

STATE AND DEVELOPMENT TENDENCY OF THE STOCK MARKET OF UZBEKISTAN

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Abstract

The classical function of the securities market is that, being an integral part of the modern market economy, it links the interests of investors who have free financial resources and the interests of issuers that need investment. That is why in the Republic of Uzbekistan, since the first days of independence, great attention has been paid to the creation of a stable and balanced securities market designed to mobilize free investment resources of local and foreign investors for the economic and social development of the country. This paper studies the state of the stock market of Uzbekistan, development trends, changes number of joint stock companies and issue of shares, the dynamics of the primary and secondary stock market. In the paper some recommendations and proposals are given to improve the activity of stock market in Uzbekistan

Keywords: Stock, stock market, issue of shares, dividend, Uzbekistan

INTRODUCTION

The President of the Republic of Uzbekistan Shavkat Mirziyoyev has adopted Strategy of Action on five priority directions of development of the Republic of Uzbekistan for 2017-2021. Paragraph 3.1 of the Action Strategy provides for "the capital market development and the development of the stock market as an alternative source for the establishment of an enterprise, financial institutions and free resources of the population" (Strategy of Action on five priority directions of development of the Republic of Uzbekistan for 2017-2021. Decree of the President of the Republic of Uzbekistan dated February 7, 2017 N DP-4947).

As an alternative source of equity attraction shares are the most important among the securities. The shareholder has the right to participate in the distribution of the property and to own the property upon liquidation of the joint-stock company. The amount of dividends paid for shares is constantly changing depending on the economic effectiveness of the joint-stock company and the shareholders' decision. Investors trust more to the joint stock companies that pay little amount of dividend but regularly rather than those that give higher amount of dividends but not regularly.

According to the Law of the Republic of Uzbekistan "On Securities Market", that was adopted in the new edition on June 3, 2015, the stock gives the right to the owner to receive part of the profit of the joint-stock company in the form of dividends, to participate in the management of the joint-stock company and to own part of the property is an emissive security, which contains the name of the owner and its validity is not established.

At present, the way in which the shares are issued has changed dramatically. In emerging market economies, the issuance of paper-based stocks, reflecting the details of the joint-stock company, is rare. Now the necessary information is replaced with computer memory entries. Shareholders are provided with copies of their shares, series and numbers (certificates in some countries). Starting from 2008, the shares have been issued in circular (electronic) form in Uzbekistan. Currently, only the "registered stock" is allowed in the legislation of Uzbekistan.

Although first-ever joint-stock companies emerged in the XVII century, their active development occurred in the second half of the 19th century (Zhukov E.F, 2009). In Uzbekistan, after independence, the establishment of joint-stock companies has begun, since 1994 great attention has been paid to the privatization of state-owned property and the formation of joint-stock companies.

LITERATURE REVIEW

The stock market can be a very complex market where stocks and commodity. At the same time, it plays a central role in the creation and development of a strong and competitive economy. This is the key to structural change in any economy; from traditional, hard, unsafe based on banks, to a more flexible, safer economy that is immune to shocks, fluctuations, and investor uncertainty (Stapley, 1986). According to Arnold (2004), in the stock market, government and industry can attract long-term capital, and investors can buy and sell securities. As a rule, markets, they are stocks, bonds, cattle or fruits and vegetables, are simply mechanisms that allow the possibility of trade between individuals or organizations. Although some markets (for example, livestock) are physical, when buyers and sellers meet for trade, others (for example, for foreign currency) are a national network based on communication using

telephone lines and computer links, without a physical meeting point. In addition, very few stock exchanges around the world still have a physical place where buyers and sellers meet for trading. Patrick and Wai (1973) argued that stock markets are those markets that are engaged in capital, both in the short and long term, when companies sell shares in order to generate long-term capital that can be channeled to their profitable options. This is because people would prefer to invest in winners than losers; buyers hold on to their shares for future dividend payments. The activity of buying and selling stocks on the stock market is extremely important for the distribution of capital in the economy (Pratten, 1993). In addition, transaction prices and quotes provide investors with an indication of the market value of their wealth, which may influence their decisions on consumption expenditure (Pratten, 1993). Although, when prices are at a historically high level and / or grow, this indicates confidence between investors and can affect the confidence of businessmen and, consequently, their investment. In addition, the stock market is the decisive factor in making investment decisions in business, since the price of shares affects the amount of funds that can be raised by selling new issued shares to finance investment costs.

ANALYSIS

Establishment of joint-stock companies resulted in the issuance of shares used to form equity. Equity is increased due to the increase in nominal value of shares or placement of additional shares. However, according to the legislation of the Republic of Uzbekistan, the authorized capital of the joint-stock companies is not increased due to the increase in the nominal value of shares.

It is well known to us that the most important role in the structure of the securities market is the stock market. Unlike other securities, stocks represent ownership of the property. By analyzing the dynamics of this financial instrument, we can see that ownership relationships have increased or decreased.

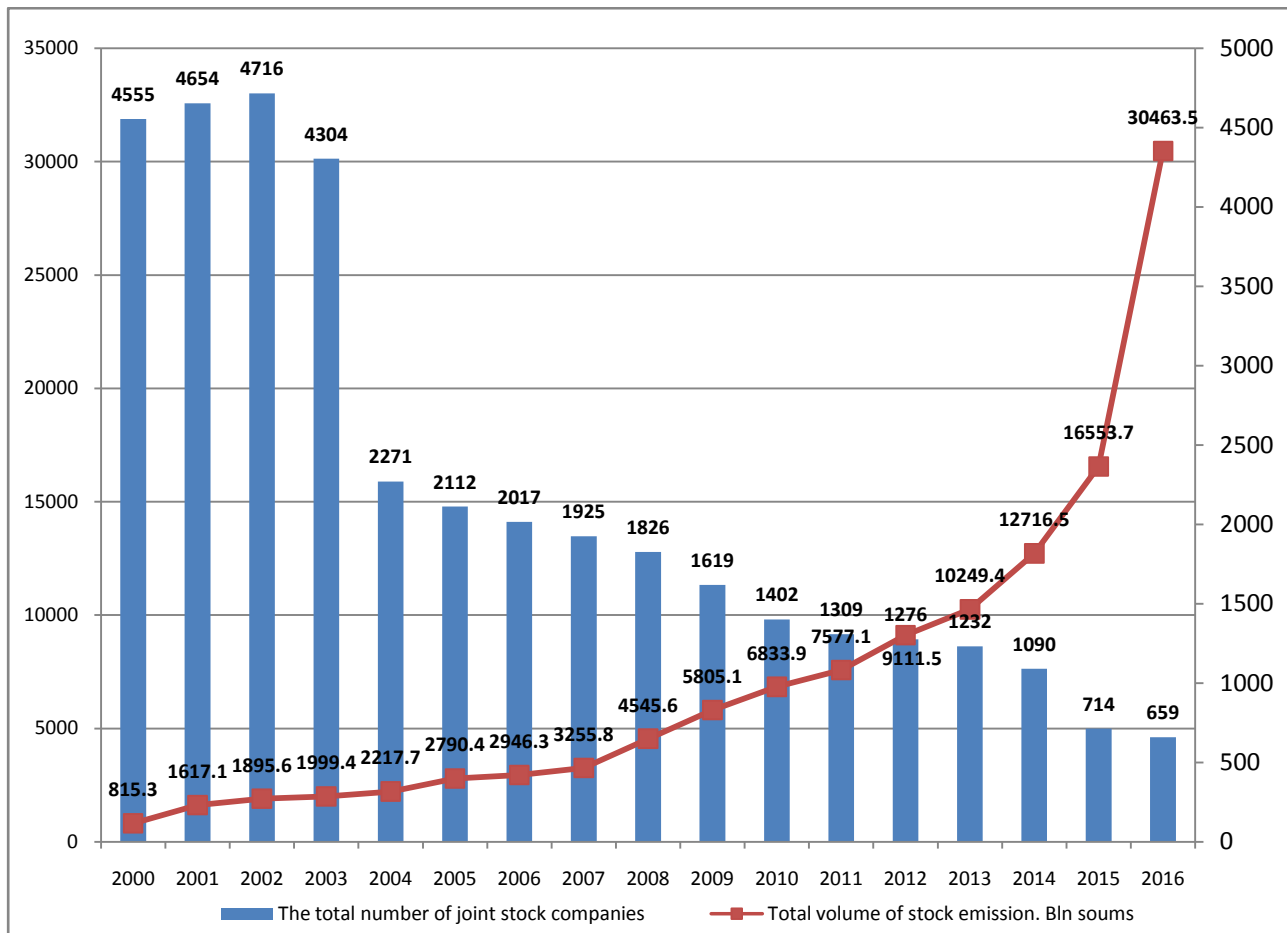


Figure 1. Change in total number of joint-stock companies and total volume of stock emission

Source: Author's compilation on the basis of the Center for Coordination and Control of Securities Market under the State Competition Committee of the Republic of Uzbekistan

It can be seen from the figure's data that the number of joint-stock companies has declined during the analyzed period. However, such a reduction did not cause the total emission to reduce. There were 4555 joint-stock companies operating in Uzbekistan in 2000, and by 2016 there were 659 (or 625 as of July 1, 2017). The main cause of the decline in the number of joint-stock companies since 2008 was the presidential decree adopted in November that required to expand the activity of the joint stock company and to increase the minimum requirement of their authorized capital. Especially since 2009, the minimal amount of the authorized capital of newly established joint-stock companies was set at \$ 400,000, with the requirement that the previously established joint stock companies had to increase their authorized capital until January 1, 2010, or otherwise they would be converted to another form of ownership. As a result, the securities market "got rid of" issuers with a little authorized capital. Also, the securities market regulators are also able to control issuers.

In 2016, the reason for the reduction of total number of joint-stock companies than 2015 was that the enterprises, which had not been in operation for many years, had been liquidated or turned into another legal forms of organization by the Decree of the President of the Republic of Uzbekistan dated April 24, 2015 UP-4720. Most of the joint-stock companies are owned by Uzpakhtasanoateksport (117), NHC Uzbekneftegaz (52) and Uzbekenergo (44).

The increase in the volume of shares issue in 2014 compared to 2014 was explained by the adoption of the Resolution of the President of the Republic of Uzbekistan "On measures to increase the share and essence of private property in the economy" on April 28, 2015 № PR-2340.

The sharp increase in the number and volume of the emission of shares in 2016 compared with 2015 was mainly due to the execution of the Resolution of the President of the Republic of Uzbekistan dated December 21, 2015 PR-2454 "On Additional Measures to Attract Foreign Investors to Joint Stock Companies", according to which in joint-stock companies, the share of foreign investors in the authorized capital is at least 15% (excluding some of the joint-stock companies of strategic importance). Also, a number of resolutions envisaging the transfer of state assets to the authorized capital of economic management bodies (Resolution of the Cabinet of Ministers of the Republic of Uzbekistan № 289 "On Additional Measures for Effective and Rational Use of State Property" dated 09.10.2015 and the Decree of 17.11.2016 "On Measures for the Establishment of Joint-Stock Company "Uzagrotexsanoatkholding" No. PD-2658).

The tendency of their development through the primary and secondary markets of the stock market can be seen in Table 1.

Table 1: Dynamics of primary and secondary stock markets

| Years | Primary market | | Secondary market | |
|-------|------------------|--------|-------------------|-------|
| | In billion soums | Shares | In billions soums | Share |
| 1999 | 4,6 | 42,6 | 6,2 | 57,4 |
| 2000 | 6,2 | 36,3 | 10,9 | 63,7 |
| 2001 | 12 | 46,3 | 13,9 | 53,7 |
| 2002 | 16,3 | 39,1 | 25,4 | 60,9 |
| 2003 | 53,9 | 72,2 | 20,8 | 27,8 |
| 2004 | 18,5 | 44,8 | 22,8 | 55,2 |
| 2005 | 100,0 | 60,3 | 65,9 | 39,7 |
| 2006 | 114,9 | 33,6 | 227,2 | 66,4 |
| 2007 | 269,6 | 67,1 | 131,9 | 32,9 |

| | | | | |
|------|---------|------|--------|------|
| 2008 | 483,4 | 68,5 | 222,3 | 31,5 |
| 2009 | 560,3 | 74,9 | 187,8 | 25,1 |
| 2010 | 930,0 | 63,0 | 547,3 | 37,0 |
| 2011 | 634,8 | 42,3 | 866,2 | 57,7 |
| 2012 | 1148,4 | 57,8 | 838,9 | 42,2 |
| 2013 | 748,9 | 82,3 | 161,6 | 17,7 |
| 2014 | 1139,2 | 93,1 | 83,8 | 6,9 |
| 2015 | 3166,8 | 95,2 | 158,6 | 4,8 |
| 2016 | 13114,3 | 92,7 | 1027,5 | 7,3 |

Table 1...

Source: Author's compilation on the basis of the Center for Coordination and Control of Securities Market under the State Competition Committee of the Republic of Uzbekistan

The table above shows that despite the absolute increase in the secondary stock market (from 6.2 billion soums in 1999 to 1027.3 billion soums in 2016), there were a downward trend in the share of the primary market over the past decade. In 1999, the secondary market in total the stock market was 57.9%, and by 2016 this figure was only 7.3%. Particularly, the sharp decrease in the secondary stock market occurred in 2007, it dropped by more than two times compared to 2006 (from 66.4% to 32.9%). Of course, this can be difficult to assess as a positive state. The sharp rise in the secondary market in 2006 was due to the redistribution of privatized state property over the previous years. The bulk of the stock market is formed by the primary placement of shares of the privatized enterprises at the stock exchange and off-exchange trades of the State Competition Committee. Also, due to changes in the authorized capital of joint-stock companies and the adoption of a number of regulatory and legal documents on the development of the stock market in recent years, additional emissions have led to a dramatic increase in the primary stock market.

In 2016, the volume of transactions involving individuals in the secondary market accounted for 174.2 billion soums, or 13.8% of the total volume of transactions in the secondary market, despite the increase in absolute terms, it decreased in terms of its share. These figures reached 70.4 billion soums or 44.4 % in 2015, respectively, and in 2014 - 50.6 billion soums or 60.4%. Thus, in recent years, the population's participation in the stock market has gone down.

With the change in the volume of shares emission, it is possible to compare GDP growth, which is the main macroeconomic indicator of the country (Figure 3).

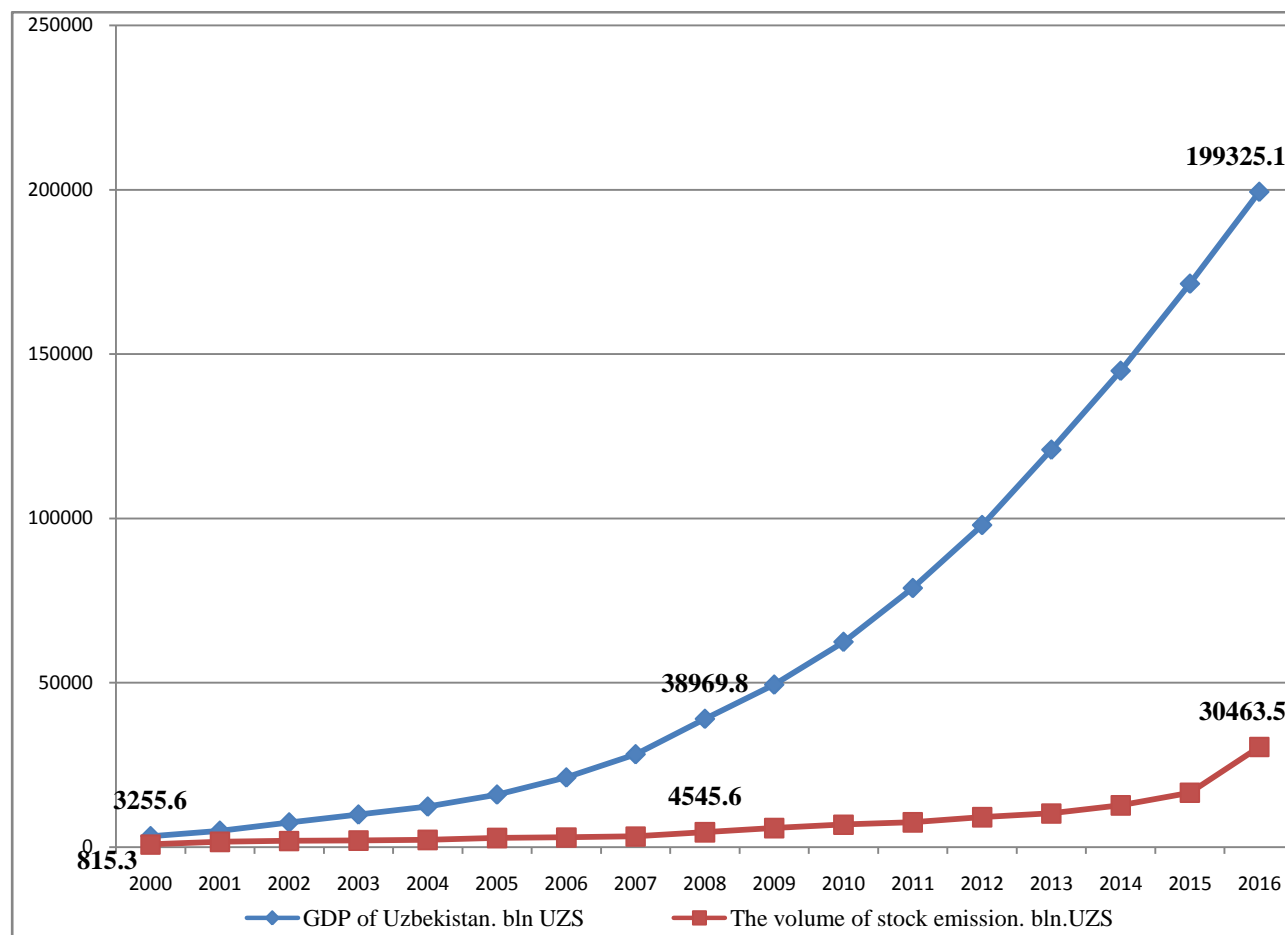


Figure 2. Volume of shares emission and dynamics of GDP change

Source: Author's compilation on the basis of the Center for Coordination and Control of Securities Market under the State Competition Committee of the Republic of Uzbekistan

This figure shows that in 2000 the amount of GDP was 3255.6 billion soums, the total amount of shares was 815.3 billion soums. Over the years, these indicators have an upward trend and in 2016, respectively, made up 199325,1 billion UZS and 30,463.5 billion UZS. Of course, we believe that the growth of the emission of shares in our country has a positive impact on the growth of GDP. Because, through the emission of shares, capital is attracted to the sectors of the economy and ultimately contributes to the growth of commodities, jobs and services.

CONCLUSION

According to the conducted research, the following conclusions can be made:

- As the shares are dominant among the securities and with their distinctive features, the stock market is also dominant in the structure of the securities market of Uzbekistan;

- In Uzbekistan, it is permitted to issue shares of "registered share" only in non-documentary (electronic) form of ownership;
- The number of joint-stock companies has a downward trend and the volume of shares emission has an upward trend in Uzbekistan. Due to the requirements of the authorized capital of joint-stock companies and the reduction of their number as well as other norms, it is a positive aspect to facilitate the control over the activity of joint-stock companies;
- In recent years, the primary stock market has sharply increased, and the secondary stock market has a tendency to decline compared to the primary stock market;
- OTC market in the stock market in Uzbekistan occupies a large share and has a tendency to grow;
- In recent years the share of individuals in the secondary market has been decreasing;
- Year by year the issue of shares is increasing in relatively to the growth of GDP;
- Enhanced access to electronic transactions and streamlining of trades in organized trades, simplification of securities issuance procedures, as well as extensive access to information on issuers and their securities via corporate websites, moreover transparent information on the exclusive portal (openinfo.uz) which led to an increase in the share turnover.

RECOMMENDATIONS

Based on the findings, following suggestions on the further development of the stock market of Uzbekistan can be made:

- Primary placement of shares on international stock markets as an alternative source of capital attraction(IPO). For this purpose, it takes at least three years after the start of the process, based on international experience. First of all, if we try to test this process on the national stock market, learn about our achievements and shortcomings, it is best to consider the matter of access to the international stock market;
- In our opinion, it is necessary to accelerate the process of expanding joint-stock companies and increasing their capitalization. This situation allows joint-stock companies of the republic to approach the world's largest joint-stock companies, as well as their ability to invest in major projects, resulting in large profits and liquidity of their shares;
- At the present time, in almost half of the joint-stock companies (about 300) the state has shares. It is necessary to continue the process of reducing the state-owned shareholding in joint-stock companies. This situation has a positive impact on the development of the secondary market.

In general, we believe that the research in the paper, as well as the conclusions and recommendations made therein have importance for the status, trends, achievements and problems of the stock market in Uzbekistan.

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