

INNOVATION SCIENCE AND TECHNOLOGY



Scopus || Electronic journal specializing in Scopus

ISSUE 8

 Acceptance of papers **August, 2025**



**Acceptance of
papers**

Published monthly



Topics

economics,
technology, social
sciences



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TECHNOLOGY"** HAS BEEN REGISTERED
UNDER THE NUMBER **C-5669633** BY THE
AGENCY FOR INFORMATION AND MASS
COMMUNICATIONS (AOKA) OF THE
REPUBLIC OF UZBEKISTAN, EFFECTIVE
FROM OCTOBER 9, 2024.

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The scientific electronic journal "Innovation Science and Technology" has been included in the list of scientific publications recommended for the publication of main scientific results of dissertations for the award of PhD and DSc degrees in economics and technical sciences, in accordance with the Resolution No. 370 of the Presidium of the Higher Attestation Commission of the Republic of Uzbekistan, dated May 8, 2025.

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INSTITUTIONAL FOUNDATIONS FOR THE DEVELOPMENT OF EQUITY CIRCULATION IN UZBEKISTAN

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Abstract: This article presents an in-depth scientific analysis of the legal and institutional foundations for the development of share trading in Uzbekistan, identifying the dominant role of banks and large financial institutions in the stock market. The study substantiates the need to align the existing regulatory framework with modern international standards, strengthen institutional infrastructure, and introduce mechanisms to enhance investor confidence.

Key words: stocks, stock market, legal framework, institutional environment, issuer, number of transactions, banking sector, investor, corporate governance.

INTRODUCTION

In the contemporary stage of Uzbekistan's economic development, the advancement of stock circulation and the improvement of the equity market represent some of the most pressing priorities. International experience demonstrates that in advanced economies, the stock market and equity transactions play a pivotal role in stimulating economic growth, attracting investment flows, and enhancing the overall business environment. Consequently, Uzbekistan is also seeking to expand equity market operations by actively participating in processes of global economic integration and by fostering favorable conditions for both domestic and foreign investors.

The evolution of the equity market is intrinsically linked to the establishment of sound legal and institutional foundations. At present, Uzbekistan has adopted a number of legislative and regulatory documents governing securities circulation, most notably the Law "On the Securities Market," along with other normative acts regulating the issuance, placement, and turnover of shares. Nevertheless, several unresolved challenges remain, underscoring the need to design institutions and mechanisms that align with modern international standards. In particular, ensuring transparency, fairness, and efficiency for market participants, fostering a climate of trust for investors, and strengthening the institutional environment remain among the most urgent tasks.

In recent years, Uzbekistan has implemented significant reforms to stimulate the development of the equity market. New standards of corporate governance are being introduced, the transition to International Financial Reporting Standards (IFRS) is underway, mechanisms to protect investors have been reinforced, and privatization of state-owned enterprises through share issuance and initial public offerings (IPOs) has commenced. Moreover, notable progress has been achieved in modernizing the infrastructure of the Tashkent Republican Stock Exchange—an institution of regional significance in Central Asia—through technological upgrades and the introduction of advanced trading platforms.

Despite these efforts, the pace of development in equity transactions remains below expectations. Key contributing factors include the persistence of outdated legal norms, insufficiently developed institutional infrastructure, and the limited diffusion of equity market culture among the broader public and business community. Against this backdrop, a systematic analysis of existing problems and the formulation of modern legal and institutional mechanisms to address them constitutes the central objective of this study.

LITERATURE REVIEW

In his study, Otabek Narziyev (2022) emphasizes that the primary legal challenges in Uzbekistan's capital market can be addressed through the improvement of the legislative framework along two key dimensions. The first involves consolidating fragmented normative documents into a unified legal source such as a "Code" which

would provide investors with a coherent and accessible legal basis. The second dimension is the adoption of a separate law defining the legal status, authority, and accountability of the regulatory body overseeing the capital market. Narziyev substantiates the necessity of such a law and provides a comprehensive justification for the issues it should encompass.

Jasurbek Ataniyazov and Sayfullokhon Narimonov (2022) argue that the excessive complexity of regulatory documents, insufficient protection of investor interests, and the limited presence of institutional investors and professional intermediaries remain among the principal obstacles in the securities market. They propose a range of measures to overcome these challenges, including simplifying the legal framework, enhancing dividend policy, introducing insurance mechanisms for securities transactions, strengthening information disclosure requirements, and promoting financial literacy among the population. Furthermore, the authors highlight the importance of introducing new investment instruments and fostering cooperation between state institutions and market participants.

In his recent research, Hasan Akhmedov (2024) stresses that privatization of state-owned shares is essential for narrowing the efficiency gap between public and private enterprises. He notes that during periods of economic crisis or pandemic-related downturns, dividend payments should be increased to prevent declines in the value of state-owned enterprise shares. Akhmedov also advocates the use of public offerings, such as IPOs and SPOs, as effective tools for reducing state ownership and simultaneously increasing trading volumes in the equity market. Consistent with international scholarship, his findings underscore the necessity of reinforcing modern legal and institutional foundations to ensure the sustainable development of Uzbekistan's equity market.

The study conducted by Alam Asadov, Ikhtiyorjon Turaboev, and Mohd Zakhiri Md Nor (2023) identifies numerous legal gaps in Uzbekistan's current legislation concerning the introduction of international Islamic financial instruments in the securities market. The authors argue for the modernization of existing financial and securities laws and, more specifically, the establishment of a separate normative framework dedicated to Islamic finance. They contend that the adoption of such laws and regulations would enhance investor confidence while attracting both domestic and international investment flows into Uzbekistan's capital market.

According to Tigran Poghosyan (2022), Uzbekistan's capital market particularly the equity segment remains underdeveloped, with the banking sector continuing to dominate financial intermediation. Poghosyan asserts that strengthening the legal framework, improving investor protection laws, and enhancing the independence and efficiency of regulatory institutions are prerequisites for advancing the equity market. He further demonstrates that the introduction of modern legal and institutional mechanisms could significantly boost investment efficiency and accelerate economic growth in Uzbekistan.

Similarly, Davit Babasyan, Yunfan Gu, and Martin Melecky (2023) argue that while Uzbekistan's banking sector is relatively strong, the equity market remains weak and overshadowed by the dominance of banks. They identify institutional deficiencies particularly weak corporate governance, inadequate reporting practices, and fragile investor protection mechanisms as major impediments to equity market development. The authors recommend the adoption of international corporate governance standards, ensuring greater transparency and disclosure, and enhancing the authority and capacity of regulatory bodies. Their research also highlights the importance of accelerating the privatization and public listing of state-owned enterprises to create a fair and transparent investment environment.

Finally, experts from the OECD (2023) acknowledge that Uzbekistan has taken positive steps in recent years to improve the infrastructure of the equity market. These measures include clarifying the authority of state institutions, introducing innovative securities mechanisms, simplifying procedures for share placement, and employing modern approaches to regulation. Nonetheless, the OECD underscores the continued need to strengthen the institutional environment, build human resource capacity, and align national legislation with international standards in order to ensure the sustainable expansion of equity transactions in Uzbekistan.

RESEARCH METHODOLOGY

This article employs a comprehensive approach to analyze the legal and institutional foundations for the development of equity circulation in Uzbekistan. The study investigates the sectoral structure of the securities market, the distribution of shares in circulation, and the activities of issuing entities on the basis of statistical data. The primary data were obtained from the official reports of the Tashkent Stock Exchange as well as other publicly available sources. In the analysis, indicators of both the number and volume of transactions across sectors and issuers for the year 2024 were examined and subsequently illustrated through diagrams and tables for enhanced clarity.

In addition, a review of international and domestic scholarly literature was conducted to identify the advantages and shortcomings of the existing institutional and legal environment, drawing on previously advanced

critiques and recommendations. The research applied a combination of methodological tools, including systems analysis, comparative and contrastive methods, statistical techniques, and deductive reasoning.

Such an integrated methodological framework enabled the study not only to capture the actual state of the equity market, but also to identify existing shortcomings and formulate evidence-based recommendations for its further improvement.

ANALYSIS AND RESULTS

In examining the legal and institutional foundations for the development of equity circulation in the Republic of Uzbekistan, the sectoral structure of the securities market emerges as a critical dimension. According to statistical data, the banking sector remains the dominant player in equity circulation. Specifically, the number of transactions executed within the banking industry reached 5,065, underscoring the sector's leading position in the country's stock market. This concentration reflects both the relative maturity of the banking sector in securities operations and the underdevelopment of other industries in terms of active participation in equity trading.

According to the preceding analysis, equity circulation in Uzbekistan remains heavily concentrated within the banking sector and a limited number of large enterprises. This tendency becomes particularly evident when examining the distribution of transactions by individual organizations.

Table 1. Number of share transactions by organizations in 2024

Issuer Name	Organization Type	Number of Transactions
O'zRTXB	JSC	1,688
ALOQABANK, ALKBP	AT	1,001
ALOQABANK, ALKB	AT	701
Chilonzor Trade Complex	JSC	605
Ipoteka-Bank	ATIB	433
Uzbektelecom	JSC	381
Ipak Yuli	AITB	363
Uzbekneftgaz	JSC	360
Turonbank	ATIB	341
Hamkorbank	ATB	324

Source: Compiled by the author based on www.uzse.uz database.

The data indicate that the largest number of transactions were recorded by O'zRTXB (1,688) and ALOQABANK (with 1,001 and 701 transactions, respectively). In addition, entities such as Chilonzor Trade Complex, Ipoteka-Bank, Uzbektelecom, Ipak Yuli, and Uzbekneftgaz also demonstrate comparatively high levels of trading activity. By contrast, although other organizations participate in the market, their transaction volumes remain significantly lower than those of the leading issuers.

Thus, the findings suggest that not only in terms of transaction volume but also in transaction frequency, the equity market is predominantly concentrated around banks and large enterprises. Expanding participation and enhancing activity in other sectors therefore remains a critical and forward-looking task for the sustainable development of Uzbekistan's stock market.

When analyzing equity transactions by volume, the situation is as follows:

Table 2. Volume of share transactions by organizations in 2024

Issuer Name	Organization Type	Transaction Volume (UZS)
Bank for Business Development	ATB	600 billion
Garant Bank	JSC	118.94 billion
Mikrokreditbank	ATB	90 billion
Portlatishsanoat, PLST	JSC	34.19 billion
Universal Bank	ATB	6.38 billion
LLC, Business Centre Samarkand	JSC	3.52 billion
Portlatishsanoat, PLSTP	JSC	1.49 billion

O'zRTXB	JSC	651.66 million
O'zparavtotrans	JSC	443.22 million
Business Finance Microcredit Organization	Leasing	430.93 million

Source: Compiled by the author based on www.uzse.uz database.

The data demonstrate that the largest transactions were concentrated in the Bank for Business Development (600 billion UZS), Garant Bank (118.94 billion UZS), and Mikrokreditbank (90 billion UZS). In contrast, other issuers particularly joint-stock companies and leasing organizations participated with relatively small transaction volumes, thereby holding a significantly lower market share compared to the banking sector.

In conclusion, the findings reveal that both equity circulation and large-scale transactions in Uzbekistan's stock market remain highly concentrated in banks and major financial institutions. This concentration underscores the persistence of structural imbalances, whereby non-bank sectors remain underrepresented. Thus, expanding transaction volumes in other industries and strengthening shareholder institutions represent essential priorities for achieving a more diversified and resilient capital market.

CONCLUSION AND RECOMMENDATIONS

At the current stage of development of Uzbekistan's stock market, revitalizing equity circulation, strengthening investor confidence, and improving overall market efficiency require comprehensive and long-term reforms. Addressing the shortcomings of the existing system will not only ensure transparency, fairness, and stability, but also substantially enhance the investment attractiveness of the capital market. Within this context, several strategic directions emerge as particularly critical:

strengthening the legal framework in line with international standards by simplifying and consolidating existing regulations to establish a transparent, stable, and predictable legal environment for investors;

developing institutional infrastructure, including the promotion of professional intermediaries, institutional investors, and modern market mechanisms that ensure effective functioning of the equity market;

enhancing corporate governance and transparency principles to improve the accountability of issuers, ensure consistency in dividend policy, and create a business environment based on openness and integrity.

introducing investor protection and incentive mechanisms while simultaneously raising financial literacy across the population in order to expand the base of domestic investors;

accelerating the privatization of state-owned enterprises by bringing them to the open market through IPOs and SPOs, thereby increasing market liquidity, competitiveness, and investor participation.

Taken together, these measures will lay the groundwork for aligning Uzbekistan's stock market with the global financial system, introducing modern governance practices and technological solutions, and channeling greater volumes of capital into the real sector of the economy. As a result, the stock market will evolve not only into a driver of economic growth but also into a key pillar of stability and innovation within the national financial system.

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Proofreader: Zokir ALIBEKOV

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2025. № 8

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