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DEVELOPMENT OF THE CAPITAL MARKET: ATTRACTING THE POPULATION TO INVESTMENT THROUGH IPOS AND THE NATIONAL INVESTMENT FUND

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Abstract: The article analyzes the role of the capital market in a market economy, its relationship with economic growth and privatization, and the current state of capital market development in Uzbekistan. Using the example of the initial public offering (IPO) of the National Investment Fund of Uzbekistan (UzNIF) on the Tashkent and London stock exchanges in 2026, the mechanism of public placement of state assets, the investment activity of the population and the structural problems

of the stock market are examined. Proposals for deepening the capital market and expanding the participation of retail investors are developed.

Key words: market economy, capital market, stock exchange, IPO, National Investment Fund, retail investors, privatization, corporate governance.

INTRODUCTION

The capital market is one of the central institutions of a market economy. It connects savers who have surplus funds with companies and governments that need long-term financing, distributes risks among a broad circle of investors, and provides a continuous market valuation of firms. In developed economies, stock and bond markets finance a substantial part of corporate investment, while households hold a significant share of their wealth in securities, pension funds and investment funds. In transition economies, the capital market also performs a specific function: it is a transparent channel for the privatization of state-owned enterprises.

In Uzbekistan, the capital market has historically remained one of the least developed segments of the financial system. The economy is dominated by banks, and, according to the International Monetary Fund, about two-thirds of banking assets are held by state-owned banks, while capital markets and non-bank financial institutions are described as underdeveloped [7]. The Republican Stock Exchange “Tashkent” had 107 listed companies as of February 2024 [12], but trading volumes and free float remained small, and the majority of households kept their savings in cash, bank deposits or foreign currency.

In recent years, the government has taken a number of steps to change this situation. Privatization proceeds rose from 1.1 trillion soums in the ten years before 2020 to 77.6 trillion soums in 2020–2025 [8], the privatization program has increasingly provided for the sale of state shares through public offerings, and in August 2024 the National Investment Fund of Uzbekistan (UzNIF) was established, managed by the international asset manager Franklin Templeton [10]. The offering was launched at the end of April 2026 [11], and in May 2026 the fund completed a dual IPO on the Tashkent and London stock exchanges, raising more than USD 600 million [9]. This event became the largest public offering in the country’s history and a test of investor interest in Uzbek state assets.

The purpose of this article is to analyze the role of IPOs and the National Investment Fund in developing the capital market of Uzbekistan and attracting the population to investment, and to develop proposals for deepening the stock market. The research objectives include: summarizing the theoretical relationship between capital markets, growth and privatization; analyzing the structure and results of the UzNIF IPO; identifying structural barriers to the development of the stock market; and formulating policy recommendations.

LITERATURE REVIEW

The relationship between financial markets and economic growth is one of the central themes of modern financial economics. R. Levine and S. Zervos, using data for dozens of countries, showed that stock market liquidity and banking development both positively and independently predict economic growth, capital accumulation and productivity growth [1]. Their results suggest that stock markets

provide financial services different from those of banks, and therefore an economy dominated by banks alone cannot fully realize its growth potential.

R. La Porta, F. Lopez-de-Silanes, A. Shleifer and R. Vishny demonstrated that the size and depth of capital markets depend on the legal protection of investors: countries with stronger protection of minority shareholders and creditors have larger and more valuable equity markets [2]. This conclusion is especially relevant for emerging economies, where investors' distrust of corporate governance is one of the main barriers to the development of the stock market.

W. Megginson and J. Netter, reviewing the empirical literature on privatization, emphasized that share issue privatization (sale of state shares through public offerings) not only raises revenue for the budget but also helps develop national stock markets, expand the shareholder base and improve corporate governance of the privatized firms [3]. Many large privatizations in Europe and Asia in the 1980s–1990s were carried out precisely through IPOs aimed at retail investors.

Among Uzbek researchers, Sung Tae Kyun analyzed the privatization of state-owned enterprises through IPO and SPO mechanisms based on the experience of Korea, China, India and Turkey. The author identified the weakness of the domestic investor base, the insufficiency of listing infrastructure, and problems of transparency and corporate governance as the main obstacles in Uzbekistan [4]. X. Axmedov examined the practice of raising capital in companies with state participation through shares and bonds, using the examples of Uzbektelecom and Asia Alliance Bank, and concluded that enterprises with state participation need a special approach to dividend policy and investor relations [5]. A. Simone and co-authors in an IMF study noted that the creation of the National Investment Fund, to which stakes of 25–40% in 12 large non-financial and one financial enterprise were transferred, is an important step towards improving the governance of state-owned enterprises [6].

The literature therefore shows that IPOs can simultaneously serve the goals of privatization, budget revenue, corporate governance and capital market development, but their effect depends on investor protection, transparency and the participation of domestic investors. The first major test of this mechanism in Uzbekistan — the 2026 UzNIF IPO — has not yet been analyzed in the scientific literature.

METHODOLOGY

The research methodology combines the following methods:

– theoretical analysis of the literature on capital markets, economic growth and share issue privatization;

– case study of the UzNIF IPO in 2026, including the structure of the offering, pricing, valuation and initial trading;

– structural analysis of the UzNIF portfolio by sectors of the economy;

– comparative analysis of the state of the capital market before and after the reforms;

– SWOT analysis to identify strengths, weaknesses, opportunities and threats in the development of the capital market.

The empirical base consists of IMF reports, publications of national and international news agencies, and official information on the IPO.

RESULTS AND DISCUSSION

Establishment and structure of the National Investment Fund. The National Investment Fund of Uzbekistan was established by presidential decree on 27 August 2024 and is managed by Franklin Templeton [10]. Its main idea is to combine minority stakes in large state-owned companies into one diversified vehicle that can be sold to investors, instead of selling each company separately. This approach reduces the risk for investors, who acquire a portfolio rather than a single enterprise, and allows the state to retain control of strategic companies while introducing private shareholders and international governance standards.

The UzNIF portfolio includes stakes of 25–40% in 13 state-owned companies, with a total value of about USD 2.44 billion [10]. The composition of the portfolio is presented in Table 1.

Table 1.

Portfolio of the National Investment Fund of Uzbekistan

Sector	Company	Stake
Energy	Uzbekhydroenergo	40%
Energy	National Electric Grid	40%
Energy	Thermal Power Plants	25%
Energy	Regional Electric Networks Company	40%
Energy	Regional Gas Supply Company	40%
Transport	Uzbekistan Airways	25%
Transport	Railway Infrastructure Company	40%
Transport	Tashkent City Transport Services	25%
Telecommunications	Uzbektelecom	30%
Finance	SQB (Uzsanoatqurilishbank)	40%
Finance / insurance	Uzbekinvest	40%
Trade infrastructure	Uzbek Commodity Exchange	40%
Utilities	Water Supply Company	40%

Table 1 shows that the fund is concentrated in infrastructure sectors — energy, transport and utilities — which are natural monopolies or quasi-monopolies. This gives investors exposure to stable cash flows but also makes the fund's returns dependent on tariff regulation. In this sense, the success of the fund is directly linked to the energy tariff reform, under which tariffs are moving toward cost-recovery levels.

Results of the IPO. The IPO was conducted simultaneously on the Tashkent Stock Exchange and the London Stock Exchange in the form of shares and global depositary receipts (GDRs). The state sold a 31% stake in the fund and raised USD 603.6 million; with the full exercise of the over-allotment option, the stake could reach 35% and proceeds USD 692 million [9]. At the offering price, the fund's market capitalization was USD 1.95 billion [9]. All proceeds were directed to the state budget [9].

Table 2.

Key parameters of the UzNIF IPO

Parameter	Value
Date of conditional listing in London	13 May 2026
Date of full listing and start of trading in Tashkent	18 May 2026
Funds raised	USD 603.6 million (up to USD 692 million with over-allotment)
Stake sold	31% (up to 35%)
Market capitalization at IPO price	USD 1.95 billion
Price in London	USD 25 per GDR
Price in Tashkent	4.65 soums per share (4.41 soums with 5% discount for individuals)
Price after the first week of trading	USD 27.50 per GDR (+10%)
Use of proceeds	State budget

The IPO has several important features from the point of view of capital market development. First, a dual listing allowed the state to attract international institutional investors through London while giving domestic investors access through Tashkent. Second, individual investors in Tashkent received a 5% discount, which is a common instrument of “people’s IPOs” aimed at broadening the shareholder base [9]. Third, the price of GDRs rose by about 10% in the first week of trading [10], which indicates that demand exceeded supply and that the offering was priced conservatively — an important factor for building trust among first-time retail investors.

However, the structure of the offering also reveals the limitations of the domestic market. Only about 3% of the shares offered were placed in Tashkent, while the bulk of the offering went to international investors through London [9]. This confirms the conclusion of local researchers that the domestic investor base is still narrow [4]. For most Uzbek households, the stock market remains unfamiliar, and the culture of long-term investment in securities is only beginning to form.

Structural barriers to capital market development. The analysis allows us to identify several structural barriers. The first is the dominance of state banks, which offer high deposit rates and compete with the stock market for household savings. The second is the limited supply of high-quality listed companies: most large companies are state-owned and many of them still do not prepare financial statements according to international standards. The third is the weakness of institutional investors — pension funds, insurance companies and mutual funds — which in developed markets provide stable long-term demand for shares. The fourth is low financial literacy and limited trust in corporate governance [2; 4].

Table 3.

SWOT analysis of the capital market development (author’s development)

Strengths	Weaknesses
• Successful dual IPO with international demand • Professional international fund manager • Diversified portfolio of large companies • Political commitment to privatization through public offerings	• Narrow domestic investor base • Small number of liquid listed companies • Underdeveloped institutional investors • Low financial literacy
Opportunities	**Threats**

• Further IPOs and SPOs of state companies • Attraction of household savings and remittances into securities • Development of pension and mutual funds • Inclusion of Uzbek securities in international indices	• Dependence of returns on tariff regulation • Global market volatility • Weak protection of minority shareholders • Loss of trust if prices fall after IPO

CONCLUSION

The study shows that the 2026 IPO of the National Investment Fund of Uzbekistan was a turning point in the development of the national capital market. The state raised more than USD 600 million by selling a 31% stake in a fund that owns 25–40% stakes in 13 large infrastructure and financial companies, and the fund's securities rose in price after listing. The IPO demonstrated international investors' interest in Uzbek assets and created a new model of privatization through public offerings. At the same time, the small share of the offering placed with domestic investors shows that the domestic capital market remains shallow and that the investment culture of the population is still forming.

To deepen the capital market and attract the population to investment, the following measures are proposed:

1. Conduct regular IPOs and SPOs of state-owned companies with a dedicated tranche and discounts for domestic retail investors, following the model of "people's IPOs".

2. Introduce individual investment accounts with tax incentives for long-term holding of securities, so that part of household savings and remittances is directed to the stock market.

3. Develop institutional investors by allowing pension savings and insurance reserves to be invested in listed securities under prudent limits.

4. Require all companies planning a public offering to switch to IFRS reporting, independent audits and boards with independent directors at least two years before listing.

5. Strengthen legal protection of minority shareholders, including mandatory tender offers, transparent related-party transactions and effective court enforcement.

6. Launch a nationwide financial literacy program on investing in securities, using mobile banking and brokerage applications as the main channels.

In conclusion, the capital market is an essential element of a mature market economy, and IPOs of state assets represent the most transparent way to combine privatization with the development of financial markets. Systematic implementation of the proposed measures would turn the success of the UzNIF IPO into the beginning of a broad-based investment culture in Uzbekistan.

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