



# Kazakhstan Credit rating

Frankfurt am Main, 10 July 2019

# Agenda

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- Kazakhstan credit rating
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  - Restricting Factors
  - Negative Factors
  - Stress Factors
  - Sensitivity Assessment



# About RAEX

# Rating-Agentur Expert RA (RAEX-Europe)

- RAEX Group has more than **20 years of experience** in the rating industry
- The Agency is active since 2013 in **Frankfurt am Main**
- In 2015, the CRA was registered by the **European Securities and Markets Authority (ESMA)**
- **Official status** of External Credit Assessment Institution (ECAI)

# RAEX-Europe ECAI mapping

Mapping, approved by the European Commission in **April 2018**:

Credit quality step	RAEX-Europe	Fitch	Moody's	S&P
1	AAA, AA	AAA, AA	Aaa, Aa	AAA, AA
2	A	A	A	A
3	BBB	BBB	Baa	BBB
4	BB	BB	Ba	BB
5	B	B	B	B
6	CCC, CC, C, D, E	CCC, CC, C, RD, D	Caa, Ca, C	CCC, CC, R, SD/D

# RAEX-Europe activities

- Assigning **credit ratings** to:
  - ✓ Sovereign issuers
  - ✓ Sub-sovereign issuers (regions)
  - ✓ Banks
  - ✓ Insurance companies
  - ✓ Non-financial corporates
- Assigning **non-credit ratings: ESG ratings** (environmental, social and governance)
- Additional **services for stock-exchanges: green bond second opinion**
- **Business-conferences** and presentations in EU
- **Industry and socioeconomic research**

# Silk Road alliance of credit rating agencies

**RAEX-Europe (Germany)**



**CCXI (China)**



**VIS Group (Pakistan)**



**IIRA (Bahrain)**



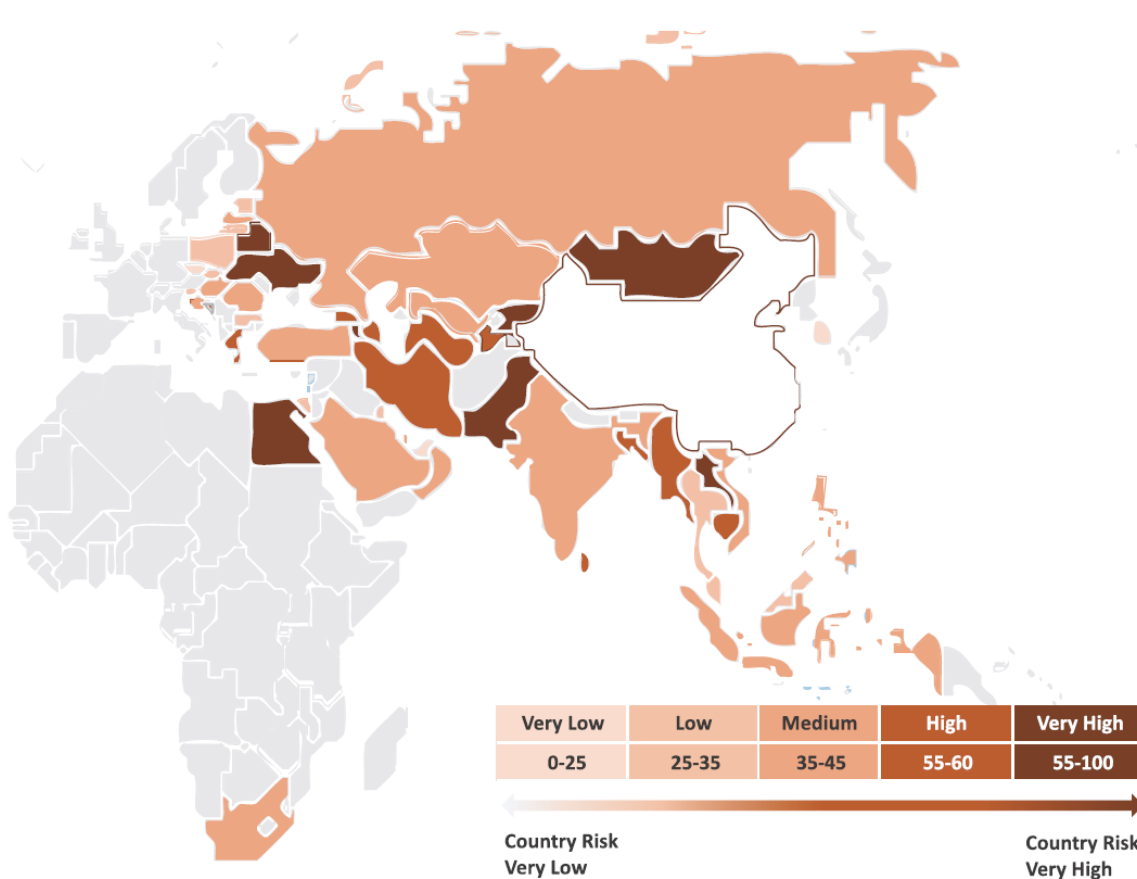
On 17th of December 2018 in Beijing a cooperation memorandum was signed by four credit rating agencies representing the Silk Road countries: **CCXI, RAEX-Europe, JCR-VIS Credit Rating Co. and IIRA.**



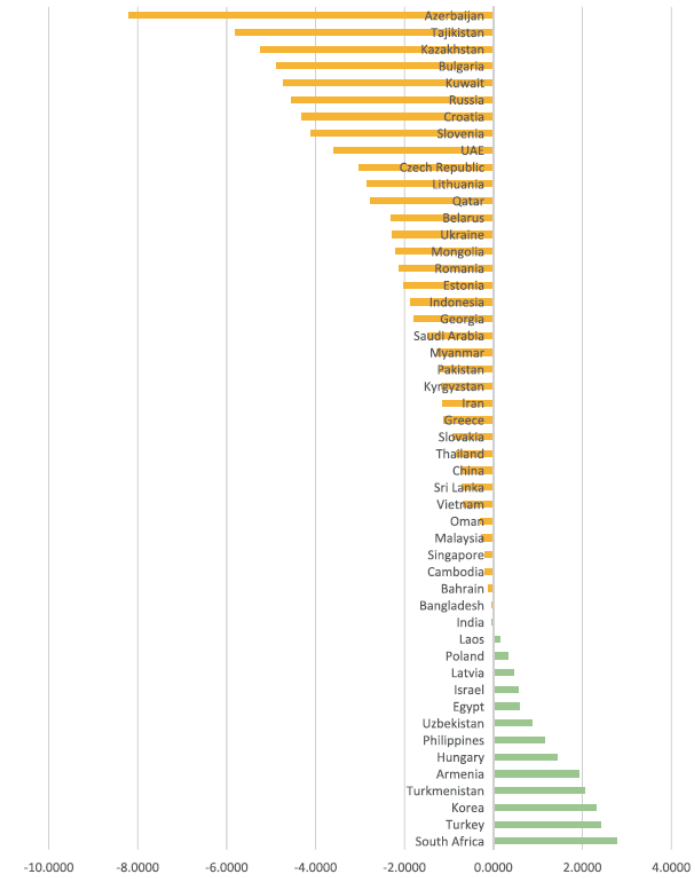
# Country Risk Report Along the Belt and Road 2018

Country Risk Report along the Belt and Road (2018), jointly released by **CCXI, VIS Group** and **RAEX-Europe**

Country risk map of the B&R countries



2017 VS 2016 Risk score of countries along the B&R





# Kazakhstan Credit Rating

# Sovereign rating list of RAEX-Europe:

Country	Sovereign government rating		Dynamics		Outlook		Latest review date / Planned publication
	National currency	Foreign currency	National currency	Foreign currency	National currency	Foreign currency	
Armenia	BB-	BB-	Confirmed	Confirmed	Stable	Stable	18.01.2019
Azerbaijan	BB+	BB+	Initial assignment	Initial assignment	Stable	Stable	10.05.2019
Belarus	B	B-	Confirmed	Confirmed	Positive	Positive	18.01.2019
Georgia	BB	BB	Initial assignment	Initial assignment	Stable	Stable	05.04.2019
Germany	AAA	AAA	Confirmed	Confirmed	Stable	Stable	01.03.2019
<b>Kazakhstan</b>	<b>BBB-</b>	<b>BBB-</b>	<b>Confirmed</b>	<b>Confirmed</b>	<b>Stable</b>	<b>Stable</b>	<b>14.06.2019</b>
Kyrgyzstan	B	B	Confirmed	Confirmed	Stable	Stable	28.06.2019
Russia	BBB-	BBB-	Confirmed	Confirmed	Stable	Stable	14.06.2019
Tajikistan	B	B-	Initial assignment	Initial assignment	Developing	Developing	10.05.2019
Uzbekistan	BB-	BB-	Upgraded	Upgraded	Stable	Stable	08.03.2019

# Sovereign credit ratings of CIS countries



Country	Sovereign government rating	
	National currency	Foreign currency
Kazakhstan	BBB-	BBB-
Russia	BBB-	BBB-
Azerbaijan	BB+	BB+
Georgia*	BB	BB
Armenia	BB-	BB-
Uzbekistan	BB-	BB-
Kyrgyzstan	B	B
Belarus	B	B-
Tajikistan	B	B-

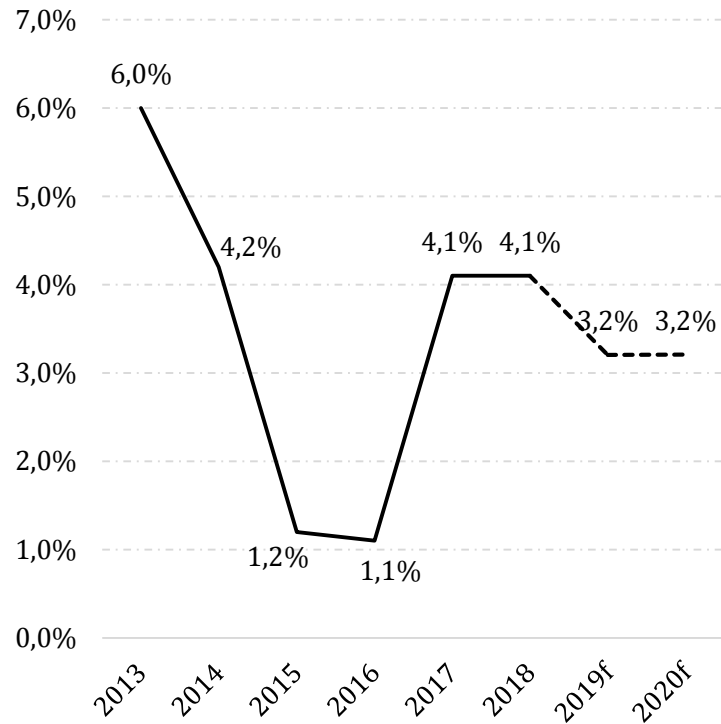
\* Not CIS member

Source: RAEX-Europe

# Positive factors

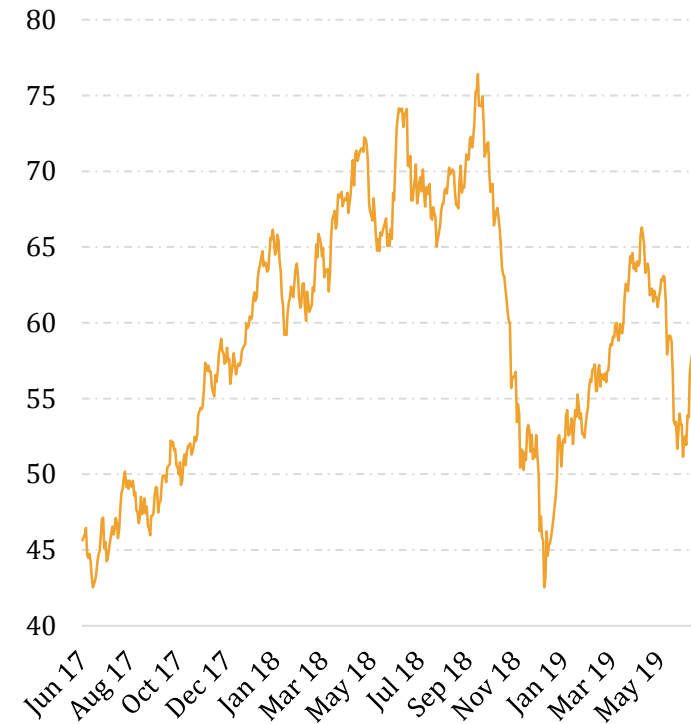
- Solid economic growth in 2018 at 4,1%; slowdown to around 3% expected in 2019

**GDP growth, y-o-y**



Source: RAEX-Europe calculations based on data from the IMF

**WTI Price, USD/bbl**

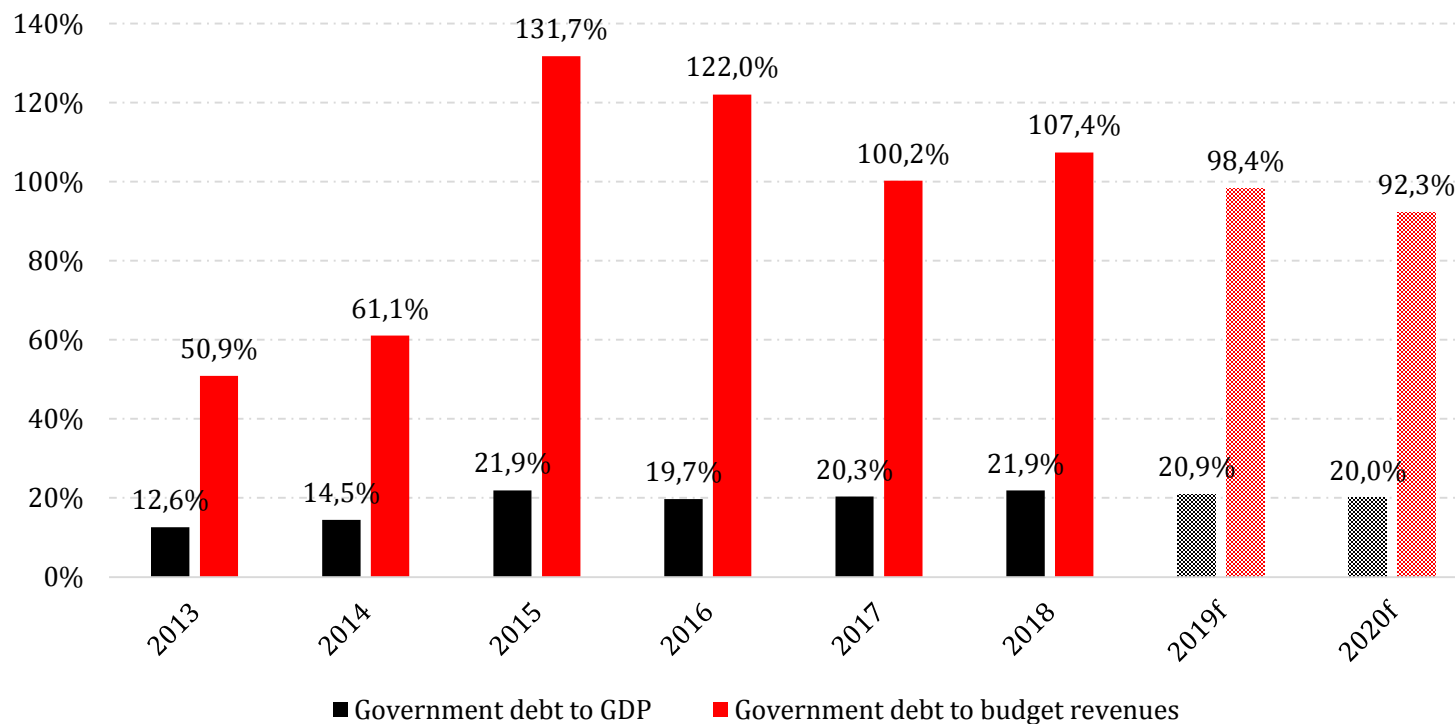


Source: RAEX-Europe calculations based on data from investing.com

# Positive factors

- The current debt position remains a strength for Kazakhstan and does not represent a risk for the creditworthiness of the country

**Government debt**

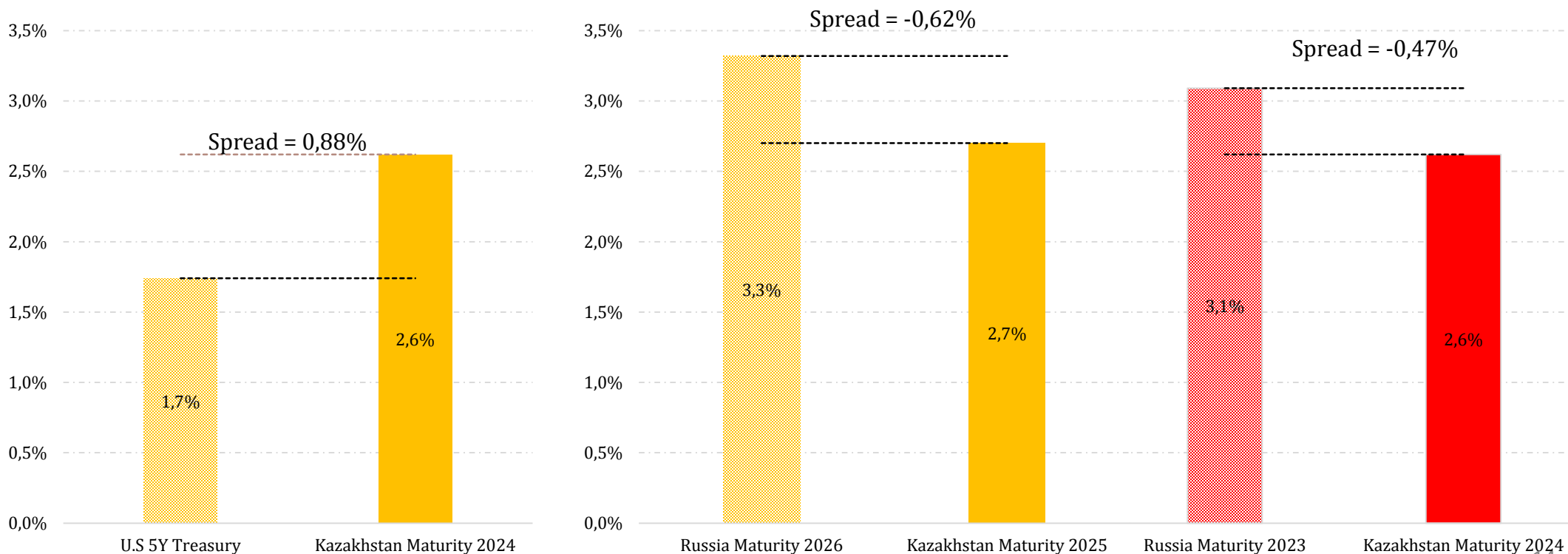


Source: RAEX-Europe calculations based on data from the IMF

# Positive factors

- Favourable position against yields of the U.S. Treasury and against main peer (Russia)

## Spreads of USD-denominated sovereign bonds

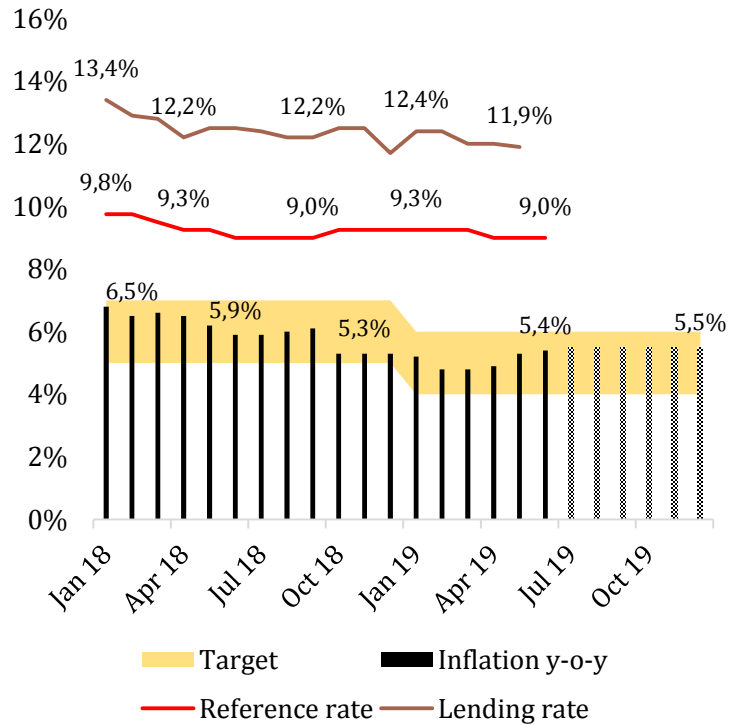


Source: RAEX-Europe calculations based on data from Cbonds and Bloomberg

# Positive factors

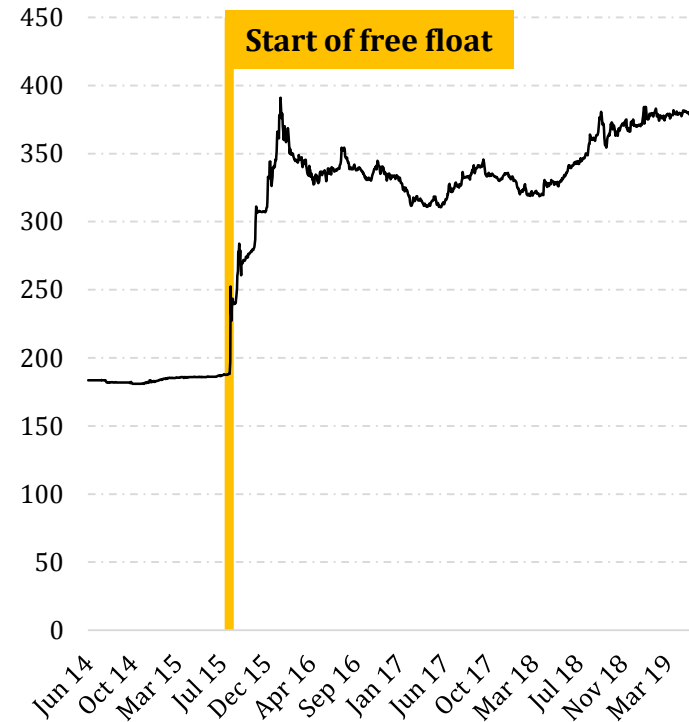
- Acceptable quality of monetary policy

**Monetary policy effectiveness**



Source: RAEX-Europe calculations based on data from the IMF, NBK

**USD/KZT Dynamics**



Source: RAEX-Europe calculations based on data from the investing.com, NBK

# Positive factors

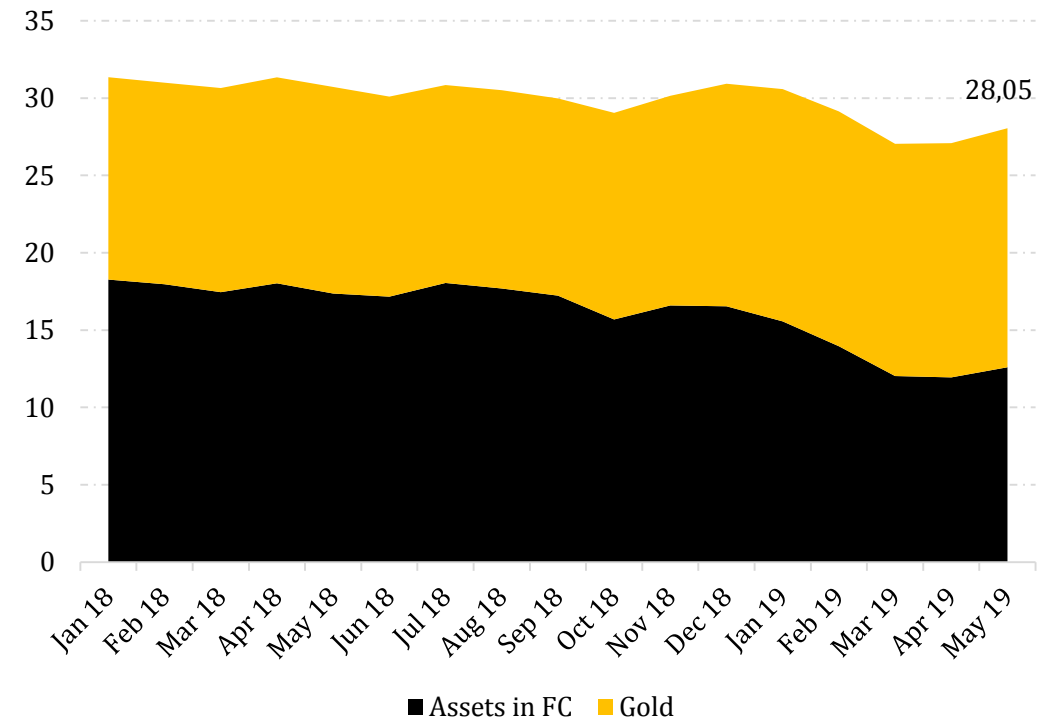
- Adequate level of international reserves

22x short-term debt

> 8 months of imports

84% of total government debt

**International reserves, KZT bn**

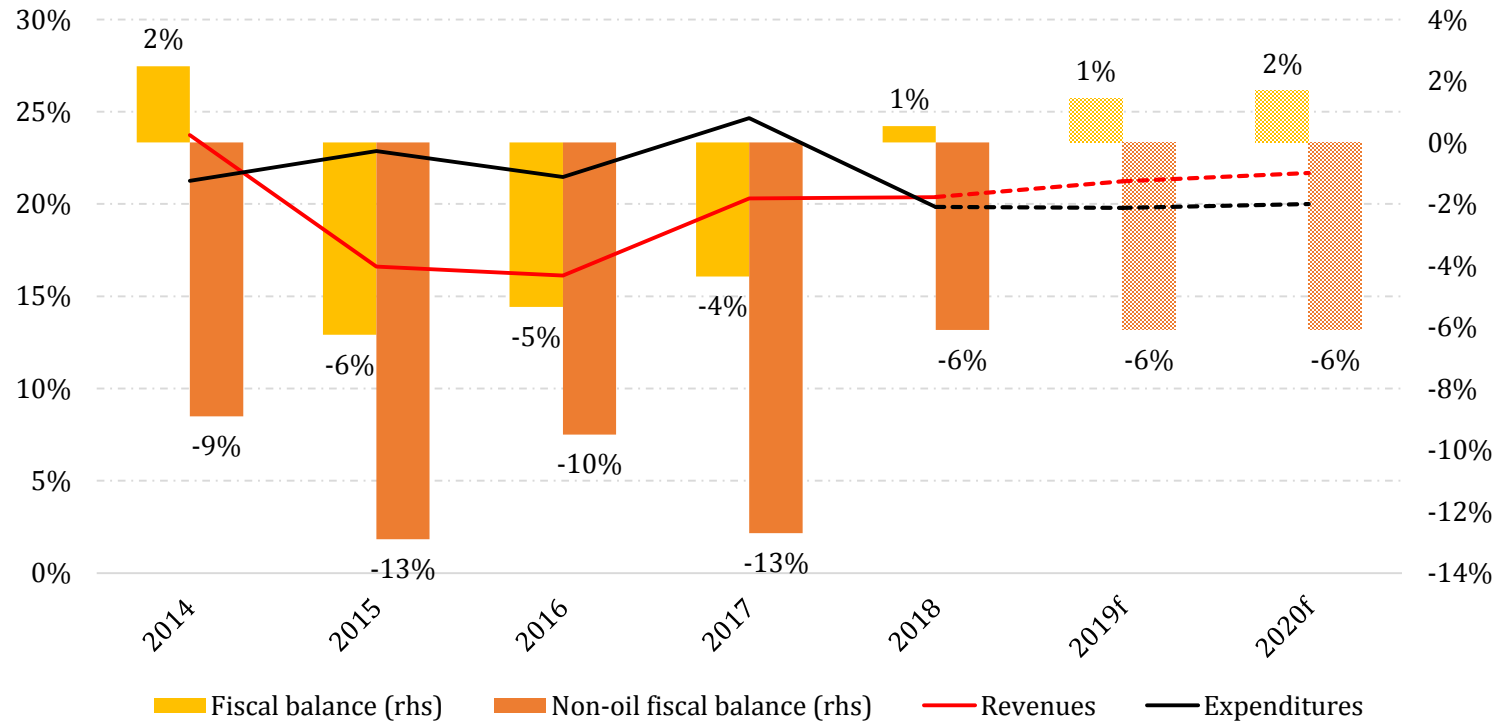




# Restricting factors

- Satisfactory fiscal performance
  - The consolidated budget presented a surplus of 0,54% to GDP at the end of 2018
  - Non-oil budget deficit improved, but remained quite wide

**Fiscal budget indicators, % of GDP**

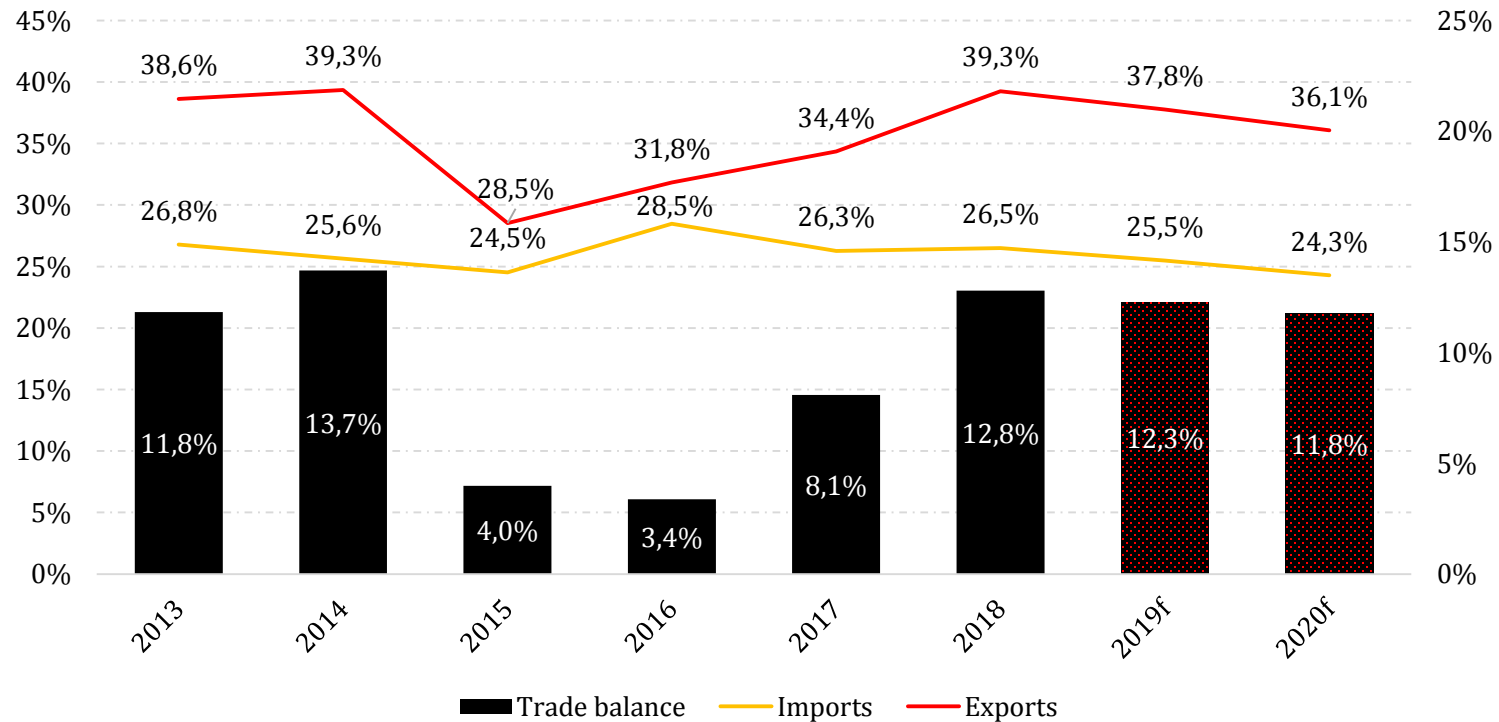


Source: RAEX-Europe calculations based on data from the IMF

# Restricting factors

- Foreign investment has been practically flat for the last two years
- Competitiveness remains acceptable

**Trade balance, % of GDP**

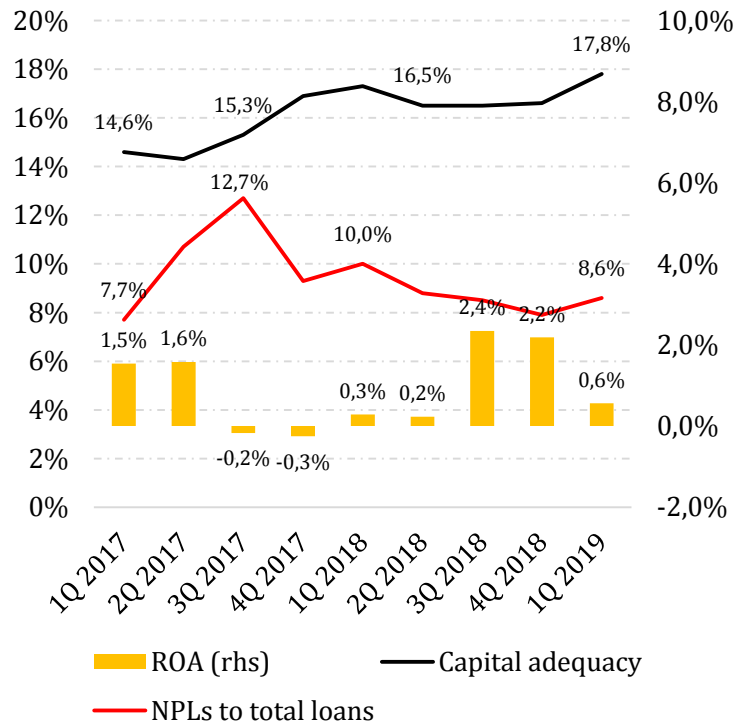


Source: RAEX-Europe calculations based on data from the IMF

# Negative factors

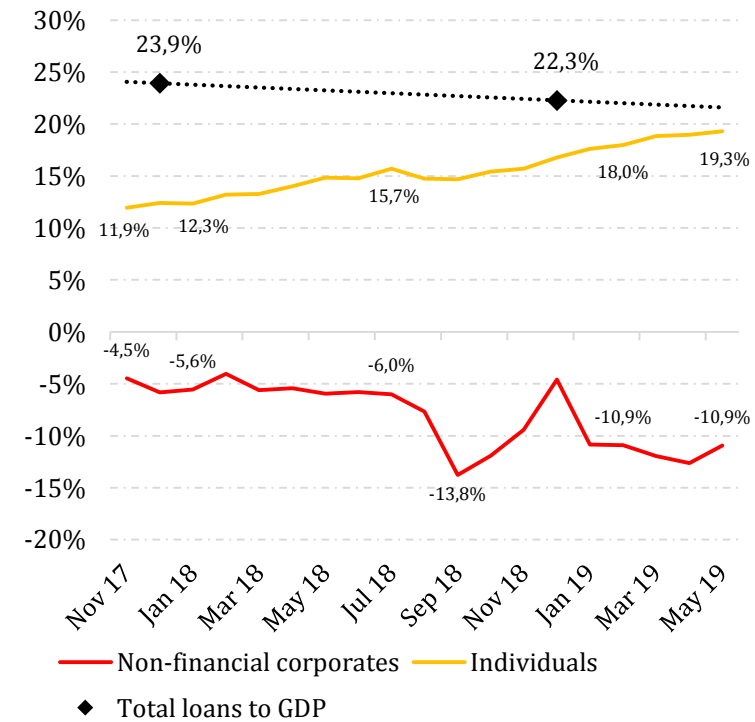
- The banking sector remains the weak link for Kazakhstan's creditworthiness
  - Current BSR score for Kazakhstan is 4 out of 15 where 15 is the best. In contrast Russia's BSR score is 6

**Financial soundness indicators**



Source: RAEX-Europe calculations based on data from the NBK

**Loan growth, y-o-y**



Source: RAEX-Europe calculations based on data from the IMF, NBK

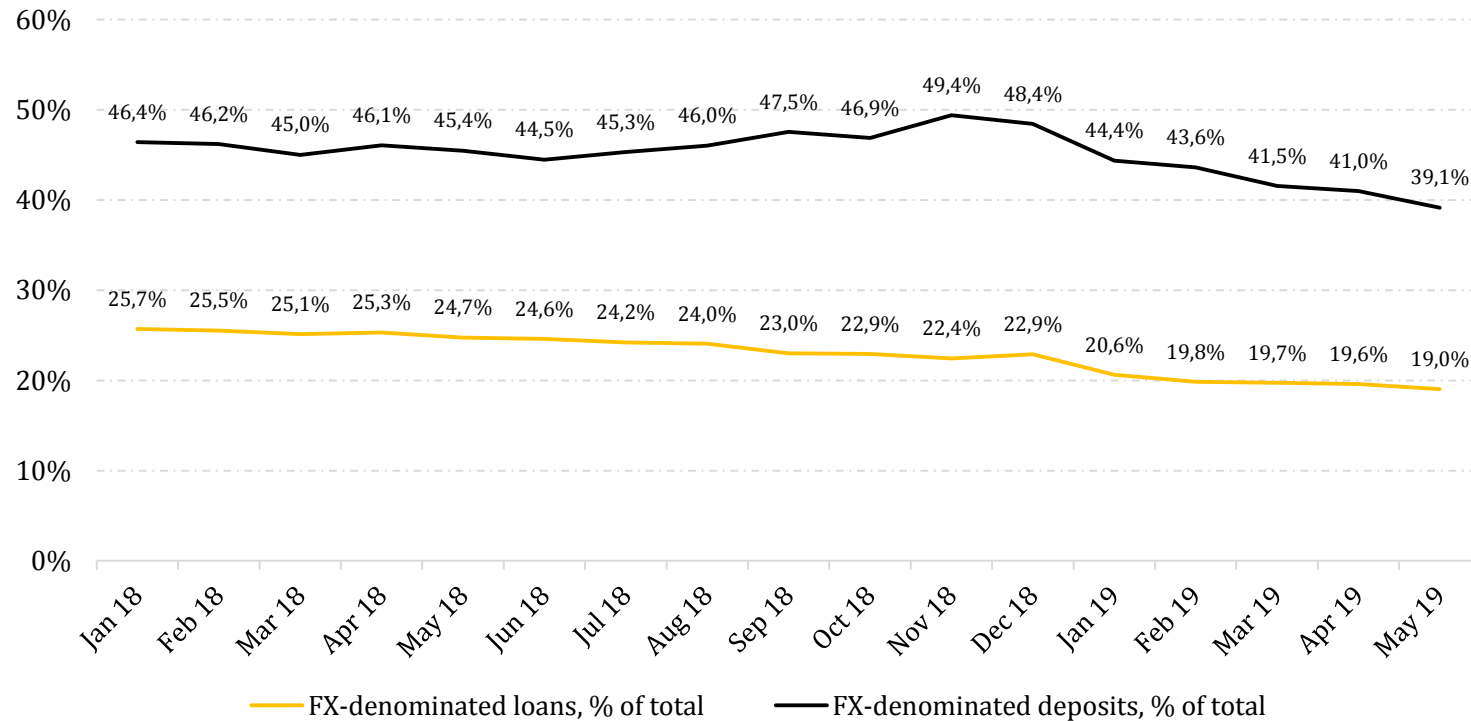
# Negative factors

- The footprint of the state on business continues to be substantial
- Underdevelopment of capital markets

# Stress-factors

- Concentration of tax revenues on one industry
- Still moderately high levels of financial dollarization (weak stress-factor)

**Financial dollarization levels**



Source: RAEX-Europe calculations based on data from the NBK

# Sensitivity assessment

## **The following developments could lead to an upgrade:**

- Long-term sustainability of high oil prices that will allow to accumulate sufficient budget revenues and decrease government debt
- Continued industry diversification resulting in higher non-oil GDP growth and improved non-oil fiscal balance
- Continued improvement of the banking system performance

## **The following developments could lead to a downgrade:**

- A renewed decline in hydrocarbon prices combined with a negative development of the non-oil economy which would cause a deterioration of the country's fiscal stance
- Further weakening of the banking system which would materialize contingent liabilities of the government



# Thank you for your attention!

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