



DEVELOPMENT OF THE CAPITAL MARKET AS A FACTOR OF FINANCIAL SYSTEM DIVERSIFICATION IN UZBEKISTAN

Tog‘aynazarov Sardorbek Ravshanbekovich

2nd-year student, Finance and Financial Technologies
program

Faculty of Economics, Termez State University

E-mail: tsardorbek1802@gmail.com

Abstract

This article examines the development of the **capital market** as a structural factor in the diversification of the financial system of Uzbekistan. The study argues that a modern **capital market** is not only a platform for buying and selling securities but also an institutional mechanism that redistributes savings into productive investment, reduces excessive dependence on bank credit, improves corporate transparency and creates alternative **long-term financing** channels for enterprises. The relevance of the topic is determined by the current stage of economic reforms in Uzbekistan, where **financial intermediation** remains heavily concentrated in the banking sector, while equity and corporate bond instruments are still developing. The research applies a descriptive, comparative and institutional approach based on official statistics of the Republican Stock Exchange “Toshkent”, regulatory documents on **capital market** development, analytical materials of national and international institutions, and theoretical views of Uzbek and foreign economists. The results show that the Uzbek **capital market** has entered a more active phase: in 2024, transactions on the exchange with listed securities reached UZS 19.56 trillion, while the total trading volume across exchange platforms reached UZS 21.95 trillion. Nevertheless, low **free float**, weak **secondary market liquidity**, limited investor participation, insufficient corporate **disclosure** and the dominance of state-linked issuers continue to restrict the market’s capacity to diversify the financial system. The article substantiates that the next stage of reform should focus on increasing the supply of quality securities, developing the **corporate bond market**, expanding the base of **institutional investors**, strengthening **investor protection**, introducing market-making mechanisms and improving **financial literacy** among households and entrepreneurs.

Keywords

capital market, financial system diversification, securities market, stock exchange, corporate bonds, equity market, liquidity, investor protection, Uzbekistan, financial intermediation.

Introduction

The financial system of Uzbekistan is gradually moving from a centrally influenced and **bank-dominated model** toward a more diversified architecture based on competition, private investment and market-based allocation of capital. In such a transition, the **capital market** has strategic importance because it connects issuers that need long-term resources with investors that seek income, **liquidity** and portfolio diversification. A developed **capital market** allows companies to finance expansion through shares and bonds, helps the state conduct **privatization** in a more transparent form, and gives households instruments for transforming savings into investment assets.

The economic meaning of the **capital market** is broader than the technical circulation of securities. It performs the functions of **financial intermediation, price discovery, capital allocation, risk-sharing** and corporate discipline. In a **bank-dominated model**, enterprises rely mainly on bank loans, which may be expensive, short-term and sensitive to **monetary policy** conditions. When the **capital market** develops, financing sources are diversified, and firms can combine bank credit with equity, corporate bonds, public offerings and other instruments. This reduces pressure on



banks, increases competition among financial institutions and improves the resilience of the whole financial system.

Uzbekistan's reform agenda has made the development of the **capital market** a practical necessity rather than a purely theoretical objective. Large **state-owned enterprises** require transparent mechanisms for attracting private capital. Banks need alternatives to balance credit concentration risks. Industrial enterprises need **long-term financing** for modernization. Households need reliable investment instruments that protect savings from inflation and create participation in economic growth. These needs cannot be fully satisfied by the banking sector alone. A liquid and trusted **securities market** can convert dispersed domestic savings into investment capital and can also attract foreign **portfolio investment** when regulation, **disclosure** and **investor protection** reach credible standards.

The urgency of this research is strengthened by the fact that Uzbekistan's **capital market** has shown visible signs of growth, but its institutional depth remains limited. The Republican Stock Exchange "Toshkent" reported that throughout 2024, 446,967 transactions were conducted with securities listed on the exchange, totaling UZS 19.56 trillion. The total volume across the exchange's platforms reached UZS 21.95 trillion, while the number of listed stock issuers stood at 89 by the end of the year. These figures indicate that market activity is expanding, yet they also reveal a narrow issuer base and a need to transform quantitative growth into qualitative market development.

The purpose of this article is to analyze the development of the **capital market** as a factor of **financial system diversification** in Uzbekistan and to identify the institutional, regulatory and practical measures required to increase its contribution to economic modernization. The research focuses on the interaction between the **equity market**, **corporate bond market**, investor base, **market infrastructure**, regulatory framework and **corporate governance**. The central scientific question is how Uzbekistan can turn the **capital market** from a relatively narrow trading platform into a full-scale source of **long-term financing** and financial stability.

Literature Review

The theoretical foundations of **capital market** development are connected with the broader theory of **financial intermediation** and economic growth. In classical and neoclassical approaches, financial markets support growth by mobilizing savings and allocating them to the most productive investment projects. Keynesian views emphasize the role of expectations, **liquidity** preference and investment confidence, showing that markets do not work effectively without trust and regulation. Institutional economics adds that property rights, **disclosure** standards, enforcement mechanisms and regulatory quality determine how efficiently **capital markets** transform savings into investment.

Uzbek researchers have repeatedly emphasized that the **capital market** is one of the weakest but most necessary segments of the national financial system. A.V. Vahobov and T.S. Malikov explain the financial system as a set of interrelated institutions that perform distribution, control and stabilization functions. Their approach is important because it shows that the **capital market** should not be treated separately from public finance, banking, insurance and fiscal policy. I.R. Toymuhamedov highlights the connection between financial resources, investment activity and the institutional environment, which is especially relevant for economies where enterprises still depend heavily on bank credit.

Studies by Sh.Sh. Shodmonov, U.V. G'afurov and N.H. Haydarov also show that market reforms require not only **privatization** but also functioning mechanisms of ownership circulation, **corporate governance** and investment accountability. In the context of Uzbekistan, **capital market** development is closely related to the transformation of **state-owned enterprises**, the quality of



financial reporting, the role of **institutional investors** and the ability of households to participate safely in securities transactions.

International literature on emerging **capital markets** points to several recurring barriers: low **liquidity**, **information asymmetry**, weak minority shareholder protection, limited analyst coverage, insufficient **free float** and lack of professional intermediaries. These barriers are also visible in Uzbekistan. The market can grow formally through large one-time transactions, but sustainable development depends on continuous trading, credible pricing, transparent issuers and a diversified investor base. Therefore, the development of Uzbekistan's **capital market** requires both supply-side measures, such as more high-quality securities and IPOs, and demand-side measures, such as **financial literacy**, investment funds, pension-related instruments and professional asset management.

The legal and regulatory environment has also become an important part of recent research. Presidential Resolution No. RP-291 dated September 2, 2023 approved additional measures for **capital market** development and created a policy basis for improving infrastructure, attracting investors and protecting investor rights. The National Agency of Prospective Projects has been assigned regulatory functions in the areas of the **capital market**, insurance, crypto-assets and related fields. This institutional arrangement shows that **capital market** reform is increasingly viewed as part of broader financial modernization.

Methodology

The research uses a qualitative and quantitative analytical design. The qualitative part is based on the institutional analysis of the Uzbek **capital market**, including legal norms, regulatory reforms, **market infrastructure** and the role of professional participants. The quantitative part relies on official and analytical statistics related to exchange trading volume, number of transactions, issuer base, corporate bond turnover and the dynamics of organized and over-the-counter markets.

The main sources of empirical information are the 2024 summary materials of the Republican Stock Exchange "Toshkent", data from the National Agency of Prospective Projects, presidential regulatory acts, analytical materials of financial institutions and the content of a course research document devoted to the financial system of Uzbekistan. The course research identifies the underdevelopment of the **capital market** as one of the central problems of the national financial system and links this problem to excessive dependence on banks, limited **long-term financing** and weak diversification of financial instruments.

The study applies comparative analysis to distinguish between a bank-centered financial model and a diversified financial system in which banks, the **capital market**, insurance companies, investment funds and digital platforms perform complementary functions. Structural analysis is used to assess the **capital market** through its main components: **equity market**, **corporate bond market**, government securities, **market infrastructure**, professional intermediaries, investor base, **disclosure** system and regulatory supervision. Risk analysis is used to identify failure modes that may appear if the **capital market** grows faster than **investor protection** and **corporate governance**.

The methodological limitation of the study is that several indicators of the Uzbek **capital market** are still changing rapidly due to ongoing reforms and **privatization** transactions. Therefore, the article does not present market growth as a completed outcome. It interprets current figures as evidence of transition and evaluates whether this transition can support real diversification of the financial system.

Analysis and Results

The analysis shows that Uzbekistan's financial system remains structurally dependent on banks, although the **capital market** is becoming more active. Bank credit is still the main external financing channel for enterprises, while public offerings, corporate bonds and market-based equity financing are not yet widely used by small and medium-sized businesses. This concentration creates three practical risks. Enterprises become vulnerable to high interest rates, banks accumulate sectoral credit concentration, and households have limited investment alternatives beyond deposits, real estate, cash savings and informal assets.

The development of the **capital market** can reduce these risks by creating a broader chain of **financial intermediation**. In the **primary market**, companies issue shares and bonds to raise funds for investment projects. In the **secondary market**, investors trade securities, and this process creates **liquidity** and price signals. Through **price discovery**, the market evaluates the financial condition, governance quality and growth prospects of issuers. When **disclosure** is reliable, securities prices become a signal for managers, investors and regulators. When **disclosure** is weak, **information asymmetry** increases, and market prices lose analytical value.

Table 1. Selected indicators of Uzbekistan's organized securities market

Indicator	2024	First half of 2025	Interpretation
Transactions with securities listed on the exchange	446,967 transactions	214,851 trades	The number of trades indicates growing market activity and wider investor participation.
Trading volume with listed securities	UZS 19.56 trillion	UZS 12.02 trillion total period volume	The market is becoming more relevant for capital allocation, though large transactions still influence totals.
Total trading volume across exchange platforms	UZS 21.95 trillion	Average daily volume UZS 97.7 billion	Organized trading is gaining visibility, which supports transparency.
Listed stock issuers	89 issuers by year-end	No comparable figure in the source used	The issuer base remains narrow relative to the needs of economic diversification.
Corporate bond market trading volume	UZS 381 billion	Corporate bond activity continued but remained modest	The bond segment has growth potential as an alternative to bank loans.

The data in Table 1 demonstrate that the market is no longer passive. A trading volume of UZS 19.56 trillion with listed securities in 2024 shows that the stock exchange is capable of processing large transactions and attracting attention from issuers and investors. The first half of



2025 also shows strong momentum, with total trading volume of UZS 12.02 trillion and 214,851 trades. This growth is a positive signal for diversification because it indicates that part of financial activity is moving toward organized securities circulation rather than remaining only in bank balance sheets or informal investment channels.

At the same time, the structure of growth matters more than the headline volume. If trading is concentrated in a small group of issuers or driven by several large state-related transactions, the market does not yet provide broad diversification. True **financial system diversification** requires continuous trading across many issuers, a functioning **corporate bond market**, reliable market makers, a wider base of retail and **institutional investors**, and transparent **disclosure** that allows investors to compare companies. The presence of 89 listed stock issuers by the end of 2024 is a starting point, but it is not enough for a country with a broad industrial, banking, construction, agricultural and service-sector base.

The **corporate bond market** is especially important for Uzbekistan because many enterprises need medium- and **long-term financing** without diluting ownership. In 2024, the corporate bond segment recorded UZS 381 billion in trading volume. This indicates progress, but the segment remains much smaller than the **equity market** and the banking sector. Corporate bonds can become an effective instrument for infrastructure, industrial modernization, green projects and regional business development if issuers are required to meet clear **disclosure** standards and if rating, trustee, underwriting and default-resolution mechanisms are strengthened.

The **equity market** has a different function. It supports capitalization, ownership diversification and corporate discipline. When companies issue shares through IPOs or secondary public offerings, they become more visible to investors and are forced to improve reporting, dividend policy, board accountability and minority shareholder protection. In Uzbekistan, **equity market** development is closely connected with **privatization**. If **state-owned enterprises** are brought to the market with sufficient **free float**, transparent valuation and high reporting quality, **privatization** can create benchmark issuers and increase public trust. If offerings are too small, poorly explained or weakly governed, **privatization** may not produce sustainable **liquidity**.

Another significant result is the changing balance between organized exchange trading and over-the-counter transactions. According to the 2024 exchange summary, the share of the organized market increased while the share of the unorganized market decreased. This is important because organized trading increases transparency, improves **price discovery** and reduces opportunities for non-market pricing. For an emerging market, shifting transactions from opaque channels to regulated exchange platforms is a basic step toward investor confidence.

Table 2. Barriers to capital market diversification and practical reform directions

Barrier	Impact on diversification	Practical reform direction
Low free float of listed companies	Trading is concentrated and prices do not fully reflect broad market demand.	Increase the share of publicly tradable securities during IPOs and SPOs.
Weak liquidity in the secondary market	Investors face difficulty entering and exiting positions.	Introduce market-making mechanisms and support professional brokerage activity.
Limited corporate bond issuance	Enterprises remain dependent on bank credit.	Simplify issuance procedures while preserving

		disclosure and investor protection standards.
Insufficient institutional investor base	Long-term domestic demand for securities remains weak.	Develop investment funds, insurance investment portfolios and pension-related instruments.
Information asymmetry	Investors apply high risk premiums or avoid the market.	Strengthen IFRS reporting, audit quality, issuer disclosure and sanctions for misinformation.
Low financial literacy among households	Retail investors may either avoid securities or take irrational risks.	Build public education programs and plain-language disclosure for new investors.
Dominance of state-linked issuers	The market may reflect privatization events rather than broad private-sector growth.	Bring competitive private firms to the market and improve access for SMEs through bonds and alternative platforms.

The barriers in Table 2 show that **capital market** development is not a single reform. It is a coordinated institutional process. **Liquidity** cannot be created only by listing more companies if the **free float** is too small. Investor confidence cannot be created only by advertising the market if financial statements are weak. Corporate bonds cannot grow only through permission to issue if investors do not understand default risk and if the legal framework for bondholder protection is unclear. Each segment of reform must support the others.

The practical application of these findings can be illustrated through a medium-sized manufacturing enterprise in Uzbekistan. If such a company wants to modernize equipment, it may seek a bank loan. The loan may be costly and may require collateral that the firm does not have. If the **corporate bond market** is functioning, the company can issue bonds to finance the project, while investors receive fixed income and can trade the bonds in the **secondary market**. If the company has strong growth prospects and transparent governance, it can later consider equity issuance. This sequence creates a financing ladder that is much more flexible than dependence on bank credit alone.

Another example concerns households. In a shallow **capital market**, households mainly choose deposits, cash savings, foreign currency, gold or real estate. A more developed **capital market** gives them access to shares, bonds, investment funds and exchange-traded instruments. This does not mean that every household should trade actively. It means that regulated and understandable instruments should exist for long-term saving. In this sense, **capital market** development contributes to **financial inclusion**, but only if **investor protection** and **financial literacy** are treated as core elements of reform.

The institutional role of the regulator is also decisive. The National Agency of Prospective Projects regulates the **capital market** together with adjacent areas such as insurance and crypto-assets. This creates an opportunity to coordinate financial innovation, but it also increases the need for strong **regulatory capacity**. A modern regulator must supervise issuers, brokers, custodians, investment advisers, **market infrastructure** and **disclosure** practices. It must prevent manipulation



and insider trading, but it should not regulate so aggressively that legitimate issuers and investors are discouraged from entering the market.

Discussion

The development of Uzbekistan's **capital market** should be evaluated through the lens of diversification rather than through trading volume alone. High volume may reflect a few major transactions, while diversification requires a stable ecosystem where different issuers, investors and instruments interact regularly. A diversified financial system is one in which banks provide credit, the **equity market** provides ownership capital, the **corporate bond market** provides debt capital, insurance companies accumulate long-term reserves, investment funds pool household savings, and digital platforms improve access and operational efficiency.

The main advantage of such diversification is resilience. When banks face **liquidity** pressure or tighten lending standards, enterprises can still raise funds through bonds or equity. When the state needs to privatize assets, the stock market can provide a transparent mechanism for valuation and ownership distribution. When households need to protect savings, investment instruments can reduce excessive dependence on cash and property. When foreign investors search for exposure to Central Asia, a transparent domestic **capital market** can serve as a regulated entry point.

However, the failure modes are serious. Rapid market expansion without **investor protection** may lead to speculative bubbles, manipulation and public distrust. **Privatization** through the stock market may fail if minority shareholders do not receive credible rights. Retail investor participation may become risky if people buy securities without understanding **liquidity**, volatility and issuer risk. Corporate bond growth may create future defaults if credit assessment and **disclosure** are weak. These risks do not justify delaying reform, but they require careful sequencing.

The most realistic path for Uzbekistan is a staged reform model. The first stage should strengthen **market infrastructure** and **disclosure**. Issuers must provide reliable financial statements, and investors must have equal access to essential information. The second stage should expand the supply of securities through transparent **privatization**, high-quality IPOs and corporate bond issues. The third stage should develop **institutional investors**, including investment funds, insurance portfolios and pension-related savings vehicles. The fourth stage should deepen **liquidity** through **market making**, broader analyst coverage, digital trading access and tax rules that do not punish long-term investment.

Islamic finance and **green bonds** may also become useful instruments, but they should not be introduced as decorative labels. **Islamic finance** can attract investors who prefer Sharia-compliant products, while **green bonds** can finance energy efficiency, renewable energy and environmentally responsible infrastructure. Yet both instruments require strong standards, project verification and credible supervision. Without these elements, new instruments may increase complexity without improving diversification.

The relationship between **capital market** reform and **monetary policy** also deserves attention. In a bank-dominated system, changes in policy rates influence enterprises mainly through loan rates. In a diversified system, **monetary policy** also affects bond yields, equity valuations, portfolio decisions and the cost of capital. This makes the transmission mechanism more complex but also more market-oriented. For Uzbekistan, this means that **capital market** development will eventually make macroeconomic management more sophisticated and more dependent on transparent communication from regulators.

Human capital is another underappreciated factor. A functioning **capital market** requires brokers, underwriters, investment analysts, auditors, lawyers, risk managers, compliance officers and financial journalists. Without professional capacity, legal reforms remain on paper. Universities

and professional training centers should therefore expand courses on securities analysis, corporate finance, IFRS, valuation, portfolio management and financial regulation. **Capital market** development is not only a matter of laws and platforms; it is also a matter of people who can use and supervise those platforms professionally.

Table 3. Policy mechanism for transforming the capital market into a diversification factor

Policy area	Current challenge	Expected effect	Risk if ignored
Issuer supply	Limited number of liquid and transparent issuers	More securities and better sector representation	Trading remains concentrated in a few names
Investor base	Weak institutional and retail investor participation	Stable long-term demand for securities	Market becomes dependent on episodic transactions
Corporate governance	Insufficient protection of minority shareholders	Higher trust and lower cost of capital	Public offerings lose credibility
Bond market	Small corporate bond segment	Alternative debt financing for enterprises	Banks remain overloaded with credit demand
Market infrastructure	Limited liquidity and market-making tools	Improved price discovery and exit options	Investors demand high risk premiums
Financial literacy	Low understanding of securities risk	Responsible retail participation	Speculation and public losses damage trust

Conclusion

The development of the **capital market** is one of the key conditions for diversifying the financial system of Uzbekistan. The current stage of reform shows that the market has moved beyond formal existence and is gradually becoming a more active channel of securities circulation. The 2024 trading results of the Republican Stock Exchange “Toshkent” and the activity observed in the first half of 2025 confirm that organized market transactions are expanding and that the infrastructure can support higher volumes of trading. This progress is important, but it should not be confused with full market maturity.

The central problem remains the transformation of market activity into sustainable **financial intermediation**. Uzbekistan needs not only larger transaction volumes but also more liquid securities, more transparent issuers, more active **institutional investors**, a stronger corporate bond segment, reliable **investor protection** and broader public understanding of investment risks. The **capital market** will diversify the financial system only when it becomes a regular source of financing for enterprises and a trusted investment channel for households and institutions.

The analysis confirms that **capital market** development can reduce excessive reliance on bank lending, improve allocation of savings, support **privatization**, strengthen **corporate governance** and attract **portfolio investment**. These benefits will appear only if reforms are coordinated. Listing more companies without **disclosure**, encouraging retail investment without



education, or expanding bonds without credit risk assessment may create instability instead of diversification. Therefore, the reform agenda should prioritize quality, trust and institutional capacity alongside quantitative growth.

For Uzbekistan, the most effective policy direction is a balanced model in which the **capital market** complements the banking sector rather than replaces it. Banks should continue to serve working capital, payment services and credit intermediation, while the **capital market** should provide long-term investment resources, **risk-sharing** instruments and transparent ownership mechanisms. Such a model will make the national financial system more competitive, more resilient and better aligned with the objectives of economic modernization.

References

1. Vahobov A.V., Malikov T.S. Finance. Textbook. Tashkent: "Noshir", 2012. 712 p.
2. Malikov T.S., Jalilov P.T. Budget and Tax Policy. Teaching Manual. Tashkent: "Akademnashr", 2011. 472 p.
3. Toymuhamedov I.R. Financial Market and Securities. Teaching Manual. Tashkent: Iqtisodiyot, 2019. 284 p.
4. Shodmonov Sh.Sh., G'afurov U.V. Economic Theory. Textbook. Tashkent: Iqtisod-moliya, 2010. 728 p.
5. Haydarov N.H. Organization and Financing of Investments. Teaching Manual. Tashkent: Iqtisod-moliya, 2007. 256 p.
6. Abdullayeva Sh.Z. Banking. Textbook. Tashkent: Iqtisod-moliya, 2017. 732 p.