

Privatization and Capital Markets Development in Emerging Markets

USAID, Global Bureau
Office of Emerging Markets

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Global Stock Market Capitalization

Global stock market capitalization has tripled in just the last decade, with the most rapid developments taking place in the "Emerging Markets". If you count the "Big Emerging Markets" (e.g. Mexico, Argentina, Taiwan, Chile, Malaysia, etc.) together with the "Pre-Emerging Markets" (e.g. Egypt, India, Indonesia, Philippines, Poland, etc.), they together make up 11% of the global total, vs. only 4% ten years ago.

"Pre-Emerging Markets" -- GNP per capita less than \$3,000

"Big Emerging Markets" -- GNP per capita between \$3,000 and \$10,000 and including China and Israel

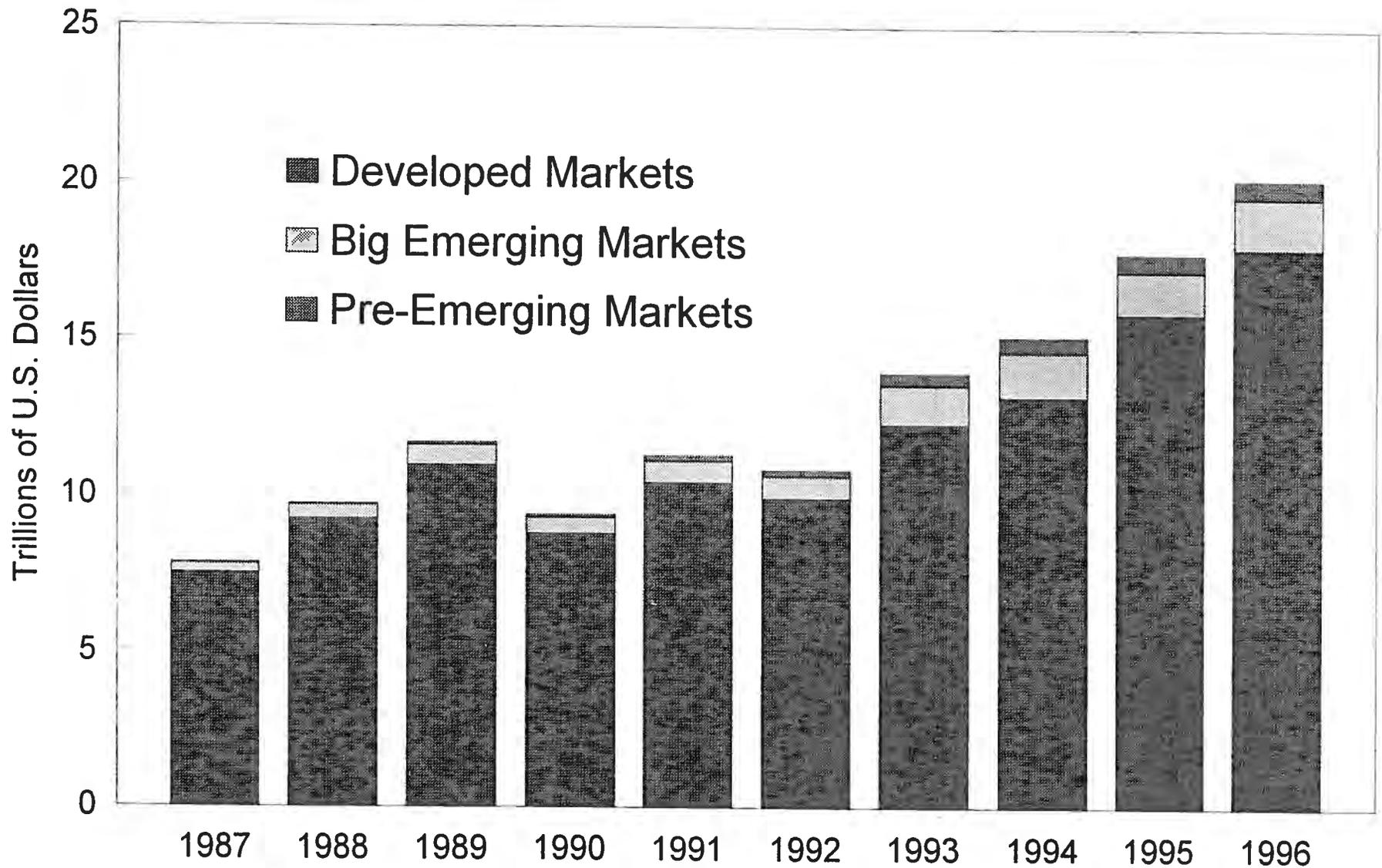
"Developed Markets" -- GNP per capita greater than \$10,000

Notes: Market capitalization is measured as of the end of the year. All local currencies were converted to U.S. dollars using end of the year exchange rates.

Source: IFC "Emerging Stock Market Factbook." 1995, 1996, 1997.

Global Stock Market Capitalization

Trillions of U.S. Dollars



Stock Market Capitalization as a Share of GDP, 1987 Versus 1995

(Logarithmic Scales)

The last decade has seen two trends: rapid growth in stock market capitalization in all markets, and the creation of new stock markets in many of the developing countries. There is no single way to determine how "developed" a stock market is. But one common indicator is to compare the size of the stock market with the size of the country's GDP.

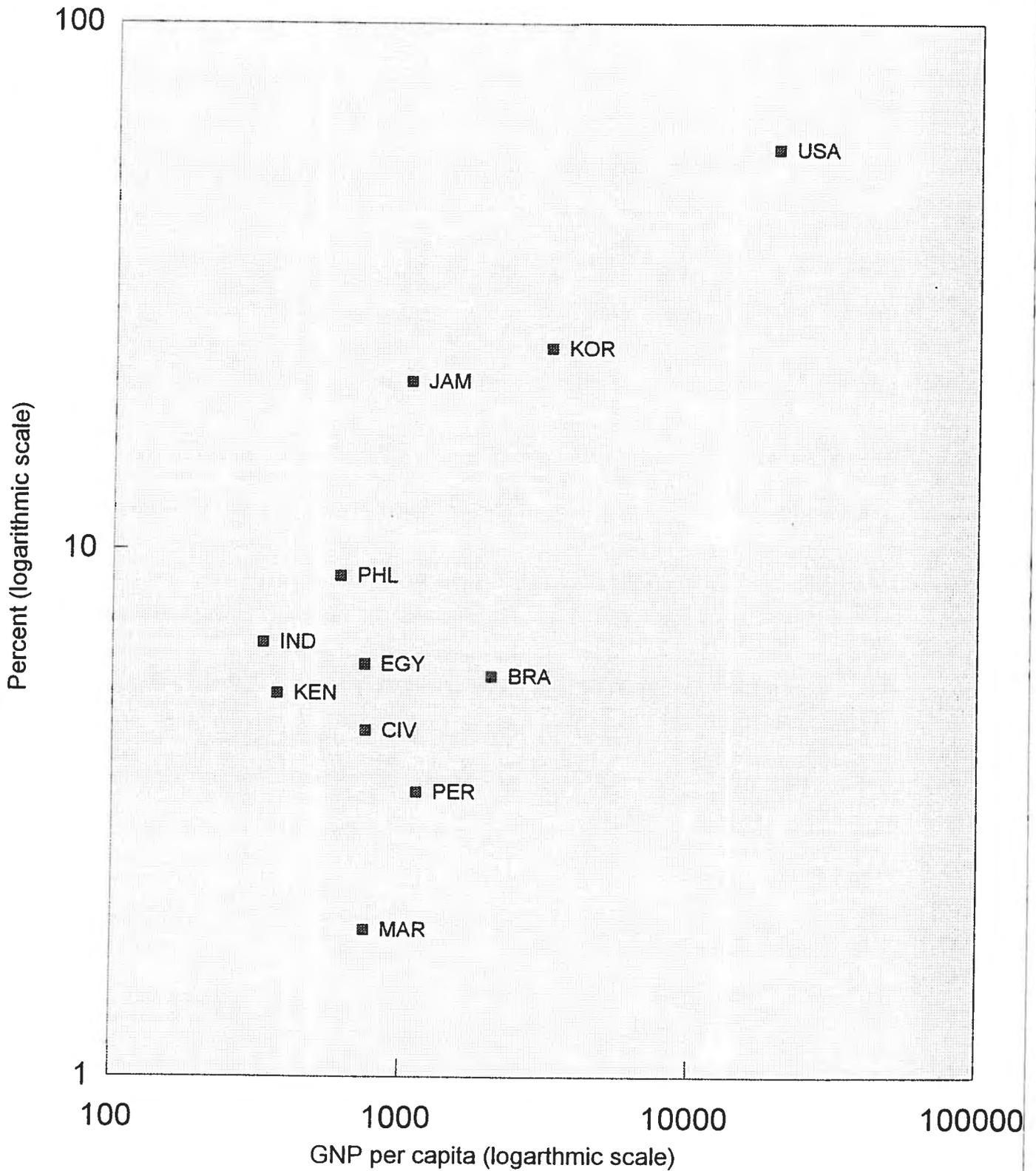
The most developed markets in the world (such as in the U.S., U.K. and Japan) might have stock market capitalization (the total value of all listed shares) roughly equal to the size of their economy. Emerging markets, by contrast, might have smaller stock markets relative to the country's economic size. And the so-called "Pre-Emerging Markets" often have only fledgling stock markets with very few listed companies.

For example, the combined market capitalization of all U.S. stock markets just last year passed the 100% mark when compared vs. GDP. Here are some other countries by comparison:

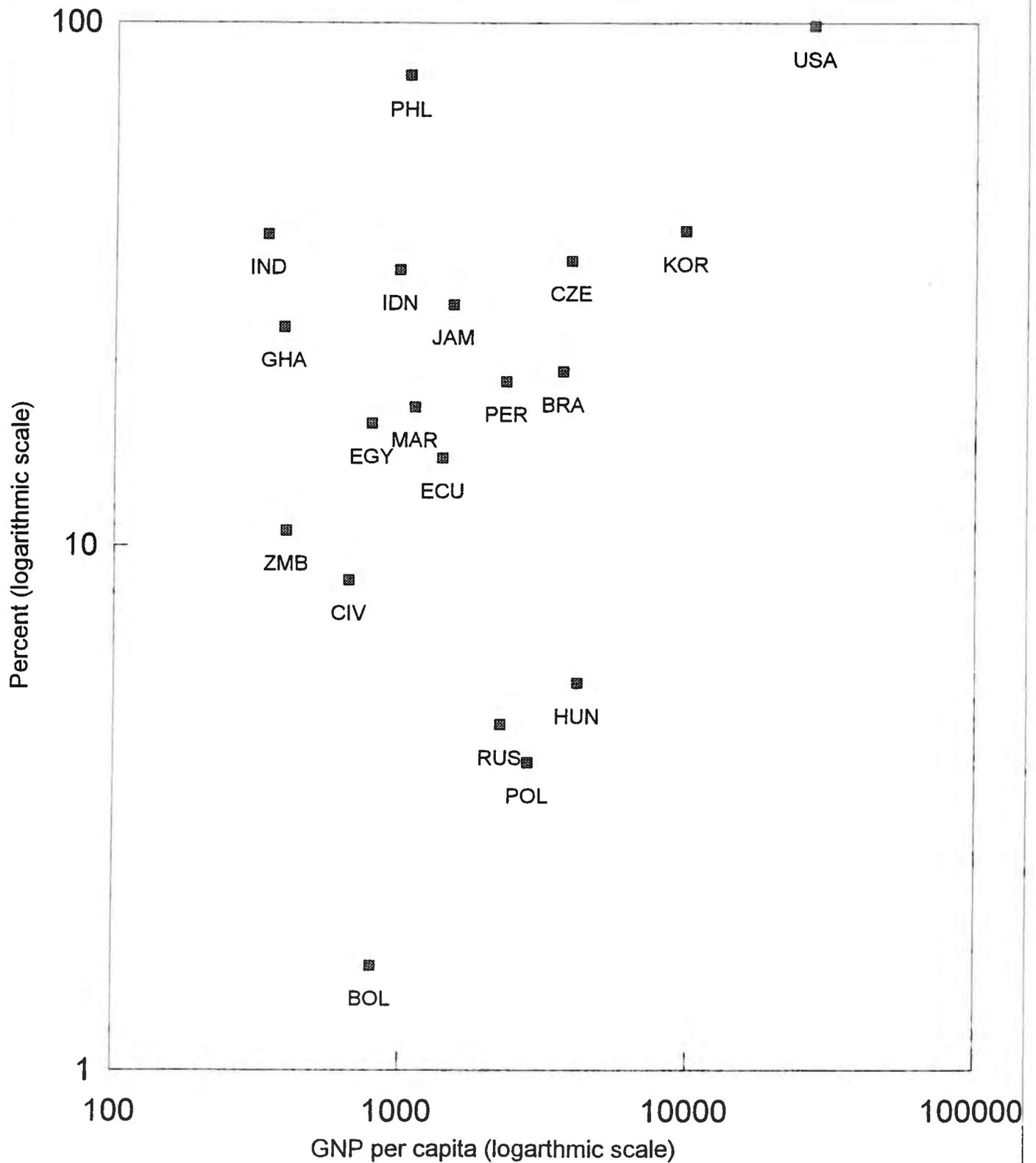
Stock Market Capitalization as a Share of GDP

<u>Country</u>	<u>1987</u>	<u>1995</u>
Hong Kong	110%	211%
United States	58%	99%
Mexico	6%	36%
Malaysia	59%	261%
Egypt	6%	17%
India	7%	39%
Philippines	9%	79%

Stock Market Capitalization as a Share of GDP 1987



Stock Market Capitalization as a Share of GDP 1995



Stock Market Development Promotes Economic Growth -- (Logarithmic Scales)

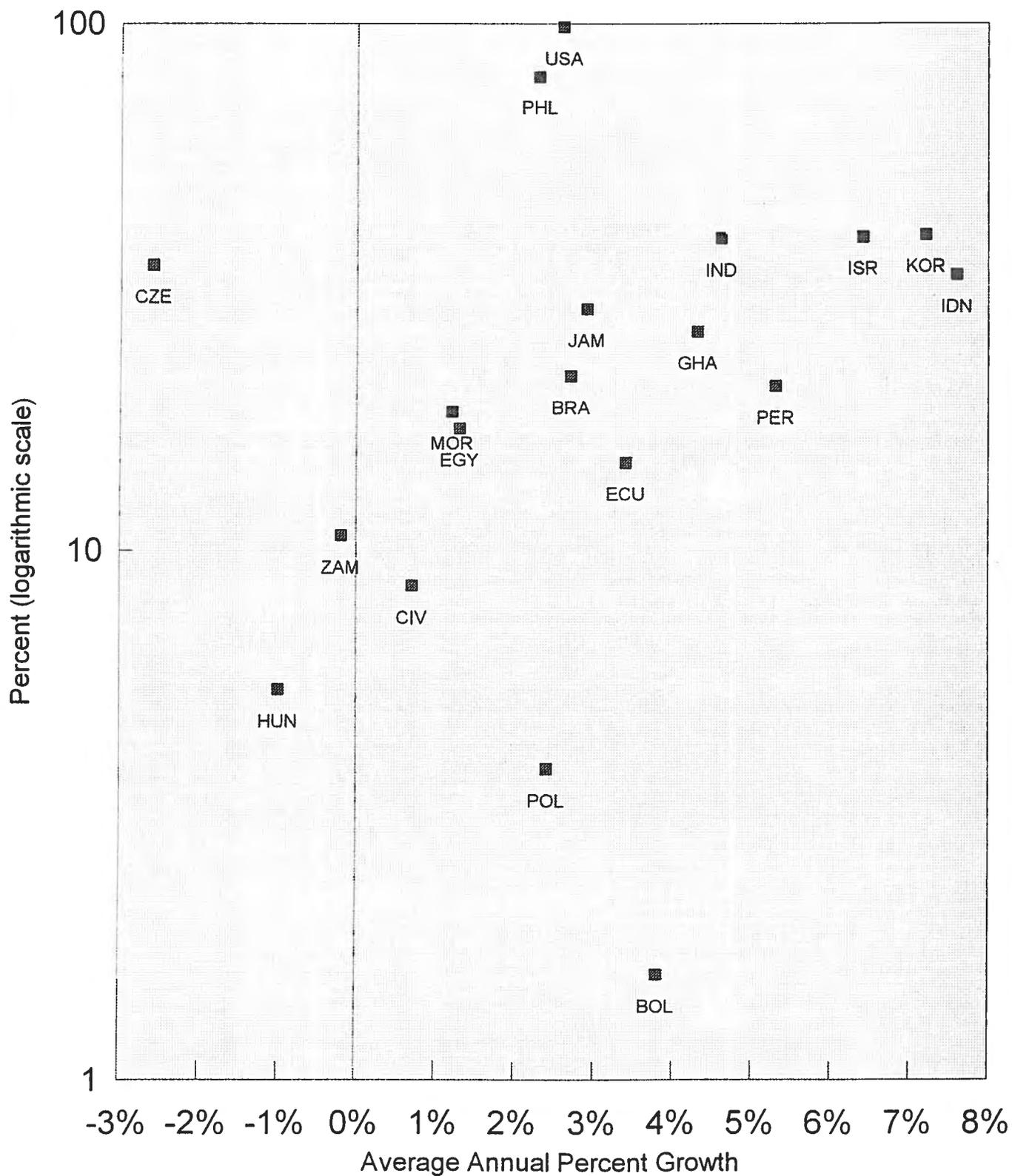
There is a loose relationship between stock market "development" (again, market cap/GDP) and economic growth.

Outliers: Czech Republic and Hungary have poor growth records due to their economic transition from socialism. Preliminary growth data show much more positive growth in recent years.

Note: Unfortunately, economic growth data for the last two years, 1996 and 1997, are generally not yet available.

Bolivia is a notable outlier because its stock market is still in early stages of development and has few companies of value listed.

Stock Market Capitalization as a Share of GDP, 1995 Vs. Economic Growth, 1990-1995



Privatization Revenues as a Share of Total Government Revenues Vs. Stock Market Capitalization as a Share of GDP (from 1991 to 1996)

These six countries include examples of "pre-emerging markets" where USAID assisted privatization programs. India, where not much significant privatization has taken place yet, is included for contrast.

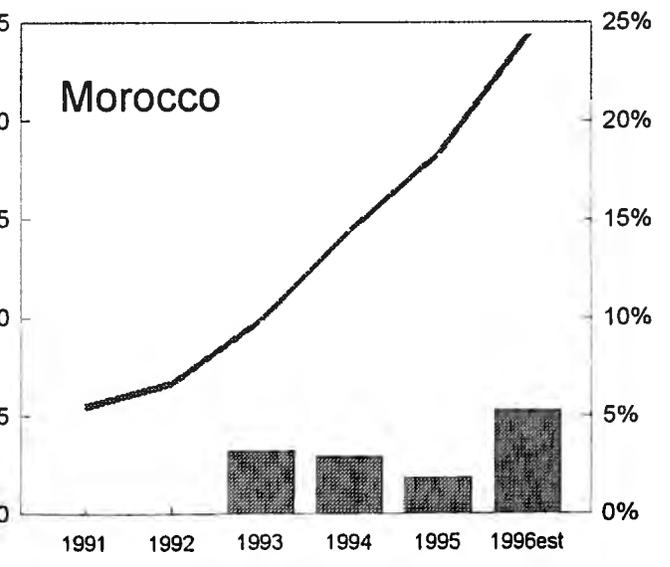
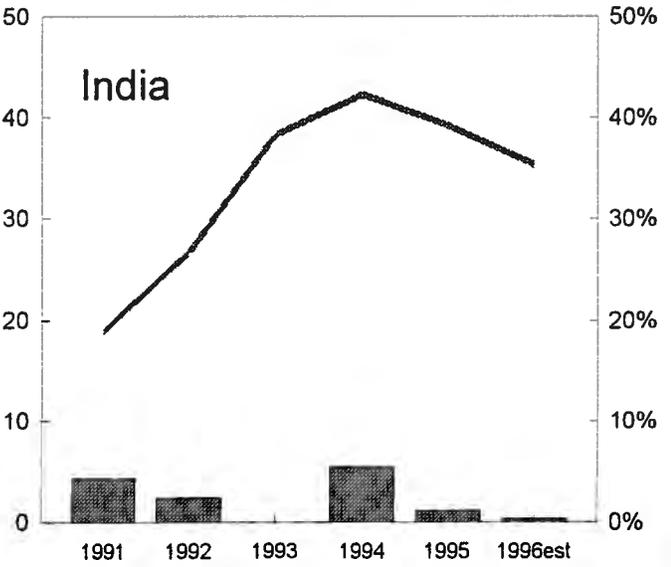
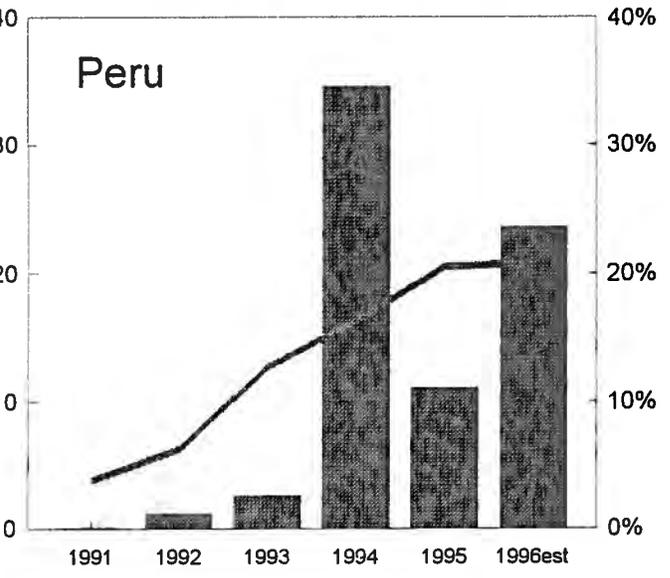
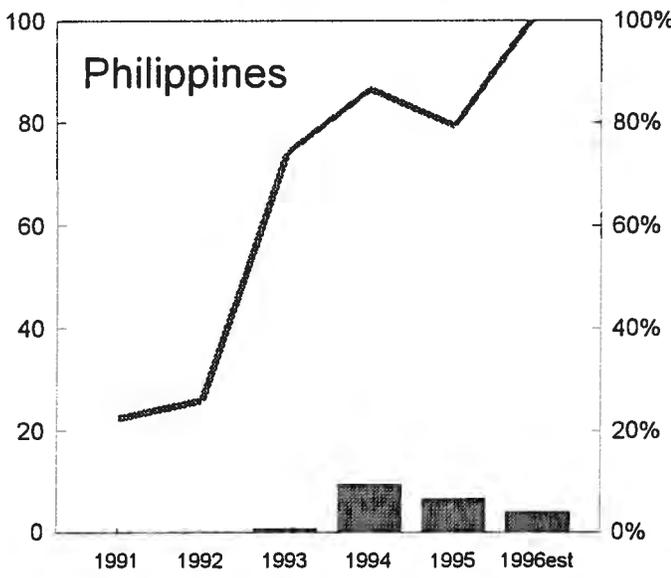
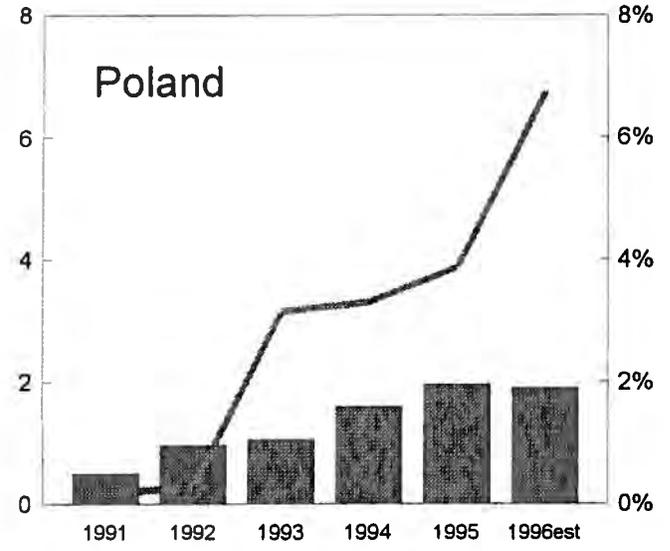
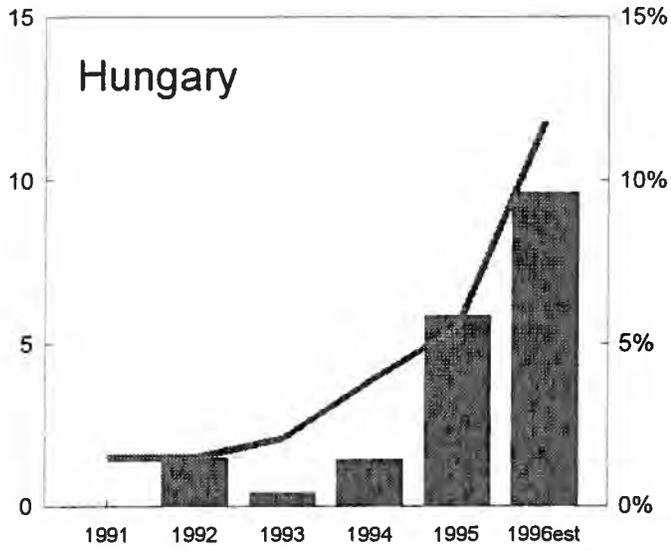
Privatization activity has promoted the development of stock markets, particularly in the "Pre-Emerging Markets", where there are initially few companies listed and generally thin trading. IPOs of SOEs draw in initial capital which attract greater participation, in general, from the private sector.

Privatization activity generally has a positive relationship on capital market development, although the degree of the impact varies from country to country. The relationship is usually much stronger where markets are small.

Peru: 1994 was the sale of two big telecom companies.

Sources: Privatization revenues are from the IMF Staff Reports and market capitalization is from the IFC's Emerging Stock Market Factbook. 1996 data are estimated by the IMF.

**Privatization Revenues as a Percent of All Government Revenues (Bar)
and Stock Market Capitalization as a Percent of GDP (Line)**



Public Share of GDP and Employment and Privatization in Poland

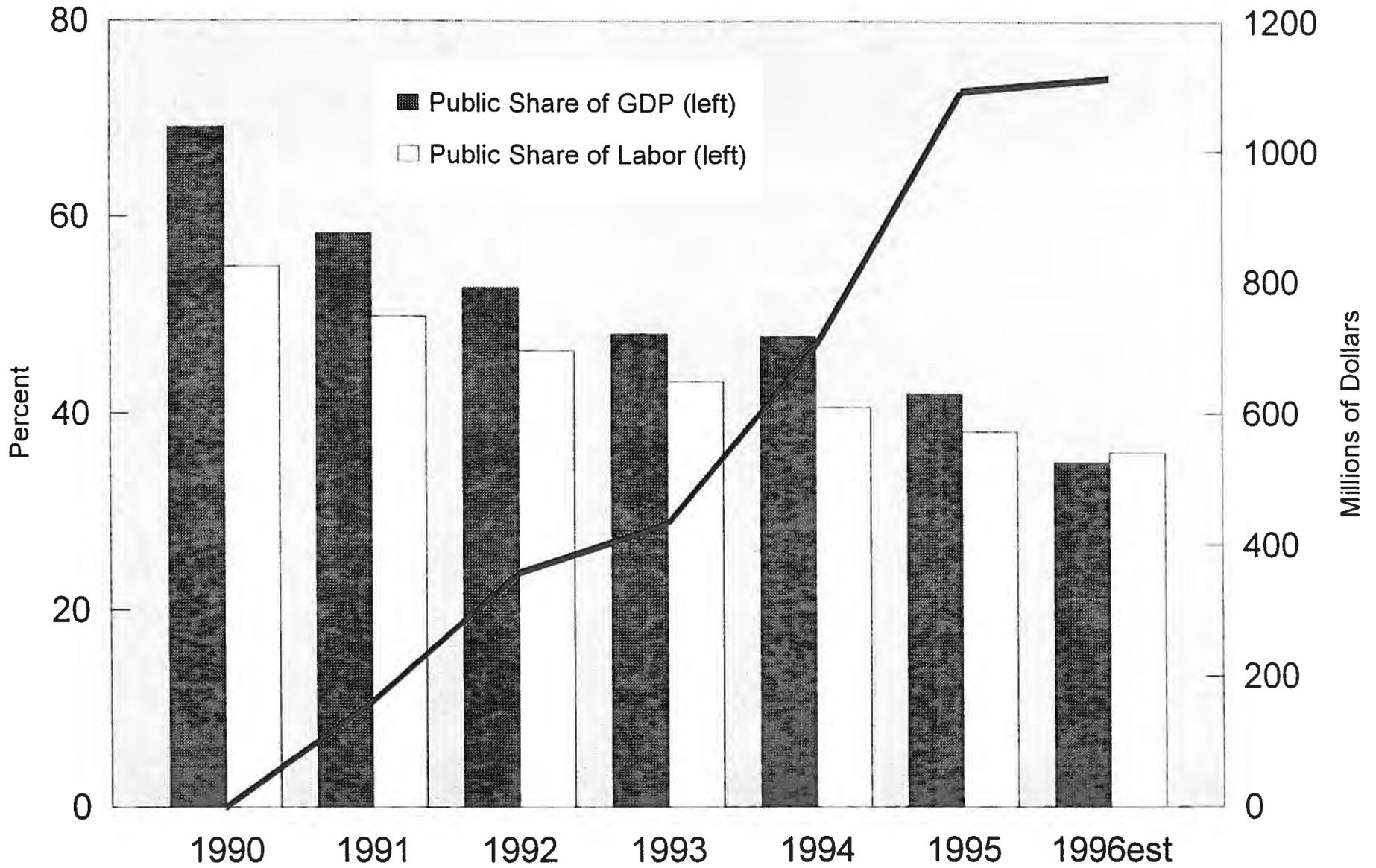
Privatization has successfully contributed to the reduction of the public sector in commercial economic activity.

State-owned enterprises now control less than 50% of the economy.

Privatization receipts collected by the Government represent only part of Poland's privatization activity -- a lot of privatization involved liquidations, transfers, leases, and non-cash (voucher) transactions.

Source: IMF Staff Report on Poland, 1997.

Public Share of GDP and Employment and Privatization In Poland



Country Talking Points (based on 1997 edition of Privatisation International's Yearbook)

Hungary

- * Of the 1900 SOEs in existence in 1991:
 - about 500 have been placed in liquidation;
 - about 900 have been fully-privatized;
 - about 250 have been partially-privatized (state ownership reduced to below 50%);
 - about 250 remain.
- * In 1996, nearly one third of the privatization cash proceeds were raised through capital market transactions.
- * Since 1990, the public sector's role in the economy has been reduced from 90% to about 25%.
- * About 91% of market capitalization of the Budapest Stock Exchange is made up of former SOEs.

Indonesia

- * Dominated by a few large IPOs (banks and telecoms) which had both domestic and international tranches.
- * Government able to pay off \$2.6 billion in foreign debt, but increasingly the goal is capital markets development.
- * Infrastructure and mining concerns are the next big privatizations.

Morocco

- * Active since the early 1990s. By the end of 1996, more than 50 hotels and firms, for \$1.1 billion in revenues.
- * Broadening share ownership: domestic investors on the Casablanca Stock Exchange increased from 10,000 to 300,000.
- * Previously focused on smaller, profit-making enterprises. Now they will include larger, "strategic" SOEs.

Peru

- * 125 SOEs privatized since 1992, for \$7 billion paid to the Government and another \$7 billion in invested capital.
- * Government revenues and new investment focused on improving physical infrastructure.

Philippines

- * Divestment program started in December 1986. Since then, revenues total \$6.5 billion.
- * After tapering off, Phase II began in 1996, focusing on public utilities.

Poland

- * Since 1990, the public sector's role in the economy has been reduced from 70% to about 40%.
- * Three methods of privatization:
 - SOEs transformed to commercial enterprises and then sold (over 50 for about \$1 billion so far);
 - SOEs liquidated and assets sold off (over a 1000 companies so far);
 - Vouchers used to purchase shares in investment funds which hold multiple companies (just getting started).

Zambia

- * Government's plan is to privatize all 275 SOEs between 1992-1997. As of end of 1996:
 - 157 companies privatized, 40 in progress, 59 due in 1997, and 19 being handled by other Ministries.
- * Government focused on small companies first, moving up to larger ones as lessons learned.
- * Instrumental in the future development of the newly-founded Lusaka Stock Exchange.

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Country	Code	Real Growth	Real Growth	Real Growth	Stock market ca												
		1990-1993	1990-94	1990-95 Type	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	
X Bolivia	BOL	3.8%	3.8%	3.8% PM	NA	NA	0	0	0	0	0	0	0	24	97	114	
X Cote d'Ivoire	CIV	-0.6%	-0.2%	0.7% PM	NA	NA	458	437	531	549	541	483	414	428	866	914	
X Ecuador	ECU	3.6%	3.5%	3.4% PM	NA	NA	0	0	0	0	0	69	1098	2496	2631	1946	
X Egypt	EGY	1.0%	1.1%	1.3% PM	NA	NA	2150	1760	1711	1765	2651	3259	3814	4263	8088	14173	
X Ghana	GHA	4.5%	4.3%	4.3% PM	NA	NA	0	0	0	0	76	84	118	1873	1649	1492	
X India	IND	2.7%	3.8%	4.6% PM	NA	NA	17057	23623	27316	38567	47730	65119	97976	127515	127199	122605	
X Indonesia	IDN	6.5%	7.6%	7.6% PM	NA	NA	68	253	2254	8081	6823	12038	32953	47241	66585	91016	
X Jamaica	JAM	1.0%	3.5%	2.9% PM	NA	NA	631	796	957	911	1034	3227	1469	1753	1270	1887	
X Kenya	KEN	0.6%	0.8%	1.4% PM	NA	NA	424	474	499	453	453	637	1060	3082	1886	1846	
X Morocco	MOR	0.2%	1.7%	1.2% PM	NA	NA	357	446	621	966	1528	1909	2651	4376	5951	8705	
X Paraguay	PRY	2.6%	2.5%	3.1% PM	NA	NA							24	46	145	383	
X Peru	PER	2.3%	4.2%	5.3% PM	NA	NA	831		931	812	1118	2630	5113	8178	11795	12291	
X Philippines	PHL	0.7%	1.6%	2.3% PM	NA	NA	2948	4280	11965	5927	10197	13794	40327	55519	58859	80649	
X Poland	POL	-0.8%	1.6%	2.4% PM	NA	NA						144	222	2706	3057	4564	8390
X Russian Federati	RUS	-15.0%	-10.6%	PM	NA	NA						244	218	18	151	15863	37230
X Zambia	ZAM	1.3%	-0.1%	-0.2% PM	NA	NA										435	229
X Brazil	BRA	1.5%	2.2%	2.7% EM	NA	NA	16900	32149	44368	16354	42759	45261	99430	189281	147636	216990	
X Czech Republic	CZE	-7.2%	-4.7%	-2.6% EM	NA	NA	0	0	0	0	0	0	0	5938	15664	18077	
X Hungary	HUN	-5.4%	-2.0%	-1.0% EM	NA	NA	0	0	0	0	505	562	812	1604	2399	5273	
X Israel	ISR	6.2%	6.2%	6.4% EM	NA	NA	12001	5458	8227	3324	6176	29634	50773	32730	36399	35934	
X Korea, Rep	KOR	6.6%	6.6%	7.2% EM	NA	NA	32905	94238	140946	110594	96373	107448	139420	191778	181955	138817	
X United States	USA	1.6%	2.5%	2.6% DM	NA	NA	2588890	2793816	3505686	3059434	4087660	4485040	5136199	5067016	6857622	8484433	

Country	Code	Real Growth	Real Growth	Real Growth	MktCap%GDP														
		1990-1993	1990-94	1990-95 Type	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996			
X Bolivia	BOL	3.8%	3.8%	3.8% PM	NA	NA													
X Cote d'Ivoire	CIV	-0.6%	-0.2%	0.7% PM	NA	NA	4.5	4.3	5.4	5.1	5.2	4.3	4.0	5.7	8.6	ERR			
X Ecuador	ECU	3.6%	3.5%	3.4% PM	NA	NA						0.5	7.7	15.0	14.7	ERR			
X Egypt	EGY	1.0%	1.1%	1.3% PM	NA	NA	6.0	5.7	5.1	5.0	8.1	9.2	9.7	9.9	17.1	ERR			
X Ghana	GHA	4.5%	4.3%	4.3% PM	NA	NA					1.1	1.2	1.9	28.6	26.1	ERR			
X India	IND	2.7%	3.8%	4.6% PM	NA	NA	6.6	8.6	10.0	12.9	19.0	26.7	38.4	42.3	39.2	35.4	ERR		
X Indonesia	IDN	6.5%	7.6%	7.6% PM	NA	NA	0.1	0.3	2.2	7.1	5.3	8.7	20.9	26.9	33.6	ERR			
X Jamaica	JAM	1.0%	3.5%	2.9% PM	NA	NA	20.8	22.5	23.5	21.4	27.9	96.2	34.9	41.3	28.8	ERR			
X Kenya	KEN	0.6%	0.8%	1.4% PM	NA	NA	5.3	5.6	6.0	5.3	5.6	7.8	18.4	41.7	20.7	ERR			
X Morocco	MOR	0.2%	1.7%	1.2% PM	NA	NA	1.9	2.0	2.7	3.7	5.5	6.7	9.9	14.4	18.4	24.4	ERR		
X Paraguay	PRY	2.6%	2.5%	3.1% PM	NA	NA							0.3	0.6	1.9	ERR			
X Peru	PER	2.3%	4.2%	5.3% PM	NA	NA	3.5		3.6	2.5	3.8	6.3	12.7	16.3	20.5	20.8	ERR		
X Philippines	PHL	0.7%	1.6%	2.3% PM	NA	NA	8.9	11.3	28.1	13.4	22.5	26.0	74.1	86.6	79.3	102.1	ERR		
X Poland	POL	-0.8%	1.6%	2.4% PM	NA	NA						0.2	0.3	3.1	3.3	3.9	6.8	ERR	
X Russian Federati	RUS	-15.0%	-10.6%	PM	NA	NA						0.0	0.0	0.0	0.0	4.6	ERR		
X Zambia	ZAM	1.3%	-0.1%	0.2% PM	NA	NA									10.7	ERR			
X Brazil	BRA	1.5%	2.2%	2.7% EM	NA	NA	5.7	9.7	9.9	3.4	11.1	12.0	22.8	34.0	21.5	ERR			
X Czech Republic	CZE	-7.2%	-4.7%	-2.6% EM	NA	NA									16.5	35.0	ERR		
X Hungary	HUN	-5.4%	-2.0%	-1.0% EM	NA	NA					1.5	1.5	2.1	3.9	5.5	11.8	ERR		
X Israel	ISR	6.2%	6.2%	6.4% EM	NA	NA	31.1	11.6	17.6	6.0	9.8	42.4	72.6	41.7	39.6	ERR			
X Korea, Rep.	KOR	6.6%	6.6%	7.2% EM	NA	NA	24.1	51.8	63.4	43.6	32.8	34.9	41.9	50.4	39.9	ERR			
X United States	USA	1.6%	2.5%	2.6% DM	NA	NA	57.6	57.6	67.4	55.7	72.3	75.5	82.0	76.2	98.6	ERR			