



Round-table

“Perspectives of the financial market development in Kyrgyzstan and the socio-economic situation in the country”

13 September 2007

Moderator: Muratbek Imanaliev, President of the Institute for Public Policy

1. Gulzina Isakova, the Head of the Monetary and Credit Operations department, National Bank of the Kyrgyz Republic;
2. Maksat Ishenbaev, an Expert on economic issues;
3. Sultan Mederov, a Consultant of the President, “Marka-audit” company;
4. Ulan Sarbanov, an Expert on economic issues;
5. Eric Taranchiev, a Consultant, Institute of the Corporate Management and Development;
6. Nurbek Elebaev, the Executive Director of the financial-consulting company.

Muratbek Imanaliev: Our institute tries to follow carefully the situation in the country; principally, I mean the socio-economic situation. Parliament has started its activities by condemning the government for cereal, sugar and other crises. There are serious problems beyond Kyrgyzstan as well. Some very difficult problems are emerging in Northern America, in Europe and Asia, and of course, all this makes us feel some trepidation. We understand that some external problems can contribute to the existing problems of our country. I remember very well in 1998 on August 17, when there was a default in Russia, discussed here in Kyrgyzstan, and some officials said that Kyrgyzstan was enjoying a highly dynamic economic development and decent banking sector. In general there should not be the threat of crisis; nevertheless in October, as we all know, a crisis happened. In this, we would like to conduct today’s round-table, with the participation of our local experts, on finance and economy. I sincerely welcome Gulzina Isakova from the National bank. We hope to discuss such problems. I would like to make a quick note that our institute conducts round-tables almost every week; some round-tables are open, and some are closed. In this case it is an open seminar, all of what is discussed will be posted on the web-page; moreover, we will try to make some recommendations to the government with the consent of the round-table participants.

For a person like me who is far from the issues of economy and finance, it is difficult to present a general picture for a starting point; therefore, let me give the floor to Omurbek Bekbolovich Elebaev, who is the Head of our stock market.

Nurbek Elebaev: Thank you. I am pleased to participate in this round-table, and I think that today’s topic on “Perspectives of financial market development,” needs to be discussed in detail by experts. The most significant part of the financial market is the country’s banking system. I think it would be correct if we chose to discuss this topic from the perspectives of the banking system in Kyrgyzstan. We would like to give the floor to the representative of the National Bank, and then to Mr. Sarbanov, specialists with a great expertise in these issues. I believe that the question of the financial securities market is the most pressing.

Gulzina Isakova: I would like to say few words about the financial markets. I thought I would report to a large audience, so some comments may sound more formal. There is the global experience of the financial markets’ development. Here, there are two approaches for

solving the problem of the rational distribution of resources in different directions: the first is financial speculation, and the second is production. In principle, this reflects the provisional classification of the financial systems' types. Here, I am talking about the German model, which provides for the unlimited right of commercial banks to perform operations with securities, and the Anglo-Saxon model, which prohibits the banks from operating with stock and corporate bonds by using its own funds and clients' resources. Both models reflect the specifics of the historical development of these national economies, but aim for the same goals: the effective transformation of savings into production investments and addressing the problem of the wide engagement of mutual capital into financial speculations. As practice shows the most undesirable thing for the stability of the economic system, in our view, is the participation of bank funds in the stock market, which forms the basis of speculative capital. In the event of a sharp fall in stock prices, many market participants become unable to pay creditors and depositors.

The separation of stock activity from an independent field of business has strengthened the stock market as a source of financing production investments and aided its development. A good example is the USA where 60% of corporate bonds issues form up to 60% of external sources of investment resources. The specialization of these institutes, which provide financial services, deal with the problem of using cash funds of thrift and on-demand bank accounts in the short-term financial speculations and give transparency of market transactions, since activity with corporate shares is possible with the notification and initiative of the savings' owner. Most countries of Western Europe, following the example of Germany, have not imposed limitations on the banking sphere. As a rule, in countries using the German model of the financial system, production and bank capital are closely connected. An extensive penetration of German bank capital into the assets of industrial enterprises favored the situation where production investments are financed by bank loans while the stock market has not been as developed as a source of investments as in the USA.

In the case of Kyrgyz development, one can say that the Kyrgyz financial system is neither of the types mentioned above. Nowadays, our financial system does not have such mechanisms of bank capital attraction as proven in global practice. It can be seen in the very low level of financial intermediation, i.e. the share of credits to the real sector of the Kyrgyz Republic is only 15%. Moreover, the share of credits, if one looks at the structure of the economy, is mainly occupied by trade, the means of which are directed to importing products of great demand. In the structure of investment, the investment costs of Kyrgyz enterprises are mainly one's own funds. The large part of capital comes from export-oriented enterprises for raw materials development, which have enough internal assets to satisfy the investment demands independently. The majority of Kyrgyz enterprises need external sources of financing. The market of corporate shares and bonds is almost absent; the absence of institutes for elective investment contributes to the low effectiveness of the financial markets. We see our role mostly in developing the money market, since the activation of the bank system's function of intermediation in distributing attracted financial resources into the real sector presupposes the presence of an active money market. The activity of the money market is secured by developed infrastructure, safe and functional systems of accounts and well-established overflow channels between sectors. Along with an opportunity to regulate the current liquidity of other participants, the money market will promote, or more precisely, *should* promote the formation of uniform money price and define the criteria for uniform structures of interest rates and profitability. The conditions for the active operation of the money market are reliability, parity of banks and other financial mediators, as well as widening the range of financial instruments. The National Bank considers its operations at the money market as an instrument for conducting monetary and credit policy with the purpose of influencing the state of bank liquidity and the level of interest rates. In order to improve the securities market, we plan to take measures to increase the volume of National banknotes, i.e. attempt to increase the strength of the market and expand the list of securities that are received to secure the NBKR credits (at present this list is quite short). We also plan to include a new type of operation – a regular purchase and realization of state securities. This type of operation is rarely used by central banks in the interest of monetary and credit policy, but we think that at the current market stage, if the NBKR takes the role of the market-maker, this will contribute to a certain

degree to the activation of secondary markets of securities. In addition, we continue to take measures to secure reliable operations to build an effective system of payment as an inherent part of the money market and financial markets in general. Also we try to modernize the technological infrastructure of the market. These include trading places, depositaries, contacts with payment systems, in order to give more opportunities for our users to operate in these markets. That is all I wanted to mention.

Muratbek Imanaliev: Thank you. These are very interesting and informative ideas. I have a question: is the dollar the national currency of Kyrgyzstan or not? From what you said, I was not sure.

Gulzina Isakova: No, the national currency is som.

Muratbek Imanaliev: That's an answer from the Soviet encyclopedia.

Gulzina Isakova: Why? There is no such entry in the Soviet encyclopedia.

Muratbek Imanaliev: Looking realistically at our life; I don't hold on for an answer. The question is clear.

Ulan Sarbanov: I have some questions. If I understood correctly, the share of banks in financing the real sector is 15%.

Gulzina Isakova: No, the credits of the real sector in relation to the GDP is 15%.

Ulan Sarbanov: In other words, the price of the credit portfolio in relation to the GDP?

Gulzina Isakova: Yes.

Ulan Sarbanov: Where is the other 85%? It seems that with this kind of share, the National Bank hardly regulates anything.

Gulzina Isakova: Well, yes. This is my opinion; that those efforts directed at reducing the inflation processes by means of changing the interest rates remain practically ineffective.

Ulan Sarbanov: The authorities do not own the economic status, and neither does the national bank. The government is not even always informed.

This is an issue for discussion. How much do the government and the National bank, and the authorities in general, keep tabs on the situation, how well can they manage the situation, and what can be offered involving fewer external factors in defining the case?

Muratbek Imanaliev: This is a very important question. As the average man on the street who reads newspapers, I am scared by the winter-spring crisis. This problem is multi-faceted. The financial situation beyond the country is very important. How will this be reflected? The ratio of the dollar to the som is an inviolable thing for the average man; it seems that many people imagine this ratio is sustainable. Actually, this is not the case. It is done by means of artificial measures, and the outlook may not be good.

Ulan Sarbanov: many people think a dollar is a dollar even in Africa. It means attention to one currency and less to others. The financial market has certain segments, for example, the securities market. In principle, only two segments have a formal perspective for development: government debt securities and government corporate securities. The simple question is what to do? It was previously proposed to the government to make necessary, even by force, one simple thing that could have serious consequences, - to unify the names of the securities. I mean that there are some securities, which are called "Jibek-Jolu..." or "Munaizat and something." People understand that there is a history behind these names, but it could be done within institutions. It should not go to the public, because people think

that State Exchequer Bills (SEB) are problem-free securities being easily traded, while the securities named X are not popular since they were issued with relevance to certain negative events. It is necessary to unify the names, so that people know that the securities are characterized by the maturity date, interest and profit. It is feasible to realize this.

The second thing is the prolonging of dates. Some efforts were made then the Ministry of Finance started thinking and stopped these efforts. The maximum were 12 months long securities traded in the market. There are several even longer than these.

The third thing is the secondary market.

One simple thing remains with regard to state securities; the question of following financial discipline. The Ministry of Finance definitely fulfilled its duties and did not discuss it. Any discussion increases the cost of future borrowing not only in concern of the newly issued securities, but all other securities as well, because the perception of the market is as follows: if they can treat this security like this, then they will do the same for others. People will take on additional risk, and start mortgaging.

As for corporate securities, I think, the listing must continue. With regard to the future, there are things to do. There was an effort once to integrate the stock exchanges. In particular, I mean Turkey, Kyrgyzstan, Kazakhstan and Russia. This is not just for the interaction of the stock exchanges. Today, the IPO is often discussed using examples of well-known companies. For example, an individual is more or less successful in the region; he could, with the help of our exchange connections, make IPO at the Turkish or Kazakh exchanges. This may not be that significant from the perspective of financial resources, but it is oriented for a wider scale, and will result in better sustainability.

The second segment of the money market is formal interbank credit. There are well-developed mechanisms of the Interbank credits market with different instruments. Depending on the situation, banks have been applying it for a long time. The approach is the following: There are no complaints with the bank besides this – an absence of the long-term money market. Without pension reforms, there is no need to rely on this. In the money market, in theory, there is no need for state action. Besides the outlook may only be from commercial banks. If commercial banks are ready to work for the future money market, then there is no problem. From the side of the supervisory bodies only certain limitations can be imposed, and a state cannot be the initiator of the future money market. Only then will the commercial banks go for it.

And the forth point; in the near future is the safety market. It is quite normal to start with the reinsurance market, for example trying to insure financial deals.

Muratbek Imanaliev: is there a place for this market?

Ulan Sarbanov: Needs of the safety market? I think in principle there are none, because the financial part of bank activities have been developing. The supporting part - formal registration, re-registration, deposits - are improper methods, which definitely solve the current situation, but do not give good prospects. It could be discussed with the banks. For example, announcing that the country plans to develop the safety market, to provide a stimulus...

In general, there are quite strange ways to view the financial market: what should be done by the financial market to improve and to redistribute itself. In my view, there are three formal things: these are the debt market; no one looks at the financial market as one looks at the debt market. The stock market is mostly purchase and realization, with estimations. Debt is public relations; they buy themselves and sell themselves with little inclusion of the real. The 'real' is privatization and change of owners. If there are seriously minded people, who understand the prospects, then they will incur some costs and headaches. Specialists of the stock exchange try to outline it in the proper way. This is all, I guess.

The debt market, from the view of initiators from the MF, is not considerable. Since many things can be finalized, it is obvious that the government understands the problem - revenue and expenditure do not meet. Previously, it was an activity of the Central Bank, which is in principle, not the best option, considering how it was performed there. The strong prohibition of crediting did not work. The MF together with CB could easily have worked on this. It would be possible to develop the financial market. The limitation is annual, as expected, according to the budget, and then the danger of an explosion as was the case in the Russian crisis, is theoretically present. But genuinely, it could have been limited. Many things like the divergence of revenue and expenditures could have really helped the government, because the government suffers from these things. From the view of market liquidity management, including a variety of currencies, here the main concerns of the commercial banks. Enterprises can hardly use the services of this market from the view of liquidity and currency management.

The last and the third function of the stock market is in intermediation. Here, securities are meant: Proper intermediation – there are more people who wish to join at a reasonable price without any relation to criminal and similar structures (funds can be found through criminal-type structures that are present). It is clear there would be no credit agreement - there would be more functional and simple methods of work. But when you start dealing with securities, it appears to be ineffective.

In general, the regulative bodies must have a clear and precise understanding of what they are planning to do.

Second is strong financial discipline. Money is there, it is necessary to pay according to the securities without any question. The state must not bring its internal problems into the financial market, to the subjects, because it will not relieve it, but make it worse and more expensive.

It is necessary to reform the pension system; the question is how to do it: revolutionary or evolutionary. Now it has dropped a bit. The secret of pension reform was accumulation. The issue is that the Social Fund is discussing pension reform. In previous years, the interaction between the CB and MF was slightly different. All understood the problems of the shadow economy: allocations to social insurance are very large, and the state has gradually started to reduce these allocations. At the same time, the requirements for collecting, i.e. the rates of charges of social insurance, must go up. In the context of reductions, there should be an improvement of the shadow sector. Then problems appear; nowadays the pension fund cannot survive on its own, therefore it receives substantial subsidies from the budget. All this meant for a while, without any serious problems, that the state finances to undertake pension reforms. People have forgotten that all this is well connected with the budget and finances, with the labor market, and started to deal only with the accumulative solidarity system. Then it appears to be a primitive approach. Other ways do not account for this. When it is connected with the labor market, with salaries, state budget and subsidies, then there is a real chance to advance. Pension reform is needed but continuing along the way it is being performed now.

And the last recommendation to the government is to start real estate reforms. It is a principal issue: to deal with real estate for one reason – demand and supply. The demand is clear, but the supply is not addressed. Everything can be addressed quickly, strongly or mildly, but no one in any way addresses the supply. The government supply of agricultural products, when they deal with it, will be seen in 2-3 years in the best case. This problem should be addressed as soon as possible, and the question here is the commodity component of the market. It will go up rapidly. Take this simple example: there are about 100-110 thousand hectares of irrigated lands in the Chui oblast. Let's imagine that taking into account the financial market, one hectare is sold for 10 thousand dollars, and then we have 1.1 billion from the Chui oblast alone. Throughout the country, there are perhaps 400-450 thousand hectares of irrigated land. It will increase the commodity rate of the market; the capitalization of country assets is engaged. This can be done quite fast. But it will be realized in the long-term.

As for the increasing crisis in the socio-economic situation in the country, there is criticism addressed to the government, to international organizations, to the Central Bank. The concept of the balance of payment is under the supervision of the Central Bank and National Statistics Committee. According to the results of last year, the deficit of the current balance is 16.75. It is being reconsidered, but here it is about 16-17%. I would like to recall that during the times when we were collecting credits quickly and plunged into the debt hole, the deficit of the running account fluctuated between 13 and 19%. Now we are discussing the HIPC while realizing the problem that could emerge in two years. From the macroeconomic viewpoint it's scary. It is discussed officially that we have more import than export, but it is not mentioned that the rate of import is significantly taking over the rate of export. The components of import, in particular the investment component, are not discussed. In any case, to keep this 16-17% for more than two years is extremely dangerous. Now the system is not controlled well, so it is even more dangerous. Through the balance of payment these things can be controlled. Communication with the outside world is needed, both trade and financial, with all the disadvantages and mistakes arranged into a systemized approach. With the separation of trade and economic relations with Kazakhstan, or with other countries, e.g. Russia, many things have been clearly shown. One can say that Russia in its trade with Kyrgyzstan takes from 20 to 30% without problems. But one needs to look at the share of Kyrgyzstan in its trade with Russia: Zero point and some more zeros. Then it is possible to understand the motives of Russian authorities, how adequate the actions of Russia are.

Secondly, I wish to say that when there are some crises at the same time there is an obvious weakening of the supervisory function of the Central Bank, which in principle weakens our position. This means a loss of independence. Now when there is criticism in the government because of crops, etc., they start taking decisions. But the National Bank does not need to take decisions, because there are instruments already in place. Metaphorically speaking, when the big tank is coming then one may get a big gun from the cabinet, since there is one that is legally provided. It is only necessary to get a gun, small or big, depending on a situation. When it was necessary the government did not have the right set of responses; the National bank did. And now, with the Central Bank weakened, it will not be able to react even in the first instance, because it will think: "if I take the gun what will such-and-such say." There should not be so much thinking; it is necessary to take and shoot. After starting fire, or when others return to realization, it may say the fire was early, the fire was strong, and start clearing oneself, etc. Now there will be only fear in working. In general there are no people in the system of state management who have an experience of managing crisis situations. It is theoretically one thing: I am a liberal, I am a market specialist - when I am in a difficult situation, I say, Sultan...you are a great friend, stay 15 minutes, we will talk face to face, and we will sort it out. Strict administrative measures have to be taken, considering the consequences. Basically, this is my emotional plea.

Muratbek Imanaliev: I would like to ask a question addressed to Maksat. Is there a financial market in Kyrgyzstan, and what is the role in economic development? In my view, excuse me for the lack of knowledge, there is no such a market. Maybe my thinking is basic, but it seems that way.

Maksat Ishenbaev: I agree with you, I think there is no well developed or well organized financial market. That point is far off. From the beginning, there was a lack of political will, and in both Russia Kazakhstan the stock market was developed due to massive privatization, not partial like here. The best pieces were given to those closest, etc. In other words, if right after receiving independence we did the same things as in Russia and Kazakhstan, perhaps there would not have been such problems with developing the stock market and attracting capital flows. Further, we started working on reforms well. We started to make pension reforms first, but then there was not enough political will. We did not complete it, stopped at the initial stage, and now we need to deal with all this, and still need to accomplish it. For example, there is this situation with prices. We clearly understood before that our National bank does not possess enough resources or instruments; there are some, but they are not functional in the markets. There is no trans-investment mechanism,

unfortunately, in our country. I absolutely agree with Ulan Sarbanov on the point that there is a crisis in minds and lack of good specialists. Mr. Marchenko In Kazakhstan, I do not know him in person, but I sympathize with him very much. Basically, he accomplished all serious reforms necessary. He simply took responsibility irrespective of the place he was. There was even a special Committee on the securities market; there he contributed to the adoption of contemporary and proper legal instruments that helped to develop the stock market. Moreover, he made some serious reforms to the bank system, and without stopping at that point, he continued reforms in the pension system, on development of the mortgage market and of securities. This man had ideas and he was realizing them and so the president trusted and supported him. In our situation, unfortunately, there was and is no such person. And all turn again to the constitutional reforms, because everything is interconnected. In a situation where there are no clear responsibilities of the government, or when its hands are tied, when it could not make any reforms without coordinating with someone... We end up in this situation, and I think, it will get worse, if there are no cardinal reforms – constitutional and economic. We need very serious reforms. The political will to accomplish them is needed. As said before, we need shock therapy. If we continue to make only partial reforms, it will not result in anything good.

Muratbek Imanaliev: Thank you. Like you, I attentively follow debates in parliament. And of course, we also pay attention to the replies of the government in the face of the Prime-Minister and a number of government members. I have the impression that the government, and in general those structures that need to address these problems, do not analyze the situation in the country, the schemes of international economy, finances and other things, which could positively or negatively impact the situation in the country. During a whole week of debates, I have not heard anything serious from the government. A person answers with a snarl, says that "I can leave, if it is necessary," but I do not hear anything more than this. Other ministers work basically in the same way. It seems to me that it is because the work of the government is weak, there is no analysis, no effort to shape the situation or to attract financial-economic mechanisms; there are no non-economic and purely political mechanisms to improve the situation, including such requirements as informative or explanatory work. This is what was mentioned by Ulan, - strict and disciplinary measures relates not only to finance. How can one comment?

Eric Taranchiev: This is a very important point. In the past and sometimes now, I need to communicate with the heads of ministries and departments. The point is not that there is no analysis, but there is no one to do it. What we have in ministries and departments, - it is a complete reshuffle. If you remember, analysis was given by Taalay Koichumanov in the Ministry of Finance. In my view, this is not the analysis that was needed; nevertheless it showed that much time is wasted doing things they are not supposed to. Second is that the majority of people there even do not know what they are supposed to do. I had a chance to work with the Ministry of Trade when it was together with the Ministry of Industry; we tried to work with them on the economic analysis of the documents that they prepare. The problem is that there are no people who can work with it. No one taught them .

Murat Imanaliev: Perhaps, this is the most important thing.

Eric Taranchiev: At that time, the statistics institute (statinstitut) emerged and it seemed that it should work. The staff works on a more or less consistent basis, despite the fact that today is one manager, and tomorrow is another one; they need deal with the day to day work according to the same algorithm as defined in the beginning. But the problem is that there is no algorithm. It was not defined, and certain efforts to develop it were not successful. It turned out that concerning public and social policy, there is a decree of the president about incorporating public policy. From the side of the state secretary who is in charge of this issue, there are few reactions at all. He does not need it, it is not interesting to him, and all our efforts to move the cart are not successful. If you remember, in article 23 of the Constitution it is recognized that all of us can participate in decision-making. The question is how? And this question is everywhere. When we talk with ministries, and invite them to accomplish certain things, even a small question begins with the necessity to coordinate it with an endless number of colleagues from different departments. In fact, this

question has to be solved by one person and it should be written as one of his duties, but the fear of taking responsibility by an official is much stronger than his fear of not being able to accomplish the work. Accordingly they do not take responsibility, and nothing is realized. It is better not to expect that something will change in the near future. Of course, if someone, I do not know who, has courage to organize relations in the government in such a way that each will be responsible for his own part of the issue without referring it to upper levels. Coming from this point, if we do not have economic justifications for those documents we are adopting, nothing will emerge. It concerns not only the government, but also those who criticize it, - they say: "Why do we need to calculate it? Let those responsible to do it." But who is responsible? If I have initiated this law, then I must calculate, and first of all I should prove to myself that it is useful. But only a few people work in this way.

The last decree was about starting ^g but now this issue is at the initial stage. Although in 2004 a similar decree had been prepared (I was directly participating in this process) it remained only on paper. I am afraid that this decree will have the same fate. Our people look at autumn and spring with a certain fear. These fears could have been resolved if the procedure of coordinating, of dialogue between the civil society and state, was clearly and legally established. All the necessary elements are there. There is a theoretical basis, there are people who are responsible for it, but a well-expressed political will is absent both from state and non-state structures. I talked to many NGO leaders, who go to the public and speak loudly. Why should one need to think deeply and prove something to someone, when one may simply go and speak it loudly. If we do not break through this, we are stuck in this swamp for a long time.

Muratbek Imanaliev: I deeply believe that in our country, despite the absence of systematic approaches to policy, there are enough talented and skillful specialists. There are at least twenty who can be invited, who are far from criticizing, and indeed ready to propose and recommend something real. Let's try to formulate something, at least two or three proposals. I understand that basically it is well-known, and some in government are trying to deal with it. But yesterday I was asked and said that the cereal crisis is not that scary; more threatening is the fuel-energy crisis, which may become reality in a month or month and a half. There is information that Uzbek friends are planning to level up gas prices, the price of coal in Kazakhstan is going up, etc.. Oil-products are getting expensive everywhere. The big problem is in China. I do not see that government and power institutes are doing preventative. I do not know what will result. Maybe there are some thoughts in this regard?

Nurbek Elebaev: I share the view expressed by Muratbek Sansyzbaevich: there is an impression that there is no financial market. First of all, this is because the component parts of the market in its classical understanding are credit, currency and stock markets. All these exist but are separate from each other, and in general, the financial market as the complex for interaction of all these markets is absent. Above all, the main problem of this process is that there is no such system-creating and system-organizing role, which perhaps should be played by the government and National bank. Unfortunately, the National bank functions in its way, the government in its own way.

Muratbek Imanaliev: And people in their own way...

Nurbek Elebaev: And people in their own way. In this regard, it happened that for a decade we tried to advance the idea that securities' circulation, especially the second securities market, must exist as it is supposed to for stocks. Of course, many people opposed and said that there are various approaches. However if one looks at the beginning, we built an outsider system for capital attraction, functional in the USA and Great Britain. We did not go the same way as Kazakhstan which has clearly chosen the German and Japanese models, and thereby contributed to the development of a strong bank system. It resulted in the situation where our bank system is not strong, and the rest does not represent anything substantial. The index mentioned by Gulzina, 15% to the GDP – a sum

of the allocated credits according to the stock market - is even more amusing. The capitalization of the stock market to the GDP is 3, 5%.

Muratbek Imanaliev: For one person it is a lot.

Nurbek Elebaev: if compared to the USA's 150%. In the majority of the western countries it is more than 100%. In general, the world stock market index is equal to 97%, including developing countries, i.e. on average. The largest problem is that in practice there is no macroeconomic management either of the financial market or of the country economy. This is very important. The problem of the stock market has to be considered in view of those tendencies that are present in the world market, and one needs to see how our stock market looks in comparison with others that have developed from the Soviet market system.

Let's look at the tendencies of the world stock market. Indeed, there are various approaches in attracting capital. There are various structures of the financial market. For example, in the USA, it constitutes 75% of the stock market, 25%-banks; in Great Britain – 80 and 20% correspondingly; such countries as Germany and Japan – 27-73%. I do not know the ratio in our country. But the credit system is five times more than stock markets. Now everything looks like capitalization. Capitalization in our country is indeed a very amusing index. As a whole there is no one who deals with capitalization especially - there are no statistics, no economic indexes. For example, the index of capitalization was introduced into the stock market. It previously included 65 companies - now there are only 10. If one looks at world indexes, then the rate of capitalization is amazing; in 1990 – 9.3 trillion dollars, in 2000- 32 trillion dollars, and in 2005 – 43 trillion dollars. Within three years capitalization increased more than 12 trillions, 5-6 times more than the growth of the gross domestic product. In the world stock market there is this tendency: in the 70s the major players were banks, investment banks as in the USA, and mainly stocks and companies. In the 80s, institutional investors, insurance companies, pension funds, and investment companies appeared. In the 90s the major investors in the world stock market is the general population. For example, in the USA 55% of the population participate in the stock market either directly or via institutes of collective administration. In our country the literacy rate of the population and adequate exchange of ideas in the stock market is very low. To take the level that we register in our broker company, the level of individual's investments is 3-5%. In other words, there are mainly corporate clients or legal entities investing in our country.

Now, let's compare the Kyrgyz stock market with those of the CIS countries. We will not consider Russia and Kazakhstan, since these are very large systems. Also we will not include Moldova and Tajikistan, where not many things have been done yet. Let's consider Ukraine, Uzbekistan, Azerbaijan and Georgia- those countries that we can compare our country with. Ukraine within the last 5 years has made serious advances. A special drive for such development of the stock market was the revolution. Sometimes in the past, the indexes of the stock markets of Ukraine and Kyrgyzstan were the same, but now Ukraine has reached a level where market circulation is a billion dollars a day. There are of course many players, hundreds of broker companies, corporate registrators – 152, 156 of investment funds, etc. In other words, there is an extensive development of the stock market. According to a number of instruments, while all CIS countries deal with corporate securities, shares and bonds, Ukraine is represented by the first stock trade system – this is the largest stock exchange in Ukraine; 276 securities were issued including 150 corporate bonds, 96 shares, 23 investment bonds, and some municipal shares. In general, it is a well-developed system.

Azerbaijan's stock market has been also developed mainly within last five years. Distinct from ours, where we operate only with shares and bonds, the assets in Azerbaijan include such financial instruments as state treasury bonds, notes are circulating and REPO operations are taking place. In our country, this takes place only within the system of the National bank.

Uzbekistan and Georgia: two countries with similar problems to ours including spaces and instruments. In the stock markets of Uzbekistan and Georgia mainly shares and bonds circulate. In Azerbaijan, the volume of operations reaches 2 billion dollars a year. The volume of operations in the Kyrgyz market, all in, would be around 120 million dollars. In Georgia and Uzbekistan, the total volume is about 95-120 million dollars, i.e. the same as ours.

Therefore among the priorities in developing our stock market is the development of financial instruments. State exchequer bills is the first necessary step, which we must have, and moreover, we place it into the second market.

Gulzina Isakova: It is happening. What do you mean? This is extraordinary.

Nurbek Elebaev: In other stock markets, for example, the idea of having currency circulation in the stock market is perceived as normal; for example, look at Kazakhstan, Ukraine or Azerbaijan. Practically everywhere is concerned with the currency market, but in our country, it is a prerogative of the National bank. It is difficult to say whether it is good or bad, but in practice there are no operations at the currency market, except realizing currency.

Gulzina Isakova: What else is there? What is else has to be there?

Ulan Sarbanov: Futures.

Nurbek Elebaev: First of all, is the National bank interested in this issue? Speaking honestly, it is not. Why is it necessary? It is only some additional headache. An interest of financial institutes, above all, is in profits they could make. What is the profit for the National bank?

Now it is the issue of the absence of a system. Unfortunately, here, the system of corporate securities at the stock market and the system of state securities are divided by a great gap. Why? Again, it's the circumstances. State securities are dealt by the National bank, while the stock market is under the control of the agency or committee. Why did it take place in Kazakhstan. It seems to me it was mainly due to uniting them. In fact, all of these are components of the common market of securities.

Gulzina Isakova: What is the secret to success of the Kazakh securities market?

Nurbek Elebaev: It is being developed. The success of the Kazakh market is the active circulation of all instruments that are supposed to be in place.

Gulzina Isakova: I agree regarding the number of instruments.

Nurbek Elebaev: The volume of their operations as well.

Gulzina Isakova: I would not agree with regard to the volume. They have similar problems to ours.

Eric Taranchiev: Regarding the volume, they have a problem that the state lendings are not given in such volumes as in our country. They have a sufficient traditional approach and the fact that they issue state securities for companies and investment funds, is only because they have limitations on investments; otherwise there is no need for these securities. This is the problem: there are no places for investing, because of too much money. We have none of them, although we have a problem related to corporate bonds. Once there were operations with bonds, although borrowing via corporate debt securities is much more profitable than via bank credits. But there is no single security in general.

Nurbek Elebaev: Instruments that are usually used in the state economic policy. While talking about mid-term and long-term securities, - I do not know why having such a foreign debt in Kyrgyzstan it is not a subject for concern among journalists?

In the internal market maybe. By the way in the wider world the scheme is the same. In the beginning of issuing mid-term and long-term securities, let's say, I do not understand what kind of reliable securities are present in the stock market. These are primarily state securities.

Now is the second. Who should buy the securities? We do not have a targeted approach towards market players. At the stock market, portfolio investors must be the main ones. Do we work on having such a portfolio investor? No.

Regarding the institutes of collective investments: investment funds, pension funds, insurance companies, and so-called institutional investors, – they are absent. The pension fund is not functional. Insurance companies are hardly functioning with their own prices. There are many reasons. Will it be an issue to worry about?

Ulan Sarbanov: Why has this issue not been raised before?

Nurbek Elebaev: It was raised many times. What is the profit for insurance companies? Only two or three profitable types of security, and that's it. The pension funds are the same. Recently we participated in a meeting organized by Mr. Atambaev in the "White House." Mr. Marchenko, the father of pension reforms in Kazakhstan also came. He came with a proposal: he said we have the pension fund in the People's bank, we are ready to share. Half a year passed. Atambaev said: we support it, tomorrow we will create a group of experts, but nothing has been done.

In my view, the main priority to develop the financial market must be a systematic approach. It is important to provide a systematic approach to equally develop all components of the financial market, since all this is an interchangeable process. Previously the bank system was singled out and all efforts were to develop only the bank system.

The second big problem for our small country is the presence of three stock exchanges.

Eric Taranchiev: We are a liberal state.

Nurbek Elebaev: 95% of the federal market is taken by the Kyrgyz stock exchange. The other 5% goes in two directions: the exchange trade system and the Central Asian Stock Exchange.

Let's look at the example of other states. In Turkey, there is only one functioning stock exchange. The competition must not be among the stock exchanges but among broker companies.

Eric Taranchiev: There was an attempt to create one more exchange in Kazakhstan. It was cut-off right away.

Nurbek Elebaev: The next question is related more to socio-economic development. The question is of municipal securities. We always say that the development of small towns suffers from the lack of means. In the world there is an adopted approach, a system of municipal securities circulation. It issues for various regional projects, the municipalities, and all this functions well. In our case, because the Ministry of Finance has placed an obstacle to the consolidated budget of domestic and national budgets, it is not progressing. It is necessary either to concentrate the financial market on the National bank, or...

Sultan Mederov: I would like to have the floor.

Muratbek Imanaliev: I will ask a question to Sultan Oktyabrevich, and then we will continue our discussion. Please explain, why does our government keep money not in soms but in dollars?

Sultan Mederov: I do not know.

Gulzina Isakova: I can reply: it is in soms, in dollars, in euro, and in Canadian dollars.

Sultan Mederov: To talk of treasury, there is not much money there. This is because it is circulating. For example, when I was working, the annual circulation was 240-280 million soms. Therefore, there are no securities there. It is being circulated. The only thing is not to have an excess, and so a part of the money was kept in a separate account of the treasury. This was done in order to limit the access of the treasury. I made this cut-off specially. There is always the temptation to get in and take some profits. Basically, it was done by the director of the treasury. For that period, the treasury director got involved and 2, 5 million dollars were spent to cover his own motivations.

To come back to the topic, we have only points of view because we do not have a united systematic financial market in Kyrgyzstan. There are certain legal instruments for the National bank, and not many instruments for the government, there is not much freedom. Especially in recent days when the government has turned into the victim, parliament does not give an opportunity to the government to step right or left. The situation gets worse when the government does not have any possibility to regulate the financial market.

There is no common approach in defining what the financial market is in Kyrgyzstan and how to build it. I will use a simple example. The monetary-credit policy. Each year we say that there is an interaction between the Ministry of Finance that is the government and the National bank to perform the common monetary-credit policy. We try annually to make some common statements. In fact, the monetary-credit policy is made independently by the National bank; it uses its own instruments, while the government almost does nothing. What is the monetary-credit policy? Basically, it is a regulation of the monetary mass at the market. The National bank does it by using its procedures. But the government is not involved, in practice; they just make pensions, allowances and salaries higher - it is indeed effective. The balance is: you gave something-you should take something at the same time. Then a market emerges. The first market is taxes. The second market is to get some additional money from money circulation. These are state securities, mentioned by Nurbek Elebaev. No one deals with it, because the market of state exchequer bills (GKV) has not been established. They eventually have something to circulate at the secondary market via the stock exchange, but the market does not exist. This is because the market of state exchequer bills is 0.00.%. Although it is a big process to get this money, it is one of the instruments of the financial market that shows that it is not being applied.

Furthermore is the non-bank financial sector. This is also a large component. You have correctly noticed that there is no such thing as an insurance industry. We have insurance companies, but we do not have the market, because the market has not been established as a result of the absence of motivating mechanisms, to encourage people to go and work on insurance. Additionally there is the weakness of the economic potential per se, because living standards do not allow people to insure one's life for example. There are practically no compulsory forms of insurance.

Some elements seem to create a kind of financial market, but the financial market per se is absent. What will its consequences? When we talk about the socio-economic situation in the country, we mean what we have now. Since these things are not regulated, since no one deals with it, it is impossible not only to make prognosis but even to affect the situation.

I think we need to do this though. It is a prescient issue. It needs a 2-3 year long process of system building, establishment of mechanisms, maybe even of a scientific character. We need institutes, groups of experts. It is necessary to create a laboratory that will address these issues; for example, to work out recommendations on the monetary-credit policy to

make it united. This does not mean the National bank does its own part, and the government does its own, but to have a common approach, so that we can regulate the process as well.

We talked about how real it is to have a collapse in Kyrgyzstan nowadays. In Kazakhstan the effect of a financial crisis is evident. The fall of the tenge rate in relation to the dollar for 10 tenge shows this. Essentially I think we will have the same situation. I do not know how we will regulate it. The National bank will make some intrusions. But I believe that the crisis will not affect our country that much, because the financial market per se is weak.

The absence of common monetary-credit policy results in the situation where no one controls inflation. The only control over inflation is in the field of statistics. Statistics is concerned with placing numbers into the necessary political agenda. In practice, we're not just talking about bread; cooking oil, for example, was 48 soms, and now 75 soms. Basically, everything has become expensive. But why is that? No one deals with the monetary-credit policy. We need to take out money that is not effective. We increase salary rate but not in an industrious way. We just create things for people from something not present. However, all these things can be effectively regulated.

Gulzina Isakova: May I make a couple of comments?

Muratbek Imanaliev: Sure.

Gulzina Isakova: These attacks on the National bank...

Sultan Mederov: These are not attacks particularly. The point is that the point where the government and National bank need to be in unity is absent. There is no common approach. I do not know how it is now, but the first steps were taken towards each other together with Ulan Sarbanov; prior to that, the National bank and the government lived like dog and cat.

Gulzina Isakova: That's true.

Muratbek Imanaliev: As far as I remember, the head of the National bank and the Prime Minister did not talk with each other. They communicated through the president. .

Gulzina Isakova: I agree that the process of elaborating the monetary-credit policy has to be with the government, but its realization has to be compulsory, and no one should limit or question it. This is what is meant by autonomy. To work out certain steps, to decide common goals and tasks, there should be coordination both in the budgetary sphere and with monetary-credit policy. It is not present. How it works now is as follows: the National bank writes its statement, where it defines its own tasks and goals, and then the statement is sent to the government where they make corrections and adjust numbers. No one checks the feasibility of the defined tasks or their effectiveness.

Sultan Mederov: A simple example: You say that the money mass is more than 30% within two years. It could be even 40% - the objective situation in the real sector has not changed.

There is no growth of industry, no growth of agriculture, i.e. the real sector has not been developed. I do not know how the money mass could grow.

Gulzina Isakova: is GDP growth from 2% to 8%?

Sultan Mederov: This is a published figure.

Gulzina Isakova: Published? Well, I don't know...

Sultan Mederov: The GDP growth is due to the service sector. Services by calculations are corrected in one or another way. Therefore, there is a growth of money mass of 40%, and you did not find effective instruments to extract this money.

Gulzina Isakova: Let me note that the growth of money mass of 40% is not for the first time. There was a time when the growth of money mass was 60% and we had inflation of 2-4%.

Sultan Mederov: You know very well that there has never been inflation of 2-4%. There is a demand for real money in the economy.

Gulzina Isakova: It is difficult for me to answer for someone else. I can only rely on the statistics.

Sultan Mederov: I will put it simply: if in the 90s a kilogram of meat was 55 soms, today it is 170-180 soms.

Maksat Ishenbaev: I worked in the National bank, and we re-check the data from the statistics committee. We have branches in every region. People go to bazaars and give us a list of commodities. Then we collect them, and look at what kind of differences are there in comparison with the National Statistics Committee. In principle, when I worked as the deputy head, I did not see any significant divergence. Nowadays, I do not know.

Gulzina Isakova: inflation stated is like the average temperature in a hospital. We can debate on the methods of inflation. Maybe the structure of consumption has changed, and hence some corrections are necessary. However, today we do not have any reason not to trust statistics.

Sultan Mederov: The question addressed to you by Muratbek Sansyzbaevich: is the som or the dollar the national currency? The fall of the dollar from 48 to 38 and the population keeping their savings in dollars; is it hidden inflation as well?

Gulzina Isakova: Does anyone know why the dollar is falling?

Muratbek Imanaliev: Do not consider this mentoring. I do not have anything to teach you. But things are simple. There is, roughly speaking, a pack of dollars, and what is called the Kyrgyz dollar or Kazakh dollar. In the currency basket, you do not need to consider it. At this moment it is ignored, missed in calculations, and the errors are quite big.

I want to ask the last question, and would like to answer each of you briefly. We have a national currency in our country. For example, in China, to operate with dollars and other currency except yuan, is a criminal offence. In Japan, for 100 dollars you cannot buy anything. The same situation exists in Europe. In the zone of the Eastern-African franc, it is possible to buy something even with Hong-Kong dollars; it is possible to change a bottle of water into cookies, but this is a completely different situation. The main currency that is used here when one purchases real estate or something expensive is the dollar. Now we have the euro. The ruble is always present. I am sure that a day when the yuan is present too is not far off. We will gradually incorporate the yuan or other asian currencies. There maybe different comments. But the question is: in which currency should a Kyrgyz person keep their savings?

Gulzina Isakova: Money has to be kept in banks.

Muratbek Inamaliev: In three liter-containers.

Gulzina Isakova: No, commercial.

Nurbek Elebaev: Specialists, when they are asked such question usually answer that money has to be kept in different currencies.

Muratbek Imanaliev: For us these are dollar, euro and

Nurbek Elebaev: ...Kyrgyz som. Here proportions maybe different depending on the rate of different currencies in the market.

Muratbek Imanaliev: What would you recommend to the average person?

Nurbek Elebaev: We recommend our clients keep their money in assets.

Muratbek Imanaliev: I was told yesterday: "Keep your money in gold; gold can be hidden and buried" But then how can one live and buy everyday goods?

Eric Taranchiev: Everyday goods are on sale in our country. If we want to make larger business, this is a different question.

Maksat Ishenbaev: In practice, the dollar market is overestimated in Kyrgyzstan nowadays. Som must go for 7 thousands. The gross reserve is beyond a billion.

Sultan Mederov: A recent developing market is real estate. I think this will continue for 2-3 years.

Muratbek Imanaliev: And this is in absence of war.

Eric Taranchiev: In Kazakhstan, the prices are fixed on mortgages; maybe, they will go back. There are problems with law and the implementation of laws.

Nurbek Elebaev: Since this question has been touched. Why do we allow making payments in dollars in our country?

Eric Taranchiev: The legal instruments involved do not function.

Gulzina Isakova: When the demand for cash circulation is high, it has a reverse effect, and then it is necessary to go back.

Muratbek Imanaliev: Americans strictly demand from the Chinese that they need to make the yuan more expensive. Now it is at 7,5 and the Chinese intend to make it 6,5 in the long term. But what is the problem: bread costs 2 yuan, and it remains the same.

Gulzina Isakova: They regulate their prices. They do not allow bread prices to go up.

Muratbek Imanaliev: This is similar elsewhere. In Japan it is the same. But our som is floating, and the prices are breaking down.

Gulzina Isakova: Why do you think that prices are breaking down because of the floating som?

Muratbek Imanaliev: This may be a coincidence, but may be not, but this is a fact: for example, for me it is easier to keep money in dollars rather than soms. There is a flow of dollars away from this space, or is it my imagination?

Gulzina Isakova: If you look at the level of commodity supply, then year by year, this index decreases.

Muratbek Imanaliev: From October 1st, the government is increasing the stipendium and allowances. How come?

Gulzina Isakova: State expenditures cannot be financed by emissions now. Such prohibition was decided in 1997. Any increase is because of increase in tax collection.

Muratbek Imanaliev: At the expense of grants.

Sultan Mederov: the only thing that is bad is when the growth of budget indexes does not bring stability. The profits are not stable at all. Now it is 39 billion. Will be there the same stable situation in import? If it falls down, the budget goes down as well, because those components have reached up to 56% nowadays.

Muratbek Imanaliev: Thank you to all of you.