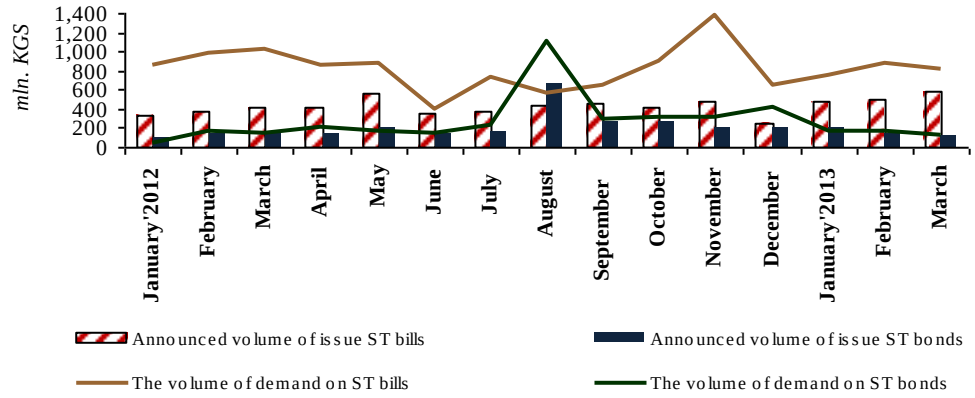
Market of State Treasury Bills and market of State Treasury Bonds

(1 quarter 2013)

Graph 1. Demand and placement of ST bills and ST bonds



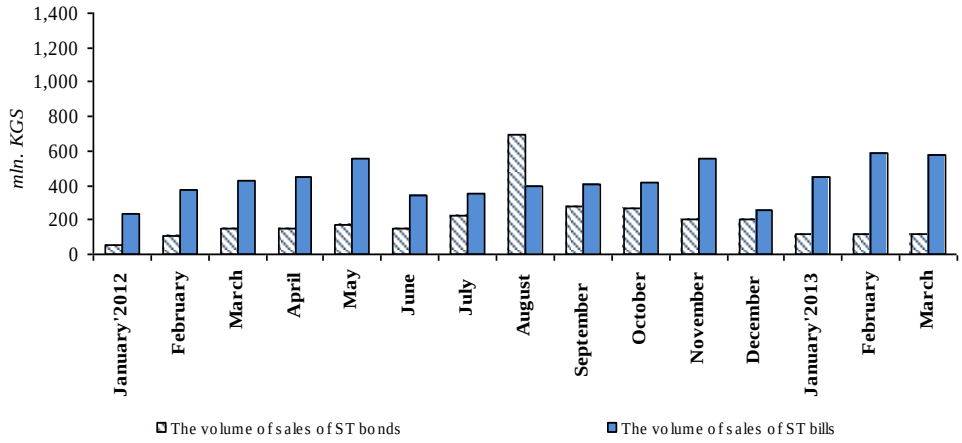
The main objectives of the issuance of government securities are the coverage of the national budget deficit as well as settlement and restructuring of the debt of the Government of the Kyrgyz Republic.

Execution of the state budget for the first quarter of this year was characterized by the traditional surplus of 5.2% of GDP. However, given the uneven nature of public expenditure within the year, the Government actively borrowed money in the domestic financial market in the first quarter of this year.

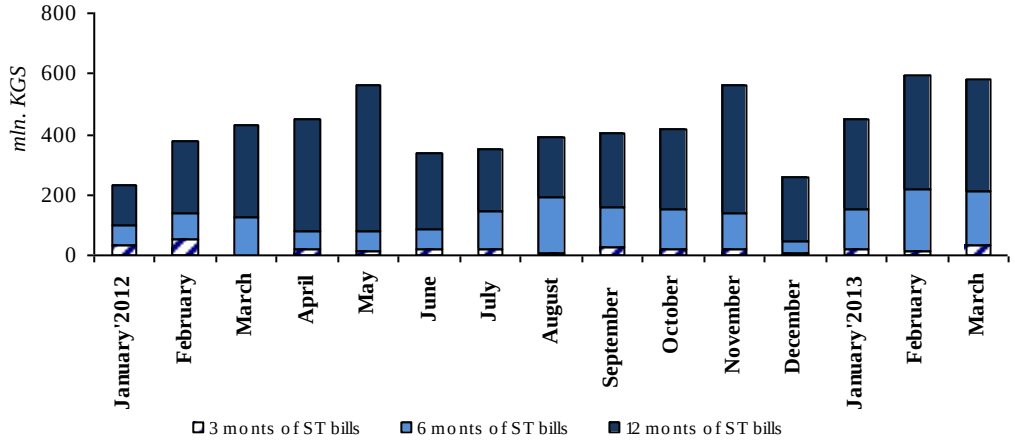
The total volume of placement of government treasury bills (hereinafter STBills) of the Ministry of Finance increased compared to the same period in 2012 by 56.6 percent and constituted 1.6 billion KGS. At the same time, the volume of demand decreased by 14.6 percent and constituted 2.5 billion KGS. Volume of sales increased due to increased sales of 6 and 12-month securities. Thus, the sale of 6-month STBills increased by 1.8 times and constituted 516.6 million KGS; sales of 12-month STBills increased by 55.5 percent and constituted 1.0 billion KGS. The sale of 3-month bills, in contrast, decreased by 20.4 percent and constituted 66.3 million KGS.

The volume of demand for state treasury bonds (hereinafter STBonds) amounted to 453.4 million KGS having increased compared to the same period in 2012 by 26.1 percent. On this background, the supply has increased and, accordingly, the volume of sales increased. Thus, sales in the first quarter reached 356.0 million KGS having increased by 16.6 percent.

Graph 2. The volume of sales of Stbills and STbonds

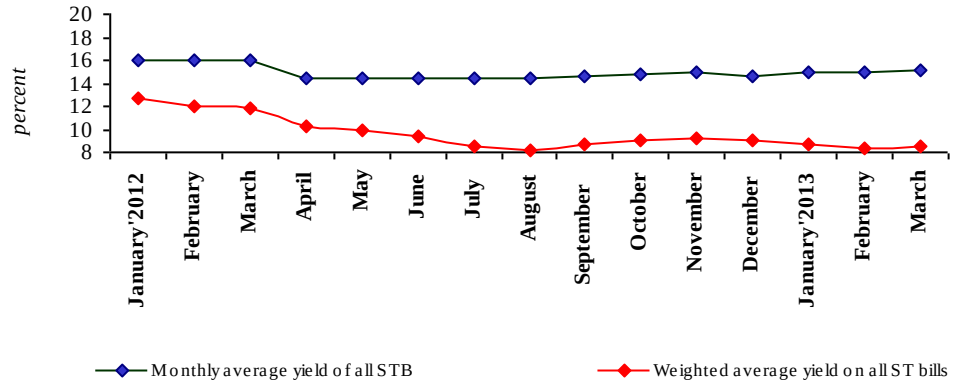


Graph 3. The dynamics of sales of ST bills



The overall average monthly yield on all types of STBills in the reporting period was formed at the rate of 8.5 percent having decreased by 3.7 percentage points within a year. The yield on 12-month securities in the first quarter fell by 3.8 percentage points and constituted 9.6 percent; 6-month STBills by 4.8 percentage points to 6.7 percent; the 3-month STBills by 1.1 percentage points and amounted to 5.4 percent. Monthly average yield of STBonds amounted to 15.0 percent having decreased compared to the same period in 2012 by 1.0 percentage points.

Graph 4. Monthly average yield of securities



The volume of STBonds and STBills in circulation continued to grow. The volume of STBills in circulation since the beginning of the year rose to 4.6 billion KGS (+11.3 percentage points); the increase only affected the portfolio of resident legal entities (+6.6 percentage points) and constituted 7.7 percent. The share of commercial banks, on the other hand, decreased by 3.9 percentage points; the share of institutional investors also fell by 2.7 percentage points; while the share of individuals remained unchanged. In terms of share of portfolios of STBills holders, the share of commercial banks decreased from 83.1 to 79.2 percent; the share of institutional investors decreased from 15.6 to 12.9 percent.

The volume of STBonds in circulation reached 5.1 billion KGS having increased since the beginning of the year by 6.8 percent. At the same time, there was a slight increase in the share of commercial banks by 2.3 percentage points (to 54.6 percent); the share of institutional investors decreased by 2.2 percentage points and developed at a rate of 45.4 percent. The share of resident legal entities remained at the level of 0.1 percent.

The net financing of the budget deficit in the first quarter of 2013 increased significantly (3.8 times) to 800.7 million KGS. In the reporting period, the Ministry of Finance also made significant recoveries of previously issued STBills in the amount of 1.9 billion KGS (with an increase of 2.7 times). In this regard, efficiency of STBills market from the beginning of the year calculated as the ratio of the total value of net financing to total volume of sales at an actual cost increased compared to the same period of the end of March by 7.0 percentage points, reaching 30.1

percent.

Net financing of the budget of STBonds in the reporting period increased by 19.9 times compared to the same period of 2012 and amounted to 249.1 million KGS.

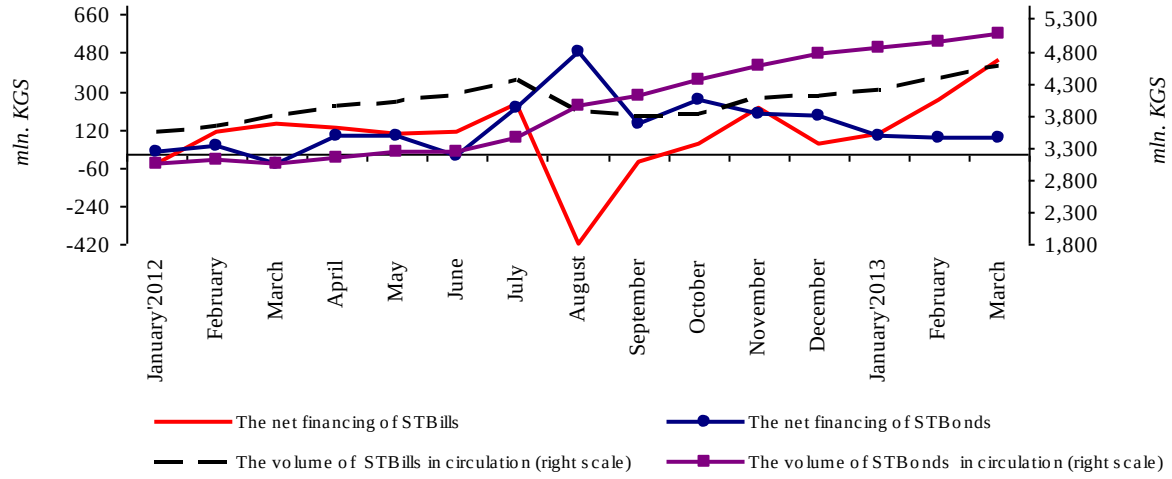
To a large extent, an increase in government securities in circulation is explained by the need to attract additional funds by the state to cover operating costs. Despite the fact that the issue of debt obligations is a handy tool for the state that allows attracting the required amount quickly and flexibly, there are negative consequences of the debt financing of the budget.

By purchasing government securities, market entities limit their investment in the real sector of economy. As a result, displacement of funds takes place, the investment activity decreases, which adversely affect the prospects of economic growth in the future.

In addition, a relatively quick way to secure funding may increase state budget expenditure, which ultimately will have a negative impact on inflation processes in the country.

Adverse effects of excessive growth of domestic debt are also associated with the stage of its redemption.

Graph 5. The dynamics of STBonds and STBills in circulation and net financing



The average auction volume of demand[1] of STBonds in the reporting period amounted to 151.1 million KGS having increased by 26.1 percent compared to the same period of 2012; the average auction volume of sales also increased by 16.6 percent and constituted 118.7 million KGS. The average auction of STBills volume of demand decreased by 17.0 percent and constituted 204.4 KGS; the average auction volume of sales of bills, on the contrary, increased by 57.9 percent and constituted 135.1 million KGS.

The STBills duration index increased from 166 to 168 days through increasing the share of 6 and 12-month STBills in the total volume of issued STB.

In the reporting period transactions with STBills on the secondary market were carried out in the amount of 30.3 million KGS. In the reporting period transactions with STBonds in the secondary market were not committed.

At the end of the reporting period, the concentration index[2] of the primary market of STBonds constituted 0.44, which indicates to a high level of concentration and corresponds to the presence of two investors in the market with equal shares.

[1] This index is used instead of the general volume f demand/supply for the month since the number of auctions within a month is a constant value.

[2] This index indicated to the degree of concentration of securities in the bank portfolio. The concentration index is calculated with the use of the Herfindahl-Hirschman method, by adding index share squares in the total volume. The index values vary from 0 to 1. Index value below 0.10 corresponds to the low value of concentration, from 0.10 to 0.18 – to the medium level; and above 0.18 – to the high level of concentration. For example, the concentration index of 0.5 is equivalent to the presence of 2 market players with equal shares, 0.3 – to the presence of 3 players, etc.

Table 1. The dynamics of average montly yield of ST bills

percent

Period	Weighted average yield	By types of urgency		
		3-month ST bills	6-month ST bills	12-month ST bills
January'2012	12.7	6.4	12.5	14.3
February	12.0	6.5	11.3	13.4
March	11.9	-	10.7	12.3
April	10.3	6.5	8.8	10.8
May	9.9	6.6	8.1	10.2
June	9.4	6.6	7.8	10.0
July	8.5	6.3	7.3	9.4
August	8.2	6.0	7.1	9.4
September	8.7	5.5	7.0	9.9
October	9.0	6.1	7.2	10.2
November	9.3	5.7	7.0	10.1
December	9.0	5.2	6.8	9.5
January'2013	8.6	5.6	6.7	9.7
February	8.4	5.3	6.5	9.5
March	8.5	5.3	6.8	9.5

"-" all announced auctions were declared invalid

Table 2. The structure of ST bills holders at face value

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Date	TOTAL	Including											
		NBKR		Commercial Banks		Institutional Investor		Resident Individuals		Resident companies		Non-resident individuals	
		Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share	Amount	Share
01.02.2012	3,525,973.0	0.0	0%	2,801,197.9	79.4%	570,286.1	16.2%	17,172.4	0.5%	137,316.6	3.9%	0.0	0.0%
01.03.2012	3,642,003.0	0.0	0%	2,839,026.4	78.0%	637,663.9	17.5%	20,192.3	0.6%	145,120.4	4.0%	0.0	0.0%
01.04.2012	3,802,423.0	0.0	0%	3,005,516.9	79.0%	631,709.3	16.6%	18,898.8	0.5%	146,298.0	3.8%	0.0	0.0%
01.05.2012	3,931,115.0	0.0	0%	3,155,496.6	80.3%	623,228.2	15.9%	21,541.1	0.5%	130,849.1	3.3%	0.0	0.0%
01.06.2012	4,018,528.0	0.0	0%	3,174,357.1	79.0%	700,074.6	17.4%	17,004.5	0.4%	126,011.8	3.1%	1,080.0	0.03%
01.07.2012	4,120,877.0	0.0	0%	3,210,203.8	77.9%	780,516.2	18.9%	14,226.7	0.3%	114,850.3	2.8%	1,080.0	0.03%
01.08.2012	4,358,327.0	0.0	0%	3,288,649.3	75.5%	953,330.3	21.9%	13,843.2	0.3%	101,424.2	2.3%	1,080.0	0.02%
01.09.2012	3,850,475.0	0.0	0%	3,156,830.1	82.0%	631,022.4	16.4%	8,565.8	0.2%	52,976.7	1.4%	1,080.0	0.03%
01.10.2012	3,783,180.0	0.0	0%	3,104,572.8	82.1%	610,877.4	16.1%	7,601.3	0.2%	59,048.5	1.6%	1,080.0	0.03%
01.11.2012	3,824,430.0	0.0	0%	3,136,291.6	82.0%	636,080.9	16.6%	5,034.0	0.1%	45,943.5	1.2%	1,080.0	0.03%
01.12.2012	4,056,400.0	0.0	0%	3,380,671.7	83.3%	616,562.8	15.2%	7,139.0	0.2%	50,946.5	1.3%	1,080.0	0.03%
01.01.2013	4,099,690.0	0.0	0%	3,406,475.2	83.1%	638,306.1	15.6%	7,119.0	0.2%	46,709.7	1.1%	1,080.0	0.03%
01.02.2013	4,201,340.0	0.0	0%	3,539,406.2	84.2%	609,356.1	14.5%	4,788.0	0.1%	46,709.7	1.1%	1,080.0	0.03%
01.03.2013	4,371,370.0	0.0	0%	3,641,839.9	83.3%	571,776.1	13.1%	5,289.0	0.1%	151,385.0	3.5%	1,080.0	0.02%
01.04.2013	4,562,700.0	0.0	0%	3,614,332.9	79.2%	588,790.7	12.9%	5,289.0	0.1%	353,207.4	7.7%	1,080.0	0.02%

Table 3. The structure of the STB holders at face value

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Date	TOTAL	Including							
		NBKR		Commercial Banks		Institutional Investors		Resident companies	
		Amount	Share	Amount	Share	Amount	Share	Amount	Share
January'2012	3,047,170.0	0.0	0.0%	1,868,428.9	61.3%	1,175,593.9	38.6%	3,105.2	0.1%
February	3,092,940.0	0.0	0.0%	1,914,198.9	61.9%	1,175,593.9	38.0%	3,105.2	0.1%
March	3,055,690.0	0.0	0.0%	1,921,038.9	62.9%	1,131,503.9	37.0%	3,105.2	0.1%
April	3,145,470.0	0.0	0.0%	2,011,168.9	63.9%	1,131,153.9	36.0%	3,105.2	0.1%
May	3,234,570.0	0.0	0.0%	2,099,268.9	64.9%	1,131,153.9	35.0%	4,105.2	0.1%
June	3,229,690.0	0.0	0.0%	1,994,368.9	61.8%	1,231,173.9	38.1%	4,105.2	0.1%
July	3,449,700.0	0.0	0.0%	2,164,368.9	62.7%	1,281,183.9	37.1%	4,105.2	0.1%
August	3,936,450.0	0.0	0.0%	2,563,273.2	65.1%	1,369,974.6	34.8%	3,160.2	0.1%
September	4,092,450.0	0.0	0.0%	2,441,373.2	59.7%	1,647,874.6	40.3%	3,160.2	0.1%
October	4,362,550.0	0.0	0.0%	2,441,473.2	56.0%	1,917,874.6	44.0%	3,160.2	0.1%
November	4,561,550.0	0.0	0.0%	2,476,473.2	54.3%	2,081,874.6	45.6%	3,160.2	0.1%
December	4,750,550.0	0.0	0.0%	2,486,473.2	52.3%	2,260,874.6	47.6%	3,160.2	0.1%
January'2013	4,841,300.0	0.0	0.0%	2,536,223.2	52.4%	2,301,874.6	47.5%	3,160.2	0.1%
February	4,955,200.0	0.0	0.0%	2,650,123.2	53.5%	2,301,874.6	46.5%	3,160.2	0.1%
March	5,075,200.0	0.0	0.0%	2,770,123.2	54.6%	2,301,874.6	45.4%	3,160.2	0.1%