

## **Comment of Deputy Director of NBK Department of Financial Stability & Research**

### **Yerulan Mustafin Concerning Research of Liquidity of the Government Securities Market and Prospects for its Development**

The National Bank of Kazakhstan (NBK) has released its economic study «Liquidity of the Government securities market - Issues and Solution Prospects».

We have analyzed the government bond market in Kazakhstan for a past decade, having studied its development potential, options to improve its structure and functioning.

Today, the government securities market has low liquidity. Despite a significant volume of the primary market, transactions in the secondary market are extremely rare. However, analysis of the number of transactions in breakdown of individual issues reveals a moderate positive trend over the past few years. Number of transactions for individual issues has increased. This was achieved due to efforts of the Ministry of Finance of the Republic of Kazakhstan (MFRK) to expand a volume and improve liquidity of individual issues in order to include MFRK issues in international global bond indices.

In 2018, the NBK and the MFRK launched joint efforts to make the public stock market more attractive for foreign investors, among other things inclusion of the public stock of Kazakhstan in JP Morgan (GBI-EM) index of government bonds of emerging markets. In August 2020, international payment line was upgraded to Delivery versus Payment type for NBK notes and MFRK bonds. These measures contributed to an expansion of a share of non-residents in structure of holders of government securities of the Republic of Kazakhstan over the past year.

In general, liquidity in the government securities market has been gradually increasing over the past two years. During the current period, an important factor was a change in the debt issuing practice. This included a commitment to make large benchmark issues that helped boost liquidity. The public debt market was also supported by changes in structure of market participants, which enhances competition among dealers. Switch to a new yield curve model that improves transparency also offers a potential for increased liquidity in the future. Level of market liquidity continues to significantly depend on local environment: during periods of instability of interest rates liquidity falls down rapidly.

In terms of the development potential of Kazakhstan's market, extent of debt fragmentation, pattern of a maturity schedule and relative underdevelopment of the stock market may hamper further liquidity growth.

Transition to a new model of public debt management policy will ensure its sustainability and continuity. This article provides a brief overview of a structure of government securities market liquidity, helping to understand and arrange this multifaceted solution.

For more information about the study please visit our [website](#).