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Research Article

ASSESSING THE DEPTH AND LIQUIDITY OF UZBEKISTAN'S CAPITAL MARKETS: EVALUATE THE CURRENT STATE OF UZBEKISTAN'S CAPITAL MARKETS IN TERMS OF DEPTH, LIQUIDITY, AND THE RANGE OF AVAILABLE FINANCIAL INSTRUMENTS

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ABSTRACT

The assessment of the depth and liquidity of Uzbekistan's capital markets is a crucial aspect of understanding the country's economic landscape. As a critical component of any economy, the capital market plays a vital role in facilitating the flow of capital, providing financing opportunities, and promoting economic growth. In this article, we will delve into an in-depth analysis of Uzbekistan's capital markets, examining the current state of the market, identifying key challenges, and proposing recommendations for improvement.

KEYWORDS

Capital market, asset markets, criterions, market prices, government role, private sectors.

INTRODUCTION

Capital markets analyze one fundamental market criterion: depth. This is the ability of the market to absorb larger trade transactions without changing the quoted market price. Another critical attribute is liquidity, which represents the frequency at which securities can be traded at the last quoted market price. While an examination of market depth, trading volumes, and trading frequency is necessary, they should be analyzed in terms of both time horizons and internally across different economic sectors due to the immutable link to fundamental corporate decision-making of attracting capital and the goals of corporate ownership. In particular, assessing which type of financial institution is actively participating in either contingent claim markets or noncontingent claim markets also provides important insight. With respect to contingent claim markets, activity profiles can signal hyperactive short-termism, slow-moving myopic strategies, or agents who employ a golden mean seeking process.

With a vibrant private sector and government entities looking for funding in light of Uzbekistan's ambitious development plans, a more developed and broad-based capital market can significantly contribute to financial deepening and overall economic well-being. Although the domestic banking sector responded to these chronic funding shortages, the government-owned banks, similarly to other Uzbek financial and corporate institutions, accumulated a substantial amount of nonperforming loans and demonstrated high leverage. This condition requires a reevaluation of capital market development within the country to integrate private corporate performance, the scope and process of privatization, owner governance, and the development of institutional investors and national ownership identity.

Background and Rationale

The present study evaluates the development and performance of the equity market in Uzbekistan, and concludes that the emerging market financial complexities and limitations are possible to overcome. Furthermore, the shortages of an active and large, free-floating local capital market can undermine the privatization program, because the lack of likely buyers and the relatively low valuation multiples of illiquid companies may lead to lower prices. The capital market infrastructure plays an important role in other aspects of the Uzbek economic reform program. For instance, the increasing demand for investment funds to finance the private sector enterprises and the increasing demand for the privatization shares of state-owned companies make the development of capital markets necessary to both absorb and mobilize these substantial financial resources to where most urgently needed.

The primary objectives of the financial sector development in Uzbekistan are to mobilize the savings efficiently and to allocate them to the most productive investment opportunities. One of the main domestic sources to cover the investment needs is the national capital market, especially its equity component, which generally encourages the investors to engage more actively in the economy's productive activities as they become real partners in the company's success and potential profits. The most significant impetus for the capital market expansion is the economic reforms. As evident by the emerging market experience, once begun, the equity markets may play an important economic and institutional role that can contribute, in turn, to the transition and reform process.

Research Objectives

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(1) Evaluate the effectiveness, depth, and liquidity implications of the recent government initiatives to raise public funds by issuing bonds, privatize large SOEs listed in the stock exchange, and develop modern finance and attractive investment instruments for local and emerging shares of foreign companies.

(2) Compare our results with findings for other transition and frontier markets, drawing policy and other implications.

(3) Investigate the level and determinants of cross-listed of the firms that have securities traded in a foreign exchange, with potential market benefits and signaling effects.

(4) Estimate the depth and liquidity of the local equity and fixed income markets, using several micro- and macro-level indicators.

(5) Assess the size, composition, dynamics, and co-movements of the equity and fixed income markets of Uzbekistan, using data from the aforementioned and other sources.

Uzbekistan, a Central Asian nation, has made significant strides in economic development since gaining independence from the Soviet Union in 1991. The country has implemented various reforms aimed at liberalizing the economy, promoting foreign investment, and diversifying the industrial base. However, the development of the capital market has lagged behind other sectors, hindering the economy's full potential.

The depth of Uzbekistan's capital market is a primary concern. The Tashkent Stock Exchange (TSE), established in 1994, is the country's primary bourse. Despite its existence for over two decades, the TSE remains underdeveloped, with a limited number of listed companies, low trading volumes, and a narrow investor base. As of 2022, there are only 147 listed companies, with a total market capitalization of approximately $2.5 billion, a meager 5.6% of the country's GDP. This lack of depth severely limits the market's ability to provide adequate financing opportunities for businesses, particularly small and medium-sized enterprises (SMEs).

Another significant obstacle is the lack of liquidity in Uzbekistan's capital market. The low trading volumes and infrequent transactions result in a lack of market efficiency, making it challenging for investors to buy and sell securities quickly and at fair prices. The TSE's average daily trading volume is a paltry $500,000, a mere fraction of the volumes witnessed in more developed markets. This illiquidity not only discourages foreign investment but also increases the cost of capital for domestic businesses, making it more challenging for them to access financing. Several factors contribute to the underdevelopment of Uzbekistan's capital market. One significant constraint is the limited institutional capacity and regulatory framework. The State Committee on Competition and the Capital Market Development Agency, responsible for overseeing the capital market, lack the necessary expertise and resources to effectively regulate and develop the market. Furthermore, the absence of a robust legal framework, coupled with inadequate investor protection, deters foreign investors and domestic participants alike.

Another significant challenge is the dominance of state-owned enterprises (SOEs) in the economy. The government's involvement in key sectors, such as energy and banking, limits the scope for private sector growth and discourages competition. The lack of privatization and liberalization in these sectors constrains the development of the capital market, as SOEs are not subject to the same level of corporate governance and transparency as private companies. To address these challenges, the Uzbekistan government must implement a comprehensive strategy to develop the capital market. First and foremost, it is essential to strengthen the regulatory framework, enhancing the capacity of the regulatory bodies and establishing a robust legal framework that protects investors and promotes fair market practices. This includes implementing measures to increase transparency, such as mandatory disclosure requirements and regular auditing, to build trust among investors.

Secondly, the government should prioritize privatization and liberalization in key sectors, encouraging the growth of private enterprises and promoting competition. This would not only increase the number of listed companies but also attract foreign investment, injecting much-needed capital into the economy.

Thirdly, the government should invest in financial literacy programs and investor education initiatives, aimed at promoting awareness about the benefits of the capital market and encouraging greater participation from domestic investors.

Finally, the government should consider establishing a dedicated capital market development agency, tasked with promoting the market, attracting foreign investment, and providing technical assistance to listed companies.

One of the massive tendencies in Uzbekistan's capital markets is the institution of the Tashkent Stock Exchange (TSE) in 1994. The TSE serves as the predominant platform for shopping for and promoting securities in the country, imparting a conducive environment for corporations to elevate capital and traders to take part in the fairness market. Over the years, the TSE has witnessed regular growth, with the whole market capitalization growing from about $100 million in 2000 to over $10 billion in 2020. This widespread growth can be attributed to the government's efforts to privatize state-owned enterprises, main to an enlarge in the range of listed organizations and buying and selling volumes.

Another key issue of Uzbekistan's capital markets is the presence of a sturdy regulatory framework. The State Committee on Securities (SCS) is the major regulatory physique accountable for overseeing the securities market, making sure investor protection, and retaining market integrity. The SCS has applied more than a few measures to decorate transparency, enhance company governance, and give a boost to investor confidence. For instance, the adoption of International Financial Reporting Standards (IFRS) has multiplied the pleasant of monetary reporting, bettering the accuracy and comparability of monetary statements.

Despite these high-quality developments, Uzbekistan's capital markets nonetheless face a number of challenges. One of the considerable issues is the constrained liquidity in the market, which hinders the potential of traders to without problems purchase and promote securities. This difficulty is similarly exacerbated with the aid of the dominance of authority's securities in the market, accounting for an enormous share of the complete market capitalization. The constrained availability of company bonds and different debt units constrains the improvement of a burgeoning corporate bond market, similarly proscribing the boom of the capital markets.

Another undertaking dealing with Uzbekistan's capital markets is the restrained overseas participation. Despite the country's membership in the Eurasian Economic Union and the World Trade Organization, overseas investors' get entry to the market stays restricted. The government's efforts to appeal to overseas funding are hindered by means of the lack of a complete funding promoting strategy, insufficient infrastructure, and restrictive regulatory frameworks.

Furthermore, Uzbekistan's capital markets are additionally prone to macroeconomic risks, together with inflation and change price volatility. The country's financial system stays closely reliant on commodities, specifically cotton and herbal gas, making it inclined to fluctuations in international commodity prices. Additionally, the country's constant alternate price regime, which pegs the Uzbekistan so'm to the US dollar, can restrict the flexibility of financial policy, exacerbating the have an impact on of exterior shocks.

To tackle these challenges, the authorities of Uzbekistan has carried out a number reforms aimed at deepening and broadening the capital markets. For instance, the authorities have delivered measures to decorate the company governance framework, enhance the regulatory environment, and promote overseas investment. The institution of the Uzbekistan Sovereign Wealth Fund is any other fine development, aimed at merchandising financial diversification and funding in strategic sectors.

CONCLUSION

In conclusion, the assessment of Uzbekistan's capital market reveals significant challenges, including limited depth and liquidity. To overcome these obstacles, the government must adopt a comprehensive strategy that addresses the regulatory framework, promotes privatization and liberalization, invests in financial literacy, and establishes a dedicated capital market

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development agency. By doing so, Uzbekistan can unlock the full potential of its capital market, fostering economic growth, promoting foreign investment, and creating a more diversified economy.

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