FINANCIAL LITERACY GAPS AND THEIR IMPACT ON CAPITAL MARKET DEVELOPMENT IN UZBEKISTAN

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Abstract: *Uzbekistan's capital market has undergone significant structural reform since 2017, yet retail investor participation remains strikingly low relative to the country's population of 38 million. This paper argues that financial literacy gaps — specifically the lack of basic investment knowledge among the general population — are a primary constraint on capital market growth in Uzbekistan. Drawing on publicly available market data, ADB research, and the author's direct experience as a retail investor in the Uzbek equity market, the paper identifies two core dimensions of the problem: a knowledge deficit (people do not understand financial instruments) and an access deficit (people do not know where or how to start investing). The paper examines recent government initiatives to address this gap, including Presidential Decree PD-291 (2023) and the 2024 retail investment incentive programme, and concludes with a policy recommendation centred on the integration of personal finance education into higher education curricula as the most structurally effective long-term intervention.*

Keywords: *financial literacy, capital market development, Uzbekistan, retail investors, investment education, UZSE*

INTRODUCTION

Capital markets play a central role in allocating savings toward productive investment and supporting broader economic development. For emerging economies such as Uzbekistan, deepening the domestic capital market is not merely a financial objective — it is essential to funding infrastructure, enabling private sector growth, and reducing over-reliance on the banking sector and state-directed credit. Despite a decade of economic reform and a growing population with significant saving potential, the Republican Stock Exchange 'Tashkent' (UZSE) — the country's only equities and corporate bonds trading platform — continues to operate with a relatively narrow base of active retail participants.

The total trading volume of UZSE reached nearly USD 2 billion in 2024, representing a 7.5-fold increase compared to the prior year (U.S. Department of State, 2025). Yet the exchange has operated since 1994, and for the vast majority of Uzbekistan's 38 million citizens — whose median age is 27 years — investing in securities remains unfamiliar territory. A 2018 Asian Development Bank assessment found that in Uzbekistan, most households save and borrow informally, with very few using formal financial products beyond basic bank deposits.

This paper examines the relationship between financial literacy and capital market participation in Uzbekistan. The central argument is that low levels of financial literacy — defined in accordance with the OECD framework as the combination of financial awareness, knowledge, skills, attitudes, and behaviours necessary to make sound financial decisions — act as a structural barrier to retail investor participation and, by extension, to the depth and liquidity of the domestic capital market. The paper further argues that addressing this gap requires a systemic, education-based approach, and that the integration of personal finance into university curricula is the most effective policy lever currently available.

2. Uzbekistan's Capital Market: Current State

The UZSE was established in April 1994 and is the country's sole platform for securities trading, operating both as an exchange and in the over-the-counter (OTC) market. Its ownership structure reflects the state-dominated nature of Uzbekistan's broader economy: 75 percent plus one share is held by state asset management, with the remaining 25 percent held by the Korea Exchange (KRX), which became a shareholder in 2016 to assist with technical modernisation. As of early 2024, the government retained controlling shareholder positions in 157 industrial enterprises structured as joint stock companies, out of a total of 627 JSCs in the country (Central Securities Depository, Republic of Uzbekistan, 2024). In September 2023, capital market regulation was transferred to the newly established National Agency of Perspective Projects (NAPP).

Historically, the market's securities base emerged from the mass privatisation of state enterprises in the 1990s, which produced over 1.2 million nominal shareholders. However, nominal share ownership — often assigned during privatisation rather than actively purchased — is not the same as deliberate investment behaviour. The number of citizens making conscious decisions to allocate savings to equity instruments has, until recently, been very small.

Recent years have seen genuine progress. In 2023, the market witnessed an influx of tens of thousands of new retail investors entering the stock market for the first time, partly driven by three public offerings within a single year: the IPO of UzAuto Motors, the public offering of telecom operator Uzbektelecom, and the placement of preferred shares by state insurer Uzbekinvest. Together, these transactions attracted over 10,000 new investors and improved market liquidity in the initial weeks of trading (Musaev, 2024). The government introduced a retail investment incentive programme in June 2024, under which individuals who invest in listed bonds or equities receive a 12 percent income tax exemption subject to a 12-month lock-up period. A new mobile investment application — Jett — has also lowered the technical barrier to opening a brokerage account.

These developments are encouraging. However, they remain fragile if not supported by a population that understands what it is investing in and how to make informed decisions. Market access without financial knowledge does not produce informed participation — it risks producing either disengagement or uninformed risk-taking, neither of which serves the long-term development of the market.

3. Defining the Financial Literacy Gap

The OECD/INFE defines financial literacy as a combination of financial awareness, knowledge, skills, attitudes, and behaviours necessary to make sound financial decisions and ultimately achieve financial well-being (OECD/INFE, 2023). This definition is multi-dimensional: it encompasses not just what people know, but what they do and how they approach financial decisions. By this standard, financial literacy gaps in Uzbekistan operate at two distinct levels, both of which constrain capital market participation.

3.1 The Knowledge Deficit

A basic knowledge deficit exists among a large proportion of the Uzbek population with respect to how financial markets function. Concepts such as dividends, market capitalisation, equity risk, bond yields, and portfolio diversification are not widely understood outside of university finance programmes and a small professional class. This is not surprising in the context of a country that experienced a closed, centrally planned economy until 1991 and where investment in private securities was essentially non-existent for most of the Soviet period.

International evidence strongly supports the connection between financial knowledge and investment behaviour. The OECD's 2023 International Survey of Adult Financial Literacy confirms that levels of financial literacy vary substantially across countries and that these disparities exert a measurable influence on economic development and growth. Critically, deficiencies in financial knowledge are most prevalent among young population groups — precisely the demographic that constitutes the majority of Uzbekistan's working-age population.

3.2 The Access Deficit

The second dimension of the gap is perhaps more immediately actionable: even among young, educated Uzbeks who are broadly interested in investing, a significant proportion do not know where to start. They are unaware of which brokerage platforms operate in Uzbekistan, what documentation is needed to open an account, what the minimum investment thresholds are, or what types of securities are available on the UZSE. This is not a knowledge gap about financial theory — it is a gap about the most basic procedural steps to becoming a market participant.

The author encountered this barrier directly upon entering the Uzbek equity market as a retail investor. The initial challenge was not understanding macroeconomic conditions or sector dynamics — it was the absence of any clear framework for evaluating which securities to consider and why. This experience points to something the data confirms: for many first-time investors in Uzbekistan, the gap between intention and action is not explained by risk aversion or insufficient income, but by a lack of practical, accessible guidance on how to begin. The pattern is consistent with the ADB's finding that Uzbek households default to informal saving precisely because formal financial products remain unfamiliar and opaque (ADB, 2018).

4. Government and Institutional Responses

The Uzbek government has acknowledged the link between financial literacy and capital market development and has begun to act on it. Presidential Decree PD-291, issued in September 2023, includes financial literacy improvement as a specific clause (Appendix 4, Clause 31.2), mandating the UZSE to increase public awareness about the state of the capital market. In fulfilment of this mandate, the CEO of the Tashkent Stock Exchange delivered open lectures at several Tashkent universities in early 2024, including Westminster International University in Tashkent (WIUT) and the Tashkent branch of the Plekhanov Russian University of Economics, where topics discussed included the draft capital market law, liquidity constraints, corporate governance, and the mechanics of investing (UZSE, 2024).

The ADB has also been engaged in financial inclusion work in Uzbekistan, and its ongoing dialogue with UZSE on the capital market development roadmap for 2023–2025 reflects multilateral recognition that financial deepening requires both infrastructure improvements and demand-side education. At their March 2024 meeting, the ADB's Director of Financial Sector emphasised that several capital market development initiatives could be incorporated into the ADB's own project pipeline for 2025–2027 (UZSE, 2024).

While these efforts are welcome, they remain largely ad hoc — occasional lectures and awareness campaigns rather than a systemic intervention embedded in the institutions where young Uzbeks spend their formative years. A single lecture at one university, however well delivered, reaches a fraction of the students who would benefit. A more scalable and durable approach is required.

5. The Case for Integrating Personal Finance into University Curricula

The most structurally effective way to close Uzbekistan's financial literacy gap is to embed personal finance education — covering practical knowledge of investing, capital markets, and financial planning — into the curricula of the country's higher education institutions. Three arguments support this recommendation.

First, scale. Uzbekistan has a rapidly expanding higher education sector. A module or course on personal finance, even if offered as an elective, would reach a far larger and more geographically diverse audience than any awareness campaign. If offered at institutions across Tashkent, Samarkand, Namangan, and other major cities, it would help address the pronounced concentration of financial awareness in the capital and extend market knowledge to the regions where retail investor penetration is lowest.

Second, timing. University is the period during which young Uzbeks are beginning to earn their first income, form spending habits, and make early financial decisions. Reaching them at this stage — before patterns of financial behaviour are entrenched — maximises the impact of education. Research on financial literacy interventions consistently shows that early, structured exposure to financial concepts produces more durable changes in behaviour than later-stage awareness programmes (OECD/INFE, 2023).

Third, credibility. University-based education carries institutional legitimacy that informal channels cannot replicate. While digital platforms and independent financial educators play a valuable complementary role in democratising financial knowledge, they cannot substitute for structured, accredited learning. The two are complementary: formal curricula establish the foundation, while informal channels reinforce and apply that knowledge in everyday contexts.

A practical model would include a one-semester elective course — or a compulsory module within existing economics, business, or social sciences programmes — covering personal budgeting, the time value of money, investment instruments (deposits, bonds, equities), risk and return, and a practical introduction to opening a brokerage account and trading on the UZSE. Non-finance students, who form the majority of the university population, would benefit most, as they currently have no structured exposure to these concepts.

6. Conclusion

Uzbekistan's capital market has achieved considerable momentum. Trading volumes grew 7.5-fold in 2024, retail investment incentives are in place, digital brokerage platforms have lowered barriers to entry, and the government has embedded financial literacy improvement in national policy through Decree PD-291. The direction is right.

What the reform agenda has not yet produced is a population that feels equipped to participate. Supply-side improvements — better platforms, tax incentives, more IPOs — will not by themselves generate a deep retail market if the demand side remains constrained by a fundamental lack of financial knowledge. The knowledge deficit and the access deficit identified in this paper are not abstract problems: they are the everyday experience of young Uzbeks who are open to investing but do not know how to begin.

The policy recommendation this paper advances — embedding personal finance education in university curricula — is not a long-term aspiration. It is immediately actionable. Westminster International University in Tashkent, where the UZSE CEO has already delivered financial literacy lectures under Decree PD-291, represents a natural starting point for a pilot programme. WIUT's student body is international-facing, finance-literate by disposition, and well-positioned to generate both early adopters and peer multiplier effects. A semester-long elective piloted at WIUT, evaluated for its impact on student financial behaviour and market awareness, could provide the evidentiary basis for rolling out a similar module across Uzbekistan's broader university system.

Uzbekistan is pursuing privatisations, attracting foreign investors, and working toward deeper integration with international capital markets. Building a financially literate domestic investor base is not a secondary consideration in that agenda. It is the condition that makes the rest of it sustainable.

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