richard and Myers Stewart developed unique approaches to financial instruments, highlighting the specific principles of corporate finance.² Similarly, scientists from the Commonwealth of Independent States, such as Kilyachkov A.A., Chaldaeveva L.A., and Mirkin Ya.M., identified fundamental factors affecting the stock market.³ However, these studies often overlook the infrastructural aspects and the activities of participants and organizers within the stock market.

¹ Decree (2022), Decree of the President of the Republic of Uzbekistan "On the Development Strategy of New Uzbekistan for 2022-2026". February 7, 2017, PF-4947. www.lex.uz.

² Braley Richard, Myers Stewart. Principles of Corporate Finance: Translated from English. – Moscow: Olimp-Business, 2004.

³ Kilyachkov A.A., Chaldaeveva L.A. Securities Market and Exchange Business. – Moscow: Jurist, 2005.- 687 pages



Mirkin (2009) and Rubtsov (2008) explored factors influencing the global stock market, suggesting improvements in the regulation of national markets and emphasizing the stock market's role in sustainable economic development.⁴ Their work underscores the importance of a robust regulatory framework in enhancing market efficiency and stability. Burenin (2011) analyzed the characteristics and development directions of term transactions in stock markets, emphasizing the necessity of clear regulatory policies.⁵ Similarly, Eskindarov and Zvonova (2019) examined the composition and trends of the world stock market, discussing the increasing role of international financial organizations in market regulation and the evolving nature of stock market operations.⁶ Cott, Murray, and Blok (2010) focused on introducing new financial instruments to foster stock market development and efficiently organize securities circulation. Their research stressed the need for innovative products to enhance market liquidity and attract investors.⁷ Hailemariam and Guotai (2014) identified key aspects of modern stock market development, offering recommendations for leveraging stock market opportunities to fuel economic growth.⁸ They argued that attracting investments through the stock market is crucial for economic activity and capital formation. Masoud (2013) investigated how stable economic growth can be achieved through stock market development, emphasizing the importance of boosting investment potential and capital turnover by coordinating market participant activities.⁹

Butikov (2019) explored the development of national stock markets, focusing on improving infrastructure and integrating with international markets.¹⁰ His findings

⁴ Mirkin Ya.M. (2009) Securities and the stock market. -M.: Publishing house "Perspektiva". – 488p.

⁵ Burenin A.N. (2011) Futures, forwards and options markets. -M.: Trivola. – 232 p.

⁶ Eskindarov M., Zvonova E. (2019) Human finance. Textbook. - M.: KnoRus. - 424 p.

⁷ Kott S., Murray R.F., Blok F.E. (2010) "Security Analysis" by Graham and Dodd / Per. fromEnglish. - M.: CJSC "Olymp-Business". - 704 p

⁸ Hailemariam A., Guotai C. (2014) Stock Market Development and Economic Growth: Empirical Evidence for Emerging Market Economies.

⁹ Najeb M.H. Masoud. (2013) The Impact of Stock Market Performance upon Economic Growth.

¹⁰ Butikov I.L. (2019) Uzbekistan's securities market: new horizons. // Magazine "Market, money and credit". - Tashkent. - No. 1 (260). – P. 58-69.



highlighted the need for enhanced infrastructure to support higher trading volumes and attract foreign investments.

Khamidulin (2019) conducted research on improving the financial mechanisms of corporate management, examining ways to enhance the efficiency and governance of corporate entities in Uzbekistan's stock market.¹¹ Shoha'zami (2011) addressed the strategic development and regulatory improvements needed for Uzbekistan's stock market, proposing methodologies to strengthen market governance and efficiency. His work provides a foundation for developing comprehensive strategies to enhance market regulation and efficiency.¹² Khalikov (2017) examined theoretical concepts for increasing investment volumes through the stock market, advocating for financial instruments that support market participation and economic growth.¹³ Khojamurodov (2019) studied ways to enhance stock market infrastructure to activate the secondary securities market. His research suggested increasing transparency, regularly updating share values, and encouraging public participation to make shares a significant source of income for shareholders.¹⁴

Despite these substantial contributions, significant challenges remain in Uzbekistan's stock market development. Issues such as state intervention, the dominance of state-owned shares, public unawareness about securities, and the underdevelopment of infrastructure bonds need further investigation. Additionally, improving the stock market's infrastructure, expanding its activities, managing risks, and enhancing the role of institutional investors are crucial areas requiring attention.

¹¹Khamidulin M.B. Development of the Financial Mechanism of Corporate Governance, Abstract of Doctoral Dissertation in Economic Sciences. - Tashkent, BFA, 2009.

¹² Shohazamiy Sh.Sh. (2011) Methodological foundations and priorities for the strategic development of the securities market in Uzbekistan, Abstract of the thesis ... doctor. economy Sciences. - Tashkent, BFA.

¹³ Improving the financing of investment activities through the stock market in Uzbekistan: Doctor of Philosophy (PhD) diss. abstract - Tashkent. - 24 p.

¹⁴ Ataniyazov J.X, Jumayev N.X. (2018) Foreign direct investments as a factor of increasing competitiveness of the economy. Publishing house " International Journal of Economics, Commerce and Management". – 217-229p



These studies collectively provide a comprehensive understanding of the multifaceted challenges and opportunities in stock market development. They emphasize the importance of robust regulatory frameworks, innovative financial instruments, improved infrastructure, and strategic planning in overcoming barriers to growth in Uzbekistan's stock market, thereby harnessing its potential to drive economic progress

Methodology

The article employs methods such as scientific abstraction, descriptive statistics, peer review, grouping, and dynamic analysis. Additionally, it integrates comparative analysis to draw insights from different data sets to analyze potential obstacles that prevent development of stock market of uzbekistan and suggest methods to address issues.

Results

The analysis of Uzbekistan's capital market reveals several critical issues that hinder its development and effectiveness. One of the primary issues is the absence of a state system for strategic planning in the capital market's development. This lack of direction hampers the coherent growth of the market. Additionally, the share of securities in free circulation is notably low, comprising only 0.4 percent of the country's GDP.¹⁵ This low penetration indicates a limited role of the securities market in the broader economy.

A significant portion of stock market transactions (over 70 percent) involves enterprises with state participation.¹⁶ This dominance by state enterprises reduces the market's overall liquidity and hampers the development of a dynamic secondary market for government securities. Moreover, the types of financial products available are limited, and state shares are not sold based on the principle of “one share - one lot,” which reduces investor interest.

¹⁵ Data of "Tashkent" Republican Stock Exchange (2021). www.uzse.uz

¹⁶ Decree (2019), Decree of the President of the Republic of Uzbekistan "On measures to fundamentally improve the management of state assets, the regulatory system of combating monopoly and the capital market". January 14, 2019, PF-5630. www.lex.uz.



Another critical issue is the low interest among business entities in raising capital through the securities market. This lack of engagement stifles the market's growth and innovation. Additionally, there is a noticeable gap in attracting large institutional investors who can provide long-term financial resources essential for market stability and growth. The market infrastructure, particularly in terms of modern information and communication systems, is inadequate. The local systems' capabilities are not utilized effectively, and the infrastructure at the regional level is underdeveloped. This technological shortfall limits the market's efficiency and reach.

Furthermore, there is a shortage of highly qualified capital market specialists who can drive market capitalization and implement effective strategies. This talent gap poses a significant barrier to the market's evolution and sophistication.

The regulatory environment also poses challenges, with numerous legal acts that provide disproportionate regulation not aligned with modern market demands and international standards. This regulatory complexity hinders the market's flexibility and responsiveness to global trends. Corporate governance practices are another area of concern, as they are not based on modern approaches. This deficiency in corporate relations can undermine investor confidence and market integrity.

These shortcomings prevent the capital market from realizing its full potential. To ensure appropriate capitalization and liquidity, attract investments effectively, and drive economic growth, addressing these issues is imperative. By overcoming these obstacles, Uzbekistan can leverage its capital market to foster economic development and improve various aspects of state and societal life.

Discussion

Stock market activity around the world is constantly influenced by government intervention policies. In the first half of 2020, after countries around the world declared the COVID-19 pandemic, stock markets were also lower than levels during previous global



financial crises (e.g., 1930s, 1987, and 2008) and during the Spanish flu, SARS, and Ebola pandemics. recorded unprecedented high volatility.¹⁷

Despite the fact that securities have already proven their importance, role and functions in the economy, there are still heated debates about their content. Since the stock market is at the same time the object of market circulation and has the property of giving obligations to the parties along with property and other types of rights, when determining their economic nature, both the economic and legal aspects of this economic event should be considered. It would be appropriate to think about an integrated approach.

The concepts of stock market and stock market are often found in economic literature and conversation. Economist E. Zhukov believes that "currently there are three markets of securities participating in the financing of the economy: over-the-counter, fund (exchange) and street market".¹⁸

Based on the above definitions, we believe that it is appropriate to consider "stock market" and "securities market" as concepts with the same meaning. At the same time, securities move on the stock market.

The stock market is a sector dealing with the issuance and trading of securities and a set of financial relations in the circulation of securities. It consists of collecting and distributing financial resources necessary for production and technical development, attracting investments of legal and natural persons, increasing them and ensuring the modernization of the economy by directing them to economic sectors [16].

Collecting idle funds in the stock market, turning them into loan capital, and then distributing it among the participants of production processes (banks, enterprises, firms, as well as the country's population): securities, trading operations are carried out with shares of enterprises and state bonds. The stock market includes a set of banks, stock exchanges and other financial and credit institutions that participate in the redistribution of monetary capital. The capital market, together with the money market, is a source of external capital

¹⁷ Ahmed Imran Hunjra, Ploypailin, Kijkasiwat, Muruges Arunachalam Helmi Hammami Covid-19 health policy intervention and volatility of Asian capital markets <https://www.sciencedirect.com/science/article/pii/S0040162521002729>

¹⁸ Securities Market. / Edited by E.F. Zhukov. – Moscow: UNITY, 2003. – p.13.



for the sectors of the economy and the government, and forms the demand and supply for loan capital.

The stock market is a sector dealing with the issuance and trading of securities and a set of financial relations in the circulation of securities. It consists of collecting and distributing financial resources necessary for production and technical development, attracting investments of legal and natural persons, increasing them and ensuring the modernization of the economy by directing them to economic sectors.¹⁹ Also, the stock market and the intermediaries operating in it are a component of the financial system and provide an opportunity to accelerate the process of redistribution of excess funds from investors to consumers.

Collecting idle funds in the stock market, turning them into loan capital, and then distributing it among the participants of production processes (banks, enterprises, firms, as well as the country's population): securities, trading operations are carried out with shares of enterprises and state bonds. The stock market includes a set of banks, stock exchanges and other financial and credit institutions that participate in the redistribution of monetary capital. The capital market, together with the money market, is a source of external capital for the sectors of the economy and the government, and forms the demand and supply for loan capital.

The capital market also deals with short-term securities of companies and the state. The capital market is attended by sellers and buyers of securities, specialized stock brokers, trade and commercial banks, the central bank, pension funds, insurance companies, investment companies, industrial enterprises, foreign investors, enterprises, and organizations. There are international and national capital markets, depending on the sources and areas of inclusion (currency market, stock exchange).

The capital market performs two main functions:

a) primary market or new issue market, in which the capital needed for investment and other purposes is formed by issuing new shares, bonds and other securities;

¹⁹ Sultonov Sh.N. Ways to Develop the Stock Market in Uzbekistan. Economics and Education / Issue 5, 2022. p.185.



b) secondary market, where transactions are carried out with existing securities. The secondary market facilitates the transfer of securities from sellers to buyers. The capital market occupies an important place in the financial system of the country and serves as a mechanism for turning the accumulated funds of the population into investments and investments into a portfolio of securities. "Tashkent" stock exchange, which has more than 200 brokerage offices in Uzbekistan, has been engaged in securities trading since 1994.

The stock market as the main link of the financial system is an important factor affecting its stability and increasing the country's competitiveness. Therefore, in developed countries, it is widely used as one of the main means of attracting investment to the economy. After all, if the capital market does not develop, all efforts to create a competitive economy and increase investment activity will be ineffective.

Any business entity, be it an individual or a legal entity, often needs additional financial resources to carry out any business activity. We know that today, as a source of financing for many socio-economic projects, state funds or loans from commercial banks serve as the main support. Therefore, one of the main tasks facing our government in the development of the financial market is the development of the capital market, in some sense, turning it into an effective element of the market economy and putting it into action. In this regard, the Decree of the President of the Republic of Uzbekistan No. PF-6207 of April 13, 2021 "On measures to further develop the capital market" and the Decree of the President of the Republic of Uzbekistan 2022 It is appropriate to refer to Decisions PQ-90 dated January 17, "On additional measures to introduce effective mechanisms to support the capital market". These regulatory documents define the main directions of capital market development, which are as follows²⁰:

- increase the competitiveness of the capital market and increase its capitalization to 45 trillion by the end of 2023 and creation of an efficient financing mechanism that is an alternative to bank lending;

²⁰ Decree of the President of the Republic of Uzbekistan No. PQ-90 "On Additional Measures for the Introduction of Effective Mechanisms to Support the Capital Market" dated January 17, 2022.



- increasing the accessibility of the capital market for all categories of investors by active integration with international financial markets, wide use of modern information and communication technologies and the use of advanced approaches that have been successfully tested abroad;
- by ensuring the harmonious functioning of the capital market and the development of all its segments, by the end of 2023, within the framework of the republican and regional investment programs, the part of the projects financed through the issuance of securities will reach 5%;
- introduction of advanced international practice in the field, creation of necessary conditions for active financing of investments aimed at development goals in the stock market by eliminating excessive barriers and restrictions;
- creating a legal framework that ensures the integrity of the capital market regulation and the prevention of systemic risks, introducing international criteria and experiences;
- development of the system of providing the capital market with personnel that meets modern requirements, creating attractive conditions for attracting promising, including foreign, specialists;
- training and re-training of industry specialists for the capital market, systematically implementing their qualification improvement;
- coverage of 40,000 people by the end of 2023 within the framework of programs to support the improvement of knowledge, skills and financial literacy of minority investors, other participants of the capital market, and broad sections of the population.

Conclusion

In conclusion, the development of Uzbekistan’s stock market is at a crucial juncture, with significant barriers hindering its growth and integration into the global financial system. The absence of a state system for strategic planning, low market penetration, and the dominance of state enterprises in stock transactions are critical issues that need immediate attention. These factors contribute to low market liquidity, limited investor interest, and stunted economic impact. The lack of engagement from business entities and the insufficient presence of large institutional investors further exacerbate these



challenges. Additionally, the underdeveloped market infrastructure, both technologically and regionally, along with a shortage of qualified specialists, significantly hampers market efficiency and reach. The regulatory environment, characterized by disproportionate and outdated legal frameworks, and poor corporate governance practices undermine investor confidence and market integrity. Addressing these issues is imperative for transforming Uzbekistan's stock market into a dynamic and integral component of the national economy.

To realize the full potential of the capital market, comprehensive reforms are necessary. These include implementing strategic planning mechanisms, enhancing market liquidity by increasing the share of securities in circulation, and diversifying financial products. Encouraging business entities to leverage the stock market for capital raising and attracting institutional investors are also crucial steps. Furthermore, modernizing market infrastructure, both in terms of information and communication systems and regional development, is essential. Investing in the education and training of capital market specialists will ensure the market is driven by knowledgeable and capable individuals. Regulatory reforms should aim to create a more balanced and responsive legal framework that aligns with international standards. Improving corporate governance practices will build investor trust and ensure the market operates with transparency and integrity. By addressing these barriers, Uzbekistan can create a robust and vibrant stock market that not only supports economic growth but also enhances the country's competitiveness on the global stage. The potential for Uzbekistan's stock market to contribute significantly to the economy is immense, and with the right reforms and strategies, it can become a cornerstone of the nation's economic development.

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