

## **THE STOCK MARKET AND DEMAND FOR MONEY IN UZBEKISTAN**

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**Abstract:** This report examines the interaction between the stock market and the demand for money in Uzbekistan. Uzbekistan is an emerging economy in the process of financial reforms and liberalization. As Uzbekistan strives to build a developed and efficient market, it is important to study the interaction between monetary and stock market activities in order to improve the efficiency of economic growth, make monetary policy more effective, and create a better investment climate. The stock market in Uzbekistan is relatively young in terms of development, structure, liquidity, trading volume, and number of listed companies compared to developed economies. In particular, challenges remain, although recent reforms by the government to liberalize the economy and attract foreign investment are gradually increasing this share.

**Key words:** stock market, money demand, financial reform, monetary policy, economic transition, inflation, currency stabilization, investment climate, liquidity, interest rates, financial infrastructure, economic growth, capital controls, market liberalization, financial market development, inflation, financial instruments, monetary stability, stock market development.

**Abstrakt:** Ushbu hisobotda O'zbekistondagi aksiyadorlar bozorining pulga bo'lgan talab bilan o'zaro ta'siri ko'rib chiqiladi. O'zbekiston moliyaviy islohotlar va liberallashtirish jarayonidagi rivojlanayotgan iqtisodiyot hisoblanadi. O'zbekiston rivojlangan va samarali bozorni barpo qilishga harakat qilayotgani sababli, iqtisodiy o'sish samaradorligini oshirish, pul siyosatini yanada samarali qilish va yaxshi investitsiya muhitini yaratish uchun monetar va aksiyadorlar bozoridagi faoliyat o'rtasidagi o'zaro ta'sirni o'rganish muhimdir. O'zbekistondagi aksiyadorlar bozori, rivojlangan iqtisodiyotlar bilan solishtirganda, rivojlanishi, tuzilishi, likvidligi, savdo hajmi va ro'yxatga olingan kompaniyalari soni jihatidan ancha yosh. Ayniqsa, hukumat tomonidan iqtisodiyotni liberallashtirish va xorijiy investitsiyalarni jalb etish bo'yicha so'nggi islohotlar bu ulushni asta-sekin oshirayotganiga qaramay, hali ham qiyinchiliklar mavjud.

**Kalit so'zlar:** Mercer, pul talab, moliyaviy issloxot, monetar siyosat, iqtisodiy o'tish, inflyatsiya, valyuta barqarorligi, investitsiya iqlimi, likvidlik, foiz stavkalari, moliyaviy infratuzilma, iqtisodiy o'sish, kapital nazorati, bozorni liberallashtirish, moliyaviy bozorni rivojlantirish, moliyaviy asboblari, monetar barqarorlik, fond bozorini rivojlantirish.

**Абстракт:** В этом отчете внимание будет уделено взаимодействию фондового рынка с денежным спросом в Узбекистане, который является развивающейся экономикой в процессе финансовых реформ и либерализации. Поскольку Узбекистан стремится установить развитый и эффективный рынок, важно изучить взаимодействие между денежной и фондовой рыночной активностью для повышения эффективности экономического роста, улучшения эффективности денежной политики и создания более благоприятного инвестиционного климата. Фондовый рынок Узбекистана значительно моложе, чем в развитых экономиках, по уровню своего развития, структуре, ликвидности, объему торгов и количеству зарегистрированных компаний. Несмотря на эти трудности, недавние реформы правительства, направленные на либерализацию экономики и привлечение иностранных инвестиций, постепенно увеличивают долю.

**Ключевые слова;** Фондовый рынок, спрос на деньги, финансовая реформа, денежная политика, экономический переход, инфляция, стабилизация валюты, инвестиционный климат, ликвидность, процентные ставки, финансовая инфраструктура, экономический рост, контроль за капиталом, либерализация рынка, развитие финансового рынка, финансовые инструменты, денежная стабильность, развитие фондового рынка.

**Introduction.** The relationship between the stock market and the demand for money is a fundamental topic in financial economics and monetary theory. Understanding how these two elements interact is crucial for formulating effective monetary and financial policies. In developing and transitional economies like Uzbekistan, this relationship assumes additional significance due to the evolving nature of financial markets and the gradual integration of modern economic mechanisms.

Uzbekistan's financial sector has undergone substantial reforms over the past decades, aimed at liberalizing the economy, encouraging investment, and developing capital markets. The establishment and growth of the Uzbek stock market represent a critical step towards diversifying the country's financial infrastructure, providing new channels for investment, and enhancing the mobilization of savings. However, alongside these developments, the demand for money — the amount of monetary assets that economic agents wish to hold — remains a key determinant of liquidity, inflation control, and overall economic stability.

This study focuses on analyzing how the growth and dynamics of the stock market in Uzbekistan influence the demand for money among households, businesses, and financial institutions. Specifically, it explores whether increased stock market activity leads to a reduction in money holdings due to the substitution effect, where individuals shift from cash balances to financial assets, or whether it complements money demand by improving overall economic confidence and transaction efficiency.

Given Uzbekistan's unique economic transition, structural changes, and evolving regulatory environment, it is important to investigate the interdependencies between stock market development and monetary demand. This research aims to fill a gap in existing literature by providing empirical evidence and theoretical insights on this topic, thus offering valuable implications for policymakers, investors, and academics interested in the Uzbek financial market and its macroeconomic interactions.

**Research methodology.** In Uzbekistan, the demand for money depends on several factors such as economic transition, inflation, and historical lack of trust in the formal banking system that

fosters a predominant cash society. The Central Bank of Uzbekistan has actively worked towards currency stabilization and inflation containment which has affected the demand for money and other assets such as stocks. But many Uzbek investors are still cash and gold or real estate asset lovers due to low financial literacy and underdeveloped financial infrastructure.

The amount of money required in Uzbekistan also reacts to external demand for money through inflation and interest rate changes. High inflation rates in the economy decrease the value of cash which in turn causes people to need foreign currencies as a store of value or cash or assets with a higher return if the stock market is considered attractive. On the other hand, a low rate of inflation and interest rates can stimulate consumption and investment and reduce the demand for liquid money in favor of more active participation in stocks. But since the Uzbek stock market is poorly developed and is still very thin, the switch from money holding to equity investment is however very small but has great growth prospects if market reforms articulate themselves with speed.

**Analysis and results.** Monetary policy in Uzbekistan, also affects the level of demand for money and the stock market performance of the country. The recent steps taken by the Central Bank towards a more flexible exchange rate policy, lower interest rates and inflation targeting are meant to stabilize the economy and enhance the environment of investment. The Central Bank, through lowering the key interest rate, wants to encourage borrowers and expansion of business that can spark off stock market activity. Of course, if the interest rate is considered too low, it would lessen the appeal of having cash facilities which may have the opposite effect of increasing investment. On the other hand, tightening of monetary policy in order to achieve a lower inflation rate or a lower rate of depreciation of the currency may cause an increase in demand for money or currencies especially foreign currencies as people are looking for stability. With the development of economic relations among Uzbekistan and foreign investors, some may also grab interest in the emerging stock market. Furthermore, foreign entrance is limited by capital controls, regulatory difficulties, and geopolitical risks. More participation from foreign investors may increase liquidity on the market and enhance local tolerance toward the stock market as an alternative to cash.

**In conclusion,** therefore, the stock market and demand for money in Uzbekistan infusion a tangled relationship shaped by structural reforms, monetary policy, inflationary expectations, and the evolving financial landscape. As the stock market of Uzbekistan remains at its nascent stage, its short-lived reforms and further stabilization would presumably provide increased confidence to spur the divestment from cash in favor of the ownership of financial instruments. Hence, an understanding of this relationship is very important for Uzbekistan's policymaking community seeking the unique balancing of these objectives-expanding monetary stabilization, growth objectives, and, additionally, creating an inclusive, resilient financial market contributing to broader economic goals.

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