

SECURITY MARKET IN AZERBAIJAN:

recent developments, challenges and policy solutions

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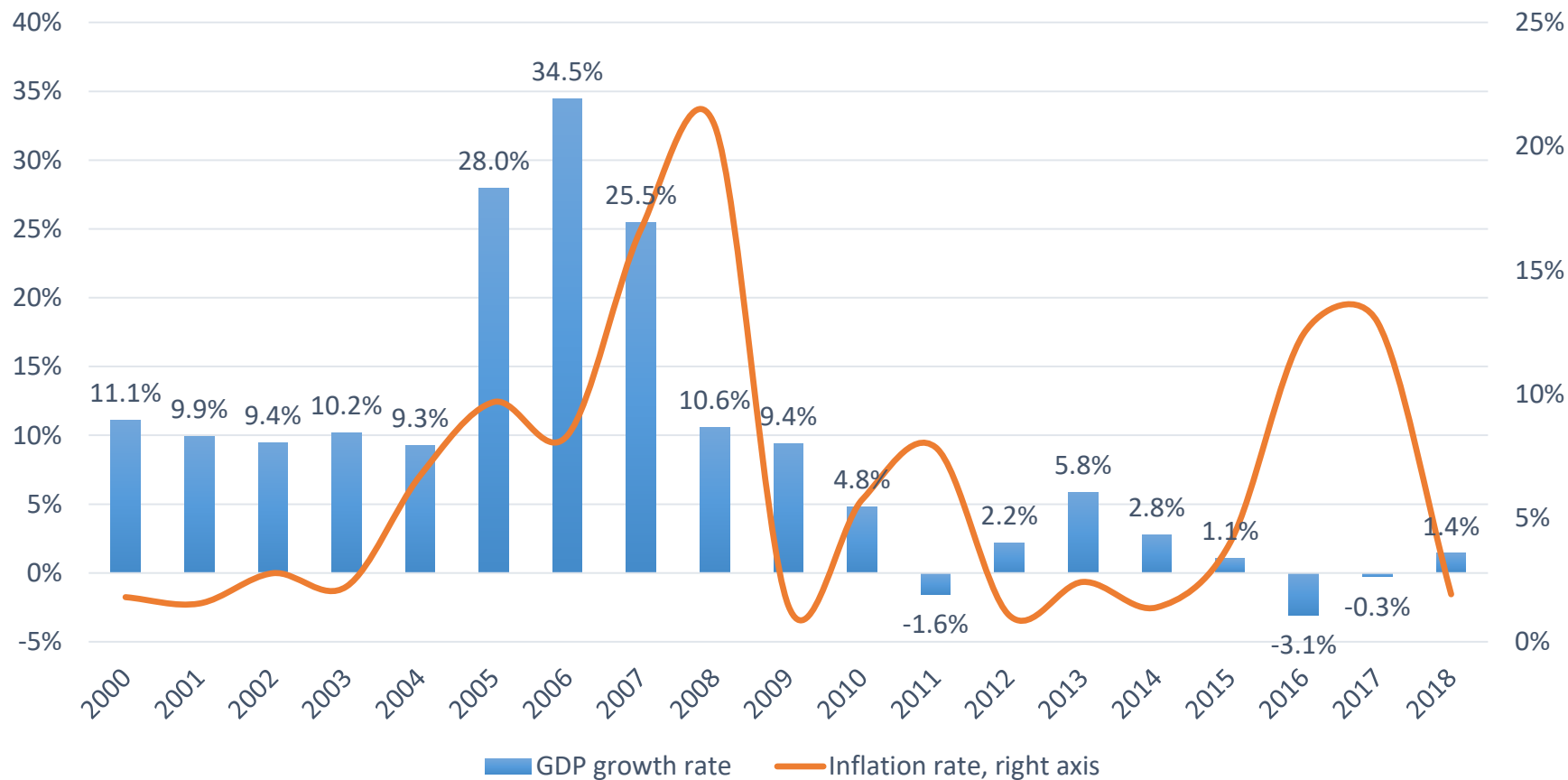
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- Azerbaijan at a glance
- Security market overview
 - Corporate securities, Repo operations and Derivatives
 - Government security market
- Conclusion and policy reactions

Azerbaijan at a glance

Azerbaijan at a glance

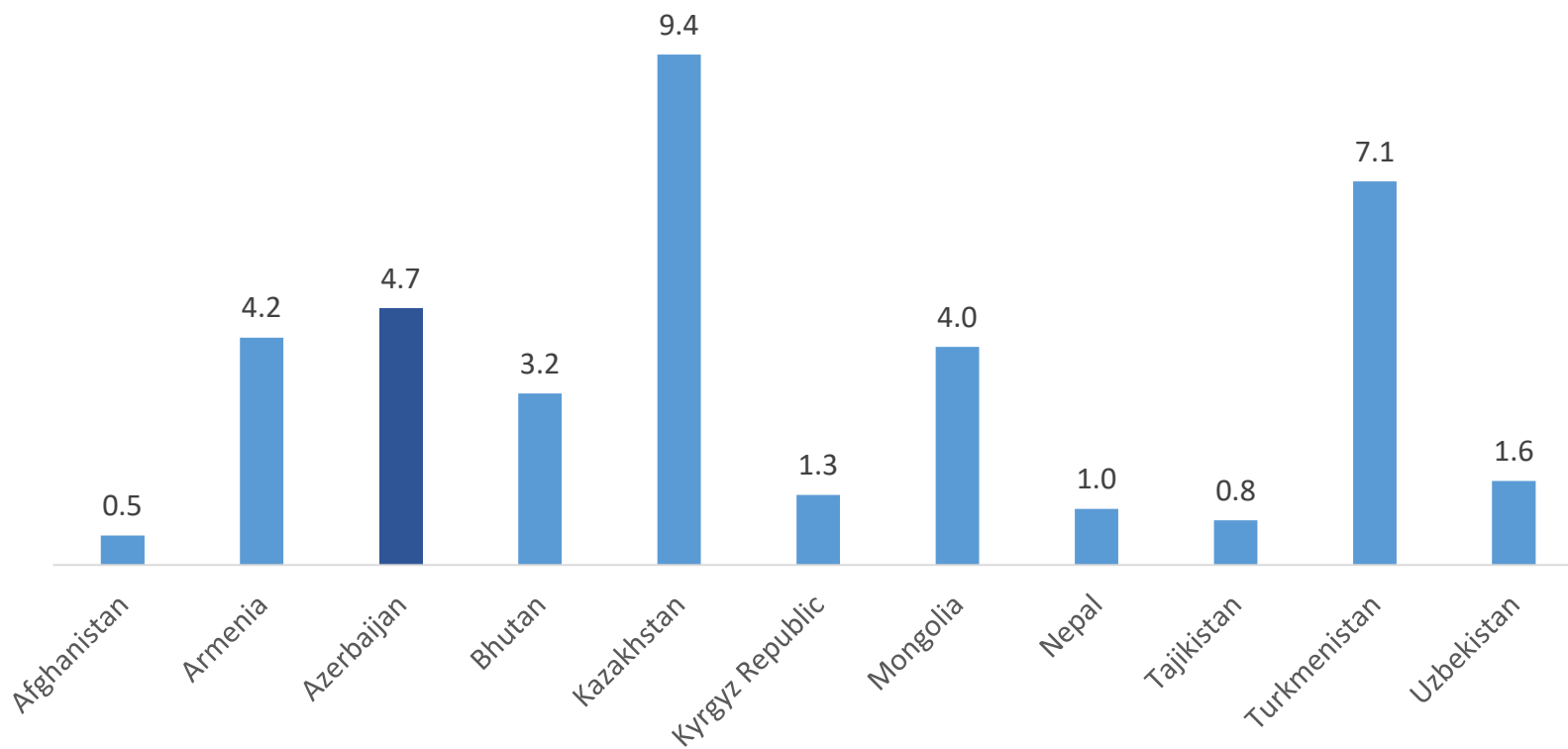
GDP growth rate and inflation rate, annual



Source: Statistics of Azerbaijan

Azerbaijan at a glance

GDP per capita, thousand current USD



Source: IMF

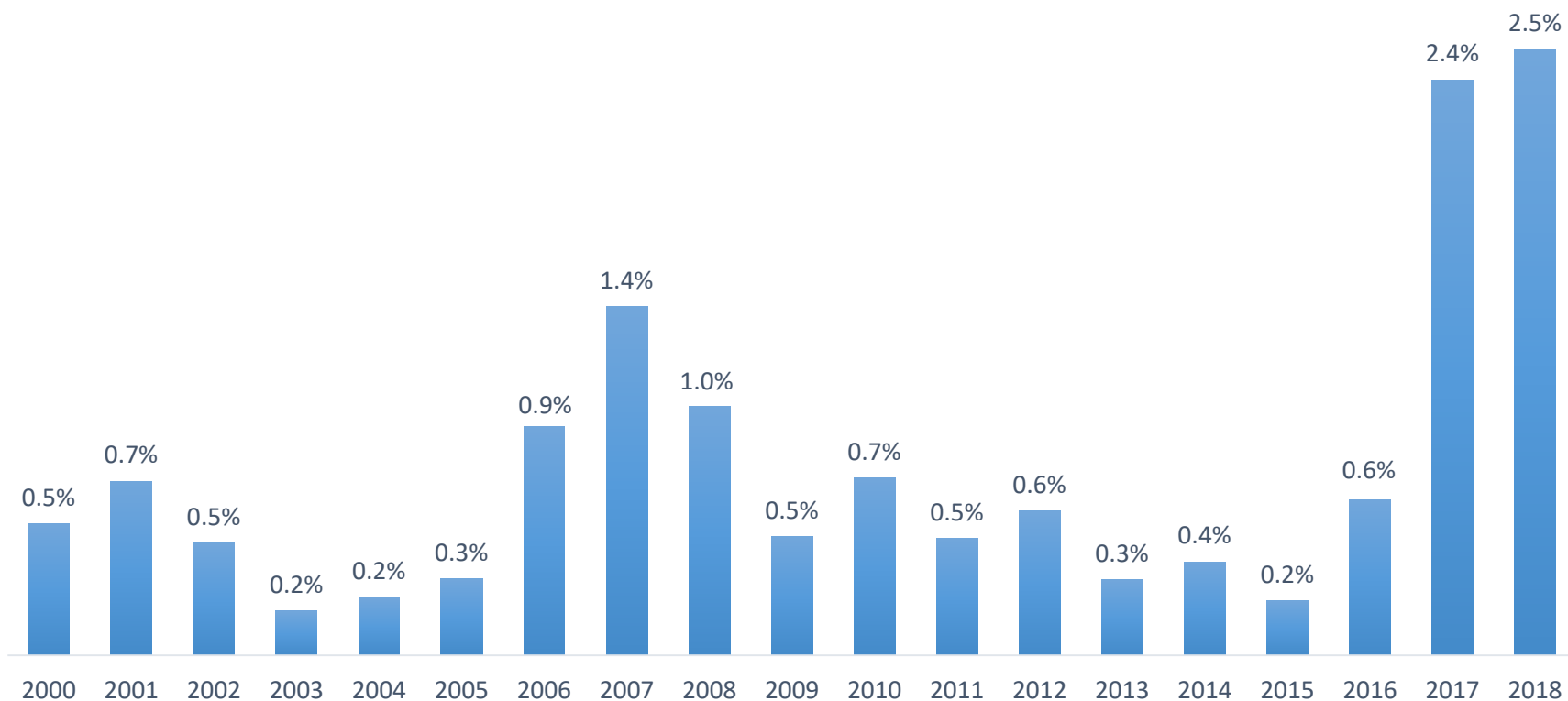
Security market

Sovereign Credit Ratings

	S&P	Moody's	Fitch
Armenia		Ba3	B+
Azerbaijan	BB+	Ba2	BB+
Kazakhstan	BBB-	Baa3	BBB
Kyrgyzstan		B2	
Mongolia	B	B3	B
Tajikistan	B-	B3	
Turkmenistan			CCC-
Uzbekistan	BB-	B1	BB-

Azerbaijan at a glance

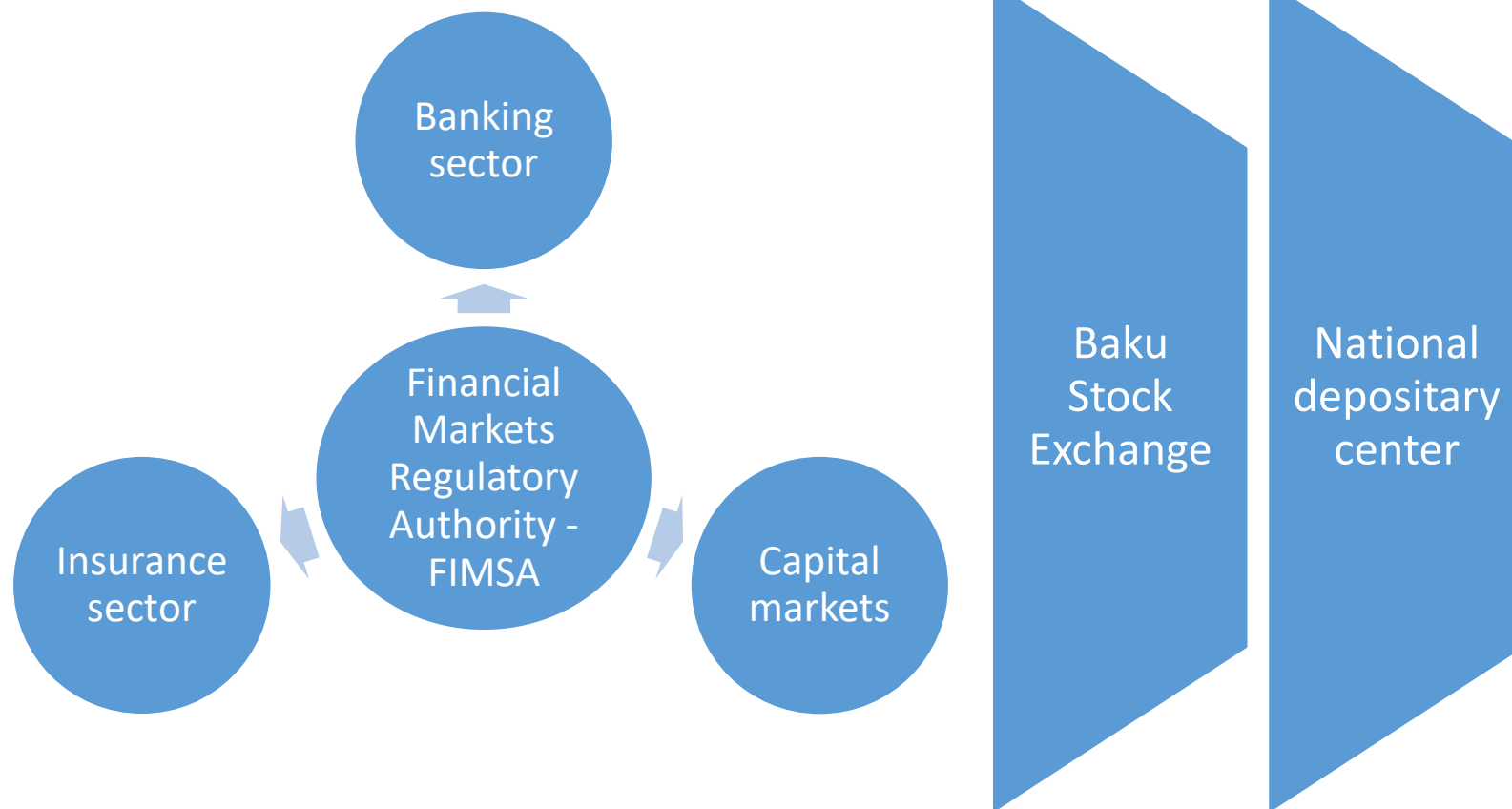
Outstanding government securities, % of GDP



Security market overview

Security market

Regulatory framework and infrastructure

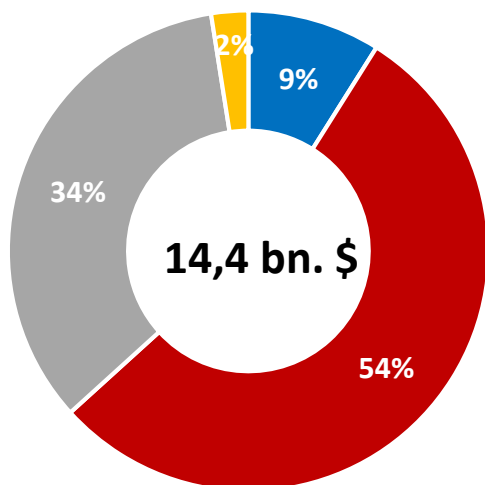


FIMSA – Legal Entity of Public Law, established in 2016

Security market

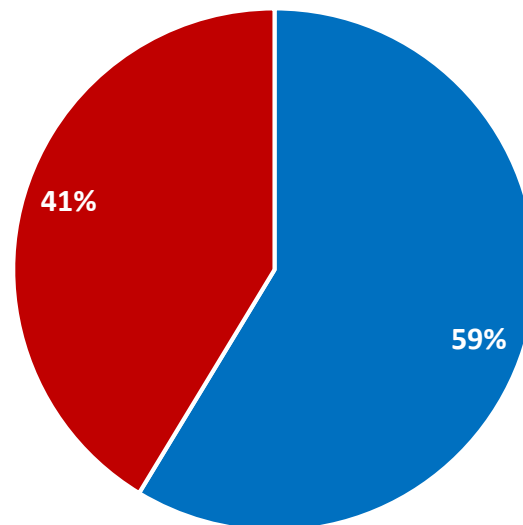
Security transactions (2018)

Volume of security market and its structure



- Corporate securities
- Government securities
- Derivatives
- Repo operations

Primary and secondary market



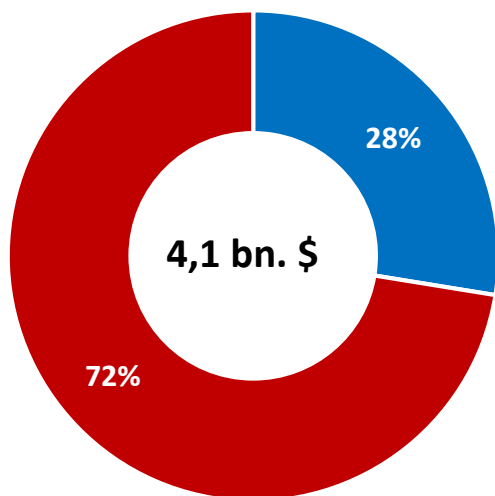
- Primary market
- Secondary market

* Source: Financial Market Supervisory Authority (FIMSA)

Security market

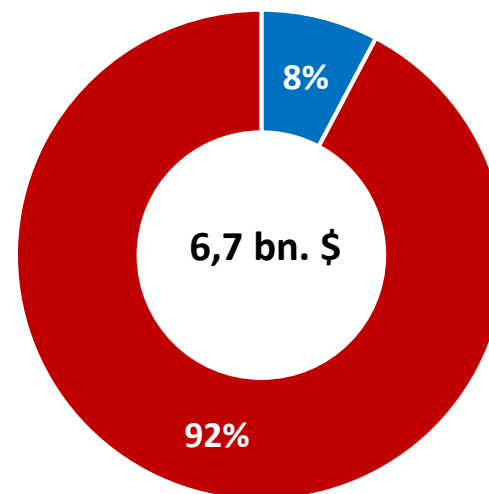
Securities in circulation (10.2019)

Sovereign and quasi-government fixed income securities of Azerbaijan



■ AZN (MF bonds and CBAR notes) ■ USD (Eurobonds)

Corporate fixed-income securities of Azerbaijan



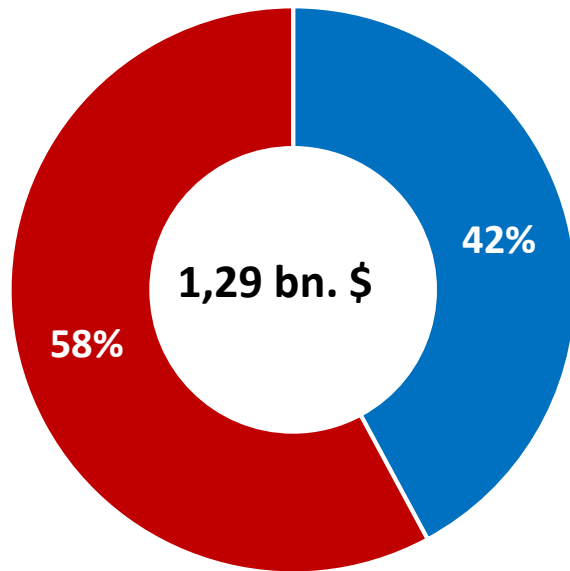
■ AZN ■ USD

Corporate securities, Repo operations and Derivatives

Corporate Security Market

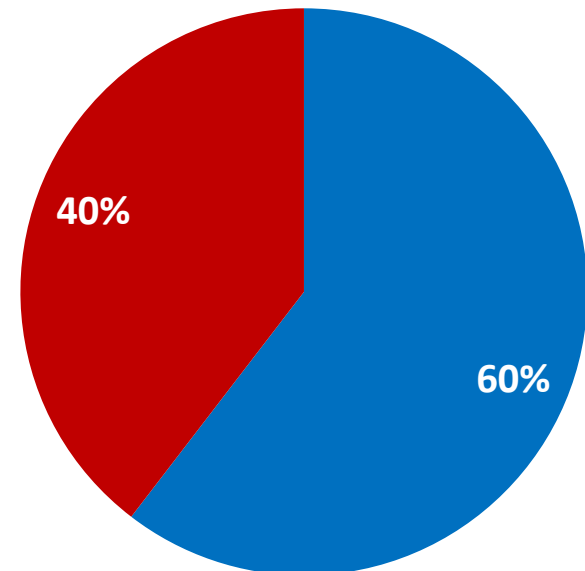
Corporate Security transactions (2018)

Volume of corporate security market and its structure



■ Stocks ■ Corporate bonds

Primary and secondary market



■ Primary market ■ Secondary market

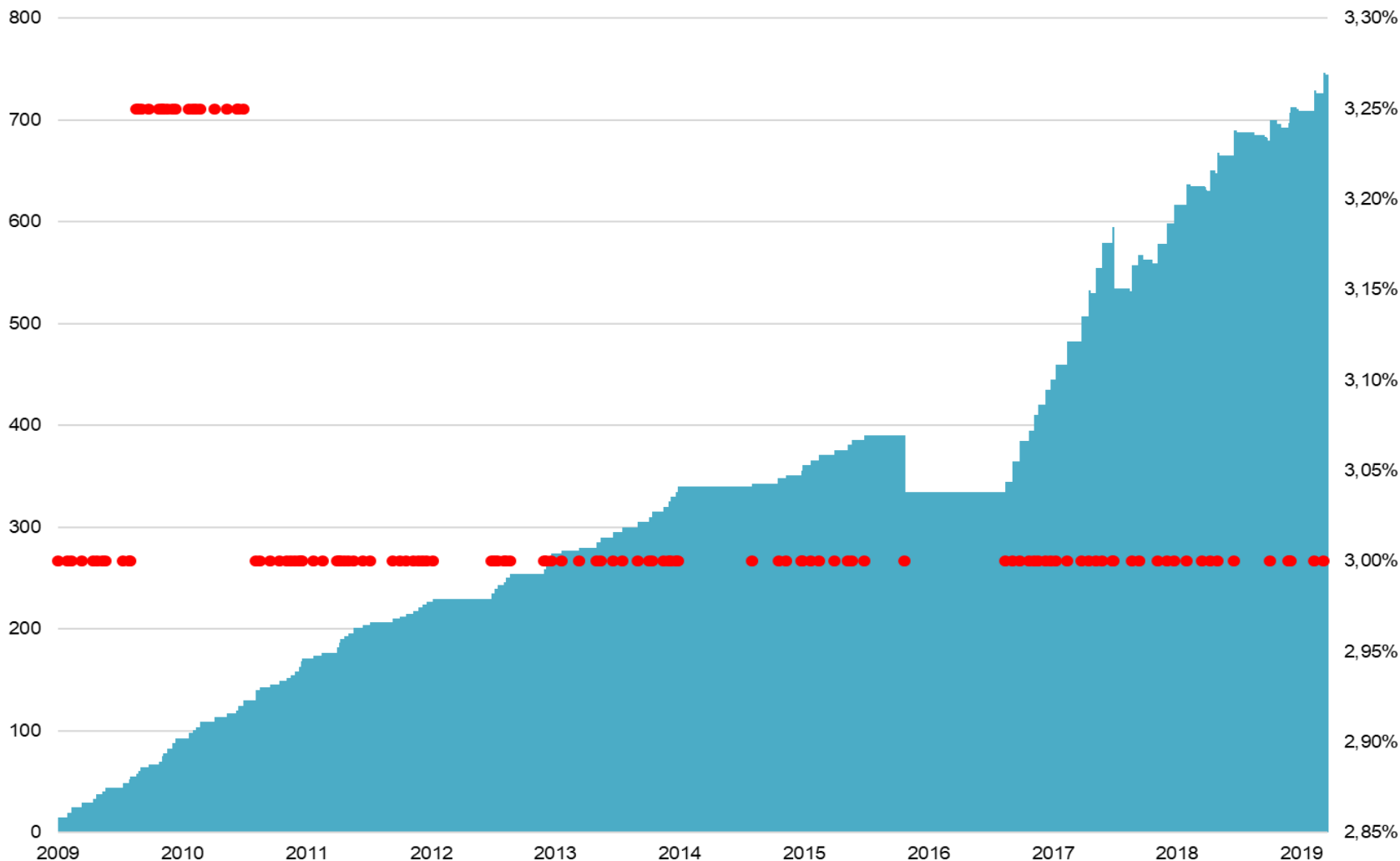
* Source: FIMSA

Corporate Security Market – Mortgage bonds

Mortgage bonds in circulation

Turnover (mln.AZn)

Profitability



Corporate bonds

Main parameters of mortgage bonds

Issuer: Azerbaijan Mortgage Fund

Duration: from 7 to 23 years

Issue form: coupon bonds

Coupon payment: semi-annual

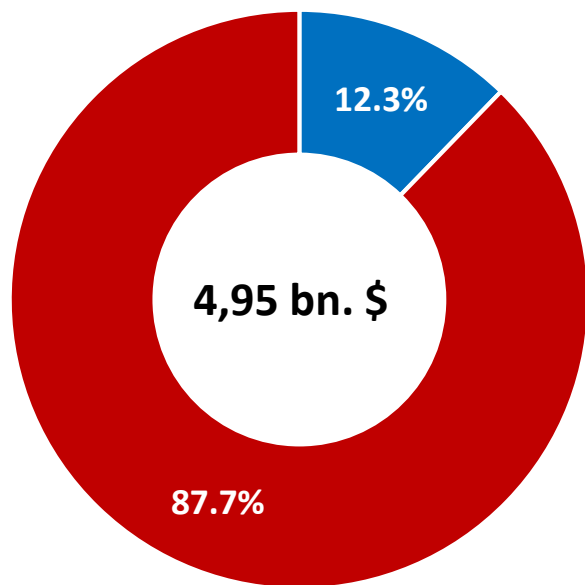
Nominal value: 1000 manat (588 USD)

Placement method: through direct auctions (*announcement of the price*)

Security market

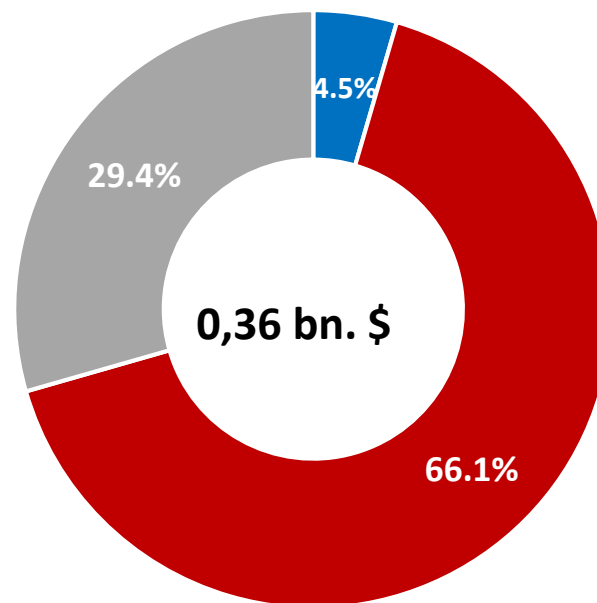
Repo transactions and derivatives (2018)

Volume of derivatives market and its structure



■ Commodity based ■ Currency based

Volume of repo operations and its structure



■ Repo with corporate bonds ■ Repo with government bonds
■ Repo with CBAR notes

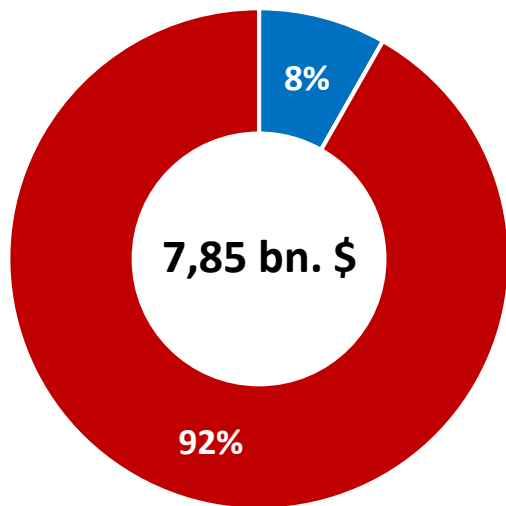
* Source: *FIMSA*

Government security market

Security market

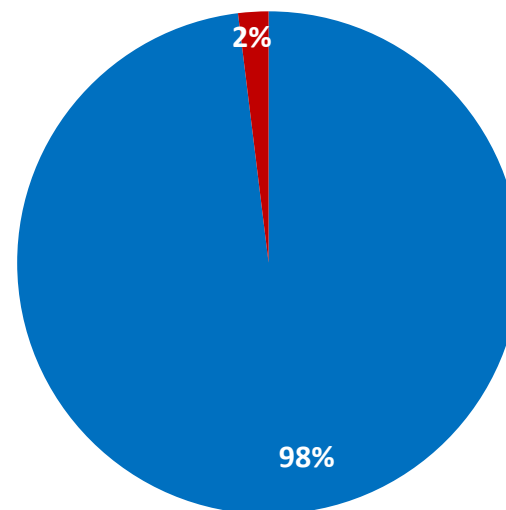
Government Security Transactions (2018)

Volume of government security market and its structure



■ Government Bonds ■ CBAR` notes

Primary and secondary market

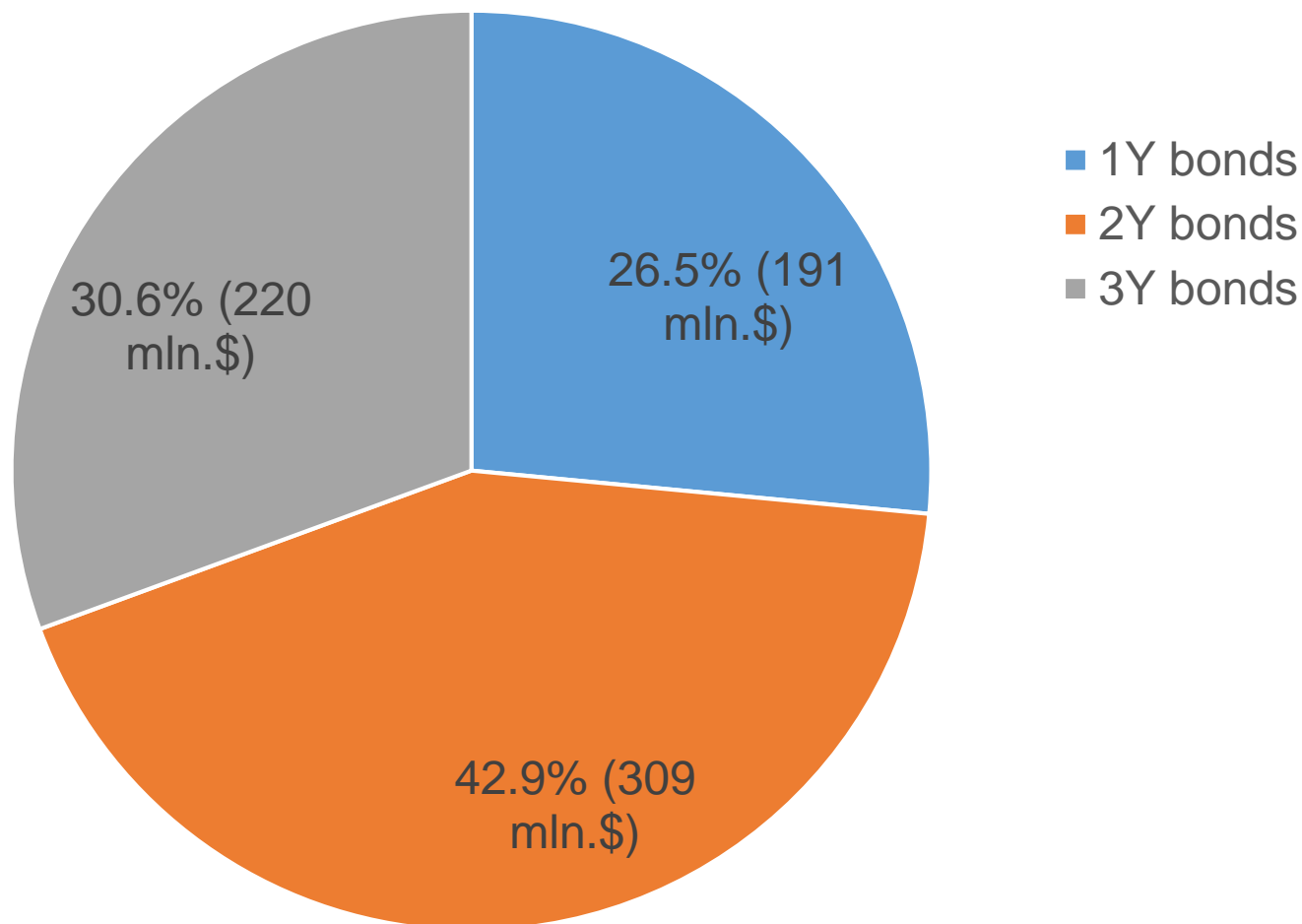


■ Primary market ■ Secondary market

* Source: *FIMSA*

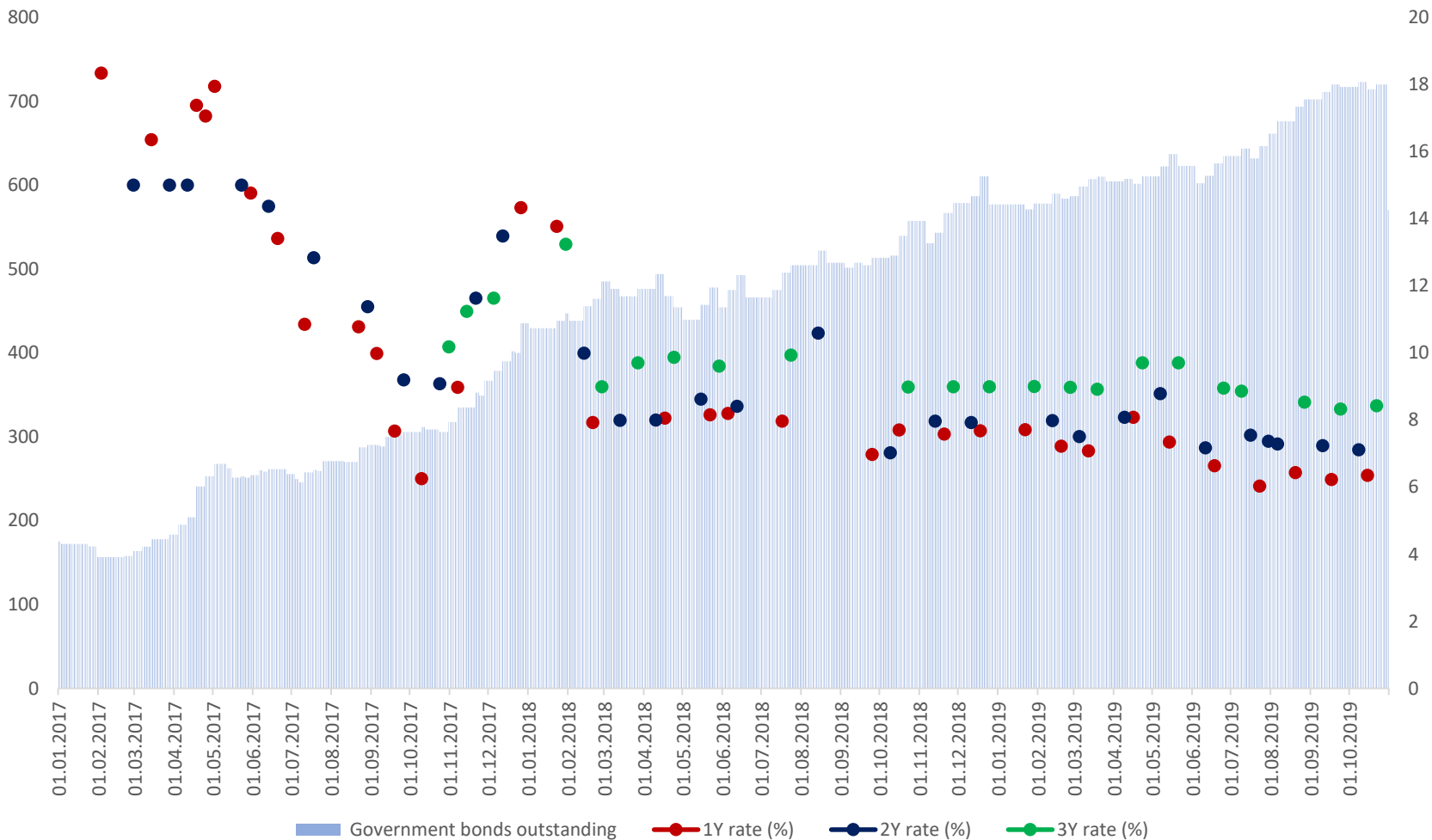
Security market

Government (MoF) bonds in circulation (10.2019)



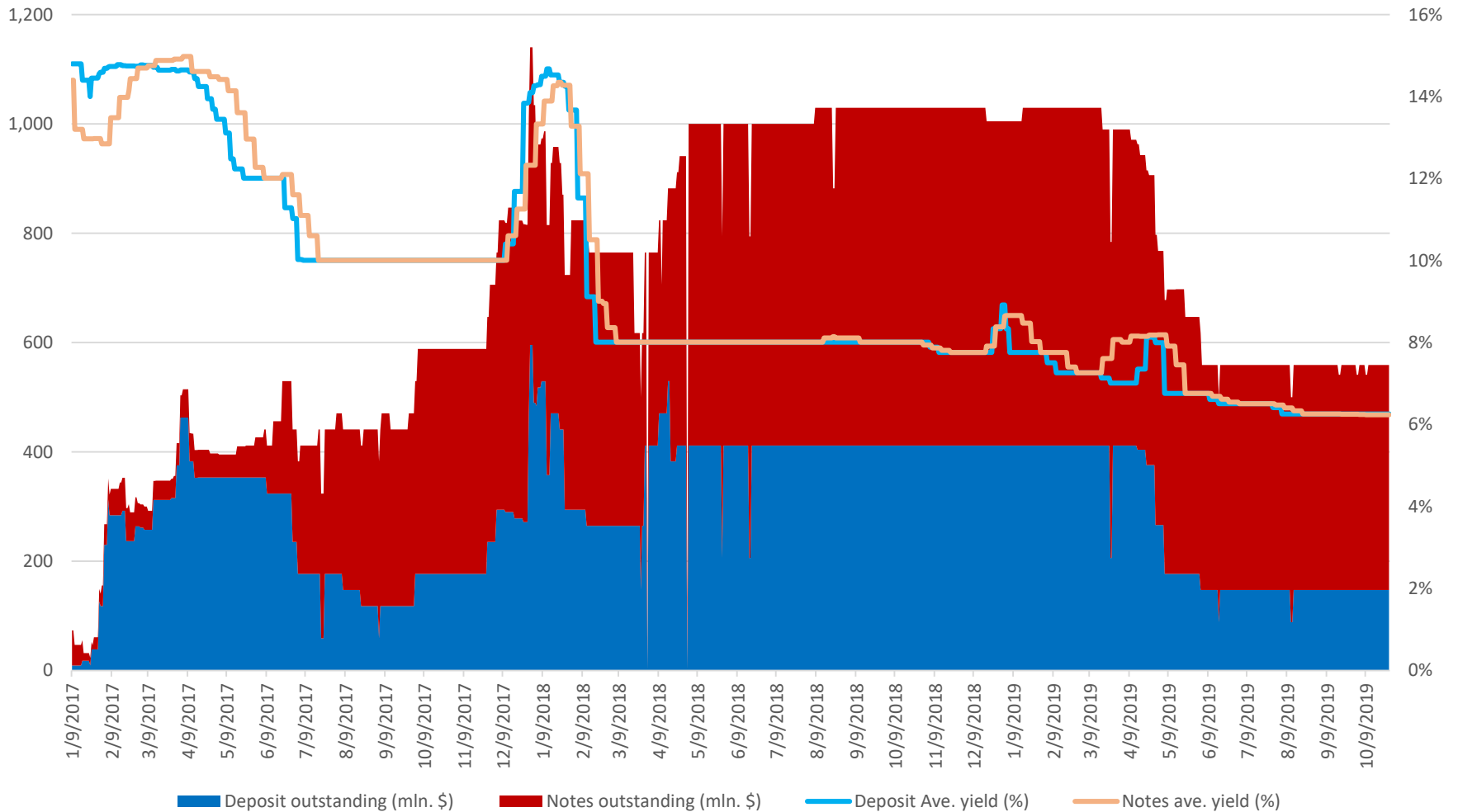
Security market

Government bonds in circulation, mln. \$ (10.2019)



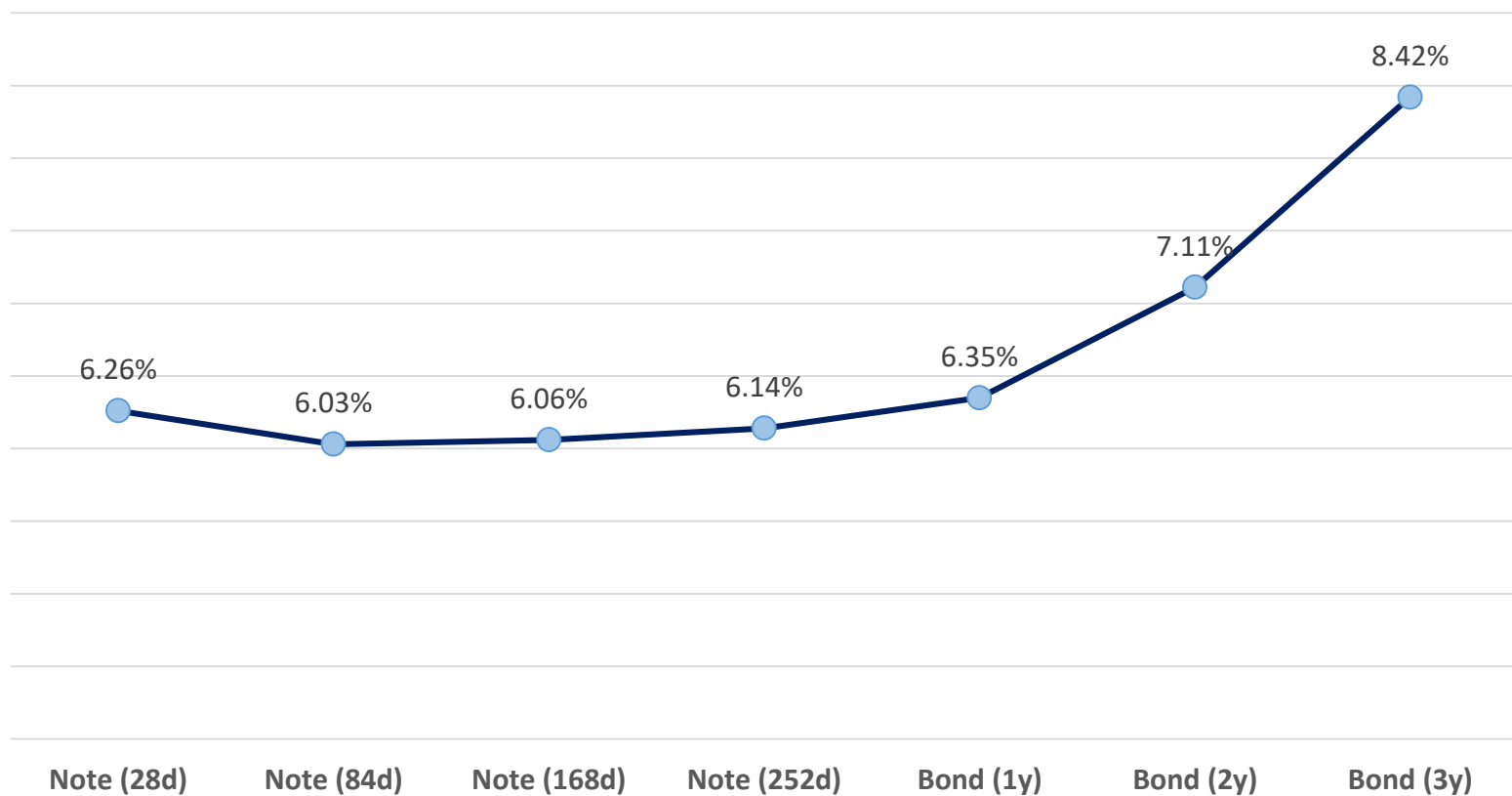
Security market

Outstanding sterilization tools by Central Bank



Security market

Yield Curve (10.2019)



* Source: *Baku Stock Exchange*

Conclusion and policy reactions

➤ Main existing problems:

- Government and corporate securities market is shallow and still developing
- Maturity of Government securities is short and not enough for the formation of yield curve
- Institutional investors don't exist in the market
- Access of foreign investors to local currency bond market is limited
- Secondary market is not well developed, so that securities are not liquid enough

Conclusion and policy reactions

➤ Key policies to address the current problems:

- Strategic Roadmap on Developing Financial Markets and Services was adopted
- Transformation of government`s foreign debt into local debt is underway (increasing volume and maturity of Government Bonds)
- Creating link with international capital markets (joining to Clearstream)
- Developing financial infrastructure (incl. integration to Bloomberg platform)

THANK YOU!