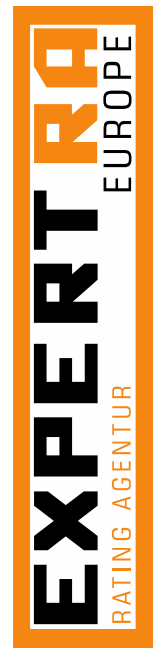




Kazakhstan Credit rating

Frankfurt am Main, June 2020



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**

Kazakhstan Credit Rating

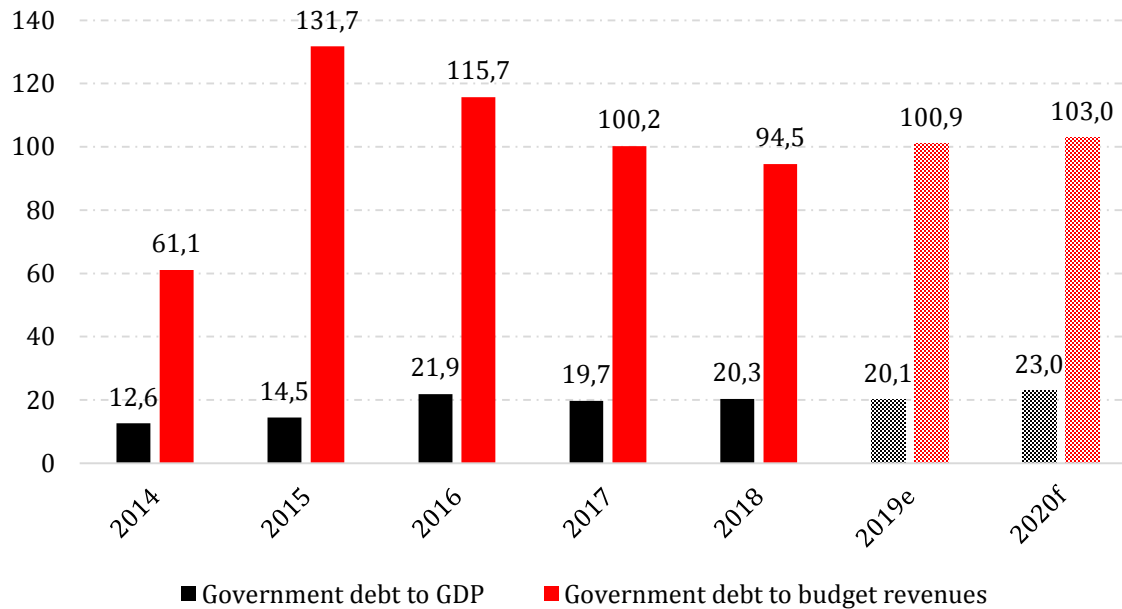
Sovereign rating list of RAEX-Europe:

Country	Sovereign government rating		Dynamics		Outlook		Date
	National currency	Foreign currency	National currency	Foreign currency	National currency	Foreign currency	
Armenia	BB-	BB-	Confirmed	Confirmed	Positive	Positive	10.01.2020
Azerbaijan	BB+	BB+	Confirmed	Confirmed	Negative	Negative	08.05.2020
Belarus	B	B	Confirmed	Confirmed	Positive	Positive	10.01.2020
Georgia	BB	BB	Confirmed	Confirmed	Stable	Stable	03.04.2020
Germany	AAA	AAA	Confirmed	Confirmed	Stable	Stable	28.02.2020
Kazakhstan	BBB-	BBB-	Confirmed	Confirmed	Stable	Stable	12.06.2020
Kyrgyzstan	B	B	Confirmed	Confirmed	Stable	Stable	27.12.2019
Russia	BBB-	BBB-	Confirmed	Confirmed	Stable	Stable	12.06.2020
Tajikistan	B	B-	Confirmed	Confirmed	Negative	Negative	07.02.2020
Uzbekistan	BB-	BB-	Confirmed	Confirmed	Stable	Stable	06.03.2020

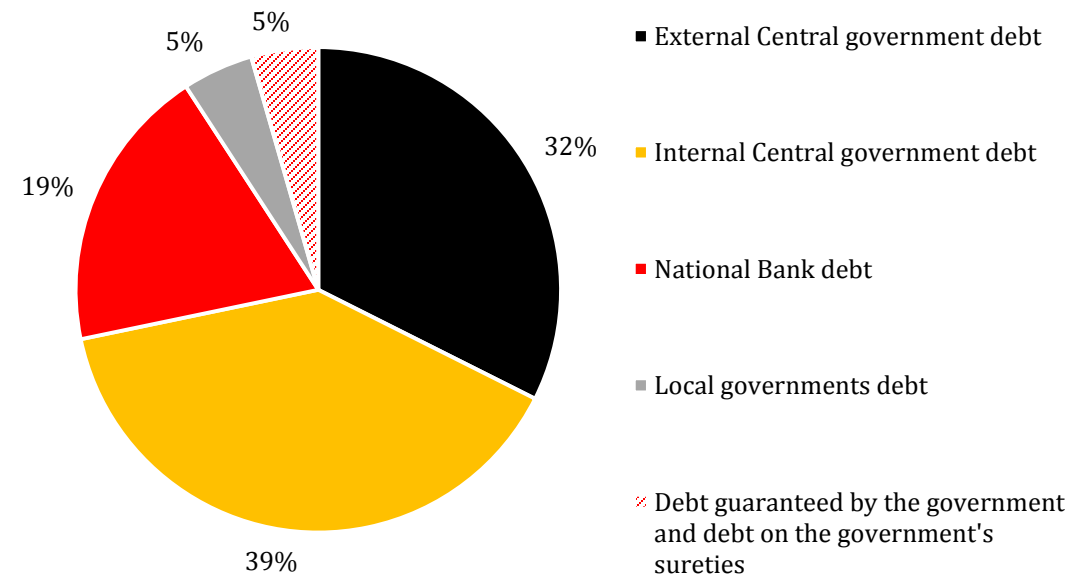
Positive factors

- **Government's low debt burden:**
 - General government debt stabilized at 21% of GDP and 100% of budget revenues as of the end of 2019
 - Favorable short-term debt level with a high share of concessional debt
 - Around 30% of debt is FX-nominated
- **The yield spread between the 10Y German bund and the EUR-denominated Kazakh government bond around 2p.p.**

Government debt dynamics, %



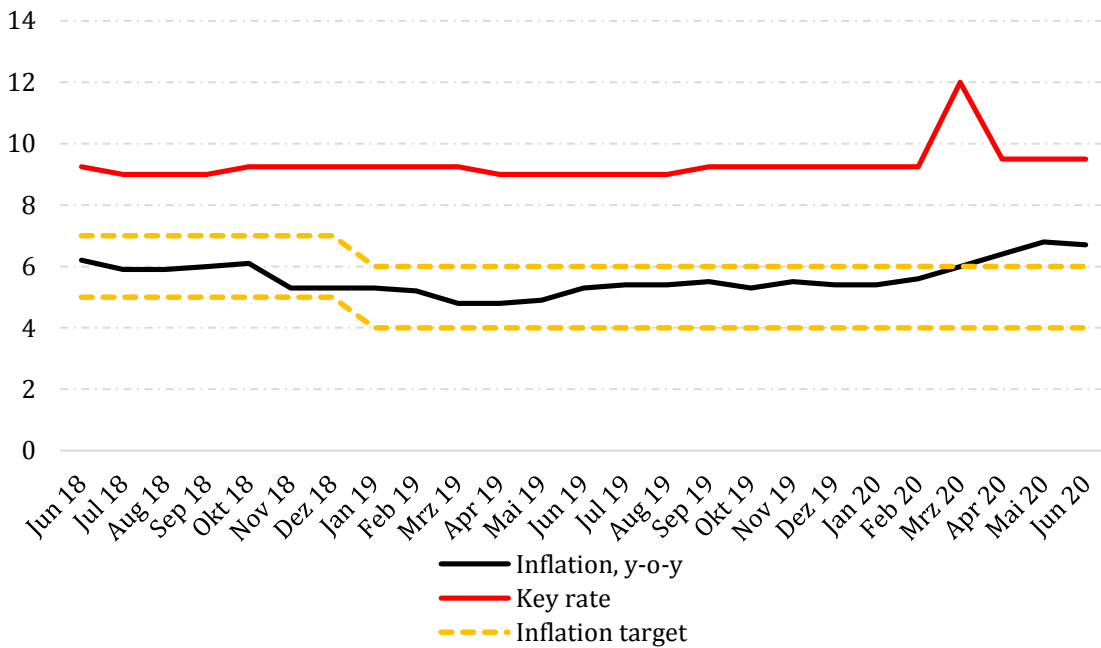
Government debt structure as of end 2019



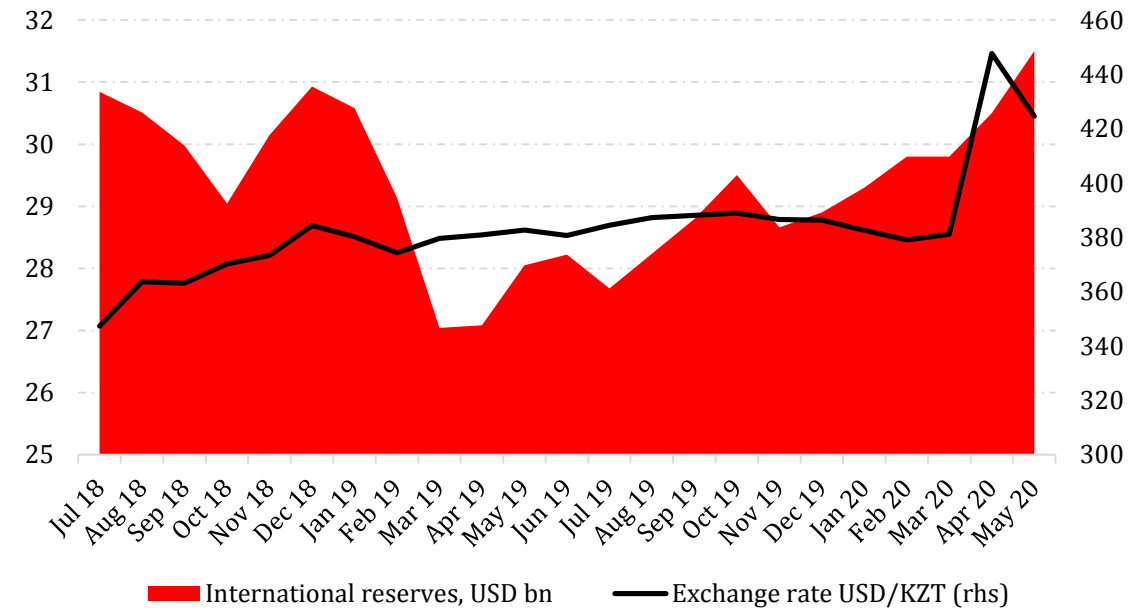
Positive factors

- **Adequate quality of the monetary policy:**
 - Free-float exchange rate regime
 - Tight monetary policy
- **High level of international reserves supports the external position of the country:**
 - Cover around 87% of gross government debt and 6 months of imports

Monetary policy metrics, %



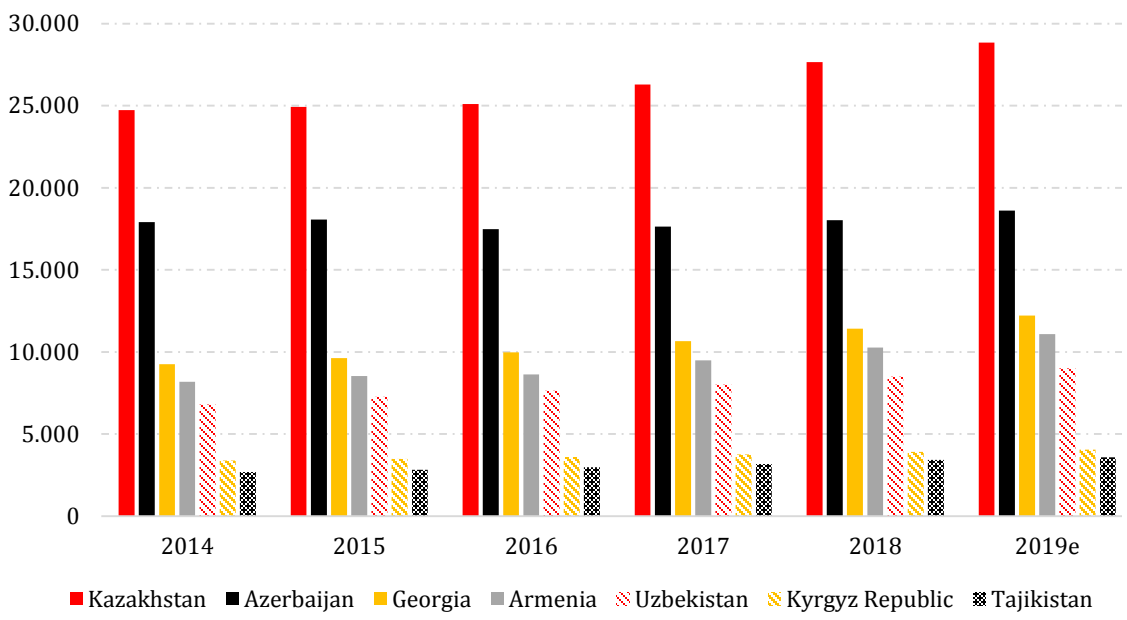
International reserves and exchange rate



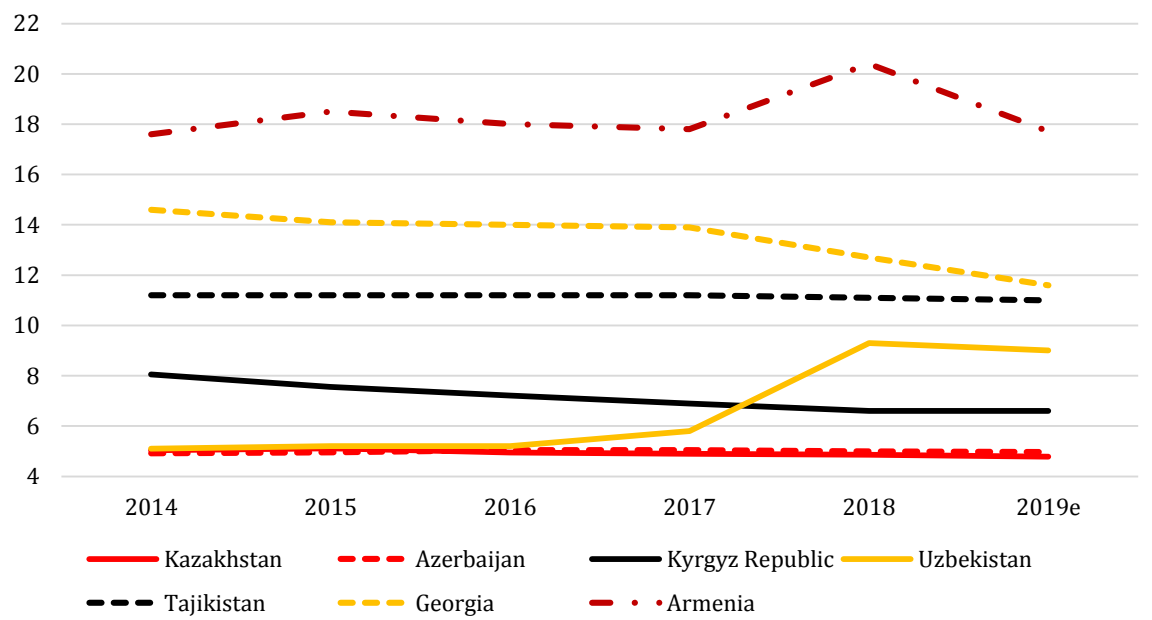
Positive factors

- Moderately high **GDP per capita** at USD 28,5 th in 2019
- Moderately low and stable **unemployment rate** at 4,8% as of end 1Q 2020

GDP per capita in PPT terms, USD



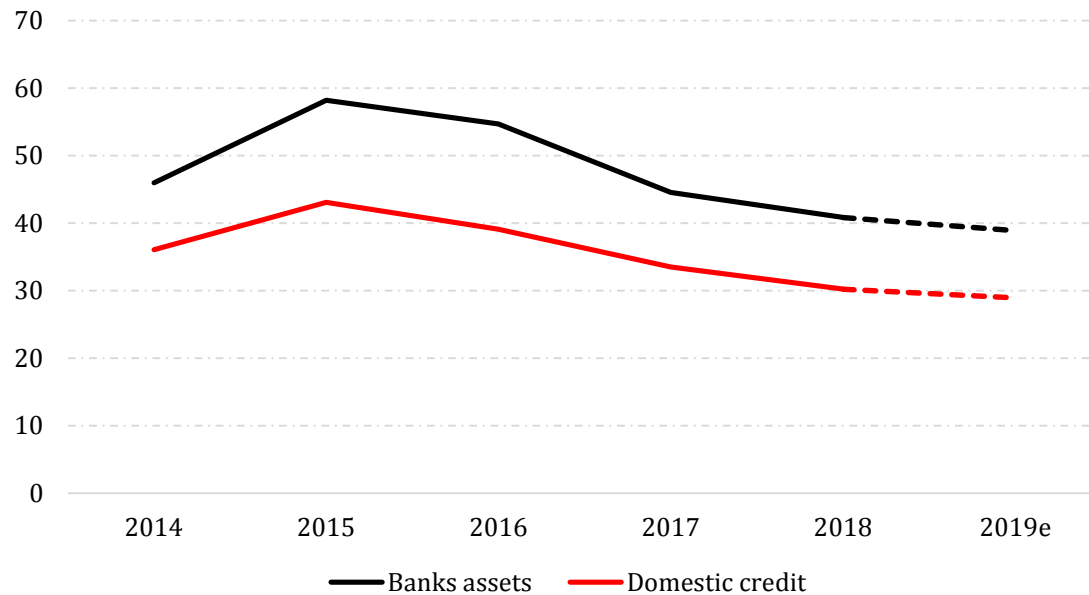
Unemployment rate, %



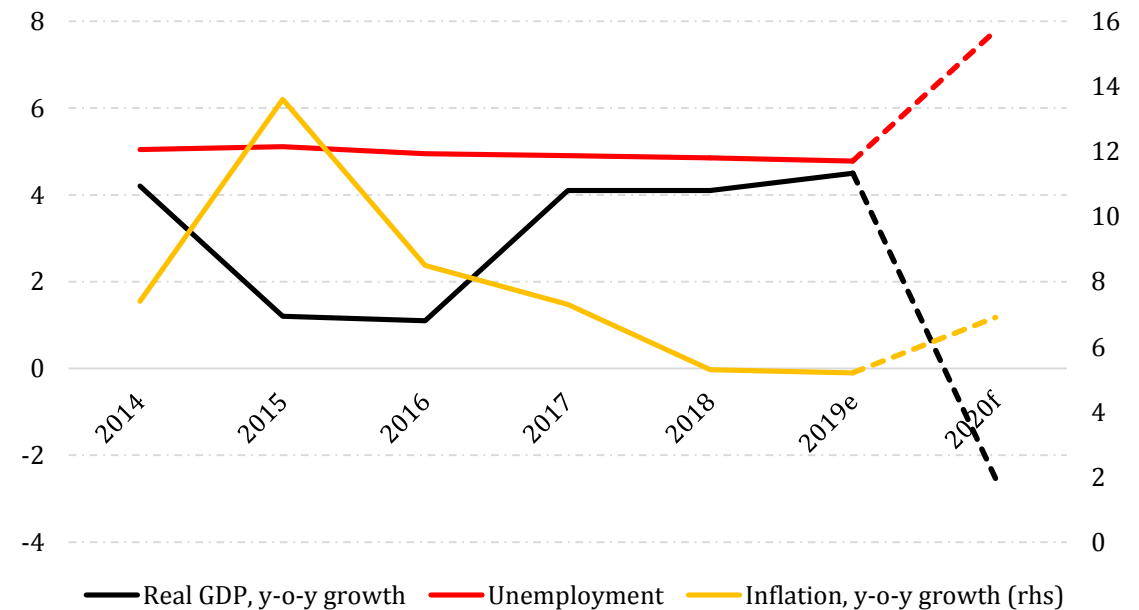
Restricting factors

- Shrinking **banking system** assets and loans
 - In April 2020 assets declined by 1,9% as compared to March 2020, while gross loans declined by 2,5%
- Volatility of **inflation**:
 - After reaching 5,4% by end 2019, the CPI index hiked up to 6,7% by end of May 2020 mostly due to KZT depreciation
- Expected **contraction of the economy** in 2020

Credit to the economy dynamics, % of GDP



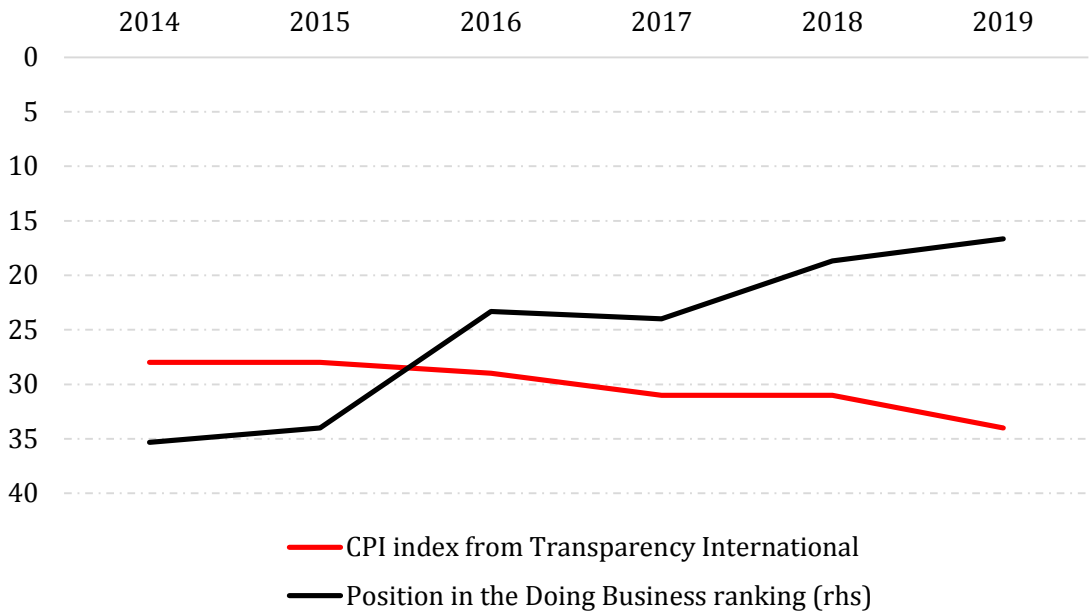
Macroeconomic indicators, %



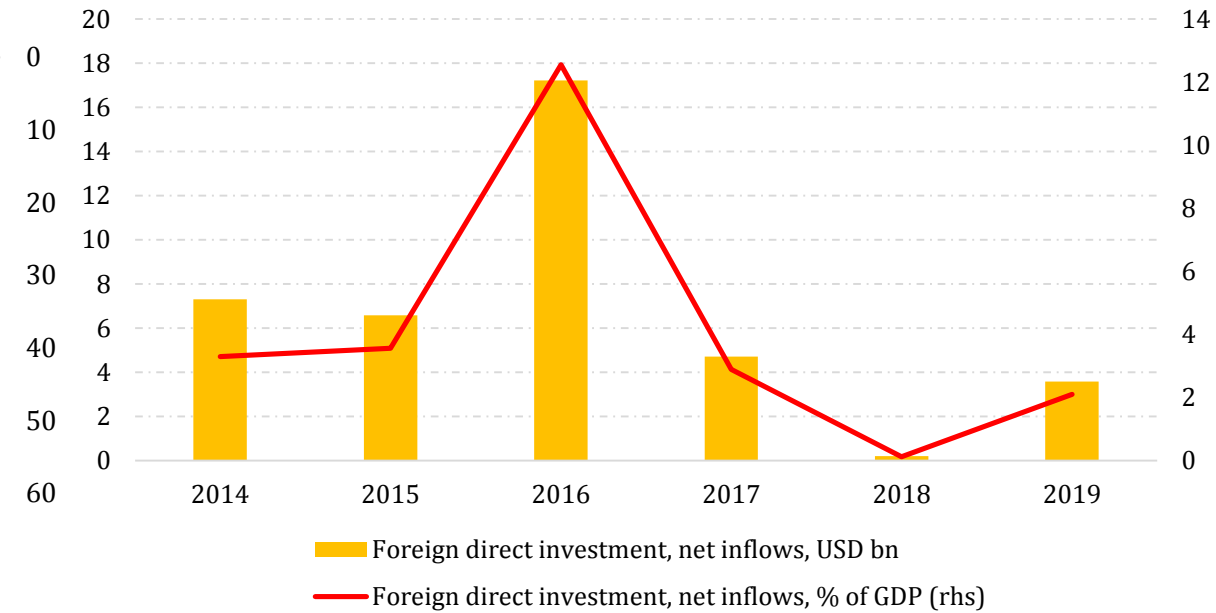
Restricting factors

- The **economic competition and business efficiency** in Kazakhstan is limited by the weakness of its institutions and the significant footprint of the state
- **Foreign investment dynamics** have declined since 2016, and we anticipate a net inflow of FDI close to 2% of GDP in 2019

Institutional development indicators



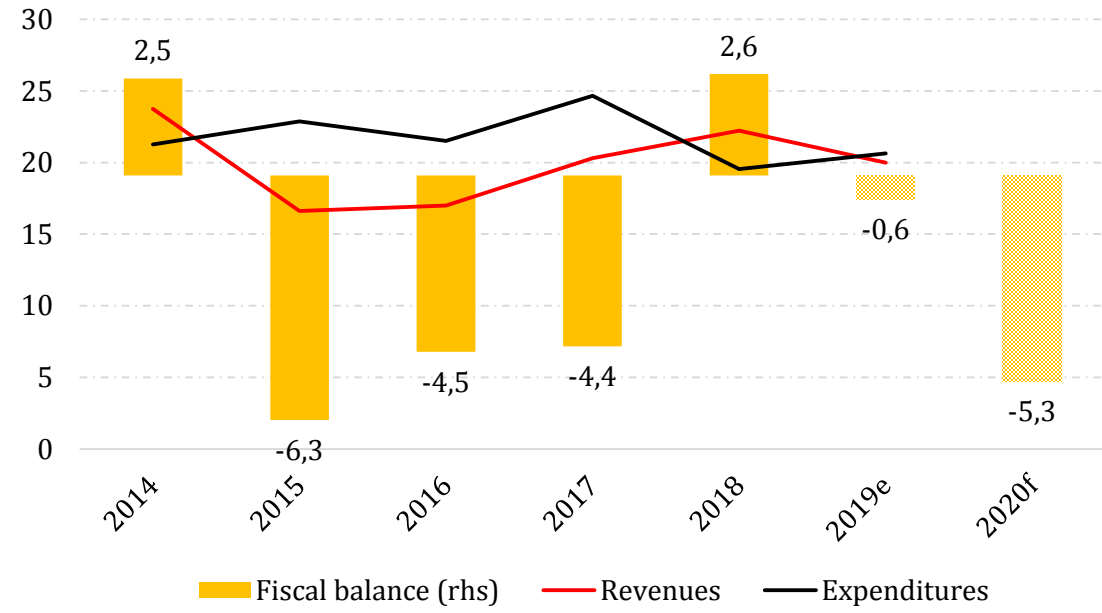
FDI dynamics



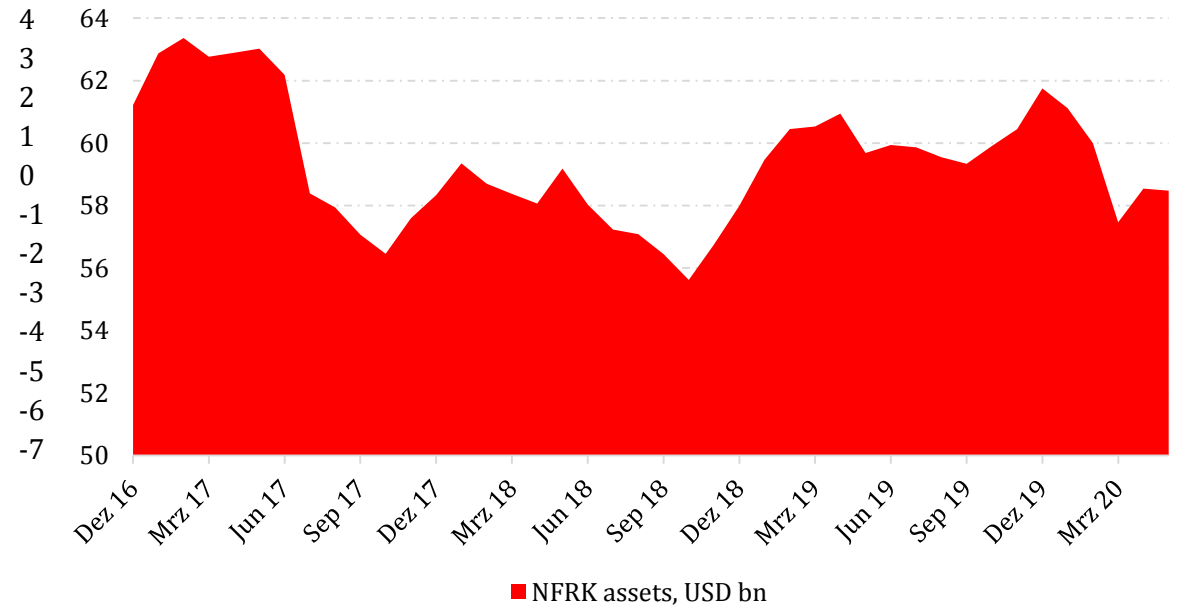
Restricting factors

- **Transition from surplus to consolidated budget deficit:**
 - After posting a substantial surplus of 2,6% of GDP in 2018, the fiscal balance turned to a deficit of around 0,6% in 2019
 - In 2020, we anticipate a transition from a surplus to a budget deficit that may exceed 5% of GDP
 - Fiscal position of the government will be supported by significant accumulated fiscal reserves in the NFRK

Fiscal budget dynamics, % of GDP



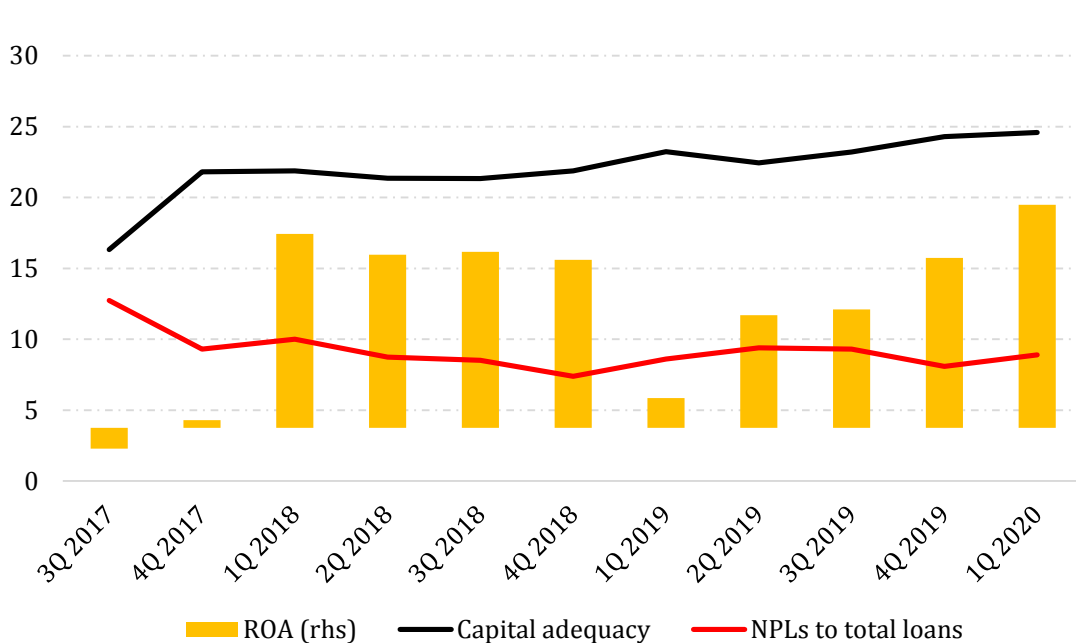
Assets of the National Fund of the Republic of Kazakhstan, USD bn



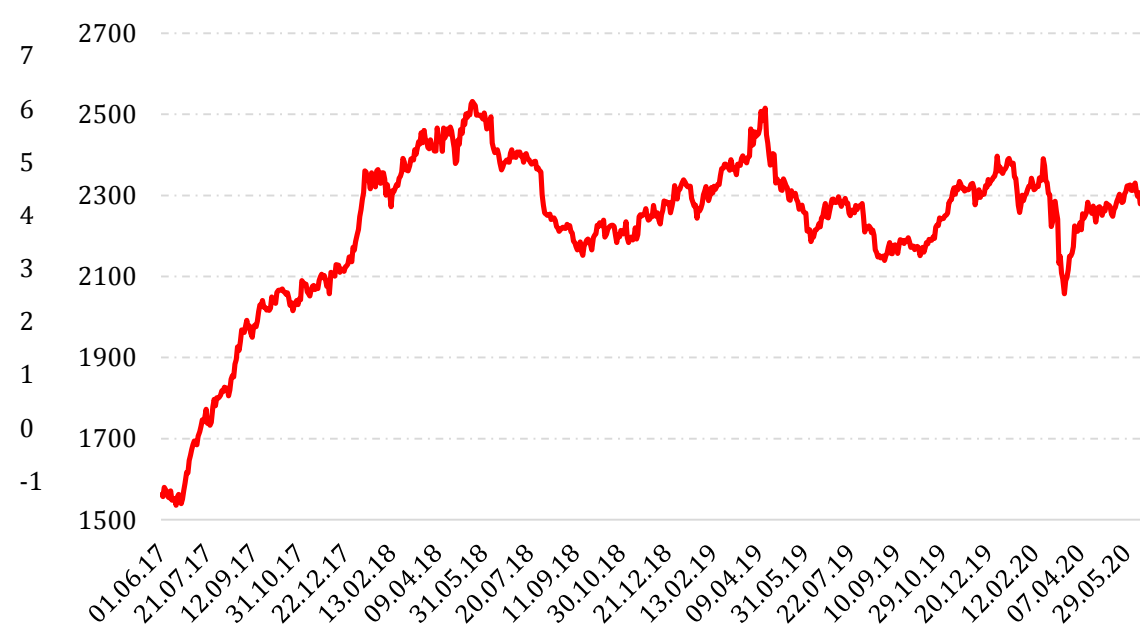
Negative factors

- **The banking sector position** is expected to worsen in the mid run
- **Local capital markets** remain volatile and non-liquid as compared to global peers
- **High risks of contingent liabilities** materialization due to significant footprint of state in the economy

Financial soundness indicators, %



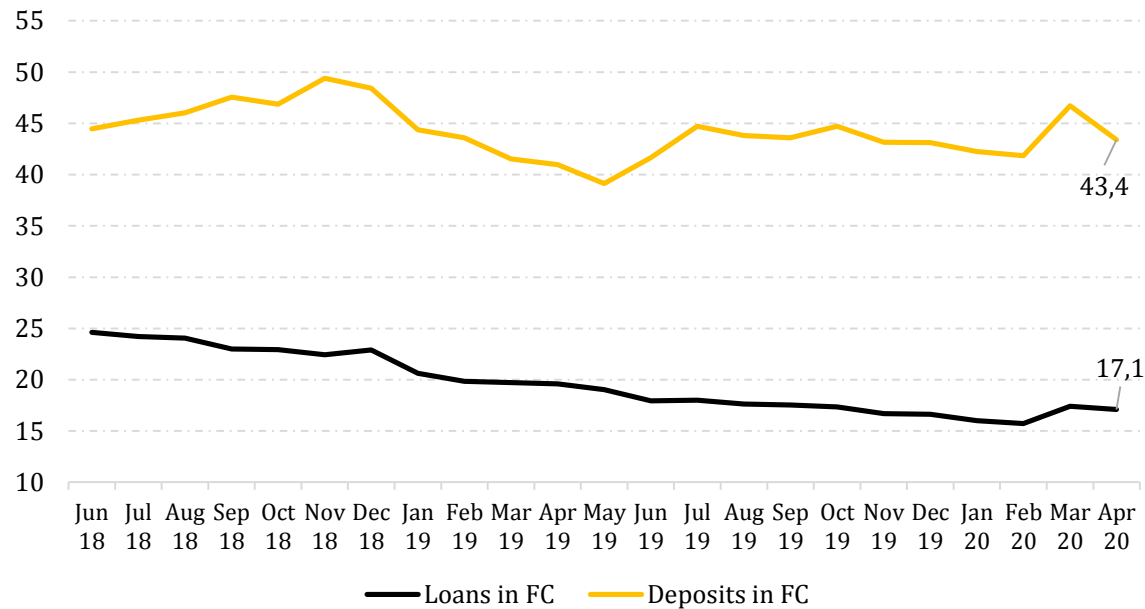
KASE index dynamic



Stress factors

- **Dependence and concentration** on oil and gas industry remains high
- **Dollarization of the financial system** remains high despite gradual decrease

Financial dollarization, %



Sensitivity assessment

The following developments could lead to an upgrade:

- Increase in oil prices higher than our base scenario to support GDP growth and the external trade position;
- Faster and stronger than originally anticipated recovery from the current economic crisis with higher non-oil GDP growth and improvement of non-oil fiscal balance;
- Improvement of the general stance of the banking system, especially asset quality.

The following developments could lead to a downgrade:

- Further deterioration of economic activity which will have a direct impact on public finances and external buffers;
- Unexpected devaluation of local currency as a result of pressure from lingering low oil prices;
- Further weakening of the banking system, which would materialize contingent liabilities of the government.



Thank you for your attention!

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