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Models for developing securities markets in emerging economies

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Abstract

This article explores models for developing securities markets in emerging economies, emphasizing institutional frameworks, technological modernization, and investor protection. Using international experiences and recent trends in Uzbekistan, it outlines key strategies for sustainable capital market growth.

Keywords: Emerging economies; Securities market; Market development; Enomic development; Financial instruments

1. Introduction

The development of efficient, transparent, and inclusive securities markets is a key driver of economic transformation in developing countries. As financial globalization accelerates and capital flows become increasingly dynamic, the need for well-structured securities markets in emerging economies has grown more urgent. These markets serve as essential platforms for mobilizing long-term domestic and foreign investment, facilitating corporate financing, enhancing financial inclusion, and supporting government debt management. A mature securities market also improves monetary transmission mechanisms and fosters innovation in financial instruments and services.

However, despite their potential, securities markets in many developing countries remain shallow, illiquid, and fragmented. Structural impediments such as weak legal frameworks, underdeveloped financial institutions, insufficient investor protection, limited public awareness, and lack of technological infrastructure continue to hinder market growth. Moreover, macroeconomic volatility, political instability, and excessive reliance on banking sectors further constrain the evolution of capital markets in these regions. As a result, companies often face limited access to non-bank financing sources, while households lack diversified investment opportunities.

Theoretical and empirical literature suggests that there is no one-size-fits-all model for capital market development. Each country must tailor its approach to reflect its unique institutional, legal, economic, and cultural characteristics. Nonetheless, successful models often share common features, including strong regulatory institutions, market transparency, investor education programs, digital infrastructure, and the presence of diverse financial instruments.

2. Literature review

The development of securities markets in developing countries is underpinned by several economic theories that elucidate the relationship between financial market maturation and economic growth. The Financial Liberalization Theory posits that deregulating financial markets enhances efficiency in capital allocation, thereby stimulating investment and growth. McKinnon (1973) and Shaw (1973) argue that removing financial repression—such as interest rate ceilings and credit controls—fosters financial deepening and economic development.

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Contrastingly, Singh (1997) contends that rapid financial liberalization without robust regulatory frameworks can lead to financial crises, suggesting that the sequencing and pacing of reforms are critical. This perspective aligns with the Institutional Development Theory, which emphasizes the role of strong legal and institutional frameworks in ensuring that financial liberalization translates into sustainable economic growth.

Furthermore, the Endogenous Growth Theory highlights the importance of financial markets in facilitating technological innovation and human capital formation, which are essential drivers of long-term economic growth. Pagano (1993) suggests that efficient financial markets improve the allocation of resources, thereby enhancing productivity and growth.

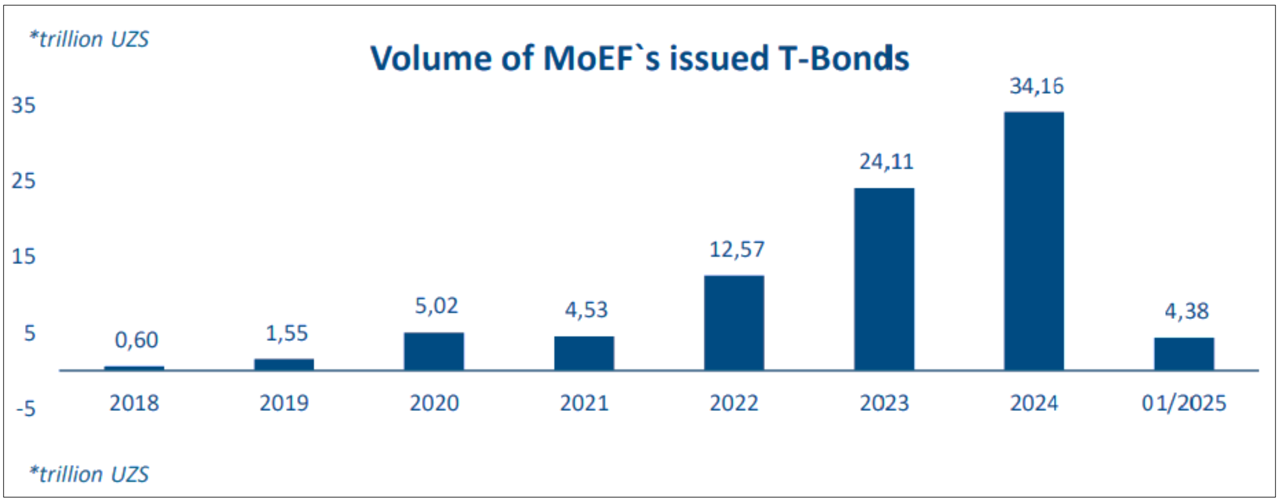
Empirical research has extensively explored the determinants and impacts of securities market development in emerging economies. Mohtadi and Agarwal (2004) examine the relationship between stock market development and economic growth in developing countries, finding a positive correlation between market capitalization and economic growth rates. Their study suggests that stock markets play a significant role in mobilizing domestic savings and allocating capital efficiently.

Additionally, Naceur et al. (2007) investigate the institutional and macroeconomic determinants of stock market development in emerging economies. Their findings indicate that factors such as the level of income, savings rate, financial intermediary development, and stock market liquidity are crucial in explaining the variation in stock market development across countries.

3. Analysis and Results

The dynamic evolution of securities markets in emerging economies is shaped by a confluence of institutional reforms, technological modernization, legal enforcement, and growing investor participation. This section provides a comparative analysis of international practices and Uzbekistan's recent developments across key dimensions of capital market development. Drawing from the experiences of both advanced economies and strategically relevant emerging markets, the analysis emphasizes governance models, technological infrastructure, and investor behavior. It also integrates empirical insights from Uzbekistan's expanding T-Bond issuance and Eurobond activity to illustrate the country's gradual integration into global capital markets and its efforts to establish a mature, resilient financial ecosystem.

Emerging economies like Uzbekistan can take inspiration from Turkey in embracing digital transformation not as a future goal but as a current necessity. Public-private partnerships in financial technology, adoption of centralized depositories, and mobile-based investor platforms are practical starting points for achieving digital inclusivity in capital markets.



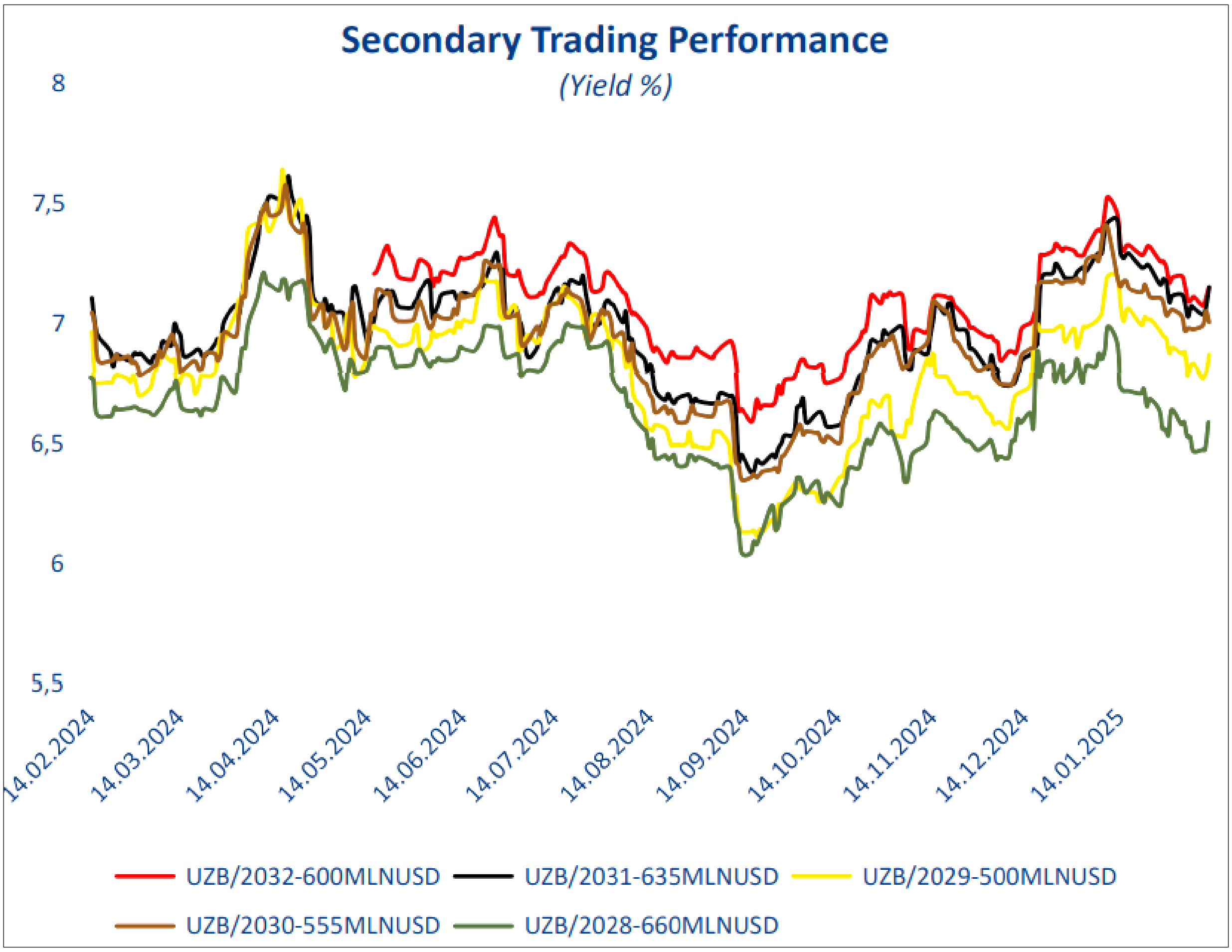
Source: Central bank, Ministry of Economy and Finance

Figure 1 Volume of MoEF`s issued T-Bonds in Uzbekistan

In the early years (2018-2020), the volume of T-Bond issuance remained relatively modest, increasing from just 0.6 trillion UZS in 2018 to 5.02 trillion UZS by 2020. This initial phase likely reflects the cautious and nascent stage of

Uzbekistan's domestic debt market development, where the government was testing local bond mechanisms and gradually establishing investor confidence.

A noticeable inflection occurs in 2022, where issuance jumps to 12.57 trillion UZS, more than doubling the 2021 figure (4.53 trillion UZS). This surge reflects a strategic shift in fiscal policy toward more active domestic borrowing-possibly driven by broader budgetary demands, public investment initiatives, and reduced reliance on external financing amidst global uncertainties.



Source: Central bank, Ministry of Economy and Finance

Figure 2 Secondary Trading Performance in Uzbekistan, yield %

Since 2019, Uzbekistan's corporate Eurobond market has experienced remarkable expansion, marked by 11 issuances across 15 tranches, cumulatively raising approximately 4.785 billion USD and 6.0 trillion UZS. This surge underscores a strategic pivot among domestic corporations—particularly state-owned enterprises (SOEs)—toward integrating into global capital markets. Major issuers such as the Navoi Mining and Metallurgical Combine (NMMC), Uzbekneftegaz, and UzAuto have taken the lead in mobilizing substantial external resources, playing a pivotal role in financing critical infrastructure and industrial development initiatives. Their dominance further reflects the centrality of SOEs in Uzbekistan's corporate ecosystem.

Investor appetite has been robust, as demonstrated by sizeable order books—USD 5.5 billion for NMMC and USD 1.7 billion for Uzbekneftegaz—indicative of strong investor confidence in the country's economic trajectory and improving corporate governance standards. Notably, the market is also evolving toward sectoral diversification. Beyond energy and metallurgy, issuers have emerged from the banking and manufacturing sectors, signaling broader corporate participation and maturing financial intermediation.

The year 2024 has already witnessed notable redemptions, including USD 300 million 5.75% bonds by SQB and 785 billion UZS 16.0% bonds by Ipoteka Bank (OTP Group), reflecting growing market sophistication and adherence to structured repayment schedules. Moreover, the issuance of long-dated bonds, such as NMMC's Eurobond maturing in

2031, illustrates a deliberate shift toward securing stable, long-term financing aimed at supporting transformational, capital-intensive projects.

A further development has been the increasing use of local currency-denominated bonds, exemplified by Ipoteka Bank's 1.4 trillion UZS issuance. This trend reflects a dual objective: to hedge against foreign exchange volatility and to encourage greater foreign investor participation in domestic currency instruments. Collectively, these dynamics demonstrate not only the rapid growth of Uzbekistan's corporate bond market but also its structural evolution toward a more diversified, resilient, and internationally integrated financial ecosystem.

The development of securities markets in emerging economies is not merely a technical process of setting up trading platforms—it is a multidimensional undertaking that requires the coordination of legal, institutional, technological, and educational reforms. While developed economies such as the United States, Germany, and Japan offer mature models characterized by depth, liquidity, and investor trust, developing countries like India, China, Brazil, Russia, and Turkey must contend with the legacy of underdeveloped financial infrastructure, regulatory fragmentation, and varying levels of investor confidence.

Table 1 Institutional Governance of Securities Markets

Country	Model Description	Supervisory Dynamics and Market Role
United States	Operates under a dual-tier system involving the Securities and Exchange Commission (SEC) and self-regulatory organizations (SROs) like FINRA.	Regulatory autonomy is high. SEC ensures systemic stability and investor protection, while FINRA oversees market conduct. This distribution reduces regulatory capture and boosts efficiency.
India	India uses a centralized regulatory approach through the Securities and Exchange Board of India (SEBI), which has quasi-judicial and legislative powers.	SEBI has gained increasing independence since liberalization in the 1990s, introducing proactive investor-focused policies, but still faces political and bureaucratic constraints.
Russia	Securities market regulation is centralized under the Central Bank of Russia, combining monetary policy and capital market oversight in one institution.	While it provides consolidated supervision, there are concerns over limited transparency, political influence, and low protection of minority investors in large corporate entities.

Source: Developed by the author

The institutional architecture of securities markets has a direct bearing on their efficiency, transparency, and growth potential. The U.S. model, with a clear separation of roles and high regulator autonomy, ensures accountability and flexibility. The SEC's enforcement capability and FINRA's specialized oversight create a responsive and credible environment for market participants.

Table 2 Technological Infrastructure and Digital Market Development

Country	Infrastructure Features	Role of Technology in Market Expansion
Germany	Operates one of the most advanced infrastructure systems via the Deutsche Börse Group, which includes the Xetra trading platform and Clearstream for post-trade services.	Technology ensures efficiency, high-frequency trading capabilities, and seamless integration with EU financial markets.
Brazil	B3 (Brasil Bolsa Balcão) functions as a unified platform for equity, derivatives, and government bonds; it's highly digitalized and integrated with fintech ecosystems.	Brazil's emphasis on automation has improved access for retail investors and attracted regional foreign portfolio flows.
Turkey	Borsa Istanbul has modernized through strategic IT investments, implementing blockchain pilots and electronic order books for all instruments.	While still developing, Turkey's digital push supports capital market deepening and enhances cross-border linkages.

Source: Developed by the author

India represents a hybrid approach—its centralized regulatory system under SEBI has succeeded in broadening market participation and improving transparency, but political pressure and institutional inertia still present challenges. Russia's model, while centralized and streamlined, has not achieved the same level of credibility, largely due to issues related to legal uncertainty, political centralization, and weak institutional independence. For Uzbekistan, the key takeaway is the importance of regulatory clarity and autonomy, which can be enhanced through gradual consolidation and the creation of independent, well-resourced oversight bodies.

The integration of modern technology into market operations is one of the most effective ways for emerging economies to overcome structural barriers such as limited geographic reach, low liquidity, and high transaction costs. Germany's financial infrastructure, rooted in European integration and a stable regulatory framework, supports a seamless and automated financial ecosystem that enables global competitiveness.

Brazil has demonstrated that even in volatile macroeconomic environments, investment in a unified and digitalized market infrastructure can yield substantial benefits. Its use of automation and fintech platforms has expanded market access and made the system more inclusive. Turkey is a compelling example of a mid-sized economy strategically modernizing its market structure through digital tools, including early-stage blockchain applications.

Recommendations

Based on the comparative analysis of institutional models, technological frameworks, and investor protection mechanisms in developed and emerging economies, as well as Uzbekistan's recent domestic market performance, several strategic recommendations emerge to strengthen the national securities market:

Uzbekistan should prioritize the consolidation of regulatory functions under a single, autonomous capital market authority with clear legal mandates, operational independence, and sufficient resources. This would reduce institutional fragmentation, enhance enforcement consistency, and allow the regulator to respond more dynamically to market changes, as seen in successful models like India's SEBI or Brazil's CVM;

investments should be directed toward end-to-end digital integration of market operations, including automated trading platforms, centralized depositories, e-KYC processes, and blockchain-based settlement trials. Building on Turkey's and Brazil's experience, Uzbekistan can leverage technology not only to reduce operational costs and inefficiencies, but also to attract fintech participants and retail investors, thereby broadening market access and liquidity;

ensuring robust investor protection is critical to fostering trust and deepening participation. This includes enhancing minority shareholder rights, streamlining dispute resolution mechanisms, and enforcing timely disclosure and reporting standards. Establishing specialized financial courts or arbitration panels, following Japan's and Germany's examples, would significantly improve market confidence and investor security;

to mitigate currency and rollover risks, Uzbekistan should expand its support for local currency bond issuance, especially by encouraging SOEs and banks to raise capital through UZS-denominated instruments. As demonstrated by recent Ipoteka Bank issuances, this strategy enhances financial resilience and invites longer-term domestic and foreign investment. Tax incentives, dedicated institutional investor engagement (e.g., pension funds), and a reliable sovereign yield curve are essential for building sustainable demand.

4. Conclusion

In conclusion, the transformation of Uzbekistan's securities market is both promising and imperative. Recent trends in T-bond and corporate Eurobond issuance demonstrate growing market sophistication and investor engagement, but systemic weaknesses remain in regulatory coherence, legal protection, and market infrastructure. By adopting an integrated reform strategy that draws on global best practices while adapting to local realities, Uzbekistan can accelerate the maturation of its capital markets and anchor them as a key driver of inclusive and long-term economic development.

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