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

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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

(Source) EBRD Transition Report 2003, Country Note in the 6th Conference and ADB statistics
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:
      - “ELSIS-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

- Kazakhstan (KASE)
- Uzbekistan (TSE)
- Kyrgyz Rep. (KSE)
- Tajikistan (CSE)
- Turkmenistan
- Azerbaijan (BSE)
- Mongolia (MSE)
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
## Market Structure (cont.)

**Major Products**

<table>
<thead>
<tr>
<th>Country</th>
<th>Equity</th>
<th>Corporate Bond</th>
<th>Government Bond</th>
<th>Derivatives</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>- Common stock (A-, B-listing, OTC) - Preferred stock - State Block of Shares (SBS)</td>
<td>- Corporate bond - IFO bond</td>
<td>- Municipal bond - T-bond (MAOKO) - Short-term T-bill (MEKAKAM) - Mid-term T-bill (MEOKAM) - Long-term T-bill (MEAKAM) - Indexed T-bill (MEHKAM) - Eurobond</td>
<td>- Undelivered 6 month futures on the rate USD/KZT and EURO/USD</td>
<td>- REPO - Promissory Note - Foreign Exchange</td>
</tr>
<tr>
<td>Uzbekistan[1]</td>
<td>- Common and preferred stock, traded freely both for UZD and USD</td>
<td>- Corporate bond, traded freely (3-, 6-, 9-month &amp; 1.5 year)</td>
<td>- State short-term bond (6-, 9-, 12-month) - State mid-term bond (1.5 year &amp; 5-year)</td>
<td>n/a, n/a,</td>
<td>n/a, n/a,</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>- Common stock - Preferred stock</td>
<td>- Short-term bond - Long-term bond (1 to 3 years)</td>
<td>- Short-term T-bill (3-, 6-, 9-month) - Long-term T-bill (5 to 15 years)</td>
<td>n/a, n/a,</td>
<td>n/a, n/a,</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>- Shares in state-owned and private companies - Registered and bearer common and preferred stock</td>
<td>n/a,</td>
<td>- T-bill (up to 1 year) - Financial Ministry bond (2 issues; 20-year) - National Bank bond (short-term)</td>
<td>n/a, n/a,</td>
<td>n/a, n/a,</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>n/a,</td>
<td>n/a,</td>
<td>n/a,</td>
<td>n/a, n/a,</td>
<td>n/a, n/a,</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>- Common stock - Preferred stock</td>
<td>- Short-term bond (3-, 6-month) - Long-term bond (up to 5 years)</td>
<td>- Short-term T-bill (3-, 6-, 9-month)</td>
<td>Futures (only in 2001)</td>
<td>- REPO on T-bill - Promissory Note - Privatisation checks - Privatisation options</td>
</tr>
<tr>
<td>Mongolia</td>
<td>- Common stock</td>
<td>- Short-term bond (6-month, 1 year)</td>
<td>- Short-term T-bond (14 days) - Mid-term T-bill (3 years)</td>
<td>n/a, n/a,</td>
<td>n/a, n/a,</td>
</tr>
</tbody>
</table>

2. Market Structure (cont.)

(1) Kazakhstan

Investors
- Domestic Investors
  - Pension Funds: 20.5%
  - Banks: 13.7%
    (2003)
- Foreign Investors

Intermediaries
- Brokers/Dealers
  - Banks: 29
  - Others: 27
    (Securities firms)
    (2003)
- Internet Trading
  (Future plan)

Trading System
- KASE
  - Electronic Trading System of KASE
    - Equities / Bonds
    - Derivatives
    - over 90% of trades
  - Floor trading:
    less than 10%
  - Foreign exchange

Clearing & Settlement System
- Central Securities Depository (CSD)
  - Future plan
    CS: T+0/T+N(<3 days)
    GS: T+0
- Kazakhstan Interbank Settlement Center (KISC)
  - Settlement in KZT
- Custodians: 10
2. Market Structure (cont.)

(2) Uzbekistan

Investors
- Domestic Investors
  - PIFs: 2.1%
  - Banks: 9.3%
  - Others: 101 (Securities firms)
  - 77% of the total
- Foreign Investors
  - 23% of the total
- Small Investors

Intermediaries
- Brokers/Dealers
  - Banks: 6
  - Others: 101 (Securities firms)
  - (2003)

Trading System
- TSE
  - Equities / Bonds
  - 12 branches

Clearing & Settlement System
- Elsis-Clearing Settlement-Clearing House
- ELSIS-SAVDO
  - Electronic OTC trading
  - Over 20 offices
  - Started from 2000
- State Central Securities Depository (UzSCSD)
  - First level depository
- Second-tier Depositories
  - 32 depositories

Electronic links

CS: T+; GS: T+
2. Market Structure (cont.)

(3) Kyrgyz Republic

**Investors**
- Domestic Investors
  - 21 Banks
  - 10 Insurance companies
  - 1 Pension Fund
  - 5 PIFs (2003)
- (No foreign investors)

**Intermediaries**
- Brokers/Dealers
  - Banks: 7

**Trading System**
- KSE
  - Equities / Corporate bonds
  - Only floor trading
  - (no electronic trading system)
  - Located in Bishkek

- National Bank
  - Government bonds

**Clearing & Settlement System**
- Central Depository CJ
  - CS: T+ ; GS: T+

**Stock Trade System (BTS)**
- Electronic trading system (trading, clearing & settlement)
- Independent CJSC from KSE (no listing procedures)
- Located in Osh city
- Started from 2000
2. Market Structure (cont.)

(4) Tajikistan

Investors

Domestic Investors
- No institutional investors such as insurance companies and pension funds

(No foreign investors)

Intermediaries

(No Brokers/Dealers)
- Law exists (Government Decree on broker and dealer activity on the securities market)

Trading System

CSE
- Established in 1994
- No securities trading at present
- Listed companies exist: 30 (2003)

(Future plan)

New Tajik Stock Exchange
- MOF plans to transform CSE into a new stock exchange.

Clearing & Settlement System

(No clearing & settlement institution)
- Law exists (Government Decree on the Central Depository)

National Property Exchange
- Equities (privatised JSC) / no corporate bonds

Ministry of Finance / National Bank
- Government bonds
2. Market Structure (cont.)

(5) Azerbaijan

Investors

Domestic Investors
- Insurance companies: 20.0%
- Banks: 73.0% (2003)

Foreign Investors
- 0.1% of the total

Intermediaries

Brokers/Dealers
- Banks: 20

Trading System

BSE
- Established in 2000
- “pre-listed” companies’ securities are traded.
- Equities / Bonds (Corporate bonds started from 01.01. 2004)
- Derivatives (futures)

Clearing & Settlement System

Electronic Trading System INIST
- 30 booths for brokers

Partner Investment Co.Ltd.

National Depository Center (NDC)
- depository & registrar licence

BSE

CS: T+ ; GS: T+
2. Market Structure (cont.)

(6) Mongolia

Investors
- Domestic Investors
  - Individuals: 99.86%
  - Banks: 0.01% (2003)
- Foreign Investors
  - 0.03% of the total

Intermediaries
- Brokers/Dealers
  - No banks

Trading System
- MSE
  - Equities / Bonds
  - All trades are conducted via MSE Pure-Order Driven System (electronic trading system)

Clearing & Settlement System
- Securities Clearing House & Central Depository
  - Established in Oct. 2003
  - State-owned limited liability company
  - Fully computerised

MSE Pure-Order Driven System
- Started from 1995

Shares: T+1 ; Bonds: T+0
3. Market Performance

(1) Market Capitalisation: US$ million, % of GDP
3. Market Performance (cont.)
(2) Trading Volume: US$ million

Figure 11-1: Kazakhstan

Figure 11-2: Uzbekistan

Figure 11-3: Kyrgyz Republic

Figure 11-4: Tajikistan

Figure 11-5: Azerbaijan

Figure 11-6: Mongolia
3. Market Performance (cont.)

(3) Primary and Secondary Market: US$ million

Figure 12-1: Kazakhstan

Figure 12-2: Uzbekistan

Figure 12-3: Kyrgyz Republic

Figure 12-4: Tajikistan

Figure 12-5: Azerbaijan

Figure 12-6: Mongolia
### 3. Market Performance (cont.)

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

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

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[2] In Mongolia, price index was named as **TOP-75 between year1995 and year2002**.
3. Market Performance (cont.)

1. Market capitalisation: very small scale
   - …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

<table>
<thead>
<tr>
<th>Single Regulator</th>
<th>Plural Regulators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tajikistan:</strong></td>
<td><strong>Kazakhstan:</strong></td>
</tr>
<tr>
<td>Ministry of Finance (MOF)</td>
<td>Financial Supervision Authority (FSA)</td>
</tr>
<tr>
<td>(Securities and Foreign</td>
<td>, MOF &amp; National Bank of Kazakhstan</td>
</tr>
<tr>
<td>Investment Office)</td>
<td>(NBK)</td>
</tr>
<tr>
<td><strong>Azerbaijan:</strong></td>
<td><strong>Uzbekistan:</strong></td>
</tr>
<tr>
<td>State Committee for</td>
<td>The Center for Coordination and Control of the securities Market (CSM),</td>
</tr>
<tr>
<td>Securities (SCS)</td>
<td>MOF &amp; Central Bank (CB)</td>
</tr>
<tr>
<td><strong>Mongolia:</strong></td>
<td><strong>Kyrgyz Republic:</strong></td>
</tr>
<tr>
<td>Mongolian Securities &amp;</td>
<td>State Commission on the Securities Market (SCSM), MOF &amp; National Bank (NB)</td>
</tr>
<tr>
<td>Exchange Commission (MSEC)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. Regulatory and Supervisory Structures for Securities Markets (cont.)

<table>
<thead>
<tr>
<th>SRO</th>
<th>No SRO</th>
<th>Independent SRO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan: KASE</td>
<td>Azerbaijan: BSE</td>
<td>Kazakhstan:</td>
</tr>
<tr>
<td>Uzbekistan: TSE</td>
<td></td>
<td>- Association of Financiers</td>
</tr>
<tr>
<td>Kyrgyz Republic: KSE</td>
<td></td>
<td>- Association of Assets Managers</td>
</tr>
<tr>
<td>Tajikistan: CSE</td>
<td></td>
<td>- Kazakhstan Association of Registry Holders</td>
</tr>
<tr>
<td>Mongolia: MSE</td>
<td></td>
<td><strong>Uzbekistan:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- National Association of Investment Institution</td>
</tr>
</tbody>
</table>
5. Some thoughts… (cont.)

**SWOT Analysis of the Central Asian markets**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Kazakhstan</th>
<th>Uzbekistan</th>
<th>Kyrgyz Rep.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Relatively advanced market infrastructure</td>
<td>- Relatively advanced market infrastructure</td>
<td>- Partially advanced market infrastructure</td>
</tr>
<tr>
<td></td>
<td>--Sophisticated electronic trading system</td>
<td>--Sophisticated electronic trading system</td>
<td>--Consolidated electronic trading system</td>
</tr>
<tr>
<td></td>
<td>(Electronic Trading System of KASE)</td>
<td>(E-trading (OTC): Elsis-Savdo)</td>
<td>(BTS) exists, but there is no electronic</td>
</tr>
<tr>
<td></td>
<td>--Central depository system</td>
<td>--Central depository system</td>
<td>trading system in KSE.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weaknesses</td>
<td>- Low level of market capitalisation</td>
<td>- Very low level of market capitalisation</td>
<td>- Very low level of market capitalisation</td>
</tr>
<tr>
<td></td>
<td>- Still restricted market participants</td>
<td>- Still restricted market participants</td>
<td>- Restricted market participants</td>
</tr>
<tr>
<td></td>
<td>(little foreign investors)</td>
<td>(little foreign investors)</td>
<td>(no foreign investors)</td>
</tr>
<tr>
<td></td>
<td>(small scale of listed companies)</td>
<td>(small scale of listed companies)</td>
<td>(small scale of listed companies)</td>
</tr>
<tr>
<td></td>
<td>- Heavily depending on short-term gov. bonds</td>
<td>- Low liquidity (volatile by year)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&amp; REPO</td>
<td>- Low transparency</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Derivatives: very restricted</td>
<td>- Double land locked situation</td>
<td></td>
</tr>
<tr>
<td>Opportunities</td>
<td>- Rapidly growing economy (booming oil</td>
<td>- Moderately growing economy, but</td>
<td>- Rapidly growing economy</td>
</tr>
<tr>
<td></td>
<td>revenues)</td>
<td>downward in 2003</td>
<td>- Privatisation scheme</td>
</tr>
<tr>
<td></td>
<td>- Privatisation scheme</td>
<td>- Privatisation scheme</td>
<td>- Population: 5.12 m (2003)</td>
</tr>
<tr>
<td>Threats</td>
<td>- Still remaining state-owned companies</td>
<td>- Still remaining state-owned companies</td>
<td>- Still remaining state-owned companies</td>
</tr>
<tr>
<td></td>
<td>- Laws and regulations</td>
<td>- Laws and regulations</td>
<td>- Laws and regulations</td>
</tr>
<tr>
<td></td>
<td>- Globalisation</td>
<td>- Globalisation</td>
<td>- Globalisation</td>
</tr>
</tbody>
</table>
### 5. Some thoughts… (cont.)

**SWOT Analysis of the Central Asian markets (cont.)**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Tajikistan</th>
<th>Azerbaijan</th>
<th>Mongolia</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Still remaining state-owned companies</td>
<td>- Relatively advanced market infrastructure --Sophisticated electronic trading system (INIST system, but no remote trading) --Central depository system</td>
<td>- Relatively advanced market infrastructure --Sophisticated electronic trading system (MSE Pure-Order Driven System) --Central depository system</td>
<td></td>
</tr>
<tr>
<td>Weaknesses</td>
<td>- Moderate growing economy</td>
<td>- Very low level of market capitalisation</td>
<td></td>
</tr>
<tr>
<td>- No securities trading in stock exchange (off exchange market)</td>
<td>- Still remaining state-owned companies</td>
<td>- Still restricted market participants (little foreign investors) (small scale of listed companies)</td>
<td></td>
</tr>
<tr>
<td>- Heavily depending on short-tem gov. bonds</td>
<td>- Heavily depending on short-tem gov. bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Low liquidity</td>
<td>- Derivatives: very restricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Low transparency</td>
<td>- Low liquidity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opportunities</td>
<td>- Moderately growing economy</td>
<td>- Moderately growing economy</td>
<td></td>
</tr>
<tr>
<td>Threats</td>
<td>- State-owned companies (dominant status)</td>
<td>- Still remaining state-owned companies</td>
<td></td>
</tr>
<tr>
<td>- Laws and regulations</td>
<td>- Laws and regulations</td>
<td>- Laws and regulations</td>
<td></td>
</tr>
<tr>
<td>- Globalisation</td>
<td>- Globalisation</td>
<td>- Globalisation</td>
<td></td>
</tr>
</tbody>
</table>
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

**Australian Market**

- Investor A
  - Buy order
  - Sell order

- ASX CHESS
  - Matching of buy & sell order

- ASX PD (SPV)
  - ASX World Link (Trading Network)

- Australian Custodian
  - Investor A’s account

**Singaporean Market**

- Investor B
  - Buy order
  - Sell order

- SGX CDP
  - Investor B’s account

- SGX PD (SPV)
  - SGXLink (Trading Network)

**Inter-Market Network**

- FMP (ASX FIX Client)
- LMP (ASX FIX Server)
- LMP (SGX FIX Server)
- FMP (SGX FIX Client)

- T+2
- Dividends (A$) / Capital gains
- FDI
- Settlement scheme

- T+3
- Dividends (SG$ or A$) / Capital gains
- FDI
- Trading scheme
Example 2: Euronext

Trading Participants (Brokers)

Trading System

Cash products
- NSC

Derivatives
- LIFE CONNECT

Clearing System

Clearing 21 (cash & derivatives)

Settlement System

Euroclear France / Euroclear Bank

BXS-CIK

Euroclear Netherlands

Own clearing & settlement system

Marketplaces

Paris

Brussels

Amsterdam

Lisbon
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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