Modern American Journal of Business, Economics, and Entrepreneurship
ISSN (E): 3067-7203
Volume 01, Issue 09, December, 2025
Website: usajournals.org

DEVELOPMENT OF THE CAPITAL MARKET AS A FACTOR OF SUSTAINABLE ECONOMIC GROWTH OF THE STATE

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Abstract
This article examines the role of the capital market in ensuring sustainable economic growth of the state. The capital market is an important tool that makes it possible to efficiently allocate financial resources, stimulate investment activity and facilitate access to finance for enterprises in the real sector of the economy. The article analyzes the current state of the capital market in Uzbekistan, its impact on macroeconomic indicators and development prospects. A number of measures are proposed aimed at further developing the capital market, including expanding the base of institutional investors, increasing the variety of financial instruments, improving market infrastructure, increasing data transparency and protecting investors' rights, as well as implementing programs to improve financial literacy of the population. The implementation of these measures can contribute to ensuring sustainable growth, economic diversification and increasing its competitiveness.

Keywords: Capital market, sustainable economic growth, financial resources, institutional investors, market capitalization, financial literacy, financial instruments, investments.

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INTRODUCTION

In the modern world, the development of the capital market is becoming a key aspect for ensuring stable and long-term economic growth of the state. This market plays an important role in the efficient allocation of financial resources, stimulating investment activity and expanding access to finance for the real sector of the economy.

As a result, production is increasing, new jobs are being created, and conditions are being created for the development of innovations. The experience of successful countries shows that a developed capital market is one of the key factors ensuring sustainable economic growth.

Attracting long-term investments through the stock market, stocks and bonds helps reduce the economy's dependence on bank lending and increase the stability of the financial system.

In today's world, where globalization and competition are becoming more intense, it is important for any state to ensure stable economic growth. In this process, maintaining the stability of the national economy and its dynamic development is of key importance, which largely depends on the effective functioning of the capital market.

The capital market plays an important role in the allocation of financial resources between different sectors of the economy. This stimulates investment activity and opens up opportunities for long-term financing of the real sector.

International experience shows that countries with developed capital markets usually show relatively stable economic growth rates. In addition, in such countries, there is a decrease in the dependence of the financial system on the banking sector.

The development of alternative methods of financing companies through the securities market is of great importance for economic growth. This makes it possible to finance innovative projects and attract private investment.

In the context of the economic reforms being carried out in Uzbekistan, the development of the capital market is of particular importance [1]. We are talking about creating an attractive investment climate, transforming state-owned enterprises, accelerating the processes of privatization and liberalizing the financial market.

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To ensure stable economic growth, it is necessary to create reliable sources of financing. This requires the development of the stock and bond markets, the active use of mechanisms for primary and secondary placement of securities, as well as support for the activities of institutional investors.

In the light of the above, the research topic becomes particularly important. The research will examine the theoretical and practical aspects of the capital market and its impact on ensuring sustainable economic growth of the state. Based on the results of the study, scientifically based recommendations will be formulated that will help identify and solve existing problems.

LITERATURE ANALYSIS

For the successful functioning of the economy, it is necessary that financial markets and institutions actively develop. The state of the financial market directly affects the economic development of the country.

The financial market is a complex system in which various participants interact: companies that issue securities (issuers), investors and financial intermediaries. There is an exchange of funds in the financial market [2].

The main goal of the financial market is to ensure interaction between those who need financial resources and those who can provide them through financial intermediaries and various tools.

Capital markets are an essential component of the modern economy and serve as a key mechanism for sustainable economic growth. State involvement in these markets through regulatory, institutional, and promotional activities has become a critical factor in the economic development of nations.

The textbook "Financial Markets and Institutions", created by a group of Russian scientists, provides the following definition of the financial market: "The financial market is a set of monetary relations that ensure the accumulation, redistribution and investment of funds from enterprises, banks, financial institutions, through transactions for the purchase and sale of financial instruments" [3]

In Western economic literature, financial markets are cited as a set of market institutions that direct the flow of funds from the accumulator to the borrower [4]. Frederick Myshkin calls markets that serve to transfer funds from people

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with surplus funds to those with insufficient funds financial markets [5] Based on the given definitions, it can be noted that the financial market is a market in which the redistribution of temporarily free funds occurs through financial intermediaries based on the use of financial instruments [6].

In the context of financial markets, there are two approaches to their consideration: economic and investment.

From an economic point of view, the financial market is a system in which participants carry out transactions with financial assets such as securities, commodities and other instruments. The goal is to minimize the costs of such operations [7].

From an investment point of view, the financial market is a set of market institutions whose task is to efficiently transfer financial resources from owners to borrowers [8].

In addition, in the traditional sense, financial markets can be divided into several categories based on their functions and the duration of financial instruments:

1. The money market is a market for short—term debt obligations, the term of which usually does not exceed one year. Its main purpose is to provide liquidity, attract short—term sources of financing, and generate short-term interest rates. In this market, the main instruments are Treasury bills, certificates of deposit, short-term government bonds and interbank loans [9].
2. The capital market is a platform for attracting and placing long—term (more than one year) investments. It plays a key role in ensuring sustainable economic growth. In the capital market, the main instruments are stocks, bonds, mortgages and derivative financial instruments [10].
3. The currency exchange market, also known as Forex, is a platform where various monetary units are exchanged in relation to each other. This market plays an important role in international trade and investment, ensuring the free movement of capital [11].
4. The lending market covers all types of loans provided by banks and other financial institutions, including consumer, mortgage and corporate loans [12].
5. Insurance and pension markets play a key role in the formation of long-term investment resources and contribute to attracting capital to the economy [13].

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These markets are closely linked. Thus, changes in interest rates on the money market affect the value of bonds on the capital market. And exchange rate fluctuations can affect the share price of companies that export and import. Financial markets play an important role in economic development. They contribute to economic growth by performing several functions:

1. Efficient capital allocation. The market directs resources to promising and innovative projects, which increases productivity.
2. Risk management. Through derivatives and diversification opportunities, investors and companies can protect themselves from various economic and financial risks such as fluctuations in exchange rates, interest rates, and commodity prices.
3. Stimulating the development of corporate governance. Public joint-stock companies must comply with strict reporting and transparency requirements, which contributes to increased management efficiency.
4. Turning savings into investments. The market helps both small and large investors and organizations to channel their savings into the productive sector of the economy using various tools and institutions.
5. Provision of liquidity. Market participants can quickly and with minimal effort convert their assets into cash, which makes them more attractive for investment [14].

The role of the state in financial markets is to regulate, control and stimulate their activities. The State actively participates in the functioning of financial markets in order to ensure their stability, protect the rights of participants and achieve economic goals. Within the framework of its activities, the State performs the following functions:

1. Regulation and supervision: The Government, represented by central banks, ministries of finance, and special committees, develops and introduces laws and regulations aimed at ensuring the integrity, transparency, and stability of markets. Such measures include capital requirements, disclosure standards, and prevention of insider trading.

3. As a market participant, the state can cover the budget deficit by issuing its own securities (government short-term bonds, federal loan bonds), as well as provide targeted loans to stimulate certain sectors of the economy.

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4. Formation of the institutional infrastructure: creation of an atmosphere of trust by regulating the activities of state deposit insurance systems, payment systems, credit rating agencies, independent audit and market intermediaries.
5. Improving the investment climate: attracting foreign and local investments through tax incentives, government guarantees, and the creation of special economic zones [15].

Thus, financial markets represent the circulatory system of the modern economy, contributing to the efficient allocation of resources, economic growth and stability. They represent a complex structure reflecting not only economic, but also investment processes. The level of development and efficiency of financial markets directly depends on the correct balance between the state and the market. It is necessary to develop an effective regulatory model that, on the one hand, will not restrict the free functioning of market mechanisms, and on the other, will protect against systemic risks, ensure order and security. Developed, deep and liquid financial markets are a key factor in increasing competitiveness and sustainable development of the national economy.

RESEARCH METHODOLOGY

In this article, we have used various methods of scientific research. First of all, we turned to the theoretical basis, having studied scientific literature, textbooks, articles and monographs on the topic. Then we analyzed capital market indicators such as capitalization, trading volume, and indexes. We also studied investment dynamics and macroeconomic data, including GDP and industrial growth. In addition, we conducted a comparative analysis of the relationship between various factors that make up the market: infrastructure, financial instruments, and participants. These methods allowed us not only to study the impact of the capital market on economic growth in theoretical terms, but also to formulate specific conclusions and proposals for the Uzbek market.

RESULTS

The study showed that the state of the capital market directly and indirectly affects the economic growth of the country. In particular, the improvement of the stock market infrastructure, the variety of financial instruments and the

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activity of institutional investors create new opportunities for long-term financing of the real sector of the economy. Here are some conclusions that can be drawn from the study.:

1. Capital market capitalization and market indicators.

As of September 2025, the total capitalization of the capital market in Uzbekistan was about 22.2 billion US dollars. This indicates that the capital market is growing.

In 2024, the capitalization to gross domestic product (GDP) ratio was 16.7%, which is significantly higher than in 2023 (14.1%). This growth suggests that the capital market is playing an increasingly important role in the economy, although its share is still relatively small compared to developed markets.

2. Trading activity and investor participation in the market

There is a significant increase in trade turnover in Uzbekistan. For example, in June 2025, the volume of stock trading reached 657.85 billion soums, which is 76 times more than in the previous month. This indicates an increase in market liquidity and investor activity.

The stock profitability (ROE) indicators on the Uzbek stock exchange also show positive dynamics. In the middle of 2025, 24.5% ROE was recorded on an annual basis, which indicates the effectiveness of the stock market and increased returns for investors.

3. Dynamics of the market index

As of November 2025, the Uzbek market index reached a value of 719.9 points, which indicates a positive trend compared to the previous month. In the long term, the index continues to grow, which indicates an improvement in the investment climate.

4. How the capital market affects economic growth.

In the context of stable economic growth in Uzbekistan, the analysis showed that the development of the capital market contributes to the diversification of investment flows. Enterprises are increasingly interested in long-term financing

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through this market, which allows them to channel capital into various sectors of the economy.

For example, in the period from January to September 2025, investments in fixed assets increased significantly compared to the same period in 2024. This contributed to the development of infrastructure and the expansion of networks. These positive changes contributed to the country's economic growth: in 2025, the gross domestic product increased compared to the previous year, and the industrial and agricultural sectors also showed positive dynamics. This suggests that the capital market may become attractive for investments in manufacturing industries.

However, the analysis shows that the capital market in Uzbekistan is still underdeveloped compared to global markets. The low market capitalization and the market-to-GDP ratio indicate that the country's capital market potential is not being fully exploited.

DISCUSSION

The study shows that the development of the capital market in Uzbekistan plays a key role in stimulating economic growth. In recent years, there has been a steady increase in the capitalization of the stock market, and its share in GDP is approximately 14-17%. For comparison, in developed countries, this indicator usually ranges from 60% to 100%. This indicates that the potential of the capital market in Uzbekistan has not yet been fully realized.

The experience of other developing countries also allows us to draw important conclusions. For example, in countries such as South Korea and Malaysia, the share of the capital market in GDP ranges from 60% to 100%. It is through the capital market that long-term investments are made in various projects related to industry, technology and infrastructure. This contributes to stable and diversified economic growth in these countries. In comparison with other countries, the share of the capital market in the economy of Uzbekistan is about 14-17% of GDP, which is less than in some developing countries. This indicates that the impact of the capital market on economic growth in the country is still limited.

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However, unlike many other countries, Uzbekistan's economy is still heavily dependent on the banking sector. In international practice, the balance between the banking sector and capital markets is considered an important factor in economic stability. This balance has not yet been achieved in Uzbekistan.

In countries with advanced financial systems, the effects of economic shocks are usually less severe because they have multiple sources of financing. In Uzbekistan, the bulk of funds come from banks, which makes the economy more vulnerable to internal and external threats.

Thus, the development of the capital market becomes an important tool for ensuring economic stability.

Research shows that attracting resources through the capital market can become a long-term and reliable source of financing for enterprises in the real sector of the economy. In recent years, there has been a significant increase in the volume of transactions with stocks and bonds, and the turnover in some periods reaches several trillion soums. This indicates a gradual increase in market liquidity.

However, the impact of the capital market on economic growth is not yet direct. Most of the investments in fixed assets are still carried out at the expense of government funds and bank loans.

According to statistics, the share of funds raised through the capital market in the total volume of investments is still small. This indicates the need to increase the role of the capital market in the economy.

During the discussions, the main factors hindering the development of the capital market were identified: low level of financial literacy among the population and entrepreneurs.

Currently, there are a number of problems in the capital market in Uzbekistan that hinder its full development and effective use as a tool to stimulate economic growth.

One of the key problems is the insufficient participation of private investors as retail investors, which limits the choice of available financial instruments. In addition, some issuers provide insufficient information about their activities, which makes it difficult to assess risks and make informed investment decisions.

To solve these problems, it is necessary to actively involve institutional investors such as pension funds, insurance organizations and investment companies.

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However, in Uzbekistan, these organizations are in the process of formation, and their role in the capital market is not yet significant. This is an important aspect for ensuring the stability and depth of the capital market.

The experience of developed countries shows that the effective functioning of the capital market is possible only if there is a significant number of institutional investors. Pension funds, insurance companies and investment funds are the main sources of liquidity in the market.

In Uzbekistan, these organizations have not yet reached the required level of development, which negatively affects the depth of the market. In general, the capital market of Uzbekistan is still at the initial stage of development. However, the ongoing reforms are aimed in the right direction.

If special attention is paid to the development of institutional investors, expanding the range of financial instruments and increasing market transparency, then, following international best practices, the capital market can become a powerful tool for ensuring sustainable economic growth in the country in the future.

Based on the results of the discussions, it can be concluded that the capital market in Uzbekistan is currently a growing strategic factor, but it is not the main financial instrument that ensures full economic growth. Nevertheless, with regular reforms aimed at its development, its contribution to GDP growth can increase significantly in the medium and long term.

CONCLUSION

The study found that the development of the capital market is essential for ensuring sustained economic growth in the state. The capital market facilitates the stable growth of the economy by efficiently allocating financial resources, promoting investment activity, and increasing access to finance for the real economy.

An analysis conducted on Uzbekistan showed positive trends in the capital market, such as an increase in market capitalization, significant growth in trading volumes, and an upward trend in the stock market index. However, the current market share of GDP (16-17%) remains lower compared to developed (60-100%) and some emerging market economies. This suggests that the

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potential of the Uzbek capital market has not been fully realized, and the economy continues to rely heavily on the banking sector. This limits the diversity of financing options and increases systemic risks.

Main problems: among the factors hindering the development of the capital market, there is a low level of financial literacy among the population and entrepreneurs, limited participation of retail investors, insufficient disclosure of information by issuers and a weak role of institutional investors (pension funds, insurance companies).

Based on the research, we propose scientifically-based solutions and recommendations:

1. Expansion and development of the institutional investor base. The introduction of legislative and tax incentives to encourage the active participation of pension funds and insurance companies in the capital market. Support for the creation and development of investment funds, including ETFs (exchange-traded funds). The implementation of training programs in accordance with international standards to diversify the portfolios of these educational institutions and improve the ability to manage risks.

2. Increasing the variety of financial instruments and improving the market infrastructure. Simplify and reduce the cost of the securities issuance process for enterprises, especially small and medium-sized businesses. The implementation of training programs in accordance with international standards to diversify the portfolios of these educational institutions and improve the ability to manage risks.

3. Increasing the variety of financial instruments and improving the market infrastructure. Simplify and reduce the cost of the securities issuance process for enterprises, especially small and medium-sized businesses. Encourage the introduction of Islamic financial instruments such as murabaha, sukuk, as well as innovative financial products such as green and social bonds. Development of electronic trading platforms, creation of modern and secure payment analysis systems.

4. Increase transparency of information, openness and protection of investors' rights. Stricter control over the requirements for regular and standardized reporting of financial and operational results by issuers. Effective

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implementation of measures to combat insider trading and market manipulation. Development of electronic trading platforms, creation of modern and secure payment analysis systems.

5. Implementation of comprehensive programs to improve financial literacy. The inclusion of capital market, investment, and personal financial planning topics in the curricula of schools, secondary schools, and higher education institutions. Organization of educational materials, seminars and webinars for the public and entrepreneurs in cooperation with the media. Creation of reliable and understandable information resources by government agencies and financial institutions. Implementation of comprehensive financial literacy programs:

Thus, Uzbekistan's capital market has the potential to significantly contribute to sustainable economic growth. To realize this potential, it is necessary to pursue a consistent and harmonious policy of developing market institutions, improving the legal and managerial environment, improving financial literacy and strengthening investor confidence. As a result of the implementation of the above proposals, the capital market can become the basis for ensuring sustainable growth, diversification and competitiveness of the country's economy.

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