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Article

Problems of Developing the Securities Market in the Region

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Abstract: The article identifies and systematizes the obstacles that slow the development of the securities market in Uzbekistan and, in particular, in its peripheral regions, using the Republic of Karakalpakstan as the regional case. The study uses a mixed desk-based design: (i) a theory-grounded review of the finance–growth and law-and-finance literature; (ii) an indicator analysis of the four dimensions of financial-market development (depth, access, efficiency, stability) based on official and institutional data from the National Agency of Prospective Projects (NAPP), the National Statistics Committee, CEIC, the AIFC and the U.S. Department of State; (iii) a benchmark comparison with Kazakhstan; and (iv) a structured problem matrix that links each constraint to the strength of available evidence. Primary-market volumes have expanded quickly: corporate bond issuance reported by NAPP rose from 1.06 trillion UZS in 2023 to 3.93 trillion UZS in 2025 and exceeded 7 trillion UZS by 1 July 2026. Yet depth and liquidity remain shallow: about 4 trillion UZS of free exchange trading against roughly 275 trillion UZS of securities in circulation (about 1.5%), only around 800,000 brokerage accounts of which fewer than 10% are active, and a market-capitalization-to-GDP ratio of 6.7% for listed companies in 2024 on the AIFC definition. Karakalpakstan produces only 2.8–3.1% of national GDP, grew more slowly than the country in January–September 2025 (6.1% vs 7.6%), and has a GRP per capita well below the national level. Five groups of constraints are identified: a thin issuer base, weak and unstable institutions, low household participation, centralized infrastructure, and high-rate bank-dominated financing. The paper offers a regional diagnostic framework for a securities market in a transition economy where regional-level securities statistics are not published, and it derives a sequenced policy agenda for peripheral regions.

Keywords: securities market; capital market; Uzbekistan; Karakalpakstan; regional finance; retail investors; corporate bonds; market depth.

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1. Introduction

A developed securities market allows an economy to convert household and corporate savings into long-term equity and debt capital, to price risk, to discipline managers and to diversify funding away from banks. For Uzbekistan, which has moved since 2017 from a centrally administered system toward a market economy, this function is increasingly important. The economy reached a nominal GDP of about USD 147 billion in 2025 with real growth of 7.7% and a population of 38.2 million. The investment needs implied by that growth, including infrastructure, energy, mining and agro-processing, cannot be financed indefinitely by the banking system and the state budget alone[1].

The securities market has changed markedly in the last decade. The Republican Stock Exchange "Tashkent" (UZSE) remains the principal trading venue; the Central Securities Depository performs unified registration; and since September 2023 the market has been regulated by the National Agency of Prospective Projects (NAPP). In 2025 Uzbekistan

issued sovereign Eurobonds of USD 1.5 billion, and large state-linked issuers placed foreign-currency bonds on the London Stock Exchange, including Navoi Mining and Metallurgical Company (USD 500 million, order book exceeding USD 2.3 billion) and Uzbekneftegaz (USD 850 million). A domestic technology company, Uzum, also placed local-currency bonds with coupons of 24–25% [2].

Behind this headline progress, the market is still narrow. The President's December 2025 presentation on capital-market reform stated that capitalization is only about 20% of GDP, well below the global average, and that free exchange trading amounts to about 4 trillion UZS against 275 trillion UZS of securities in circulation. The State Department's 2026 Investment Climate Statement still describes the market as developing and notes that the Law on the Capital Market has not yet been enacted.

The regional dimension is almost absent from the literature. National statistics describe the market as if it were spatially uniform, whereas the supply of issuers, the incomes of households and access to intermediaries differ sharply across regions. The Republic of Karakalpakstan, the largest territory of Uzbekistan and one of the smallest economically, is a particularly instructive case [3]. Its economy is heavily agricultural and resource-based, and the researcher's base in Nukus provides local contextual knowledge.

The research questions are:

- **RQ1.** How deep, liquid and accessible is the securities market of Uzbekistan relative to its economic size and to its regional benchmark?
- **RQ2.** Which structural, institutional and behavioral constraints most limit its development?
- **RQ3.** How do these constraints manifest in a peripheral region such as Karakalpakstan, and what policy sequence follows?

The contribution is threefold: a consolidated evidence base using the most recent official and institutional data, explicit treatment of data inconsistencies, and a regional problem matrix that can guide further empirical work [4].

The modern finance–growth literature begins with Goldsmith, who documented the long-run association between financial structure and economic development, and with McKinnon and Shaw, who argued that repressed financial systems depress savings and investment. Pagano formalized channels through which financial markets affect growth: mobilizing savings, improving capital allocation and changing the saving rate. Levine and Zervos found that stock-market liquidity and banking development each predict long-run growth, capital accumulation and productivity improvements, while the mere size of the market does not. Beck and Levine reached similar conclusions in a dynamic panel setting, and Levine summarized the evidence that well-functioning markets reduce information and transaction costs [5].

Rajan and Zingales showed that industries dependent on external finance grow faster in countries with developed financial markets, which suggests a causal channel rather than mere correlation. Demirgüç-Kunt and Levine found that stock-market development tends to move together with the development of banks and other intermediaries, so markets complement rather than replace banks. Later work shows that the relative importance of securities markets increases with income, while at low-income levels banks matter more. The same literature warns of limits: Arcand, Berkes and Panizza find that finance can become excessive beyond a threshold, which is not a risk in Uzbekistan today but is a reminder that quality matters more than size [6].

La Porta, Lopez-de-Silanes, Shleifer and Vishny showed that countries with stronger legal protection of minority shareholders and creditors have larger and broader equity and debt markets. This finding is central for transition economies, where privatization created many shareholders but not necessarily enforceable rights. Claessens, Djankov and Klingebiel documented that stock markets in transition economies were often illiquid,

dominated by few firms and hampered by weak governance. Jensen and Meckling provide the agency-cost logic: dispersed outside investors will not finance firms unless managers are credibly constrained. Stiglitz and Weiss explain why information asymmetry leads to rationing in credit markets, which creates space for public securities markets only where disclosure and enforcement are credible [7].

Household participation, trust and local finance

On the demand side, Haliassos and Bertaut asked why so few households hold stocks, pointing to participation costs and information barriers. Guiso, Sapienza and Zingales showed that trust in the market strongly determines whether individuals invest in stocks. Lusardi and Mitchell established that financial literacy is a major determinant of saving and portfolio choices. The regional perspective comes from Guiso, Sapienza and Zingales, who demonstrated that local financial development affects entry, firm growth and the use of finance even within a single country with a single legal system. Regional peripheries can therefore be disadvantaged even when national institutions improve.

This study adopts the four-dimension framework of Čihák, Demirgüç-Kunt, Feyen and Levine: **depth** (size relative to the economy), **access** (participation of firms and households), **efficiency** (liquidity and cost of intermediation) and **stability** (resilience to shocks). A fifth, **institutional** dimension drawn from the law-and-finance tradition is added because the Uzbek market has been shaped by repeated changes of regulator [8].

From the theory, two working hypotheses are derived:

- **H1.** The expansion of primary issuance in Uzbekistan has not yet produced proportionate depth, liquidity or participation.
- **H2.** Peripheral regions face the same constraints in amplified form because of a smaller issuer base, lower incomes, weaker trust and the centralization of market infrastructure [9].

2. Materials and Methods

Research design

The study is an exploratory, mixed-method, desk-based case study with a single-country focus and an embedded regional unit of analysis. This design is appropriate because regional securities data are not published in a form that would permit panel econometrics, and because the research questions concern the identification and prioritization of constraints rather than the estimation of a single causal parameter.

Data sources and period

The data cover 2020–2026, with the latest observations from 1 July 2026 where available. Sources were selected by reliability hierarchy:

1. **Regulator and government sources:** NAPP (issuance volumes, draft Law on the Capital Market), the National Statistics Committee (gross regional product), the Office of the President as reported by Interfax (securities in circulation and trading volume), and the national investment portal.
2. **International and institutional sources:** U.S. Department of State Investment Climate Statements, the AIFC regional capital-markets report as reported by UzDaily (market capitalization to GDP, Kazakhstan benchmark), and CEIC (monthly market capitalization).
3. **Market and policy analysis:** bne IntelliNews, the Central Asia Program (retail-investor barriers) and the SQB investment-banking monthly reviews (Eurobond and local issuance).

Indicators and analytical procedure

For each dimension in Section 2.4, indicators were selected on the basis of data availability: market capitalization to GDP (depth); issuance volumes and number of issuers

(depth/access); brokerage accounts and active share (access); free exchange trading as a share of securities in circulation, as a rough turnover proxy (efficiency); coupon levels and inflation (stability and cost of capital). Derived ratios were computed by the author directly from published figures. Growth multiples are calculated as end value divided by base value; the compound annual growth rate (CAGR) is $(V_2/V_1)^{(1/n)} - 1$.

The benchmark country is Kazakhstan, which has the closest regional market structure and institutional history. At the sub-national level, gross regional product (GRP) is used as a proxy for the economic base available to the securities market, and qualitative evidence is used to assess investor and issuer conditions.

Problem matrix and evidence grading

Identified constraints were classified into groups (supply, demand, infrastructure, institutions, macro-financial, liquidity) and each was graded by evidence strength: **A** (directly measured in official data), **B** (measured at national level, inferred for the region) and **C** (inferred from theory and qualitative evidence). This grading makes explicit which regional conclusions are hypotheses requiring future data.

Limitations and data-quality rules

Three limitations should be stated at the outset. First, no public regional breakdown of issuers, investors, brokerage accounts or trading volumes was located; regional conclusions therefore carry grades B or C. Second, definitions differ across sources: the 6.7% market-capitalization-to-GDP figure (AIFC, listed companies, 2024) differs from the roughly 20% figure cited in the December 2025 presidential presentation (apparently a broader measure), and the CEIC series implies about 16% for December 2025. Differences are reported rather than reconciled. Third, one secondary source reports government-bond trading in a unit that appears inconsistent (UZS 530.4 trillion described as about USD 41.8 million); this figure is not used. Reported "share issuance" of 265.1 trillion UZS appears, given its magnitude, to be a stock of shares issued rather than an annual flow, and is interpreted that way.

3. Results

National market: rapid expansion from a low base

Table 1 summarizes the principal indicators.

Table 1. Selected securities-market indicators of Uzbekistan

Indicator	Value	Source
Nominal GDP, 2025	USD 147.0 bn; real growth 7.7%	Invest in Uzbekistan (2026a)
Resident population, 1 Jan 2026	38.24 million	Invest in Uzbekistan (2026b)
Market capitalization, Dec 2025	USD 23.67 bn (≈16.1% of 2025 GDP, author's calculation)	CEIC
Listed-company market cap / GDP	16.4% (2020) → 6.7% (2024)	AIFC via UzDaily
Share issuance (reported volume)	189.7 trn UZS (2023); 265.1 trn ; 269.4 trn (1 Jul 2026)	NAPP
Corporate bond issuance	1.06 trn UZS (2023); 3.93 trn ; >7 trn (1 Jul 2026)	NAPP
Corporate bond trading, 2025	≈12,000 deals; 1.7 trn UZS (≈USD 134 m)	bne IntelliNews
UZSE trading volume, 2024	≈USD 2 bn, 7.5 times the previous year	U.S. Dept. of State
Securities in circulation / free exchange trading	275 trn UZS / 4 trn UZS (≈1.5%, author's calculation)	Interfax
Brokerage accounts	≈800,000; fewer than 10% active	Central Asia Program

Two patterns emerge. First, the corporate bond segment has grown very quickly from a small base. Reported issuance rose 3.7 times between 2023 and 2025 (a CAGR of roughly 93%) and, by mid-2026, had already almost doubled relative to the full-year 2025 value. In contrast, the reported share volume grew only about 40% between 2023 and 2025

(189.7 to 265.1 trillion UZS) and by about 1.6% in the first half of 2026, indicating that equity growth is largely a matter of corporate capital increases rather than new listings or public offerings. In 2025, reported corporate bond issuance equaled only about 1.5% of the reported share volume (3.93/265.1), which shows the extreme imbalance between debt and equity instruments [10].

Second, the evidence supports H1. Primary issuance is expanding, but secondary-market liquidity is very low. Free exchange trading of about 4 trillion UZS against 275 trillion UZS of securities in circulation implies a turnover proxy of about 1.5%. The corporate bond market is similarly shallow in trading: 1.7 trillion UZS of trades in 2025 compared with 3.93 trillion UZS issued that year. The account base is also narrow: with about 800,000 accounts and an active share below 10%, the number of active retail investors is below roughly 80,000, or about 0.2% of the population (author's calculation) [11].

The most striking contrast is between the headline success of large state-linked Eurobond placements and the domestic market's thin retail base. The Eurobond transactions primarily reflect sovereign and quasi-sovereign credit and foreign institutional demand; they do not by themselves deepen the domestic securities market that a region's companies and households can use.

Regional benchmark: Kazakhstan

The AIFC regional report shows that Kazakhstan's market is considerably more developed: outstanding bonds were 42.5% of GDP in September 2025, there were 276 issuers on KASE and 176 on AIX, individual investors generated more than 62% of secondary equity turnover in 2024, and brokerage accounts reached about 4.62 million at the Kazakhstan Central Securities Depository. Against that, Uzbekistan's listed-company capitalization ratio fell from 16.4% in 2020 to 6.7% in 2024, primarily because GDP expanded faster than listed market value. The comparison indicates that Uzbekistan's binding constraint is not the macroeconomic environment, which is favorable, but the breadth of issuers and the depth of domestic participation [12].

The regional level: Karakalpakstan

Table 2. Economic base of the Republic of Karakalpakstan

Indicator	Karakalpakstan	Uzbekistan	Source
GRP, 2024	45,658.5 bn UZS (3.1% of GDP)	1,270,020.8 bn UZS	INVEXI
GRP growth, 2024	6.3%	6.5% (GDP)	INVEXI ; U.S. Dept. of State
GRP, Jan–Sep 2025	36,814.1 bn UZS (≈2.8%)	1,303,702.1 bn UZS	National Statistics Committee
Real growth, Jan–Sep 2025	6.1%	7.6%	National Statistics Committee
GRP per capita	≈USD 1,790 (2024, as reported)	USD 3,881	INVEXI ; Invest in Uzbekistan (2026b)

Note: the per-capita comparison uses different years, so it somewhat overstates the same-year gap; even so, the regional figure is roughly half of the national level or less, suggesting a much smaller pool of household investable savings.

Karakalpakstan accounts for only about 2.8% of national output in 2025 and is among the three smallest regional economies, alongside Syrdarya (1.9%) and Jizzakh (2.9%). Its growth in January–September 2025 trailed the national rate by 1.5 percentage points. The economic base is dominated by agriculture, mining, construction materials and processing, and the republic hosts an agricultural free economic zone. Few of these activities currently generate large, transparent, joint-stock issuers able to access the exchange [13].

No official regional data on securities issuers, brokerage accounts or trading were found. The regional assessment therefore relies on the evidence grading in Table 3.

Problem matrix

Table 3. Constraints on securities-market development and their regional manifestation

Group	Constraint	Evidence at national level	Regional manifestation (Karakalpakstan)	Grade
Supply	Thin issuer base; state-owned enterprises dominate strategic sectors	U.S. Dept. of State : many large enterprises have a state share of 20% or more	Few mid-sized private firms; few candidates for IPO or bond issues; reliance on bank credit and state programs	B
Supply	Weak disclosure and governance; closely held companies	Governance requirements set by Decree UP-4720, uneven in application	Closed ownership and informal accounting more likely among small regional firms	C
Demand	Low participation and activity: ≈800,000 accounts, under 10% active	Central Asia Program: low literacy, risk aversion, weak trust, low perceived benefit, religious concerns	GRP per capita well below national average; lower savings; limited local literacy infrastructure	B
Infrastructure	Exchange, clearing and brokers centralized in Tashkent; reliance on digital channels	UZSE as the single main platform; nominee procedures being simplified	Fewer local brokerage offices; digital divide and trust in remote services	B/C
Institutions	Regulator changes (and delayed Law on the Capital Market	U.S. Dept. of State ; NAPP : draft passed first reading	Regional investors and issuers bear policy uncertainty most because they have least access to advisers	A
Macro-financial	High nominal rates and bank dominance: local bond coupons of 24–25%; inflation 7.3% in 2025	bne IntelliNews; Invest in Uzbekistan	Small firms find loans and deposits more convenient than equity; high coupons deter smaller issuers	B
Liquidity	Very low secondary trading	Free trading ≈1.5% of securities in circulation	Regional shareholders, including privatization-era holders, have little ability to exit	A/B

4. Conclusion

Interpretation of the evidence

The results support both hypotheses. The expansion of primary issuance confirms that the government's policy push has had effect, but depth and liquidity remain shallow (H1). In theoretical terms, the Uzbek market has developed more in the supply of paper than in the market microstructure that Levine and Zervos identify as the growth-relevant factor: liquidity. The decline of the capitalization-to-GDP ratio between 2020 and 2024 is not a sign of failure but of an economy growing faster than its listed sector; it nonetheless confirms that the securities market is not yet a primary channel of capital mobilization [14].

From a law-and-finance viewpoint, the delay in adopting a new Law on the Capital Market, combined with repeated institutional reorganization, is an important constraint. The draft law, with 16 chapters and 123 articles, would introduce derivatives, covered and securitized bonds, sustainability bonds and sukuk, and provide tax incentives for some income from corporate bonds and sukuk until 2038. It is also expected to strengthen the depository and simplify nominee holding by foreign investors. These measures are well aligned with the identified problems, but most target the large-issuer and institutional end of the market. The effect on regional small and medium-sized enterprises and households is indirect [15], [16].

The behavioral barriers identified by the Central Asia Program accord with the participation literature. Low trust and low literacy are strong predictors of non-participation. The recent prohibition on large state-owned enterprises under the National

Investment Fund retaining calculated dividends addresses a specific fear of minority shareholders, namely that declared returns will not be paid. Such concrete protections are likely to be more persuasive than general campaigns [17].

The regional dimension

The regional-peripheral hypothesis (H2) is plausible but only partially verified. Guiso et al. imply that local financial development matters even inside a country; in Uzbekistan, where infrastructure is centralized and the capital produces about one-fifth of national GDP, the effect is probably strong [18], [19]. Karakalpakstan's small economic base, slower growth and lower income reduce both the supply of issuers and the demand of investors. Ecological stress in the Aral Sea basin may further raise perceived project risk and deter long-horizon equity capital (a qualitative inference, graded C) [20].

It is important not to overstate the case. The Karakalpakstan economy grew by 6.1–6.3% in the periods examined; the agricultural free-economic-zone regime and large processing projects offer a pipeline of potentially financeable enterprises; and regulatory sandboxes, simplified nominee procedures and digital brokerage can lower access costs. In the language of Demirgüç-Kunt et al. at the income level of the region banks will remain the main channel of finance for some time, and the securities market should be developed as a complement, not a substitute [21].

5. Conclusion

Policy implications. The sequencing below follows from the identified constraints. Enact the Capital Market Law and stabilize the regulatory architecture. This is the necessary condition for all other measures, and the law should contain explicit provisions on minority rights, dividend disbursement through the depository, and enforcement. Develop the regional issuer pipeline. Create a listing-preparation program for the largest 30–50 private and semi-public companies in Karakalpakstan, offering subsidized IFRS-based accounting, governance upgrading and underwriting support. Pilot a simplified small-issuer bond segment with standardized disclosure rather than relying on main-board listing. Use public-sector issuance to build local depth. Consider pilot infrastructure, water-management and green or sustainability-linked bonds for regional projects, which match the instruments planned in the draft law. Municipal-type instruments need careful fiscal-safeguard design. Increase household participation through trust-building. Fund regional financial-literacy programs through universities and local government; encourage regional allocation in privatization offers with transparent dividend payment; support Sharia-compliant instruments, which respond directly to one of the identified behavioral barriers. Lower access costs. Allow regional bank branches and postal outlets to act as brokerage agents with simplified account opening and digital KYC; promote exchange-traded funds and collective investment vehicles that let small savers diversify. Make the market measurable at the regional level. Require NAPP and the Central Securities Depository to publish regional breakdowns of issuers, accounts, active investors and holdings. Without data, policies cannot be evaluated. Keep macroeconomic conditions supportive. The cost of local-currency funding will remain a barrier for smaller issuers until inflation and policy rates fall.

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