



## **THE NEW VIEW OF CAPITAL MARKET IN UZBEKISTAN**

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### **Abstract**

*Capital market is one of the key markets that can help a country to achieve higher economic growth. Considering the reliability of capital market, foreign investors invest their money in a country. Therefore many countries try to improve their capital markets. Indeed, Uzbekistan focuses on the development of its capital market for economic boosts. Many reforms are being implemented for this target. This paper studies the state of capital market in Uzbekistan analyzes the current barriers for the development.*

*Keywords: Capital Market, Reforms, Stocks, Joint Stock Company, Foreign Investment, Uzbekistan*

### **INTRODUCTION**

Large-scale work is underway in Uzbekistan. Resources are mobilized for these purposes in the form of investments, for example, in 2018, over 80 trillion soums were mobilized. And just the capital market is the segment that is called to play a key role in this area. Now the activities of the new agency based on a set of criteria, in particular, what is the proportion of the capital market in shaping the volume of investment in the socio-economic development of the country. An extra-budgetary capital market development fund is also being formed.

It was entrusted to develop and submit to the Presidential Administration a strategy for developing the capital market in order to develop all segments of the financial market, create equal conditions in business, and use advanced international experience.

- Around the world, the capital market is one of the main sources of financing for companies and the economy as a whole as an alternative to the banking sector. Our goal is to introduce in Uzbekistan the most optimal model of relations between participants in the financial market.



This is a relatively new practice for us, the necessary mechanisms for its implementation require a certain time for their effective implementation. But even the fact that the decree and resolutions of the head of state provides for the abandonment of outdated models in economic development will not go unnoticed by both domestic and foreign investors, and the economy of Uzbekistan will become more attractive and stable for them.

Over the next five years, the dependence of the economy on the banking sector should be reduced, and the presence of the state will decrease in the banking sector itself. The capital market development agency has submitted a draft capital market development strategy for 2020-2025. The document was prepared based on the recommendations of the BTA and ISC consultants with the support of the European Bank for Reconstruction and Development and the Asian Development Bank.

It is expected that by the end of next year, clear rules will be established for all market participants, which will protect the rights of investors. Attracting the Korea Stock Exchange as a strategic investor will allow the Republican Stock Exchange "Toshkent" to get a global brand. Also in the plans - laying the foundation of the corporate bond market. By 2025 - increasing the liquidity of traded shares, expanding the base of international institutional investors. At the same time, the share of freely traded securities will be brought up to 10% of GDP (six billion dollars). Over the next five years, the economy's dependence on the banking sector should decrease, and the state's presence will decrease in the banking sector itself. According to consultants, the introduction of Islamic bonds "sukuk" may attract additional funds from the shadow turnover to the economy. As a result of the active attraction of 2.5 million national (local) investors, whose investment is expected to be 6% of their savings, it is planned to create a class of "retail investors", which should ultimately contribute to the growth of welfare of the population.

## **FUTURE OF CAPITAL MARKET IN UZBEKISTAN**

An international conference "The role of the capital market in the development of the economy of Uzbekistan" was held in the capital, the purpose of which was to discuss the future development of the capital market in our country.

The conference was organized by the Agency for the Development of the Capital Market in conjunction with the Senate of the Oliy Majlis, the Agency for Information and Mass Communications under the Presidential Administration of the Republic of Uzbekistan, and the State Assets Management Agency.

The event became a platform for building fruitful cooperation between leading companies of Uzbekistan and the international investment community, as well as other participants in the capital market. It was attended by representatives of leading

international investment companies, financial institutions, well-known experts in the capital market, representatives of government agencies and heads of major companies of the Uzbekistan.

During the conference, participants noted that in the conditions of re-lending of the economy of Uzbekistan to the banking sector with an excessively high level of state participation, the development of the capital market is of particular importance to accelerate the pace of economic development.

At the same time, the most pressing tasks for developing the capital market are bringing the legislation in line with the requirements for frontier markets (markets that are just beginning to develop), creating an ecosystem of the financial market, which includes brokers, pension funds, insurance companies and banks , the creation of a mechanism for attracting funds of the population to the stock market - both by cultivating collective investment institutions, and by providing simple and understandable access to the market individually m investors.

Director of the Capital Market Development Agency noted in his speech that today in Uzbekistan, together with the Asian Development Bank and the European Bank for Reconstruction and Development, a strategy is being developed that will look into the future of the capital market for the next five years.

According to him, the strategy will have five directions, aimed at improving the infrastructure, clarifying the legal framework, facilitating regulatory mechanisms and achieving other goals. Its implementation will bring the volume of freely traded securities to 10-15 percent of GDP (now this figure is 0.2 percent of GDP), including increasing the types of securities on the capital market, taking into account world practice.

In turn, the director of the State Assets Management Agency, stated that he was ready to support the capital market of the republic by expanding the IPO practice of shares of state-owned companies, its implementation on the domestic capital market of the republic to actively attract investors, including business entities and the public, to the stock market.

He also spoke about plans for adopting a Management Strategy and the privatization of state-owned enterprises, which provides for the criteria for maintaining state ownership of enterprises and their transformation into effective units that can compete in the domestic and foreign markets.

It was noted at the event that Uzbekistan intends to accelerate the implementation of the pension reform in order to grant the right to pension funds to invest in securities. This implies the creation of private pension funds.

## WHAT HOLDS BACK THE DEVELOPMENT OF THE CAPITAL MARKET OF UZBEKISTAN AND WHY IS IT SO IMPORTANT FOR THE ECONOMY

The main problems are complex laws, a low level of financial literacy, a large share of state participation, and much more.

The development of the capital market in Uzbekistan is hampered by the low level of financial literacy of the population, the complexity of laws, the lack of institutional investors, a large share of the state in joint-stock companies, and an insufficient number of instruments to protect the interests of shareholders.

Today, the volume of securities in free circulation is only 0.5% of the country's GDP. The entire market capitalization of securities at the end of 2017 amounted to 5.9% of the GDP.



Figure 1. Indicators of effectiveness of capital market in Uzbekistan

Source: Capital Markets Development Agency (CMDA)

At the same time, in the structure of securities, the main share falls on the banking sector (86%), which is 83% owned by the state. Of the 603 joint stock companies existing in the country, 22% (132 joint-stock companies) are listed on the stock exchange.

The state's participation in these companies exceeds 80%, in monetary terms this equals approximately \$ 5.5 billion. The bulk (99%) of the securities market is held by stocks, 1% - by bonds.



### Current State of Capital Market in Uzbekistan

Source: Capital Markets Development Agency (CMDA)

“We all know very well that in developed countries, especially in Anglo-Saxon countries, for example, in the USA and England, the bulk of the financing of the economy comes from equity funds, bonds, and only the smaller one consists of a form of bank financing.”

In Uzbekistan, banking sector assets are 130 times higher than the free-float of all securities in the capital market.

Free-float (from English “free floating”) - the share of shares that are in free float. That is, absolutely any subject of the stock market in any quantity can acquire them. Not all shares of the company go to the stock exchange: part may be owned by its founders, the state, large shareholders, under arrest or in bail.

Another anchor is the country's treasury, which annually allocates about \$ 12 billion of taxes paid by the population to finance government spending.

In order to effectively develop the economy of Uzbekistan, to balance the structure of its financing, it is necessary to develop the capital market, the head of the agency emphasized. Here that interfere with this development; “First of all, it is the protection of investor rights. How protected are the rights of minority shareholders or portfolio investors who do not have control in the enterprise today? In the world, this is the main criterion before companies attract portfolio investors to their capital. Having no control over the company, the investor must be sure that his rights will be protected, that dividends will be paid on time. This is critical.”

Another barrier to market development is the lack of institutional investors - the country needs to increase the potential of investment intermediaries.

“In the world in large [stock] markets (on exchanges in London, Hong Kong, Tokyo), the market is formed by investment intermediaries. These are asset brokers who have been involved in this business for 200 years. They gained this experience for centuries. To create such an industry [in Uzbekistan] even over decades will be a success. “The third barrier is the low financial literacy of the entire population. The agency’s role as a regulator is to protect the rights of shareholders, therefore the agency intends to invest in improving the financial literacy of the population. People should understand the risks of investing in stocks, bonds.

The fourth barrier is very complex laws. The Agency conducted an inventory of all the regulations on which it relies in the course of its activities. It turned out that there are about 50 of them, including laws, government and president decrees, departmental acts.

Now the agency plans to introduce an updated legal framework, including the introduction of simplified and consolidated laws in the Unified Code of Capital Markets. As a result, the updated legislative framework should establish rules and functions that are understandable for everyone to work effectively, and counteract market abuses.

The fifth barrier is the massive role of the state in joint stock companies. “The state controls 82% of the shares in joint-stock companies, but there is nothing negative about it. These are our realities, it happened so historically. Now we just need to move on - to carry out privatization. In addition, the influx of companies into the market should consist of private companies”.

He also presented a conceptual vision of a capital market development strategy that aims to support sustainable economic growth in the country. For this, the agency must ensure the smooth functioning and development of all segments of the financial market.

## **CONCLUSION**

Thanks to the current reforms, there were many positive changes in the economy of Uzbekistan including those changes in capital market. The number of companies that conduct IPO and those that issue Eurobonds are increasing as well. Nevertheless there are some barriers to reach another level of development of capital market. Capital Markets Development Agency (CMDA) are working on policies to get rid of these barriers. To improve the condition of capital market finance current expenses, engage in material incentives and social security, allocate funds for training, training, retraining and advanced training of specialists, pay for the activities of foreign specialists involved in the implementation of strategic tasks. Further studies should focus on the bond issuance experience of commercial banks in Uzbekistan.

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