AVESTA
INVESTMENT GROUP

July 2024

Major legislative changes in the Capital Market of Uzbekistan

For the last two months several legislative pieces were introduced into a local legislation. We believe that these changes will positively effect the development of the local market in the nearest six month and further.

Bank of Georgia purchased State Debt Securities (SDS)

On June 13th, 2024, the Bank of Georgia JSC conducted the first transaction for the purchase of local government bonds, known as State Debt Securities (SDS), in the capital market of Uzbekistan. These on-shore UZS-denominated bonds are traded on the local market through the Uzbek Republican Currency Exchange (UZCE) trading platform. Now any international investor serviced by the Bank of Georgia is able to directly transact with local securities without any local account opening or local clearing procedures, which will allow number of investors to put Uzbekistan on their investment maps, which was previously impossible due to tough compliance and requirements to the local infrastructure.

The transaction took place under the special "Regulatory Sandbox" regime, which was introduced in the beginning of the year by the National Agency for Perspective Projects (NAPP) as part of the Presidential Decree No. 291 dated September 2nd, 2023, aimed at improving the capital market. The three-year regulatory sandbox regime allows international custodians and brokers to invest in local securities, predominantly state debt securities (SDS). Being the first participant in the sandbox regime, this transaction by the Bank of Georgia with the local SDS signifies increasing confidence among global players in Uzbekistan's economic environment. Bank of Georgia is a sub-custodian bank in the securities markets of Georgia and Armenia for major global custodian banks, as well as a sub-custodian bank for the International Central Securities Depository (ICSD) Clearstream.

This event, coupled with ongoing privatizations and other reforms in the capital market will attract prominent international financial institutions and portfolio investors to Uzbekistan's securities market, including large custodian banks and investment intermediaries. As more international players enter the market, liquidity in the corporate securities market is expected to increase. Although initially focusing on government debt, it is anticipated that this investment interest will expand to the corporate securities market, encompassing corporate bonds and stocks in the future.

The presence of new international players in the country's capital market will contribute to the growing demand and volume of transactions, as well as further enhancement of financial services quality and the introduction of advanced risk management practices in the financial sector.

Individual Investment Accounts

The Resolution of the Cabinet of Ministers dated June 13th, 2024 approved the introduction of Individual Investment Accounts (IIA) in Uzbekistan. This initiative allows Uzbek citizens aged 18 and above to allocate a portion of their income to an IIA for investing in local securities, specifically corporate bonds and stocks, without paying a personal income tax (12%). The maximum annual deposit limit for an IIA is 100 minimum wages (105mln UZS), and these deposits are exempt from income taxes. However, if funds are withdrawn from the IIA within 12 months, the withdrawn amount will be subject to taxation in accordance with relevant tax legislation.

Flash Report

IIAs can be opened remotely through an investment intermediary within a day. Each person is allowed to have one IIA account, and the contract is typically valid for one year. Dividends from purchased shares or interest payments from bonds are not considered within the IIA. Instead, these funds are directed to the client's deposit account or bank account.

Corporate bonds, known for their conservative nature and fixed payment structure, are expected to become the primary investment tool for citizens, gradually paving the way for investments in the local stock market. The average coupon rate for corporate bonds issued between 2023 and the first half of 2024 is approximately 23.6%. With the tax exemption on income invested in corporate bonds through the IIA, investors can potentially earn nearly 36% in income. On another side, companies will be able to attract cheaper funding for their operations from their employees by offering bonds with lower coupons, which with saved tax benefits will be able to exceed the deposit yield.

This introduction of Individual Investment Accounts represents another important step in developing Uzbekistan's capital market. By encouraging citizens to invest in the local market and improving their financial literacy, it aims to foster economic growth and prosperity.

Green Bonds

In line with the previously mentioned Presidential Decree No. 291 dated September 2nd, 2023 on measures to develop the capital market, National Agency for Perspective Projects (NAPP) approved the document on issuing green bonds. The document was published on June 10th, 2024 and provides guidelines for the process of issuing the green bonds.

Among the mandatory requirements for issuers of green bonds are the submission of a framework program for the bond issuance and a copy of a certificate confirming compliance with "green" standards, issued by a specialized organization authorized by the International Capital Markets Association (ICMA), approved by the Climate Bond Initiative (CBI), and registered with the European Securities and Markets Authority (ESMA).

The document also specifies that the usage of funds raised through green bonds should align with the requirements of the National Green Taxonomy or equivalent classification systems. Additionally, issuers are required to prepare periodic reports, at least once every 12 months, disclosing how the funds from the placement of green bonds have been allocated in accordance with the framework program.

The categories of acceptable green projects are also outlined in the document. These changes in legislation not only promote the issuance of more green bonds but also aim to attract world-class investors, including international financial institutions such as the EBRD, ADB, IFC and others. These investors prioritize sustainable outcomes as one of their main investment criteria. These significant legislative changes are expected to transform the capital market in Uzbekistan and contribute to its rapid development.

CONTACTS

Avesta Investment Group

Postal address: Uzbekistan, 100015, Tashkent city, Shahrisabz str., 22
Tel: +998 (71) 207-9070
E-mail: info@avestagroup.com
Web: http://www.avestagroup.com

The information and opinions in this report were prepared by Avesta Investment Group or one of its affiliates (collectively "Avesta"). The information herein is believed by Avesta to be reliable and has been obtained from public sources believed to be reliable, but Avesta makes no representation as to the accuracy or completeness of such information. Important Information Regarding Our Independence. The research analysts responsible for the preparation of this report receive compensation that is based upon, among other factors, Avesta's overall revenues. Avesta may engage in securities transactions in a manner inconsistent with this research report and with respect to securities covered by this report, will sell to or buy from customers on a principal basis. Disclosures of conflicts of interest, if any, are discussed at the end of the text of this report or on the Avesta Investment Group's website at http://www.avestagroup.com.
Opinions, estimates, and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Avesta and are subject to change without notice. Avesta has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. Prices and availability of financial instruments also are subject to change without notice. This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the price or value of, or the income derived from, the financial instrument, and such investor effectively assumes currency risk. In addition, income from an investment may fluctuate and the price or value of financial instruments described in this report, either directly or indirectly, may rise or fall. Furthermore, past performance is not necessarily indicative of future results. Unless governing law provides otherwise, all transactions should be executed in the investor's home jurisdiction. Additional information relative to securities, other financial products or issuers discussed in this report is available upon request.
This report may not be reproduced, distributed or published by any person for any purpose without Avesta's prior written consent. Please cite source when quoting.

© 2003-2024 «Avesta Investment Group».