

## Rating-Agentur Expert RA GmbH confirmed at 'BBB-' the sovereign government rating and at 'BB+' the credit climate rating of Kazakhstan

Rating-Agentur Expert RA GmbH 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.

Rating-Agentur Expert RA GmbH confirmed the country credit environment rating (CCE) of Kazakhstan at 'BB+' (Sufficient quality of credit environment of the country) in national currency and at 'BB+' (Sufficient quality of credit environment of the country) in foreign currency.

### MAJOR FACTORS THAT INFLUENCED BOTH TYPES OF RATINGS:

#### Positive factors:

- Government debt to GDP is expected to remain low in 2016 at around 21,4% and government debt to budget revenues at 133,9%;
- International reserves have remained stable throughout 2016 (USD 29,8 bn by November 2016). We expect that by year-end 2016 reserves covered gross government debt by 1,1x and external debt by 2,2x;
- Short-term debt remains quite low. It is expected to represent merely 1,9% of the total debt and to account for 0,4% of GDP by the end of 2016;
- GDP per capita (projected to be USD 24 700 in 2016) is one of the highest among its regional CIS peers and has been steadily increasing in recent years;
- The unemployment rate has been stable over the past years and is expected to remain so in 2016 (5,0% according to forecast from the IMF);
- Despite the adverse condition in the banking system, it remains well capitalized having posted a capital to assets ratio of 10,8% in 2016, a stable indicator over the past six years. Additionally, the NPLs to total loans ratio declined to 7,8% in the same year;
- Privatization plans are underway in Kazakhstan with companies such as Kazatomprom, Kazpost and Samruk-Energy set to be partially privatized in 2017 and 2018.

#### Restricting factors:

- After the steep increase in government debt from 2014 to 2015, debt levels have stabilized along 2016 and stood at 20% of GDP in 3Q 2016. However, total public debt (which includes debt from the National Bank of Kazakhstan (NBK)) grew by 3p.p. up to 25,1% of GDP from 2015 to 3Q 2016 due to an important increase in debt from the NBK;
- GDP grew by 0,4% in real terms in 9M 2016 and total industrial production rose by 1,1% in 11M 2016 showing a recovery in economic output as compared to the beginning of the year. Currently, we expect real GDP growth to be slightly positive at the end of 2016;
- Government revenues (excluding transfers from the National Fund of the Republic of Kazakhstan (NFRK)) increased by 31,8% in 11M 2016 as compared to the same period last year, propelled by collecting an additional 38% in corporate tax and 59% in value added tax. Additionally, expenditures had a 16,6% increase in the same time span. However, the budget is set to post its second consecutive deficit in a row in 2016 due to

depressed oil prices. Finally, transfers from the NFRK increased by 25,8% depleting the fund by an additional USD 2,5 bn in 2016;

- Credit to the economy picked up slightly in 2016. We estimate that bank assets and private debt to GDP were around 59% and 45% respectively last year. The increase is due to the excess liquidity in the banking sector. Furthermore, given the stability of the exchange rate and the gap between rates in KZT and foreign currency, levels of deposit dollarization decreased by 13p.p. from January 2016 to November 2016 and loans in FX remained practically flat in the same period;
- The NBK slashed rates once again in November down to 12% showing that inflation expectations continue to be low and in order to propel GDP growth. Moreover, the decline in dollarization levels combined with the stability of the exchange rate and the inflation-targeted monetary policy will help to improve the transmission of monetary policy to the financial system;
- Acceptable level of competitiveness of the economy as measured by the index of economic competitiveness from the World Economic Forum (the country scored 4,48 out of 5,7 in 2015).

#### Negative factors:

- The inflation rate remained high at 8,5% y-o-y at end-2016 (in line with our expectations). However, it declined substantially from 2016 mainly due to a base effect. Since the exchange rate has been quite stable, inflation expectations are now lower and we anticipate prices to increase at declining rates;
- The national stock exchange remains underdeveloped with 99 listed companies, a market capitalization of 29% of GDP as of November 2016 and a high concentration of trades corresponding to the ten largest issuers.

#### Stress factors:

- Concentration of tax revenues on one industry. Kazakhstan depends heavily on oil revenues, which make up around 60% of the state's budget and 33% of GDP (weak stress factor);
- Financial dollarization in Kazakhstan, despite alleviating through 2016, remains a risk for the economy and the banking system. As of November 2016, around 33,7% of total loans and 56,4% of total deposits were denominated in foreign currency (moderate stress factor).

#### ADDITIONAL FACTORS THAT INFLUENCED CCE RATINGS:

##### Restricting factors:

- The real interest rate has been volatile over the past six years as, by November 2016, it had jumped to 6,4% from 4% by end-2015.

##### Positive factors:

- Relatively narrow spread between average lending and deposit rates as of November 2016 (4,1%);
- Positive performance of the national stock exchange (KASE) as the KASE index rose by more than 50% in 2016.

#### SENSITIVITY ASSESSMENT:

The following developments could lead to an upgrade:

- Sustained and stable increase in oil prices which would reduce fiscal and external pressures and propel real GDP growth;

- Consistent stability of the exchange rate combined with stable inflation and a reduction in dollarization levels.

The following developments could lead to a downgrade:

- A renewed decline in oil prices which would propel an increase in government debt and exert pressure on the fiscal budget and monetary targets.

“The confirmation of both SGC and CCE ratings of Kazakhstan is based on the fact that, despite an improvement of some major indicators, most of them are generally consistent with our expectations in the previous revision of the rating.

Government debt remains below our internal thresholds, inflation has slowed down and we expect it to remain stable for 2017 and the monetary policy introduced in 2015 has stabilized the exchange rate and inflation expectations, thus, causing a decline in financial dollarization. Furthermore, higher oil prices are expected to propel a rebound of the economy in the current year.

However, the financial system is still underdeveloped and fragile, inflation and inflationary pressures remain latent and the country still has an extremely high dependency on the hydrocarbon sector. Furthermore, the external position continues to deteriorate as the current account deficit and the negative Net International Investment Position (NIIP) have widened.” – Clarified Hector Alvarez, Rating Associate of Rating-Agentur Expert RA GmbH.

Responsible expert: Hector Alvarez, Rating Associate of Rating-Agentur Expert RA GmbH

Reviewer: Gustavo Angel, Rating Associate of Rating-Agentur Expert RA GmbH

Research report on Kazakhstan is available at:

<http://raexpert.eu/reports/Research report Kazakhstan 20.01.2017.pdf>

Next scheduled rating publication: 14 July 2017. The full sovereign rating calendar can be found at <http://raexpert.eu/sovereign/#conf-tab-5>

For further information contact:

**Rating-Agentur Expert RA GmbH**  
Walter-Kolb-Strasse 9-11,  
60594 Frankfurt am Main, Germany  
+49 (69) 3085-45-00  
E-mail: [info@raexpert.eu](mailto:info@raexpert.eu)  
[www.raexpert.eu](http://www.raexpert.eu)

RATING HISTORY:

Date	Review reason	SGC		CCE	
		National currency	Foreign currency	National currency	Foreign currency
22.07.2016	Scheduled revision of both types of ratings for the country	BBB-	BBB-	BB+	BB+
29.01.2016	First assignment of both types of ratings for the country	BBB-	BBB-	BB+	BB+

## Minute's summary

The rating committee for Kazakhstan was held on 18 January 2017. 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 and Country Credit Environment Ratings. Short Public Version (from April 2015) can be found under the following link: <http://raexpert.eu/files/methodology/Methodology-Short-Sovereign.pdf>. Descriptions and definitions of all rating categories can be found under the following link: <http://raexpert.eu/sovereign.php> 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.

**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), publications in the media.

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## 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.

Despite similar methodologies, credit ratings of Kazakhstan from RAEX (Moscow) (both SGC and CCE) may be different from those assigned by Rating-Agentur Expert RA GmbH due to:

- Possible differences in expert assessments of individual factors;
- Some differences in methodologies (methodologies are similar but not identical);
- Differences in the date/period of assessment for individual factors.

## 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.

## Risk warning

The Agency disclaims all liability in connection with any consequences, interpretations, conclusions, recommendations and other actions directly or indirectly related to the conclusions and opinions contained in the Agency's Research Reports.

This press-release represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

## 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.

Rating-Agentur Expert RA GmbH is a credit rating agency established in Germany and therefore shall comply with all applicable regulations currently in force in the European Union.

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.