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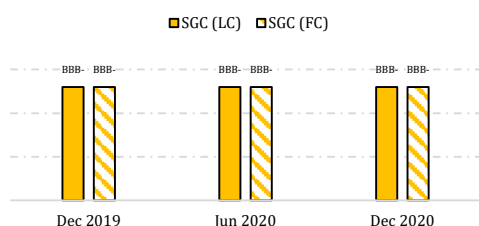
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## Ratings

Sovereign Government Credit (LC)	<b>BBB-</b>
Sovereign Government Credit (FC)	<b>BBB-</b>
Outlook (LC)	<b>Stable</b>
Outlook (FC)	<b>Stable</b>

\* These ratings are unsolicited

## Ratings dynamics



## Main Economic Indicators of Kazakhstan

Macro indicators	2017	2018	2019
Gross gov. debt, KZT bn	10805	12524	13867
Nominal GDP, KZT bn	54379	61820	69533
Real GDP growth, %	4,1	4,1	4,5
Gross gov. debt/GDP, %	19,9	20,3	19,9
Deficit (surplus)/GDP, %	-4,3	2,6	-0,6
Inflation rate, %	7,1	5,3	5,4
Current Account Balance/GDP, %	-	-	-4,0
External debt, USD bn	-	-	156,8
<b>Development indicators</b>	<b>2019</b>		
Inequality adj. HDI	0,76		
GDP per capita, USD th	27,3		
<b>Default indicator</b>	<b>11.12.2020</b>		
5-Year CDS spread, Bp	-		
10Y Gov Bond Yield, %	0,97*		

Source: RAEX-Europe calculations based on data from the IMF, WB, Cbonds, Ministry of Finance of the Republic of Kazakhstan and NBK.  
\* Maturity in 2028 (ISIN: XS1901718335)

## RAEX-Europe confirmed at 'BBB-' the credit ratings of Kazakhstan. The rating outlook is stable.

RAEX-Europe confirmed the sovereign government credit rating (SGC) of Kazakhstan at 'BBB-' (Moderately high level of creditworthiness of the government) in national currency and at 'BBB-' (Moderately high level of creditworthiness of the government) in foreign currency. The rating outlook is stable which means that in the mid-term perspective there is a high probability of maintaining the rating score.

## Summary

The confirmation of the sovereign ratings of Kazakhstan at 'BBB-' with a stable outlook mainly reflects our expectation of the economic recovery of the country next year after the severe negative effects caused by the pandemic. The economic uplift will translate in a recovery of the external stance and will cause public finances to stabilize. Moreover, the country still has an adequate amount of international reserves and external buffers, as well as an improving efficiency in terms of monetary policy.

Nevertheless, the banking system, despite having weathered the pandemic's adverse effects so far, remains fragile with relatively high levels of dollarization.

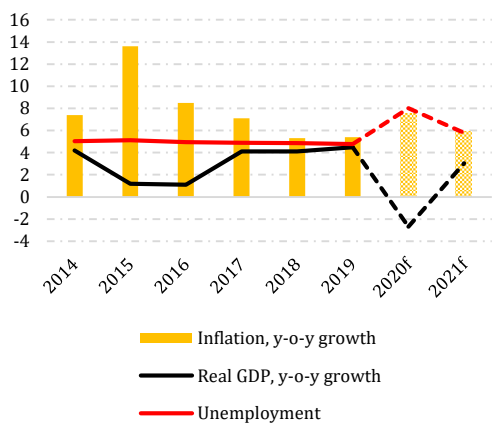
**We anticipate economic contraction in 2020, but a strong rebound in 2021.** We observed a decline of 2,8% on the short-term economic indicator as of September 2020 as a result of the extended negative effects caused by the COVID-19 pandemic. This was mainly driven by a decline in industrial production and transportation. On the other hand, we did notice an increase in construction, communication services and agriculture. In general, the weakness of the economy is a result of long lasting lockdown measures in the country, as well as lower oil production. Also, as a result of longer than anticipated quarantine measures, we have adjusted the expected contraction rate from our previous review of about 0,5%. Now, we forecast an economic contraction of around 2,7% by the end of 2020 (see graph 1). Quarantine measures were initially lifted back in May, but they were reintroduced in July as infection cases rose. However, and despite remaining concern about the evolution of the pandemic, we do anticipate a strong recovery in the economy for 2021. A positive sign which diminished the uncertainty of the direction of the pandemic, is the fact that the government has already agreed with Russia to buy a substantial amount of the new COVID-19 vaccine.

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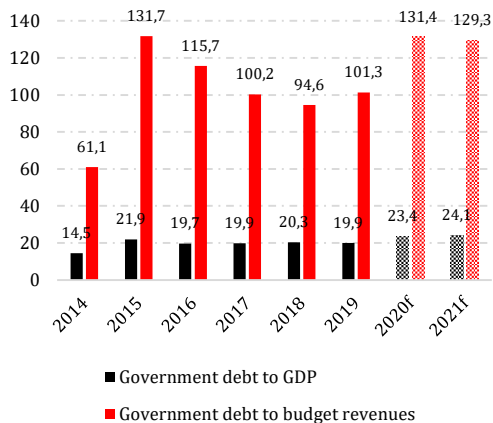
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**Graph 1: Macroeconomic indicators\*, %**



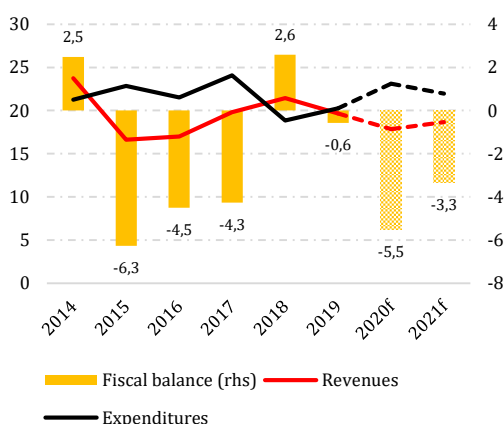
Source: RAEX-Europe calculations based on data from the IMF \*The worst case scenario are reflected for the GDP dynamic and unemployment

**Graph 2: Government debt dynamics, %**



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

**Graph 3: Fiscal budget dynamics, % of GDP**



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

In addition, the sovereign ratings remain supported by a moderately high level of GDP per capita in PPP terms, which anticipate to be around USD 26,6 th by the end of 2020. Moreover, we expect the unemployment rate to hike to about 8% in 2020, but to drop in 2021 as the economy recovers. Also, as compared to other CIS peers, our view on the long-term post-crisis recovery remains more encouraging due to current reforms in the country.

**Government debt levels set to hike, but to remain stable going forward.** The gross government debt to GDP and to budget revenues ratios have remained quite stable over the past years, but we expect them to hike up to 23,4% and 131,4% respectively by end 2020 (see graph 2). Nevertheless, we do not anticipate this increase to pose substantial risks for the country’s creditworthiness. The structure of government debt remains practically unchanged with acceptable levels of short-term debt of around 0,5% of GDP, which is well covered by international reserves – almost by 38x by September 2020. In addition, as of the same date, around 12% of the external debt had concessional terms. However, around 37% of public and publically guaranteed debt is denominated in foreign currency.

The implied perception of the sovereign risk by international market participants is relatively low as the yield spread between the 10Y German bund and the EUR-denominated Kazakh government bond with maturity in 2028 remains at adequate levels of 1,6 p.p.

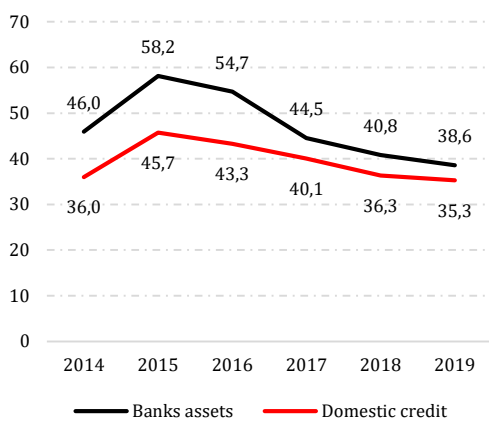
In terms of contingent liabilities, risks remain latent to the fiscal stance, as the banking system position remains fragile. Moreover, the pandemic has caused the State Commission for the Modernization of the Economy of Kazakhstan to announce a delay in the privatization of public enterprises as it cites volatility on international markets and the economic downturn.

**The fiscal deficit is set to widen substantially in 2020.** As mentioned in our previous report, the pandemic has taken a substantial toll in public finances as the government has increased spending in order to curve the adverse impact, while at the same time, lower oil production and slow overall economic activity have brought less revenue to the authorities. As of 3Q 2020, the budget had already posted a deficit of 5,3% of GDP. Despite revenues having growth at around 7% y-o-y in 9M 2020, only 86% of expected income was collected by the government. On the other hand, expenditures hiked by 18% y-o-y as of the same period mainly due to the substantial hike in healthcare and social assistance and social security expenses. This can be explained by the anti-crisis package implemented by the government in order to support the economy in face of the current pandemic, which is equivalent to around 9% of GDP. The package includes payments to households, unemployed and self-employed people, as well as increases in healthcare spending and social benefits, as we observed above. Moreover, the government has also committed to support

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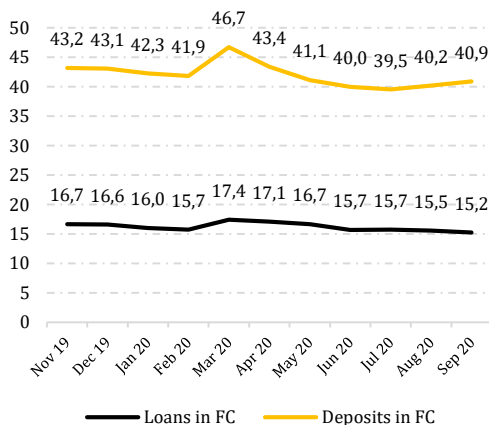
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**Graph 4: Credit to the economy dynamics, % of GDP**



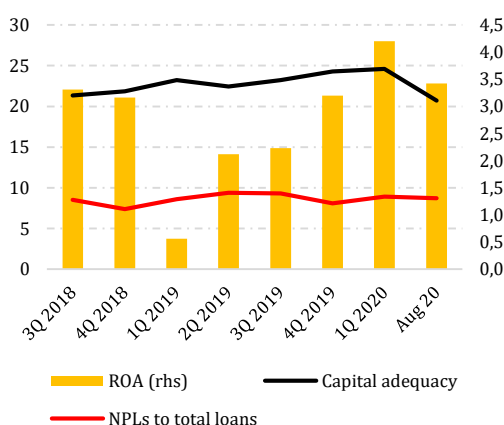
Source: RAEX-Europe calculations based on data from the WB and NBK

**Graph 5: Financial dollarization, %**



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

**Graph 6: Financial soundness indicators, %**



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

struggling SMEs. As a result, we anticipate the fiscal deficit to be around 5,5% of GDP by the end of 2020 (see graph 3).

As of November 2020, the assets in the National Fund of the Republic of Kazakhstan (NFRK) had only increased by a meager 2,8% from the end of 2019, while KZT 4 585 bn have been transferred, reflecting the high dependency on the NFRK to have stable public finances.

**Price stability remains the top priority for the Central Bank.** The National Bank of Kazakhstan (NBK) decided to retain the base rate at 9% back in September 2020 in order to support the hard-hit economy. As of August 2020, the inflation rate stood at 7,0% y-o-y, above the NBK target of 4-6%, mainly due to an increase in food prices, while consumer demand stalled. On the other hand, after the depreciation in April, the KZT has stabilized and gained ground over the USD.

We still expect the NBK to concentrate on price stability as well as move gradually to free float exchange regime. Nevertheless, we still consider that monetary policy effectiveness to be limited by the high level of dollarization, undeveloped financial markets and presence of subsidized lending.

**The banking sector has remained stable.** We anticipate bank assets to GDP to be at around 45% of GDP in 2020, while domestic credit to stand at around 37,8% (see graph 4). As a result of lower credit demand due to economic slowdown caused by the pandemic, both metrics are expected to increase just slightly in absolute terms while the ratios relative to GDP seem higher to the expected contraction of the economy in the current year. The total volume of new loans to individuals for the month of October decreased by 3,8% m-o-m, while corporate lending continued to shrink as the level declined by 2,9% m-o-m. In addition, the level of deposit dollarization remains slightly high but has declined during the year as it stood at 40,9% as of September 2020. On the other hand, loan dollarization is relatively low and it posted a figure of 15,2% as of the same date (see graph 5).

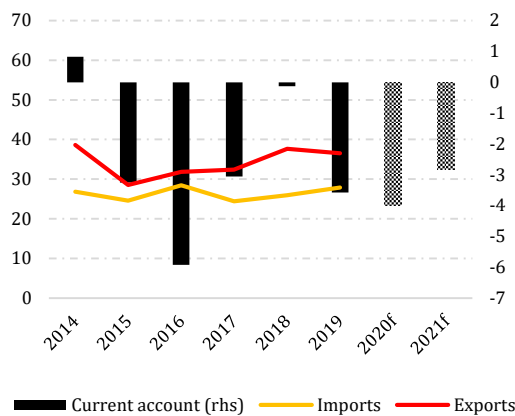
Despite the pandemic, the banking sector's financial soundness indicators have remained quite stable. As of August 2020, the capital adequacy ratio stood at 20,7%, while NPLs posted a figure of 8,7%, an increase of 0,6p.p. as compared to end-2019, but a decrease of almost 0,3p.p. as compared to April 2020 when the lockdown measures were stricter. In terms of profitability, ROA and ROE stood at 3,42% and 25,9% respectively as of the same date (see graph 6). However, the banking sector remains highly concentrated as the 5 largest banks amount to around 63% of total assets.

Finally, the underdevelopment of capital markets in Kazakhstan continues to drag the creditworthiness assessment as reflected by the low level of market capitalization, which stood at 26% of GDP by end-2019. Despite this figure, as mentioned in our previous review, the activation of the

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**Graph 7: External sector indicators, % of GDP**



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

Astana International Financial Centre (AIFC) will have a positive effect for the local financial markets.

**External stance sets to worsen due to the pandemic, but to recover going forward.** We expect the current account deficit to deteriorate in 2020 down to around 4% of GDP (see graph 7), due to a steep decline in exports, which will be partially offset by a decline in the primary income deficit. Moreover, the trade balance is expected to also worsen; in fact, imports already exceeded exports in 3Q 2020.

On the other hand, the level of international reserves stood at USD 33,5 bn by the end of October 2020, which, exceeds the IMF recommended reserve adequacy level for the countries with a floating exchange rate. The reserves are equivalent to 92,4% of gross government debt and around 5 months of imports of goods and services, which supports our rating assessment.

**Stress factors:**

- Concentration of tax revenues on one industry remains high. Kazakhstan depends heavily on oil revenues, which make up around 44% of the state’s budget that is more than 8% of GDP (weak stress-factor);
- The share of loans and deposits in foreign currency remained stable and stood at 15,2% and 40,9% as of September 2020 respectively (very weak stress-factor).

**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 pressures from lingering low oil prices;
- Further weakening of the banking system, which would materialize contingent liabilities of the government.

**ESG Disclosure:**

Inherent factors

- Quality of fiscal policy; quality of monetary policy; natural resources; natural and climatic threats; environmental threats; level of corruption, CPI; Government Effectiveness Index; quality of the business environment; position in Doing Business Ranking; level of investment in human capital, adjusted for inequality; Rule of Law Index; transparency of government policymaking Index; level of information transparency of the government; Political Stability and Absence of Violence/Terrorism Index; natural disasters, constant exposure to difficult natural conditions.

Drivers of change factors

- None.

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Next scheduled rating publication: TBD in December 2020. The full sovereign rating calendar can be found at [Sovereign Rating Calendar 2020](#)

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**RATING HISTORY:**

Date	Review reason	SGC		Outlook	
		National currency	Foreign currency	National currency	Foreign currency
12.06.2020	Scheduled revision of both types of ratings for the country	BBB-	BBB-	Stable	Stable
13.12.2019	Scheduled revision of both types of ratings for the country	BBB-	BBB-	Positive	Positive
14.06.2019	Scheduled revision of both types of ratings for the country	BBB-	BBB-	Stable	Stable
21.12.2018	Scheduled revision of both types of ratings for the country	BBB-	BBB-	Stable	Stable
06.07.2018	Scheduled revision of both types of ratings for the country	BBB-	BBB-	Stable	Stable
12.01.2018	Scheduled revision of both types of ratings for the country	BBB-	BBB-	NA	NA
14.07.2017	Scheduled revision of both types of ratings for the country	BBB-	BBB-	NA	NA
20.01.2017	Scheduled revision of both types of ratings for the country	BBB-	BBB-	NA	NA
22.07.2016	Scheduled revision of both types of ratings for the country	BBB-	BBB-	NA	NA
29.01.2016	First assignment of both types of ratings for the country	BBB-	BBB-	NA	NA

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### Minute's summary

The rating committee for Kazakhstan was held on the 11 December 2020. The quorum for the Rating committee was present. After the responsible expert presented the factors, which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Sovereign methodology. The Chairman of the Rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the voting.

The following methodology was used for the rating assessment: [Methodology for Assigning Sovereign Government Credit Ratings – Full Public Version \(from April 2019\)](#). Descriptions and definitions of all rating categories can be found under the [Rating scale](#) section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

The definition of default can be found on the Agency's website in the section for [Internal policies](#).

**These ratings are unsolicited. The rated entity did not participate in the rating process.**

Main sources of information: National Bank of Kazakhstan, Ministry of Finance of the Republic of Kazakhstan, World Federation of Exchanges, International Monetary Fund, World Bank, Trading Economics, World Economic Forum, Doing Business, United Nations, Kazakhstan Stock Exchange (KASE), Cbonds, publications in the media.

### ESG Disclosure

We consider Environmental, Social, and Governance (ESG) risks and opportunities in the creditworthiness analysis of our Sovereign entities. The disclosure document can be found on the Agency's website in the section: [ESG factors in RAEX-Europe's Credit Ratings](#)

### Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information that was considered to be reliable, complete and non-biased. The responsible expert performed the rating assessment of the country with information considered as the most reliable and up-to-date in accordance to the overall position of the country and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

### Regulatory use

SGC ratings can be used for regulatory purposes according to the ESMA definition.

### Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. All employees involved in the rating assessment and revision of the rated entity have reported absence of conflicts of interests before initiation of the rating process.

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies of the RAEX group.

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### Office responsible for preparing the rating

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

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The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.

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