

# Towards Medium and Long-Term Development of Uzbekistan Stock Market

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## Introduction

This paper is prepared for the enforcement of the “Strategy of actions on five priority directions of development of the Republic of Uzbekistan in 2017-2021” (further Strategy).<sup>2</sup> Particularly, the paper dedicated to the fulfillment of the third direction of the Strategy, which is “Development and liberalization of the economy”.

In clause 3.1, named “Strengthening macroeconomic stability and maintaining high economic growth” there is a task of work out the Concept for medium and long-term development of the financial market of Uzbekistan, aimed at attracting capital and developing the financial market as an alternative source of funding for enterprises, financial institutions and the population (paragraph 9). Despite the deadline for the development of the Concept was third quarter of 2017, still there is no any information about the fulfillment of this task. At least, there was not found any information concerning the fulfillment of mentioned task neither in the websites of responsible institutions Ministry of Finance,<sup>3</sup> Central bank,<sup>4</sup> Ministry of Economy,<sup>5</sup> State Committee of Competition,<sup>6</sup> Institute of Forecasting and Macroeconomic Research<sup>7</sup> nor in the website of the Strategy<sup>8</sup> by November 5, 2017.

The only document that we found is related to the part of financial market<sup>9</sup> – to securities market. It is the “Concept of development secondary stock market in 2017-2018 in Uzbekistan”(further Concept)<sup>10</sup> developed by Center for Research on Privatization, Development Problems Corporate Governance and the Securities Market under the State Committee of the Republic of Uzbekistan to promote privatization and competition (further Research Center).<sup>11</sup>

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<sup>2</sup> See details at: [www.strategy.gov.uz](http://www.strategy.gov.uz)

<sup>3</sup> [www.mf.uz](http://www.mf.uz)

<sup>4</sup> [www.cbu.uz](http://www.cbu.uz)

<sup>5</sup> [www.mineconomy.uz](http://www.mineconomy.uz)

<sup>6</sup> [www.gki.uz](http://www.gki.uz)

<sup>7</sup> [www.ifmr.uz](http://www.ifmr.uz)

<sup>8</sup> [www.strategy.gov.uz](http://www.strategy.gov.uz)

<sup>9</sup> We could not find any notice in the text of the Research Center’s Concept about the relation of it to the Strategy.

<sup>10</sup> Resolution of the Board of the State Committee on Competition of the Republic of Uzbekistan No. 06-36-KR of March 6, 2017

<sup>11</sup> The text of the Research Center’s Concept is available in Russian at: <https://research-center.uz/info/concept/>, last accessed on November 5, 2017.

## Opinion on the Concept of development secondary stock market in 2017-2018 in Uzbekistan

Concept is one of the important documents that provide official background information<sup>12</sup> about the progress chronology, development obstacles, current situation, and the perspectives of improvement of secondary stock market in Uzbekistan. Recognizing all useful features of the Concept both in theoretical and practical sense, we express our opinion on conceptual issues of its further improvement.

First remark concerns to compatibility of the content and time frame of the Concept. According to the title, the Concept is focused on the development of the secondary stock market in 2017-2018. The fact of adoption the Concept at the end of first quarter of 2017; mainly descriptive and informative content;<sup>13</sup> and mentioned wide scale measures<sup>14</sup> in the last part of the content, shows the low feasibility level of the Concept.

There are numerous crucial proposals and recommendations in the adopted Concept of development secondary stock market in 2017-2018 in Uzbekistan. Especially, measures on improvement of transparency in stock market relations; institutional development of the market; necessity of implementation unified taxation policy for market intermediaries; usage of “golden share” opportunities in order to boost secondary market; development of dividend payment system etc.

On the other hand, some ideas conceptually need to be reconsidered and revised. For instance, in the Concept, development of speculative deals is proposed as one of the state policy on development of secondary stock market in Uzbekistan (p.16). We recognize that speculative deals are one of the core relations in any stock market, and it provides great impulse on increasing market activity. But, the analysis of the most recent financial-economic crisis,<sup>15</sup> and Russian experience on stock market development<sup>16</sup> shows that relying on speculative deals in the development of the stock market is not a reliable example, especially for transition countries, like Uzbekistan.

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<sup>12</sup> In case of Uzbekistan, despite several liberalization reforms, still it is difficult to get reliable, on time, and full information about stock market and its participants' activity.

<sup>13</sup> Three fourths of the Concepts content devoted to the background issues.

<sup>14</sup> These measures comprise following: State policy on secondary market development; Formation of resource base of secondary market; Working out special programs on the development of secondary stock market; Legal bases of the development of secondary stock market; Price formation in the secondary stock market; tax policy in the sphere of secondary stock market; improvement of disclosure information system of issuers; Increasing liquidity level of securities; Improvement of clearing operations in the secondary stock market; Improvement of corporate actions, including payment dividends; Development of organized and non organized OTC market; Usage of “golden share” opportunities; Development of IPO projects, Company choice for IPO; Development of infrastructural institutions of the secondary stock market.

<sup>15</sup> See in details: The Financial Crisis Inquiry Report, Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States, Official Government Edition the Financial Crisis Inquiry Commission, Submitted by Pursuant to Public Law 111-21, January 2011. <https://www.gpo.gov/fdsys/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf>

<sup>16</sup> The unique privatization experience of Russia, held through stock market, caused the development of speculative model of the market during 1995-2008, which is going to be shifted to stabilized and balanced model. See details in: Mirkin Yakov, Strategy of capital market development – 2020, Journal of Economic strategies, 2011, Vol.11, pp 16-23.

Here our focus mostly dedicated to the artificially promoted speculation. Of course, no one can argue the speculation based on the natural economic conditions and ordinary desires of market participants. Such kind of natural speculation will not give illusion of market development indicators, instead provide opportunity to market participants easily trade with their stocks.

### **Stock market development concept in Uzbekistan**

It would be unjust and unfair to criticize efforts of whole research center and not to share own ideas. Taking into account contextual and formal limits, here we briefly state only abstract of stock market development Concept<sup>17</sup> (further SMD concept) in Uzbekistan.

The aim of SMD Concept is to increase of long-term investments through modernization and development of securities market; to improve the attractiveness of securities trading platform for domestic and foreign investors and issuers, professional participants of the securities market; and rising the stock market potential as an alternative institution for business financing.

It's expected to fulfill the SMD Concept in three steps: first step, so called "Standing up" stage, includes institutional and legal development of the national stock market; implementing international standards; and at least reaching the level of regional peers (Kazakhstan and Russia). Second step, so called "Strengthening ties", focuses on the development of stock market in the regional level; developing structural and legal bases of mutual possession of stocks between partner companies in export-import operations;<sup>18</sup> and building infrastructure for regional financial hub in Tashkent.<sup>19</sup> And third step, so called "Realization of full membership opportunities", mainly include measures on promoting national companies to the listing of worlds' leading stock markets; including in the listing of Tashkent Stock Exchange foreign companies' stocks; and participation in the standard setting, evaluation, and dispute resolution activity of international organizations in the sphere of stock market regulation.

Some main measures of the Concept comprise following:

#### **I. Measures on improving supply side (instruments and issuers) of the market**

##### **1. Increasing volume of traded financial instruments**

- Promoting IPOs by JSCs, especially JSCs with state shares;<sup>20</sup>
- Launching Islamic bonds – "sukuk" based on the experience of Kazakhstan;
- Introducing special type of securities for LLC and medium business;

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<sup>17</sup> The full text will be presented later in the PhD thesis at Kobe University, Graduate School of Law.

<sup>18</sup> This method is widely used by Japanese companies in 70s of last century and helped to growth of their cooperation, consequently the development of country's economy.

<sup>19</sup> Currently Kazakhstan and Russia also announced to build similar financial centers respectively in Astana and Moscow. See in details: Decree of the President of Kazakhstan *On the establishment of the International Financial Center "Astana"*, May 19, 2015, No. 24; <http://mfc-moscow.com/index.php?id=41>

<sup>20</sup> In this regard we support the recommendation about the usage of "golden share" opportunity, proposed in the Research Center's Concept (p.26).

- Providing to financial instruments at least equal legal privileges, incentives, and status with the bank credits and deposits.
2. Increasing quantity and quality of issuers
    - Enhancing scope of companies that has the right to issue securities;
    - Establishing special platform for trade with the stocks of LLC and medium business;
    - Improving issuers' disclosure information system, making it more transparent and accessible for investors;
    - Launching alternative ways of realization shareholders' managerial rights: remote voting, e voting mechanisms;
    - Simplifying and making more transparent dividend payment system of issuers;
    - Developing activity of reliable auditor companies, including international ones.

## **II. Measures on increasing investment through stock market**

- Simplifying the procedure of trading with securities through implementing technology of online trading (like forex);
- Improving transparency of issuer companies, and information about paid dividends;
- Easing procedure of repatriation of foreign funds invested in securities;
- Taking measures on reducing transaction fees with securities;
- Stimulating local companies and individuals on investing through stock market;
- Providing to portfolio investments at least equal legal privileges, incentives, and status with other types of investments.

## **III. Measures on assisting further development of stock market**

1. Development of market intermediaries (brokers, dealers, investment funds, market makers, rating agencies etc.)
  - Increasing quantity of market intermediaries through providing tax incentives and other privileges to the business activity in stock market;
  - Easing access of foreign market intermediaries in the Uzbekistan stock market;
  - Supporting the creation of Uzbekistan stock market participants' association and providing them self-regulatory powers.
3. Improving public awareness and information supply
  - Creation of mass media (TV, radio, newspaper, website etc.) specialized in the stock market news and information;
  - Promoting the establishment of rating agencies, including international ones, providing reliable analysis on issuer companies' activity to wide range of investors;

- Developing special software applications for smartphones and tablets for easy accessing in stock market information and trading.
- Promoting special courses and master classes on increasing public awareness about investing in stock market;
- Supporting establishment of private educational institutions, including foreign ones, specialized in business administration, project management, investment strategies etc.