



Overview of Securities Market in the Central Asian countries, Azerbaijan and Mongolia

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the Central Asian countries, Azerbaijan and Mongolia**

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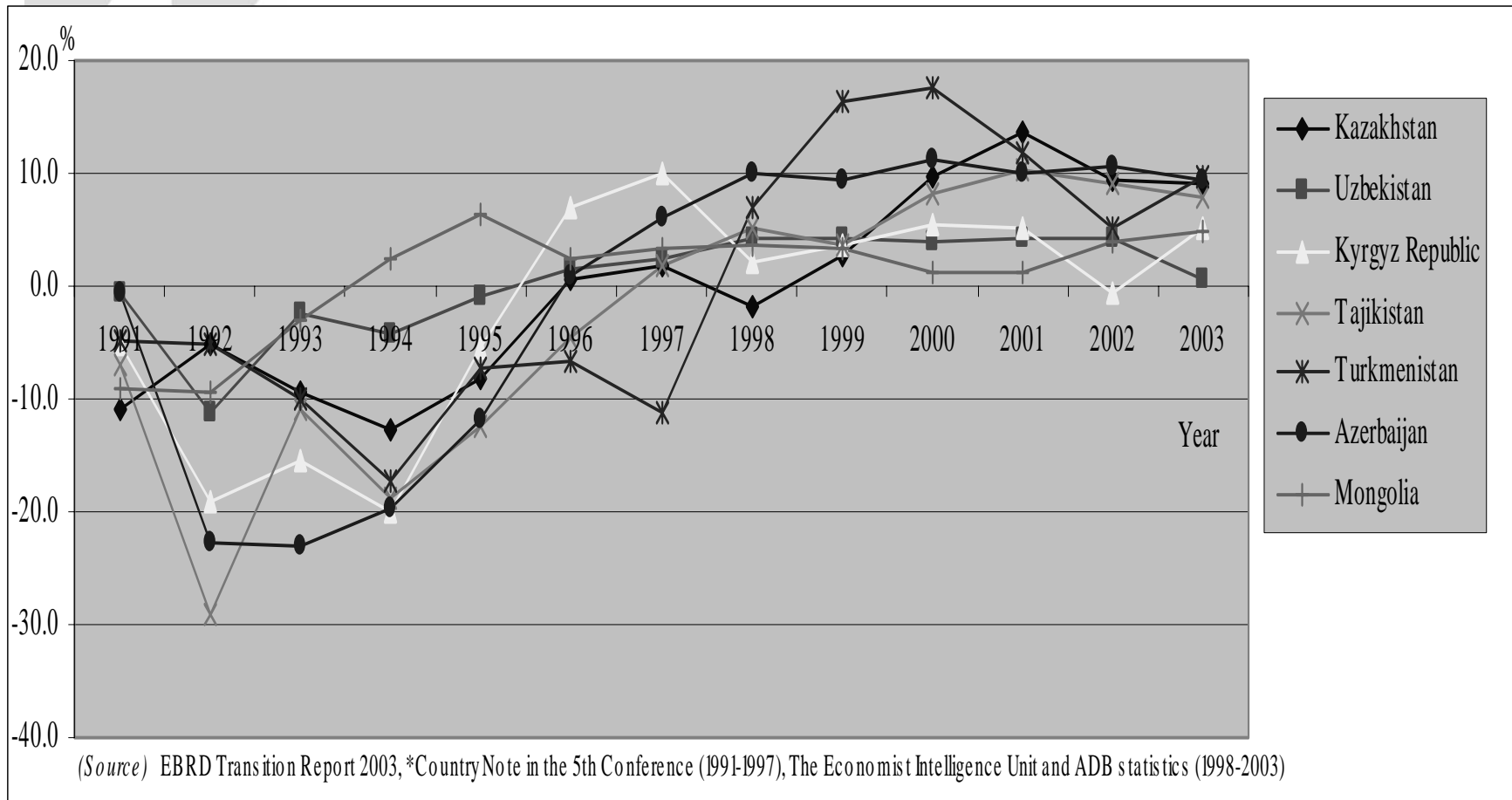
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Agenda

- ✧ **Macroeconomic Performance in the Region**
- ✧ **Market Structure**
- ✧ **Market Performance**
- ✧ **Regulatory and Supervisory Structures**
- ✧ **Some thoughts...**
- ✧ **Examples of the selected advanced markets**

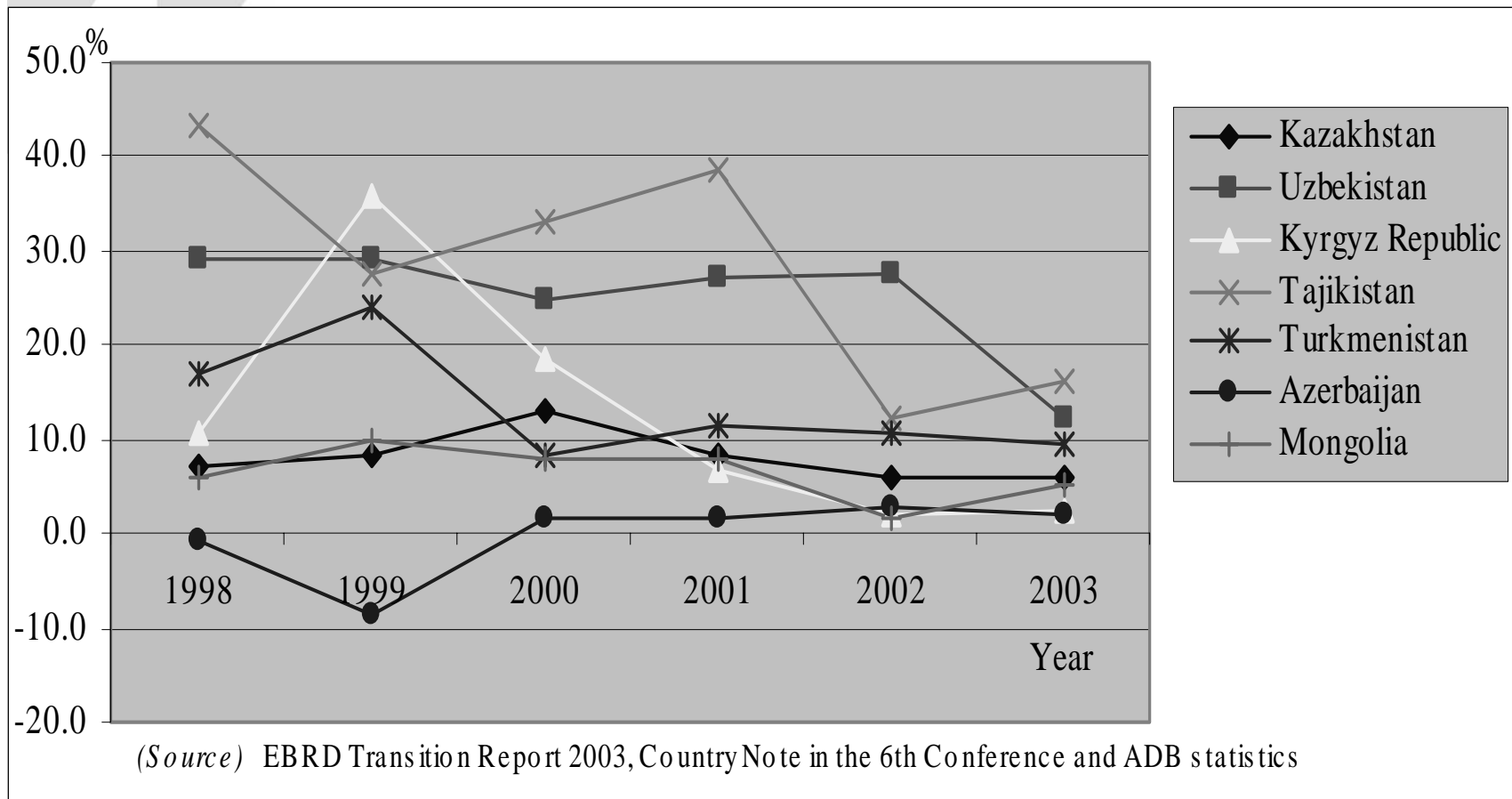
1. Macroeconomic Performance

(1) Real GDP Growth Rate



1. Macroeconomic Performance (cont.)

(2) Inflation Rate



2. Market Structure

Three Basic Characteristics:

1. Relatively advanced market infrastructure

1) Sophisticated electronic trading systems:

- ***“Electronic Trading System of KASE”*** in Kazakhstan
- ***“Stock Trade System BTS”*** in Kyrgyz Republic
- ***“INIST”*** in Azerbaijan

2) E-trading for small investors:

- ***“EL SIS-SAVDO”*** in Uzbekistan

3) Central Depository System (except for Tajikistan)

2. Market Structure (cont.)

Three Basic Characteristics:

2. Still restricted market participants

1) Almost no foreign investors

2) Intermediaries' structure varies

3) Listed companies: very small scale

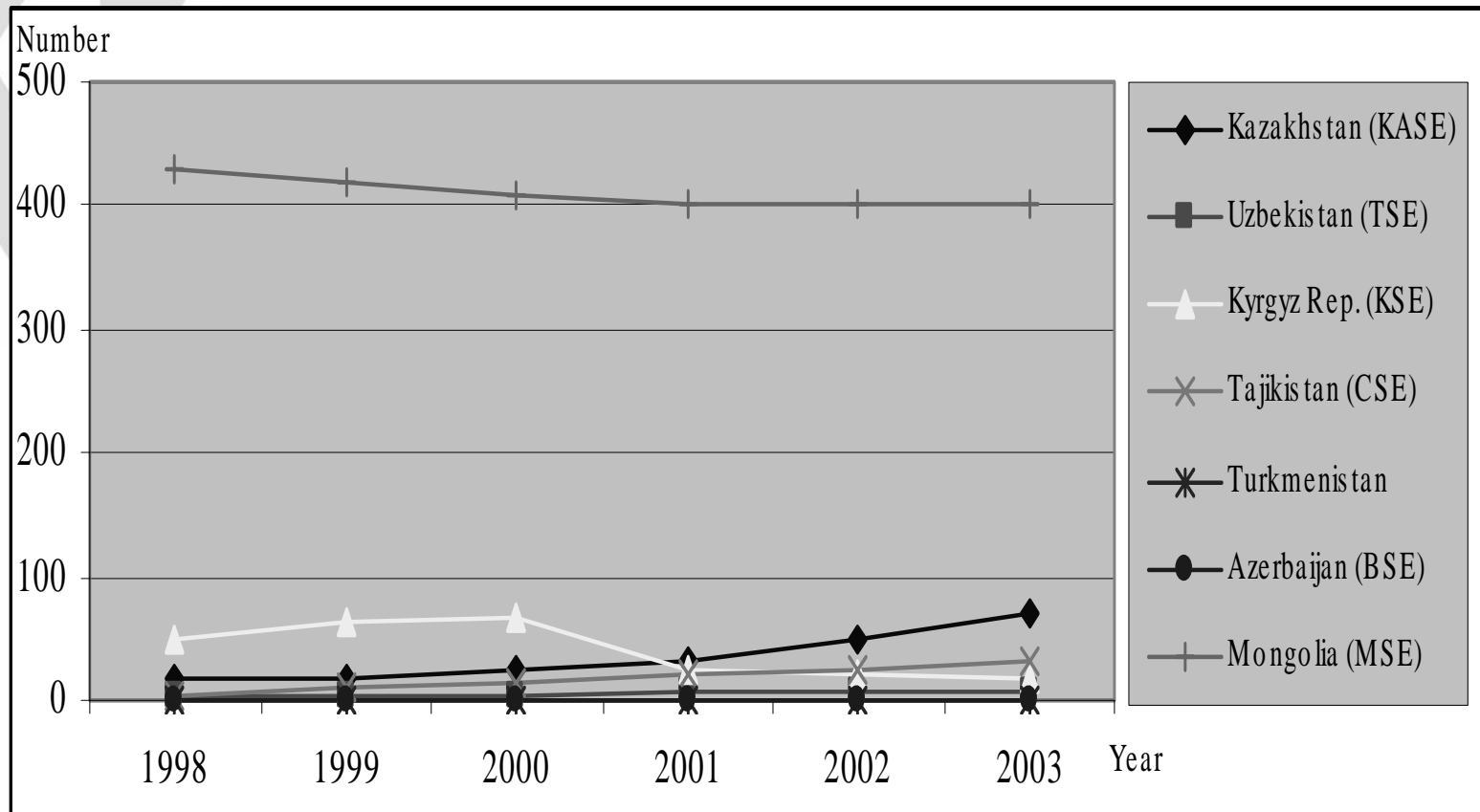
- Mongolia: 402 (Y2003)

- Others: less than 70 companies (Y2003)

- JSCs are basically privatised companies.

2. Market Structure (cont.)

Number of Listed Companies at the end-of-year



2. Market Structure (cont.)

Three Basic Characteristics:

3. Still narrow range of securities products /

1) Flagship products:

- Short-term government bonds**
- REPO (Kazakhstan, Azerbaijan)**

2) Derivatives: very restricted

2. Market Structure (cont.)

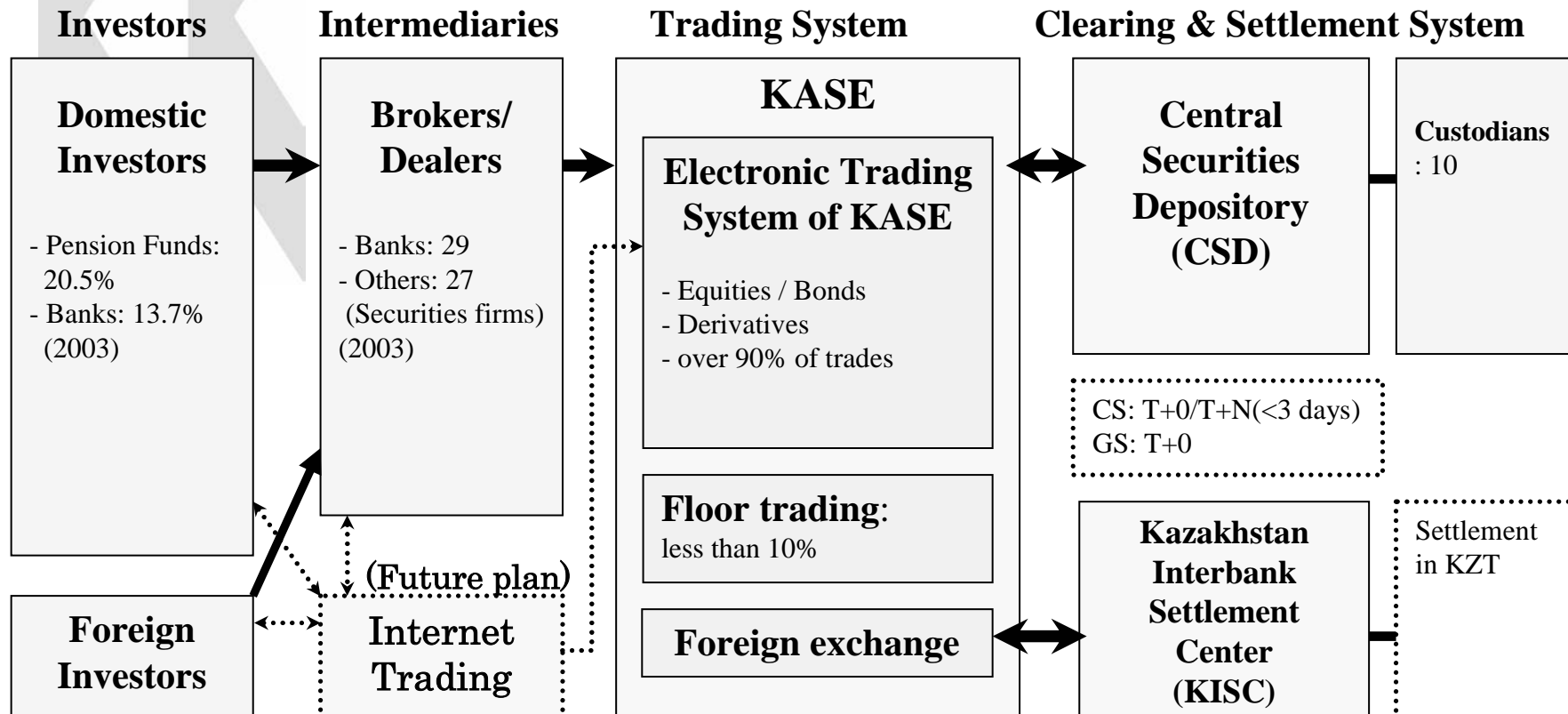
Major Products

	Equity	Corporate Bond	Government Bond	Derivatives	Others
Kazakhstan	<ul style="list-style-type: none"> - Common stock (A-, B-listing, OTC) - Preferred stock - State Block of Shares (SBS) 	<ul style="list-style-type: none"> - Corporate bond - IFO bond 	<ul style="list-style-type: none"> - Municipal bond - T-bond (MAOKO) - Short-term T-bill (MEKKAM) - Mid-term T-bill (MEOKAM) - Long-term T-bill (MEAKAM) - Indexed T-bill (MEIKAM) - Eurobond 	<ul style="list-style-type: none"> - Undelivered 6 month futures on the rate USD/KZT and EURO/USD 	<ul style="list-style-type: none"> - REPO - Promissory Note - Foreign Exchange
Uzbekistan[1]	<ul style="list-style-type: none"> - Common and preferred stock, traded freely both for UZC and USD 	<ul style="list-style-type: none"> - Corporate bond, traded freely. (3-, 6-, 9-month & 1.5 year) 	<ul style="list-style-type: none"> - State short-term bond (6-, 9-, 12-month) - State mid-term bond (1.5 year & 5-year) 	n/a,	n/a,
Kyrgyz Republic	<ul style="list-style-type: none"> - Common stock - Preferred stock 	<ul style="list-style-type: none"> - Short-term bond - Long-term bond (1 to 3 years) 	<ul style="list-style-type: none"> - Short-term T-bill (3-, 6-, 9-month) - Long-term T-bill (5 to 15 years) 	n/a,	n/a,
Tajikistan	<ul style="list-style-type: none"> - Shares in state-owned and private companies - Registered and bearer common and preferred stock 	n/a,	<ul style="list-style-type: none"> - T-bill (up to 1 year) - Financial Ministry bond (2 issues; 20-year) - National Bank bond (short-term) 	n/a,	n/a,
Turkmenistan	n/a,	n/a,	n/a,	n/a,	n/a,
Azerbaijan	<ul style="list-style-type: none"> - Common stock - Preferred stock 	<ul style="list-style-type: none"> - Short-term bond (3-, 6-month) - Long-term bond (up to 5 years) 	<ul style="list-style-type: none"> - Short-term T-bill (3-, 6-, 9-month) 	<ul style="list-style-type: none"> - Futures (only in 2001) 	<ul style="list-style-type: none"> - REPO on T-bill - Promissory Note - Privatisation checks - Privatisation options
Mongolia	<ul style="list-style-type: none"> - Common stock 	<ul style="list-style-type: none"> - Short-term bond (6-month, 1 year) 	<ul style="list-style-type: none"> - Short-term T-bond (14 days) - Mid-term T-bill (3 years) 	n/a,	n/a,

[1] State short-term bonds are traded on the Currency Exchange from 1996. State mid-term bonds are to be issued from April 2004.

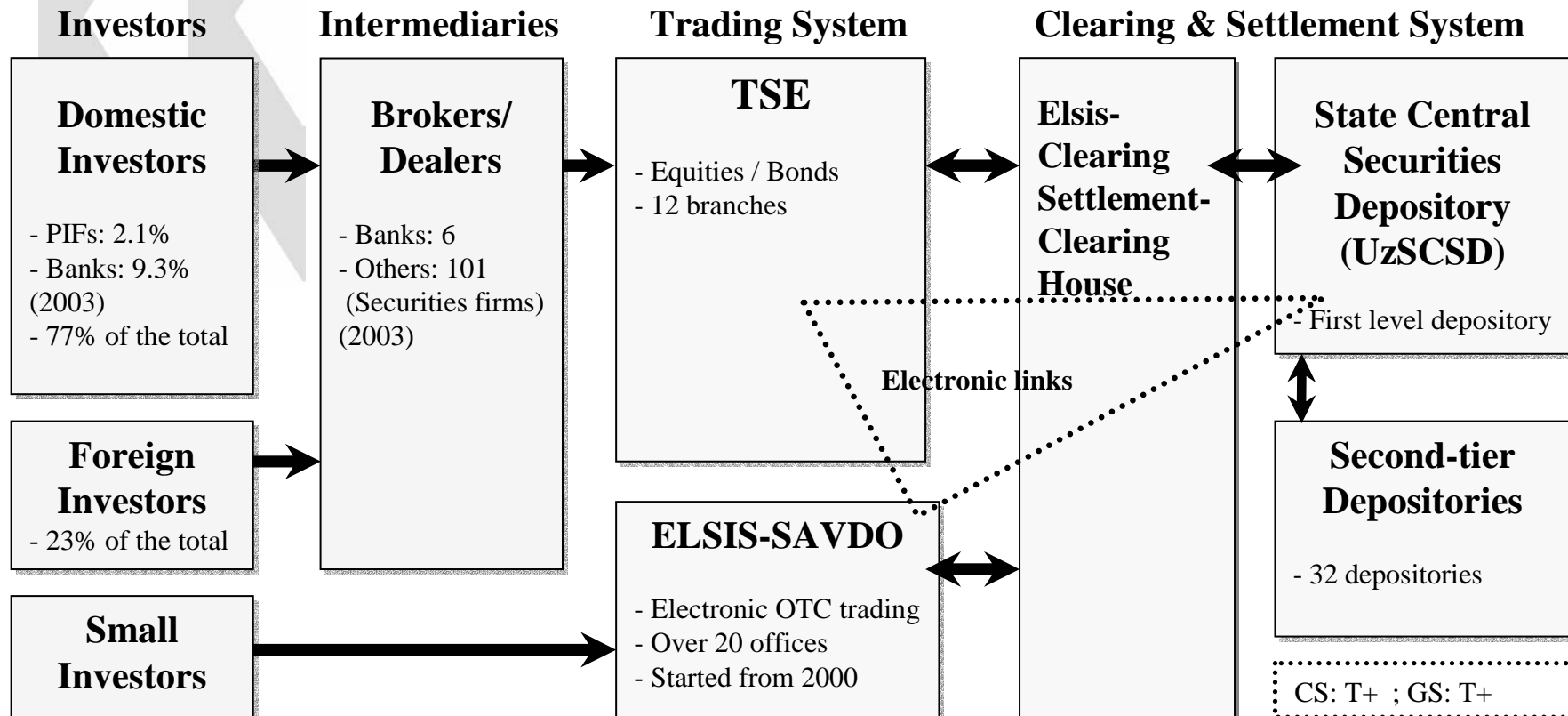
2. Market Structure (cont.)

(1) Kazakhstan



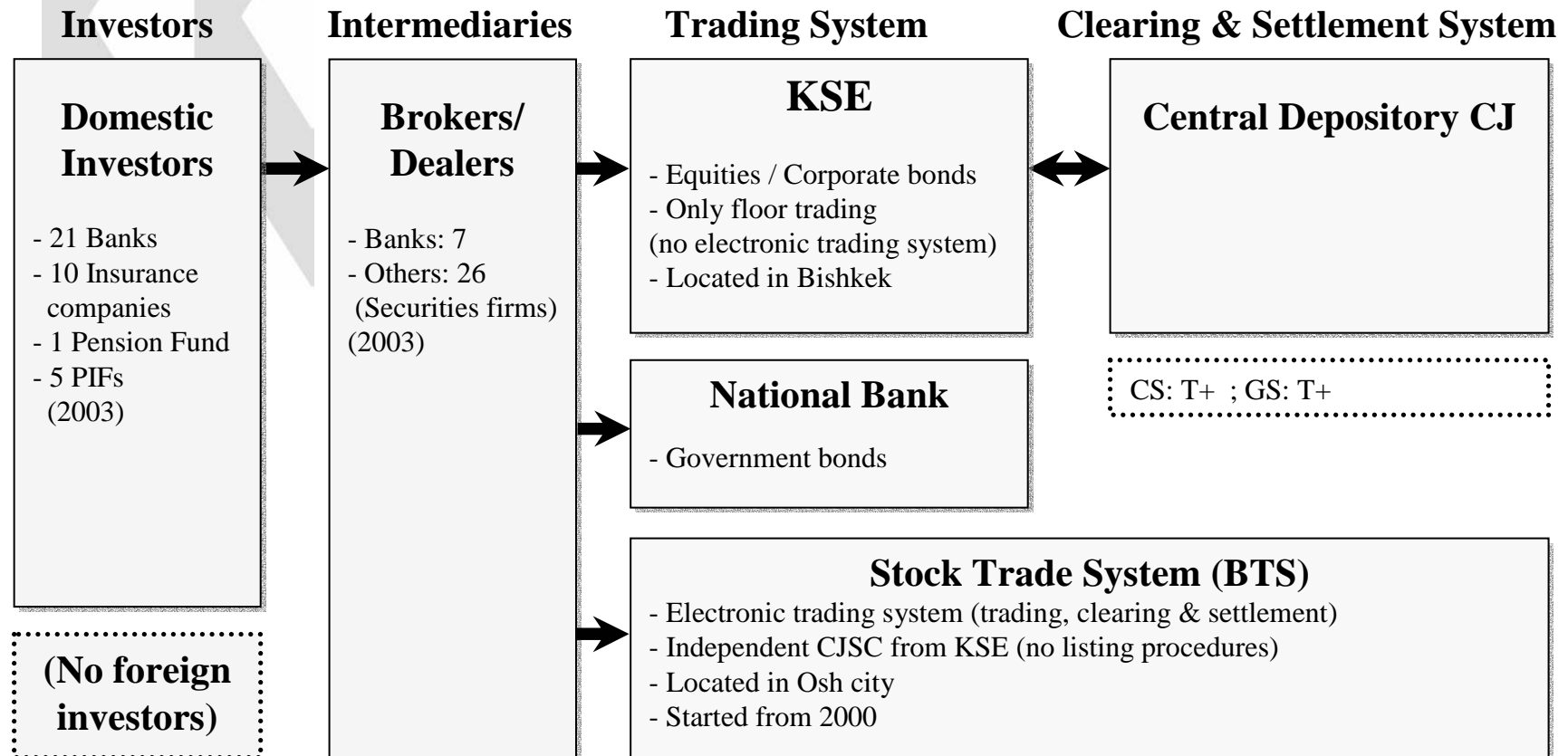
2. Market Structure (cont.)

(2) Uzbekistan



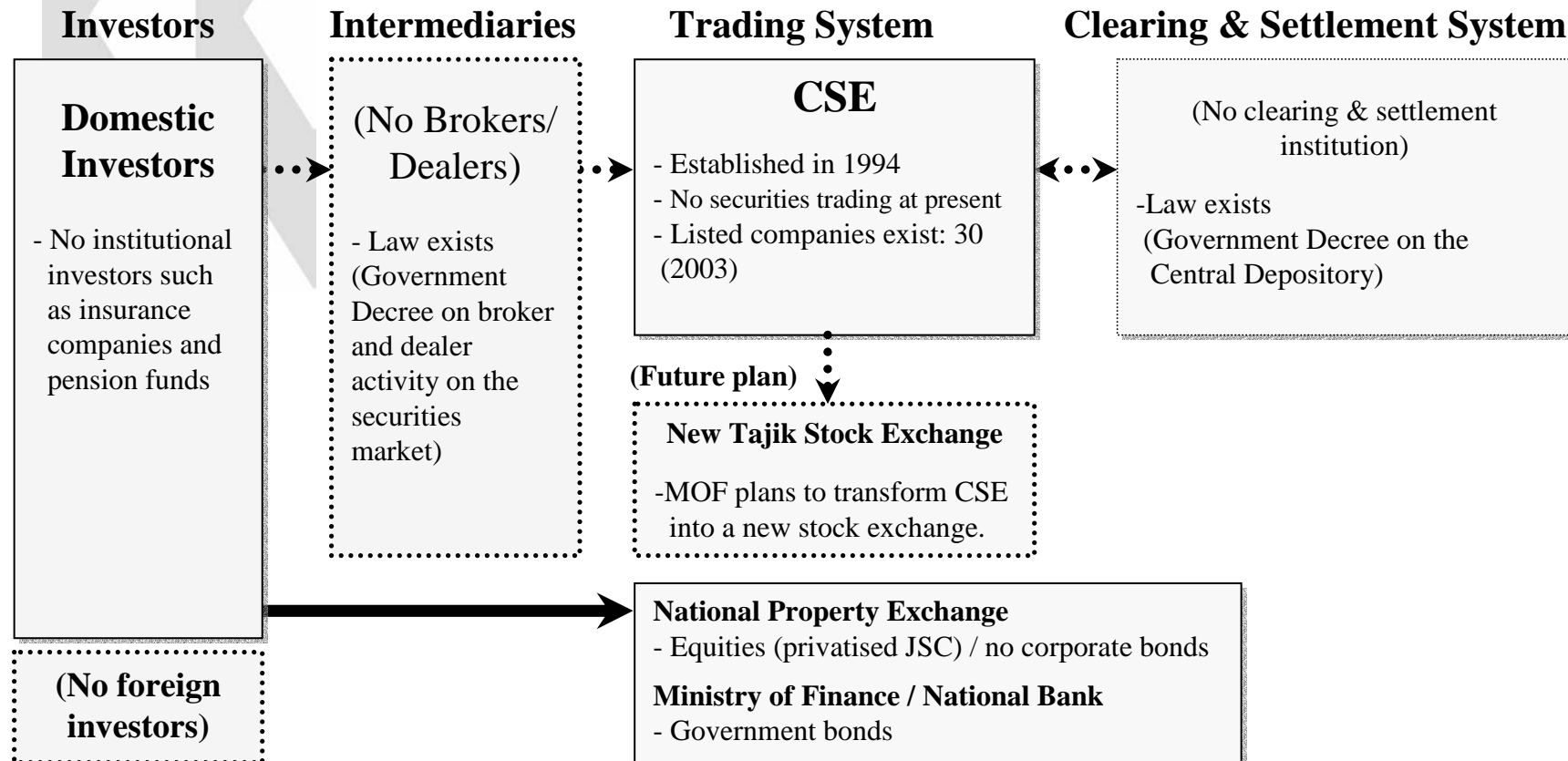
2. Market Structure (cont.)

(3) Kyrgyz Republic



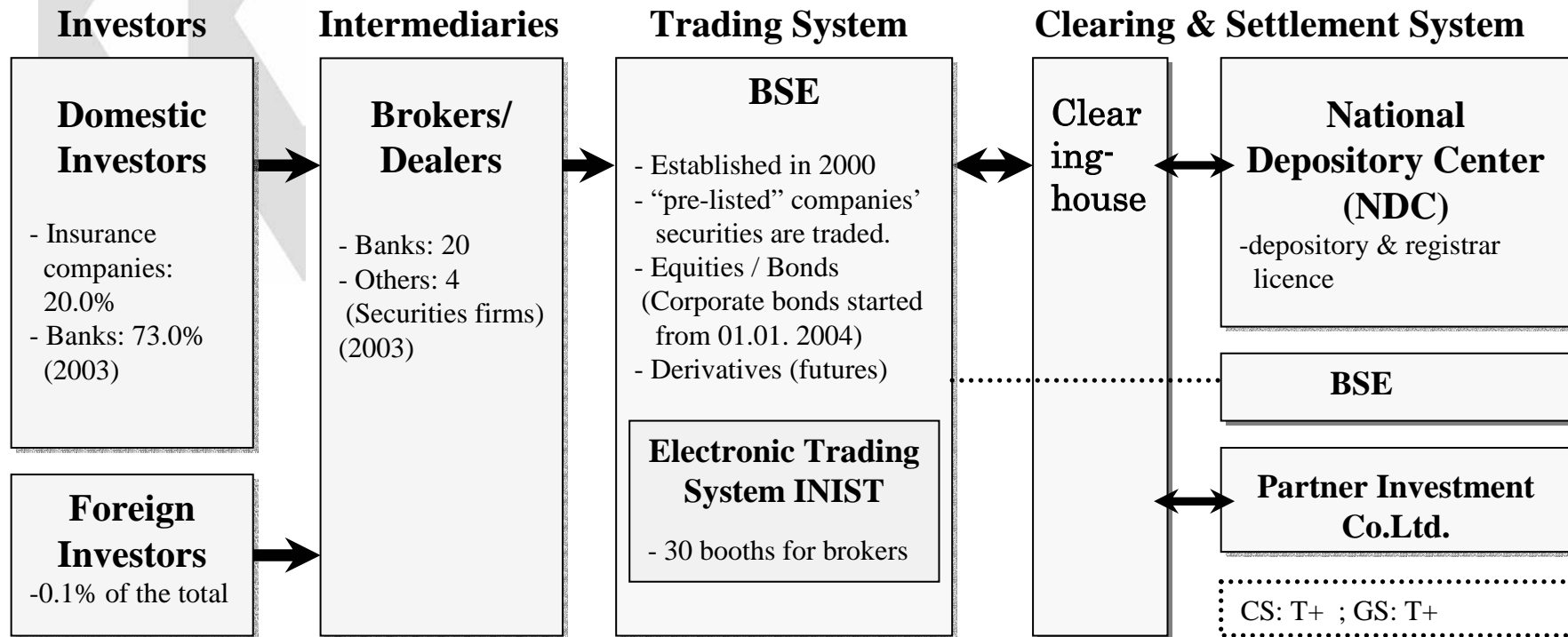
2. Market Structure (cont.)

(4) Tajikistan



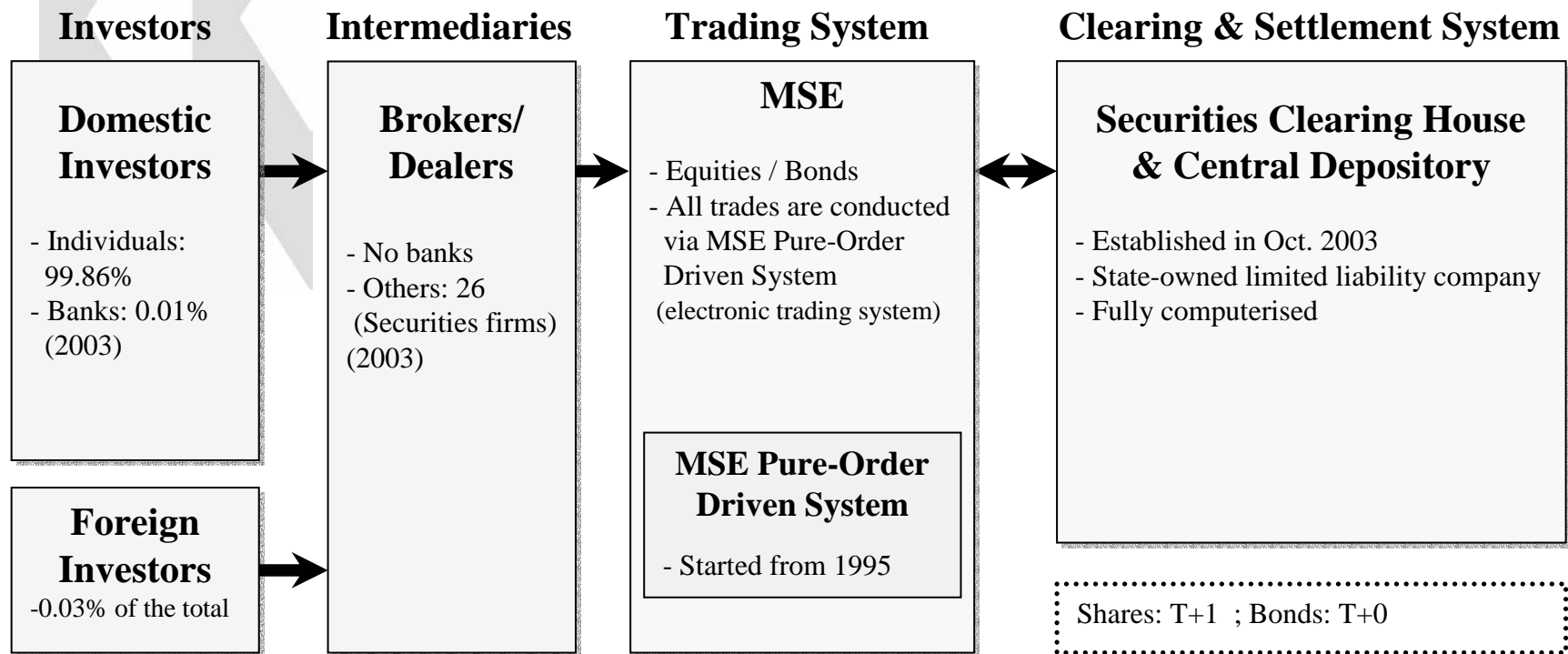
2. Market Structure (cont.)

(5) Azerbaijan



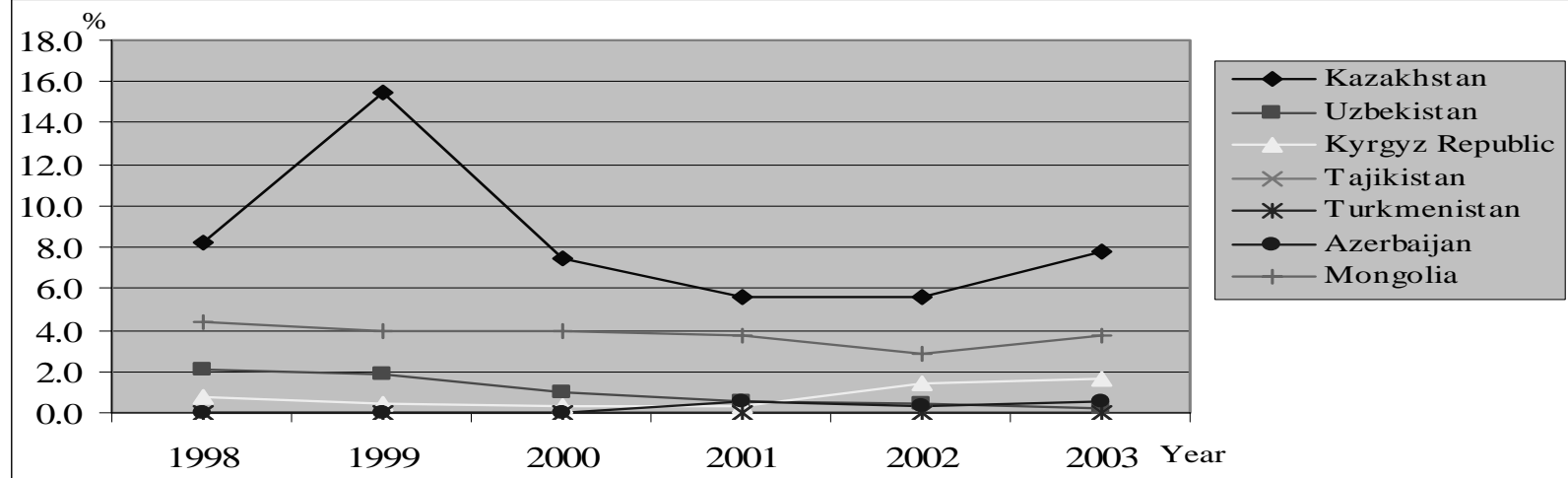
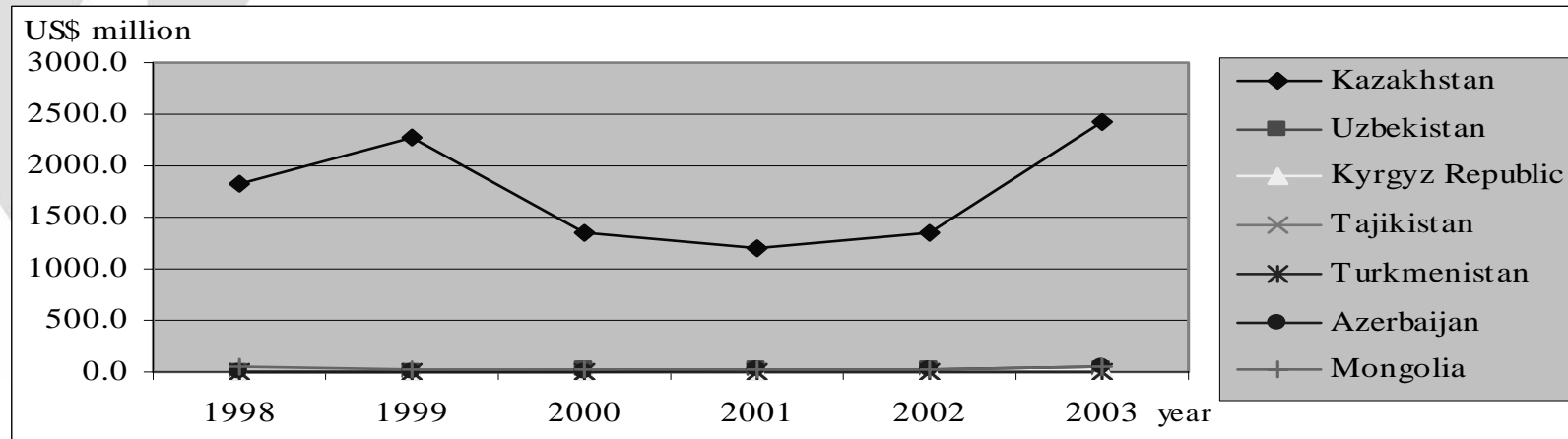
2. Market Structure (cont.)

(6) Mongolia



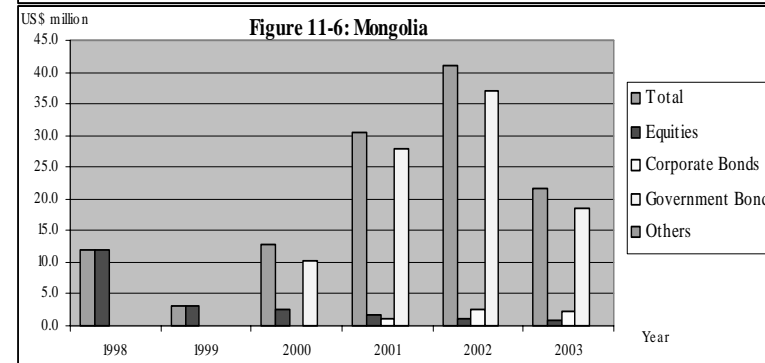
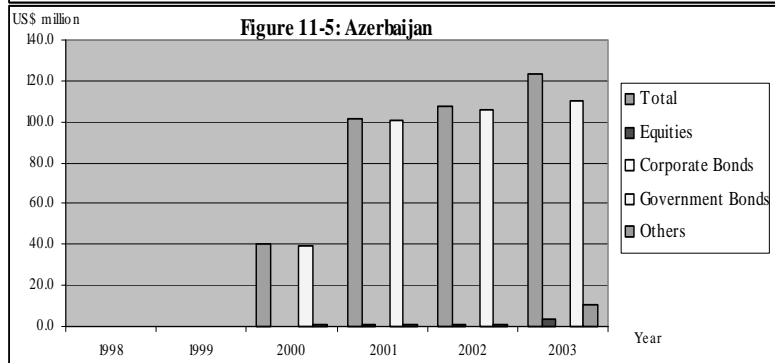
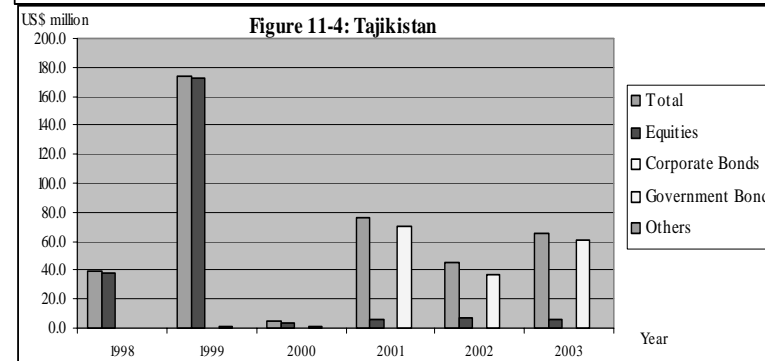
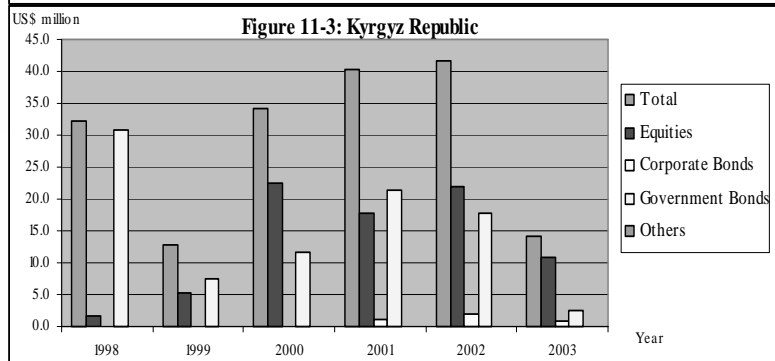
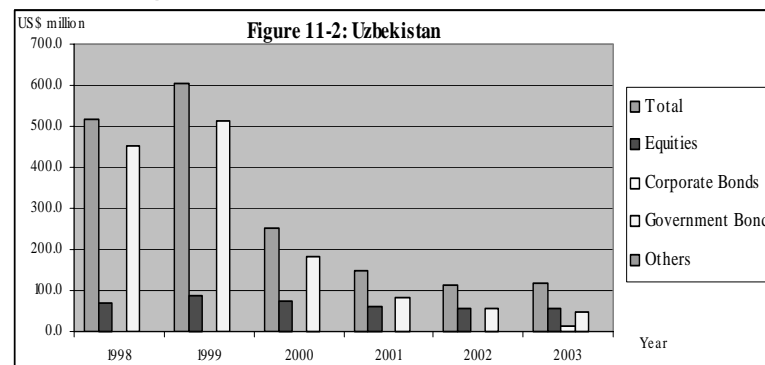
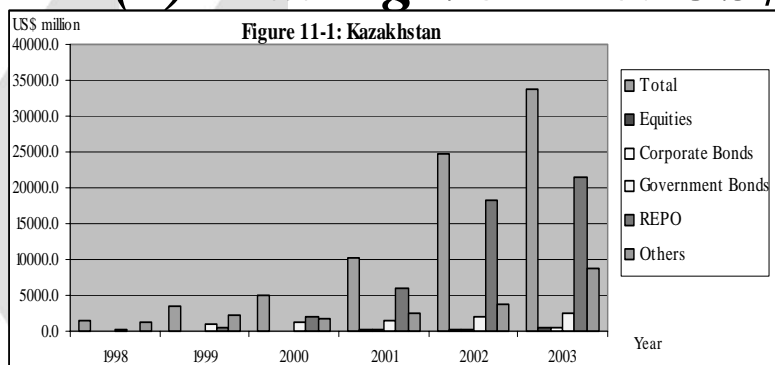
3. Market Performance

(1) Market Capitalisation: US\$ million, % of GDP



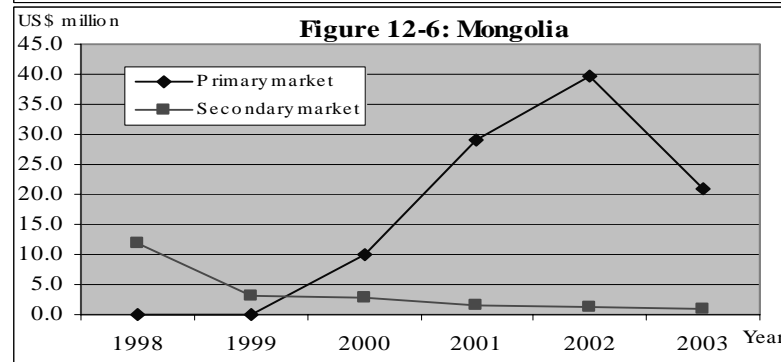
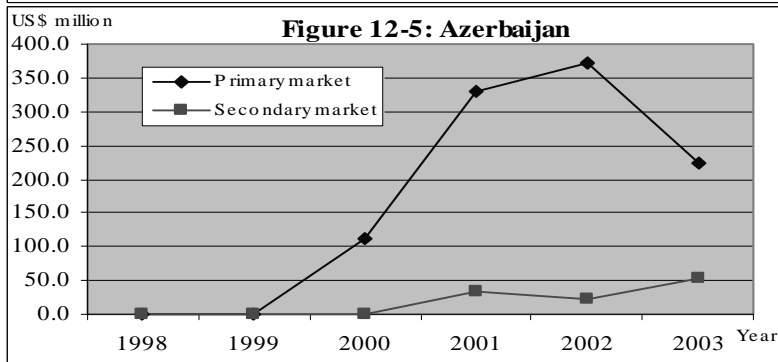
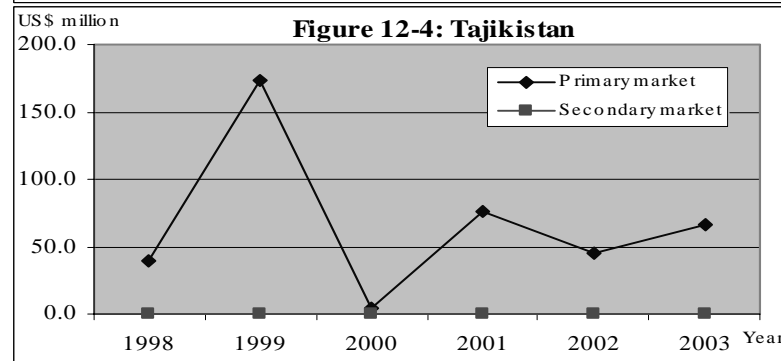
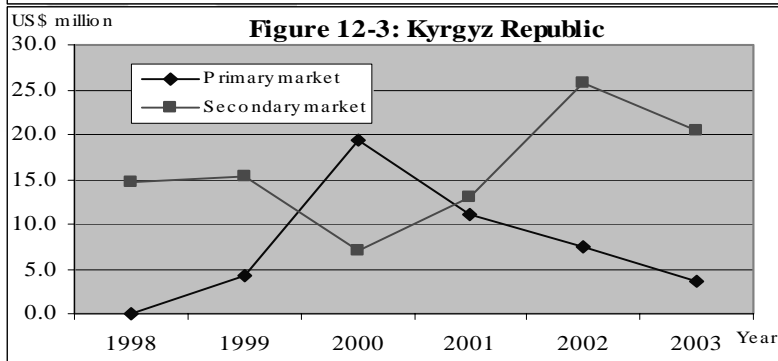
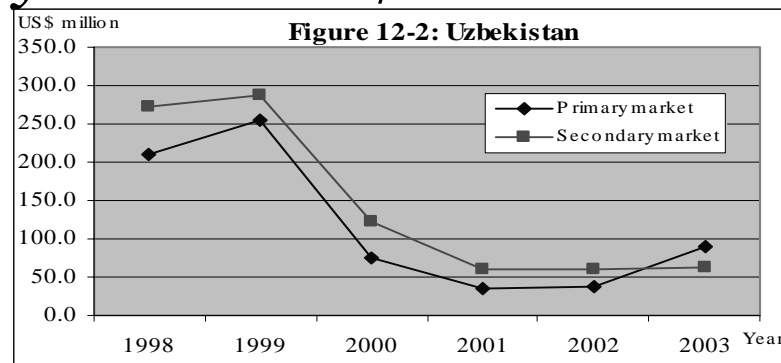
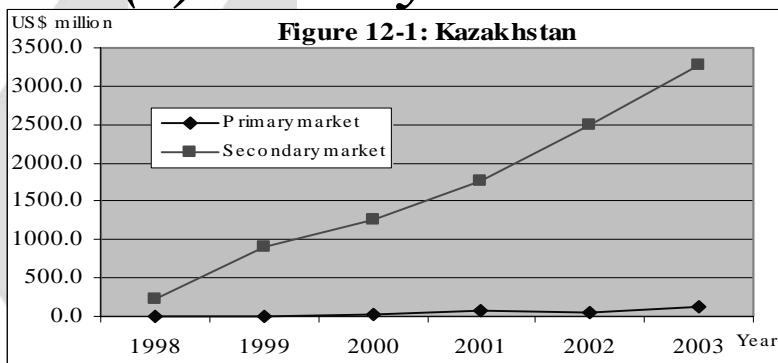
3. Market Performance (cont.)

(2) Trading Volume: US\$ million



3. Market Performance (cont.)

(3) Primary and Secondary Market: US\$ million



3. Market Performance (cont.)

(4) Stock Price Movement (end-of-year)

	Name of index	1998	1999	2000	2001	2002	2003	Base-date (=100)
Kazakhstan	KASE_Shares	n/a,	n/a,	106.0	104.5	140.2	142.4	12 July 2000
Uzbekistan	TASIX[1]	88.3	78.6	85.1	114.2	136.2	131.9	1 January 2000
Kyrgyz Republic	KSE Index	122.0	84.6	70.1	56.8	59.6	68.8	November 1996
Tajikistan	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
Turkmenistan	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
Azerbaijan	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,	n/a,
Mongolia	TOP-20[2]	235.0	255.7	469.9	814.0	933.9	895.9	28 August 1995

[1] TASIX: Tashkent Aggregate Securities Index. TASIX in 1998 and 1999 is recalculated based on 1 January 2000.

[2] In Mongolia, price index was named as **TOP-75** between year1995 and year2002.

3. Market Performance (cont.)

1. Market capitalisation: very small scale

- **Trading volume: US\$ 14 – 3,400 (Y2003)**
- **...but growing at very slow pace except for Uzbekistan**

2. Short-term government bonds: dominant status

3. Active REPO transactions: Kazakhstan

4. Corporate securities (equities & bonds): underdeveloped (very limited volume)

5. Secondary market:

- **Active : Kazakhstan & Kyrgyzstan**
- **Inactive: Uzbekistan, Tajikistan, Azerbaijan & Mongolia**

4. Regulatory and Supervisory Structures for Securities Markets

Single Regulator	Plural Regulators
<p><u>Tajikistan:</u> Ministry of Finance (MOF) (Securities and Foreign Investment Office)</p> <p><u>Azerbaijan:</u> State Committee for Securities (SCS)</p> <p><u>Mongolia:</u> Mongolian Securities & Exchange Commission (MSEC)</p>	<p><u>Kazakhstan:</u> Financial Supervision Authority (FSA) , MOF & National Bank of Kazakhstan (NBK)</p> <p><u>Uzbekistan:</u> The Center for Coordination and Control of the securities Market (CSM), MOF & Central Bank (CB)</p> <p><u>Kyrgyz Republic:</u> State Commission on the Securities Market (SCSM), MOF & National Bank (NB)</p>

4. Regulatory and Supervisory Structures for Securities Markets (cont.)

SRO	No SRO	Independent SRO
<p><u>Kazakhstan</u>: KASE</p> <p><u>Uzbekistan</u>: TSE</p> <p><u>Kyrgyz Republic</u>: KSE</p> <p><u>Tajikistan</u>: CSE</p> <p><u>Mongolia</u>: MSE</p>	<p><u>Azerbaijan</u>: BSE</p>	<p><u>Kazakhstan</u>:</p> <ul style="list-style-type: none"> - Association of Financiers - Association of Assets Managers - Kazakhstan Association of Registry Holders <p><u>Uzbekistan</u>:</p> <ul style="list-style-type: none"> - National Association of Investment Institution

5. Some thoughts... (cont.)

SWOT Analysis of the Central Asian markets

	Kazakhstan	Uzbekistan	Kyrgyz Rep.
Strengths	<ul style="list-style-type: none"> - Relatively advanced market infrastructure --Sophisticated electronic trading system (Electronic Trading System of KASE) --Central depository system 	<ul style="list-style-type: none"> - Relatively advanced market infrastructure --Sophisticated electronic trading system --E-trading (OTC): Elsis-Savdo --Central depository system 	<ul style="list-style-type: none"> - Partially advanced market infrastructure --Consolidated electronic trading system (BTS) exists, but there is no electronic trading system in KSE. --Central depository system
Weaknesses	<ul style="list-style-type: none"> - Low level of market capitalisation - Still restricted market participants (little foreign investors) (small scale of listed companies) - Heavily depending on short-tem gov. bonds & REPO - Derivatives: very restricted 	<ul style="list-style-type: none"> - Very low level of market capitalisation - Still restricted market participants (little foreign investors) (small scale of listed companies) - Low liquidity (volatile by year) - Low transparency - Double land locked situation 	<ul style="list-style-type: none"> - Very low level of market capitalisation - Restricted market participants (no foreign investors) (small scale of listed companies)
Opportunities	<ul style="list-style-type: none"> - Rapidly growing economy (booming oil revenues) - Privatisation scheme - Population: 14.8 m (2003) 	<ul style="list-style-type: none"> - Moderately growing economy, but downward in 2003 - Privatisation scheme - Population: 25.8 m (2003) 	<ul style="list-style-type: none"> - Rapidly growing economy - Privatisation scheme - Population: 5.12 m (2003)
Threats	<ul style="list-style-type: none"> - Still remaining state-owned companies - Laws and regulations - Globalisation 	<ul style="list-style-type: none"> - Still remaining state-owned companies - Laws and regulations - Globalisation 	<ul style="list-style-type: none"> - Still remaining state-owned companies - Laws and regulations - Globalisation

5. Some thoughts... (cont.)

SWOT Analysis of the Central Asian markets (cont.)

	Tajikistan	Azerbaijan	Mongolia
Strengths	n/a,	<ul style="list-style-type: none"> - Relatively advanced market infrastructure --Sophisticated electronic trading system (INIST system, but no remote trading) --Central depository system 	<ul style="list-style-type: none"> - Relatively advanced market infrastructure --Sophisticated electronic trading system (MSE Pure-Order Driven System) --Central depository system
Weaknesses	<ul style="list-style-type: none"> - Very low level of market capitalisation - No securities trading in stock exchange (off exchange market) - Heavily depending on short-tem gov. bonds - Low liquidity - Low transparency 	<ul style="list-style-type: none"> - Very low level of market capitalisation - Still restricted market participants (little foreign investors) (small scale of listed companies) - Heavily depending on short-tem gov. bonds - Derivatives: very restricted - Low liquidity 	<ul style="list-style-type: none"> - Very low level of market capitalisation - Still restricted market participants (little foreign investors) (small scale of listed companies) - Depending on short-tem gov. bonds - Low liquidity
Opportunities	<ul style="list-style-type: none"> - Moderately growing economy - Population: 6.5 m (2003) 	<ul style="list-style-type: none"> - Moderately growing economy - Privatisation scheme - Population: 8.3 m (2003) 	<ul style="list-style-type: none"> - Moderately growing economy - Privatisation scheme - Population: 2.56 m (2002)
Threats	<ul style="list-style-type: none"> - State-owned companies (dominant status) - Laws and regulations - Globalisation 	<ul style="list-style-type: none"> - Still remaining state-owned companies - Laws and regulations - Globalisation 	<ul style="list-style-type: none"> - Still remaining state-owned companies - Laws and regulations - Globalisation

5. Some thoughts... (cont.)

Key factors for successful development of the securities market in the region:

- 1. Mobilise individual savings in order to create active secondary market of corporate securities;*
- 2. Make the best of institutional investors (e.g., pension funds, PIFs, etc.) to enhance the market liquidity and the trading volume;*
- 3. Attract foreign investors to raise the market capitalisation*

5. Some thoughts... (cont.)

To this end;

- 1. Improve corporate governance in order to build up investors' confidence;*
- 2. Make the best of the existing advantages (e.g., electronic trading technology) so as to reach the high-yield markets*

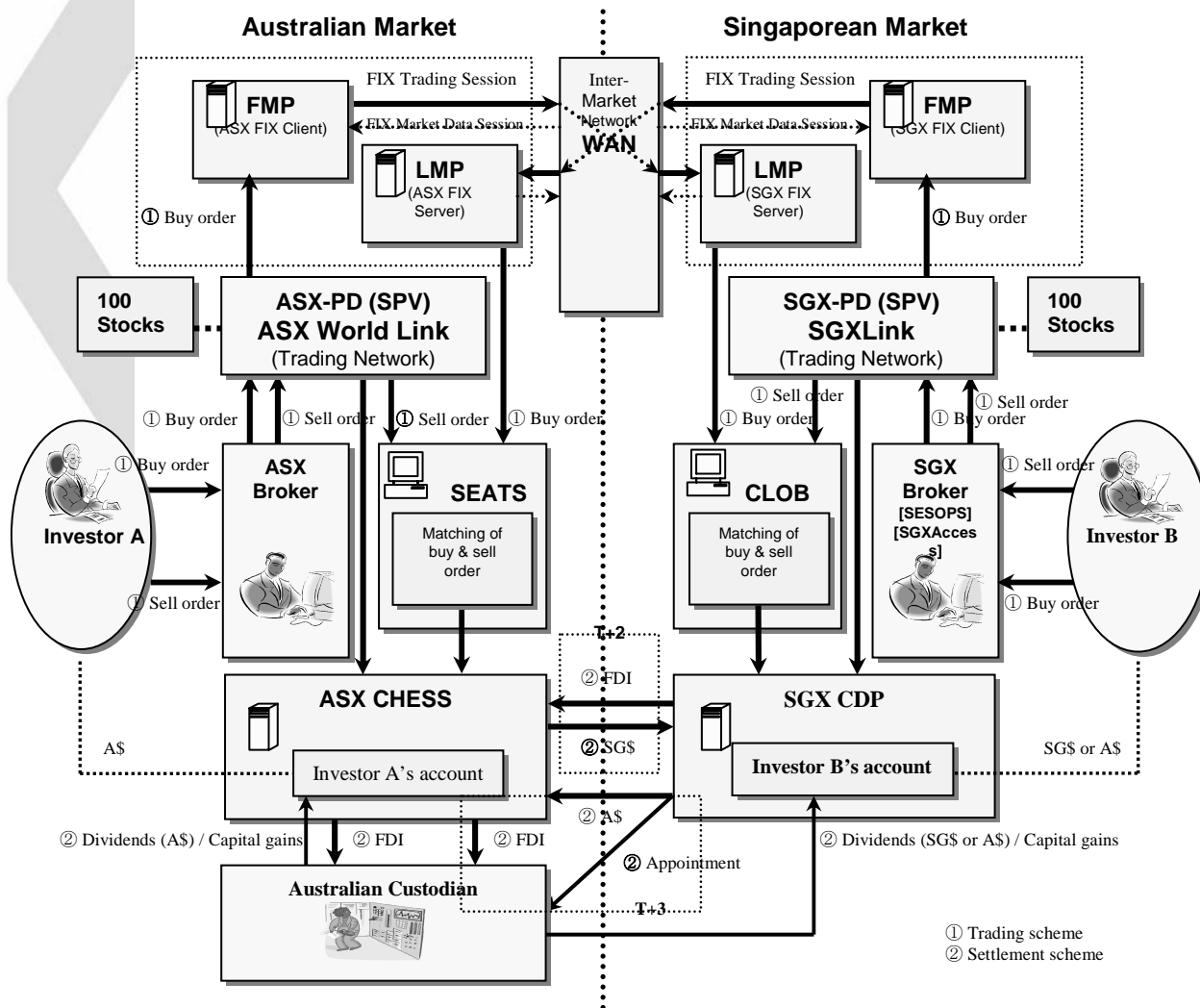
5. Some thoughts... (cont.)

Question:

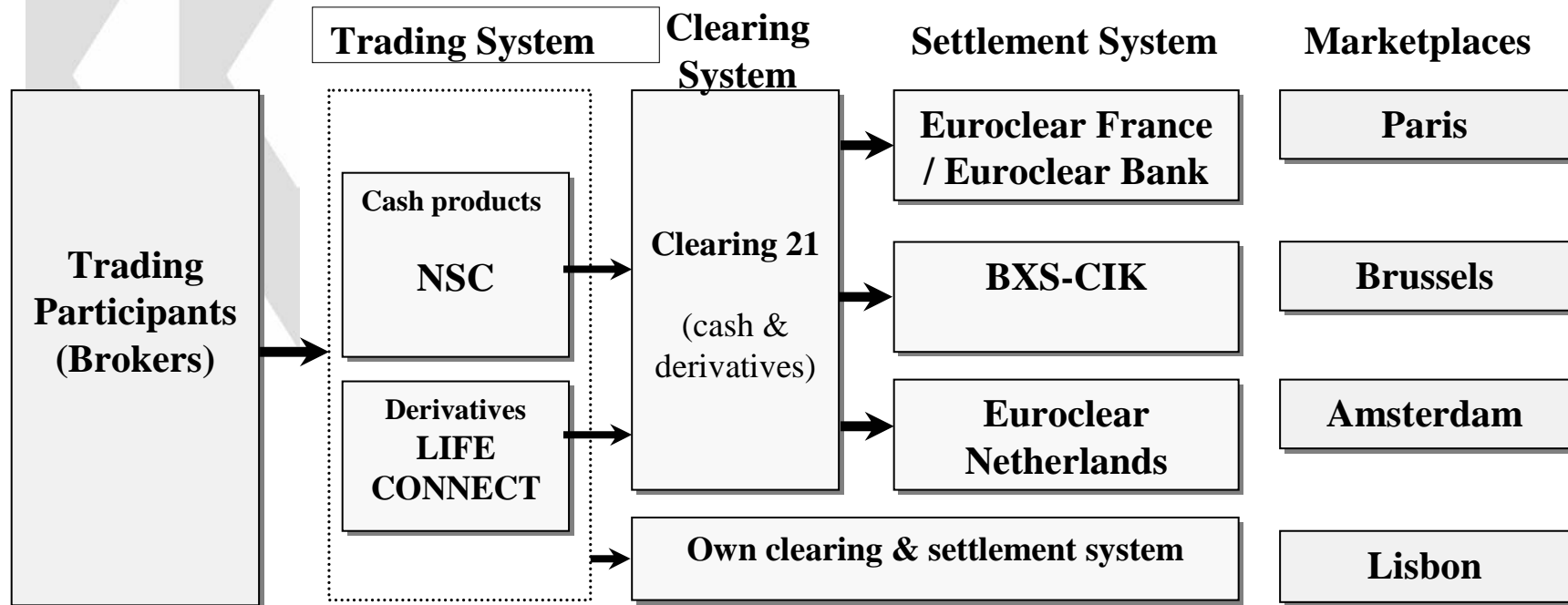
Possibility of consolidation of stock exchanges in the Central Asian region?

- *Examples of the well-functioning trading schemes in the selected advanced markets;*
 - ✧ *Example 1: ASX-SGX Co-trading Linkage*
 - ✧ *Example 2: Euronext*

Example 1: ASX-SGX Co-trading Linkage



Example 2: Euronext



Conclusion

Merits of Co-trading (ASX-SGX) & Cross trading (Euronext):

- 1. Cost reduction (cost efficiency, paperless)**
- 2. High quality service for investors**
 - speedy dealings**
 - diversified investment portfolios**
 - customer-oriented services**

(provide the same environment as domestic markets)
- 3. Increase of order flows (increase liquidity)**

⇐ Advanced technology

Conclusion (cont.)

Possibility of the Securities Markets in the Central Asian region:

**Existing advantage in the region
(relatively sophisticated electronic trading technology)**



**Cross access trading among the Central Asian region
(consolidation of stock exchanges in the region)**



*...may be a key factor to vitalise the securities markets in
the Central Asian countries, Azerbaijan & Mongolia*



Thank you very much for your attention.

For your questions, please feel free to contact me:

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