

Issues Of Stock Market Development

G.M. Samandarova, PhD

Tashkent State University of Economics

Abstract. The article substantiates that the stock market is an alternative source of business financing in Uzbekistan, the main problem in the stock market is still the insufficient liquidity of shares, that is, the lack of attractive securities that are actively sold and bought on the stock exchange, the views of foreign and local economists are presented on the concept “stock market” and “securities market”, changes in the volume and number of transactions.

Key words: stock market, securities market, shares, stock exchange.

Introduction.

The stock market is an alternative source of business financing in Uzbekistan. Until now, business in Uzbekistan depends mainly on bank finance, which unfortunately is expensive and often unavailable, which means that banks have a problem of lack of resources. The stock market offers another type of capital - equity capital, which is certainly not debt. In particular, it allows companies to avoid increasing debt and raise long-term capital for growth by issuing shares. Ultimately, it will improve the financial health and stability of local companies and allow them to invest in projects that were previously unavailable. For projects that require long-term financing, equity capital is the best method of financing. If our stock market works as we want, the country's economy will "breathe a sigh of relief". Because many companies will have more opportunities to attract capital for their development, create new jobs, invest in new projects, this situation naturally contributes to the improvement of the country's economy. The main problem in the stock market is still the insufficient liquidity of shares, that is, the lack of attractive securities that are actively sold and bought on the stock exchange. Therefore, in this article, we have presented our research on the state and dynamics of the stock market of Uzbekistan, the existing problems in the stock market and ways to solve them.

Literature review.

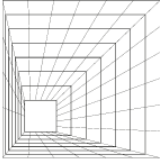
The concepts of "stock market" and "stock market" are often found in economic dictionaries and literature. Some economists treat these as separate concepts. For example, E.F. Zhukov recognizes the stock market as the stock market of securities. Also, E.F. Zhukov believes that "currently there are three markets of securities - over-the-counter, stock (exchange) market and street market, and they participate in the financing of the economy".

According to other economists, in particular, Ya.M. Mirkin, the concepts of the stock market and the stock market are compatible with each other and have the same meaning.

M.B. Khamidulin believes that the concepts of "stock market" and "stock market" should be distinguished from each other, because the concept of "stock market" has its own special features. According to the scientist, "the stock market is a financial support instrument of corporate strategies, aimed at increasing the capital (main funds) of the corporation, redistributing this capital and regulating property relations (shares, bonds, warrants)".

According to I.L. Butikov: "According to our research, various types of securities are special goods of equal scale for the stock market and the stock market. Therefore, it is considered difficult to separate these concepts historically, and in our opinion, there is no need to separate them methodologically and practically".

In the countries of the European Union and the United States, these concepts are used in



a separate segmentation. Scientists of these countries prefer to use concrete markets such as "stock exchange", "stock market", "bond market" rather than using general concepts such as "stock market", which includes many instruments.

Analysis and results.

The stock market in Uzbekistan is in the early stages of its development, while it continues to grow in some respects. Recently, retail investors have started active trading, especially after the launch of the Jett.uz mobile application.

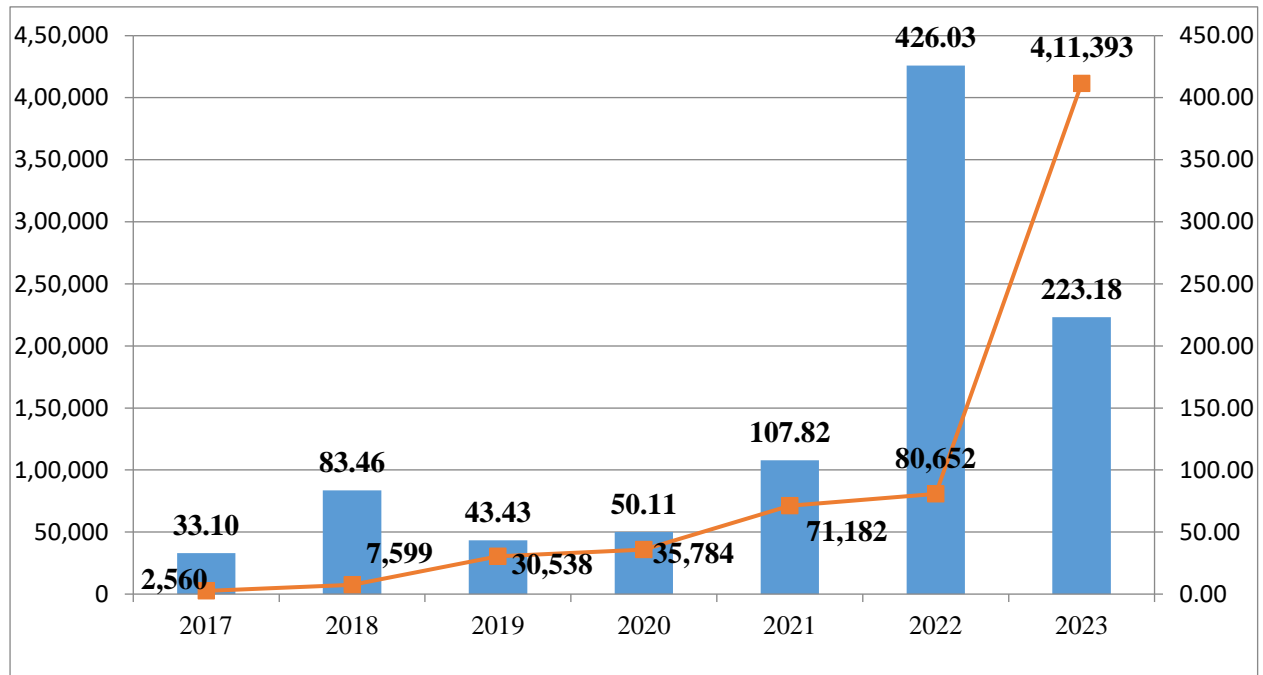
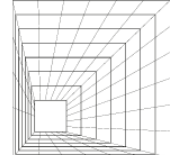


Figure 1. Changes in the volume of transactions and the number of transactions in "Tashkent" RFB in 2017-2023

From the data of Figure 1, we can see that liquidity in the stock market increased in 2023 compared to 2022. In 2022, an average of 300 trades were made per day, and in 2023, the average was 2,000 trades per day. Last year 2023 compared to 2022, the number of transactions on the stock exchange increased by 5-6 times, which is certainly a very gratifying situation. We can explain the sharp increase in the number of transactions with the launch of the Jett.uz mobile application for retail investors. However, we cannot positively assess the sharp decrease in the volume of transactions compared to last year. At the level of the head of state, attention is being paid to the elimination of this problem, that is, to a sharp increase in the turnover of the stock market. In particular, the "New development strategy of Uzbekistan for 2022-2026" was adopted by the relevant decree of the President of the Republic of Uzbekistan. The 27th goal of this strategy is "In order to increase financial resources in the economy, to increase the turnover of the stock market from 200 million US dollars to 7 billion US dollars in the next 5 years, to gradually liberalize the movement of capital in our country and to sell large enterprises and their shares (shares), including through the stock exchange. privatization" is defined. In recent years, one can hear more about the stock market and IPOs of various state-owned companies in Uzbekistan. In 2023, the IPO of three companies: UzAuto Motors, Uztelekom and Uzbekinvest was held at RFB "Tashkent". Before that, only the public offering of JSC JSC



(glass factory) in 2018 and Jizzah Plastik JSC (plastic manufacturer) was known in 2018-2020.

At the end of December 2023, the debut transaction for the sale of 99.68% of the ordinary shares of the Koqon biochemistry distillery for \$20.1 million was held on the new "Free of Payment" trading platform. The new platform is designed to ensure openness and transparency of transactions, unlike the over-the-counter (grey) market. More IPOs are expected in the stock market, so more companies will issue their shares in the stock market. In this, the state exerts influence over companies and plays a very positive role in preparing and leading state-owned enterprises to IPOs to issue their securities. In addition, development plans include connecting Uzbekistan with the international stock market by creating bridges with international depositories such as Clearstream and global custodians in the form of large foreign banks. This gives their clients, including large institutional investors, access to our stock market. That is, global custodians in the form of international depositories such as Clearstream and large foreign banks enter our market not only themselves, but also their clients.

Success is being achieved in opening accounts for international depositories and foreign custodian banks. The decision of the President of September 2, 2023 aims to practically open the market of Uzbekistan for foreign investors, to further develop the capital market by creating the necessary legal framework within the framework of the new regulatory body of the securities market.

Another problem is related to currency conversion and sale of securities on the local stock market or repatriation of profits received in the form of dividends on shares of Uzbek companies. Foreigners face certain difficulties in our banks when converting currency and exporting capital abroad. This does not mean that they are prohibited from converting and repatriating their earnings. Maybe they are forced to go through unnecessary bureaucratic procedures, and this makes foreign investors difficult, reduces their interest in our stock market. The solution of this problem creates the basis for the increase of confidence of foreign investors in the stock market of Uzbekistan, and for the long-term investment here.

Unfortunately, the market capitalization of freely traded shares and its change in relation to GDP have a very low indicator, although they have a positive trend (see Figure 2).

From the data of Figure 2, it can be seen that a small number of shares are sold in the stock market of our country, and the fact that there is very little (almost no) free float is a big problem for the stock market of Uzbekistan. This is also true of some other emerging markets. If we look at state-owned companies, the state has not yet decided to sell large shares of these companies. This can be explained by the fact that public companies are not fully ready for IPO. Also, the government may consider that it is not yet time to sell state-owned companies at their selling price.

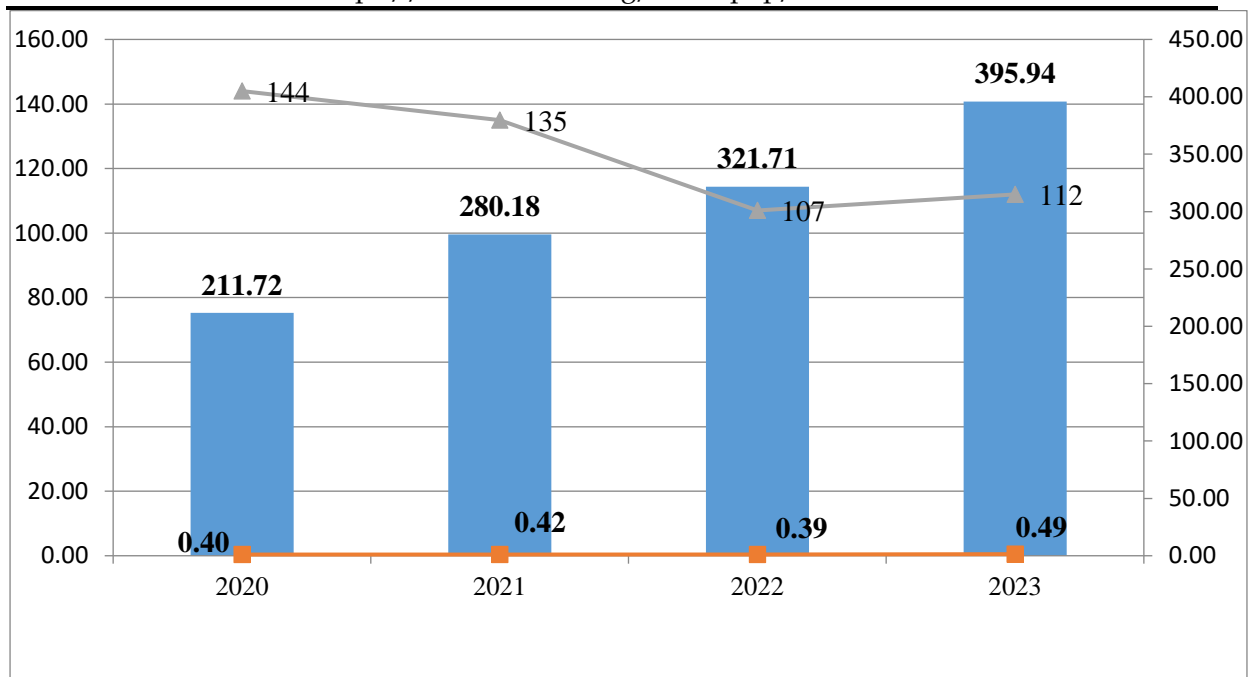
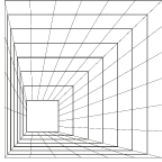


Figure 2. Market capitalization of free float shares and its change in relation to GDP in 2020-2023

As for private companies, they probably consider the current costs of raising capital through the stock exchange to be too high, which means that the expected selling price of their shares is not attractive enough for them due to the limited number of buyers and investors in the local market. will lead to the release of the amount, which will not affect the general liquidity and free-float.

In order to develop the stock market, it is necessary to privatize large state companies, including banks, and conduct IPOs and SPOs. If public companies and banks are well prepared, they can have very successful IPOs. However, there is always a good time for IPOs and SPOs.

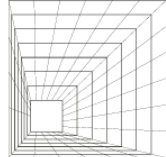
We wouldn't say now is a bad time for an IPO in our opinion - maybe not the best time, but not the worst either. The timing can always be right because when the market opens, there is a window of opportunity and companies that are ready to go public will take advantage. Companies simply need to start taking serious action, take steps to implement an IPO.

In our opinion, public companies and banks should first prepare for an IPO by completing the following tasks in advance:

- improvement of corporate management and financial reporting;
- learning to actively work with foreign and local investors;
- regular reporting to shareholders on important facts;
- prioritizing the interests of minority shareholders;
- appointment of independent members to the supervisory board;
- make the management fully accountable to the supervisory board.

In March 2023, a presidential decree [10] was issued to put 40 state-owned companies on the "People's IPO". "People's IPO" is one of the proven methods of selling state-owned companies, and we support our president's initiatives to privatize state-owned companies and banks. The main thing is that the "People's IPO" should be conducted correctly. By this, we mean strict compliance with the procedure for public placement of securities established by law.

This means that issuers must write prospectuses for their securities and have them



approved by the market regulator. Later, investors get acquainted with issue prospectuses. Public offerings, including primary sales and secondary sales of shares, must be made through a licensed trading platform - a stock exchange. If all the legal requirements are met, the chances of a successful "people's IPO" will increase.

In 2023, the Central Securities Depository was transferred to the Central Bank, and the National Agency for Prospective Projects (ILMA) became the regulatory body of the capital market. We believe that the decision to transfer the regulation of the stock market from the Ministry of Economy and Finance to ILMA was made based on the priorities of the Ministry of Economy and Finance and the National Agency for Prospective Projects. The government considered these priorities and decided that ILMA would be best as a regulator. However, we do not positively assess that the stock market regulator is changing too much (5 times since the first years of independence until now).

We often hear from foreign investors that it is easier for them to enter than to leave the country. When investors see the risks of exiting the stock market, they will not enter the stock market of this country. Uzbekistan is not the only country in the world where foreign investors can invest their money, investors always have alternative options. If they think that it is too difficult for them to work in Uzbekistan, they will simply move to other markets. We really don't want that, because we need to attract them to the stock market of Uzbekistan as much as possible.

However, we cannot invite foreign investors here with empty words and promises. Foreign investors should be supported by local legislation and business environment.

Moreover, the foreign exchange regulation should be such that foreign investors feel comfortable that they can easily enter and exit the market at any time.

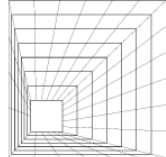
There are no special formulas here, everything has already been tested in many countries of the world. We just need to follow advanced international practices, consider countries that have managed to attract foreign investment, learn and apply their experience.

Conclusions and suggestions.

In general, as a result of the research carried out in the article, the following conclusions and suggestions were made:

The main reason for the 5-6 times increase in the number of transactions on the stock exchange in 2023 compared to 2022 is due to the launch of the Jett.uz mobile application for retail investors. However, we cannot positively assess the sharp decrease in the volume of transactions compared to last year. We cannot positively assess the current state of the stock market capitalization level. Because today the level of total stock market capitalization of our republic is 6.5 times lower than the world average in this regard. There are many good companies in Uzbekistan, unfortunately, they do not list their shares for various reasons. This applies to both public and private companies. This situation is a big problem for the stock market of Uzbekistan.

There are no local institutional investors in the stock market, such as pension funds. Insurance companies, on the other hand, do not actually invest in securities, and mutual funds do not exist. There are few foreign players in the market, because we have not yet established relations with international depositories and global custodian banks, without which foreigners will not come to us. Another problem is related to currency conversion and sale of securities on the local stock market or repatriation of profits received in the form of dividends on shares of Uzbek companies. The solution of this problem creates the basis for the increase of confidence of foreign investors in the stock market of Uzbekistan, and for the long-term investment here. A small number of shares are sold on the stock market of our country, and the



free float (free-float) is one of the biggest problems for the stock market of Uzbekistan.

List of used literature:

1. Рынок ценных бумаг. Учеб. пос. для ВУЗов // под ред. Е.Ф. Жукова. — М.: ЮНИТИ-ДАНА, 2003. — 399 с., с.13.
2. Миркин Я.М. Ценные бумаги и фондовый рынок. —Москва, Перспектива, 1995. —550 с., с.100.
3. Хамидулин М.Б. Развитие финансового механизма корпоративного управления. — Ташкент.: Молия, 2008.—204 с., с.88-89.
4. Бутиков И.Л. Проблемы формирования и функционирования рынка ценных бумаг в Узбекистане. Дисс...д-ра.эк.наук. —Ташкент, 2009.—С.64.
5. Kamal A. El-Wassal. The Development of Stock Markets: In Search of a Theory. // International Journal of Economics and Financial Issues. Vol. 3, No. 3, 2013, p.606.