



Workshop «Diversification and Structural Changes in the Economy of Kazakhstan: opportunities and challenges»

«Investments for structural conversion of economy: capital market opportunities»

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Sources of Investments

- State Budget
- Banking Crediting
- Access to Capital Market



Models of Corporate Government

- Insider
- Outsider



Insider Model

- Concentration of large package of shares by a limited number of key owners in charge of control over a company
- Major share holders are legal entities,
- Mutual (cross) ownership of shares representing a basis for setting up financial and industrial groups is widely used
- A possibility to pursue a policy of a company without taking into consideration interests of small shareholders (minorities),
- Linking of interests between banks and industrial conglomerates
- The government is well represented in the capital of a number of large companies



Outsider Model

- Company shares split between a wide range of individual and institutional investors (pension and investment funds, insurance companies),
- Introduction of legal mechanisms for protection of minorities' interests,
- Well organized system (at the level of legal framework and distribution of good practice) disclosure of information on a company's activity,
- Low participation of banks and non-finance companies in shareholders' capital including legal prohibition for the banks on investments in shares
- Non-participation or minimum interests of the government in major capital of a company,
- Promotion of practice of performance and efficiency evaluation of the company's activities and its managerial staff through assessment of changes in cost of shares of the company on capital market on a mid-term basis

«Outsider Model» oriented at capital market (market-based system).



Kazakhstan's Model

- In Kazakhstan despite of a number of implemented large privatization programs including with participation of citizens, in most of the JSC, an insider model of corporate governance dominates as a result of some historical background, which serves as an obstacle for formation and development of capital market.

Ration of Market capitalization and GDP

	2000	2001	2002	2003	2004	2005	2006	2007
Real GDP, bln. USD	18,3	22,1	24,4	30,8	43,2	56,1	80,4	102,5
Capitalization of the NSCB, bln. USD	1,0	1,8	2,7	5,0	6,9	18,8	69,5	68,7
NSCB Market capitalization ratio and GDP, %	5,4	8,0	11,2	16,3	16,0	33,5	86,4	67,0
Capitalization of shares, bln. USD	0,8	1,2	1,3	2,4	3,9	10,5	56,6	53,8
Capitalization of shares ratio to GDP, %	4,4	5,4	5,5	7,9	9,1	18,8	70,4	52,5



Liquidity of capital market

- One of the major problems faced by the market is low liquidity. Starting from 2004, liquidity of the market of shares has been dropping down as a result of lag in the volume of capital trade and increasing value of companies and number of issuers.

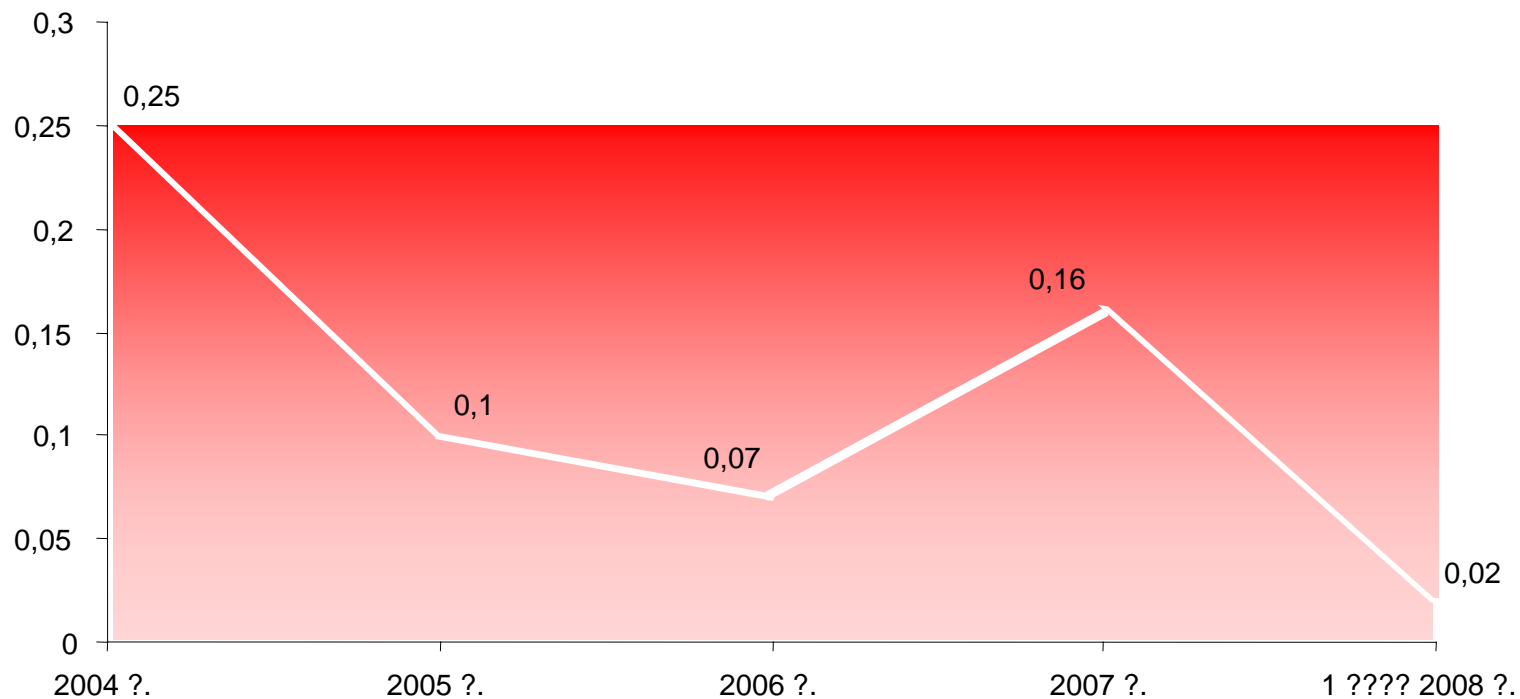


Market Characteristics

- At current stage of development , a size of the national capital market is determined by the number of companies offering their shares at the commodity exchange.
- As of July 1, 2008 total number of issuing JSC amounted to 2 208. However, the number of active companies, which shares are circulating at the capital market of Kazakhstan amounts to 4% of total number of all JSC.
- Most of the JSC prefer a limited number of private share holders, reluctant to issues shares for market circulation.

Liquidity of capital market (continued)

Liquidity of the capital market





Bond market

- As of January 1, 2008 the number of active issues of bonds comprised 286, which is a very low share of total potential issuers represented by both JSC and LLP/SLP.

Ratio of bond market capitalization against GDP

	2000	2001	2002	2003	2004	2005	2006	2007
Real GDP, bln. USD	18,3	22,1	24,4	30,8	43,2	56,1	80,4	102,5
Capitalization of bonds, bln. USD	0,2	0,6	1,4	2,6	3,0	8,2	12,9	14,9
Ration of bond market capitalization against GDP, %	1,0	2,6	5,7	8,4	6,9	14,7	16,0	14,5



Diversification

- Further growth of capitalization would depend on access of a great number of companies from various sectors of economy.
- Presently the market is dominated by banks' shares. Thus, as of January 1, 2008, a share of stock of financial institutions in total capitalization of commodity exchange market comprised 47%, in 2006 - 36%, in 2005 – 43%.
- 10 largest companies ensuring 88% of the national capitalization are represented by the companies operating in raw material and banking sectors.
- Presently half of securities market is ensured by ENRC and Kazakhmys, and their shares are not circulated at the market.



Conclusion

- Reduction of opportunities for funding of projects out of the state budget and through banking loans should lead to having the companies search for new sources of funding and entering securities market.
- These require improved operation abilities and level of information disclosure by state bodies and issuers.