

August 21, 2018

[ACRA SFSI KZ](#) measures financial stability of the country and assesses its vulnerability to specific risks by aggregating information regarding maturities and currency profile of assets and liabilities of economic agents (financial companies, non-financial companies, population and state)

Zhannur Ashigali
Associate Director, Research and Forecasting Group
+7 (495) 139-0402
zhannur.ashigali@acra-ratings.ru

Vasilisa Baranova
Analyst, Research and Forecasting Group
+7 (495) 139-0480 ext. 136
vasilisa.baranova@acra-ratings.ru

Natalia Porokhova
Senior Director, Head of Research and Forecasting Group
+7 (495) 139-0490
natalia.porokhova@acra-ratings.ru

Contacts for media

Alexey Churilov
Assistant Manager, External Communications
+7 (495) 139-0480 ext.169
alexey.churilov@acra-ratings.ru

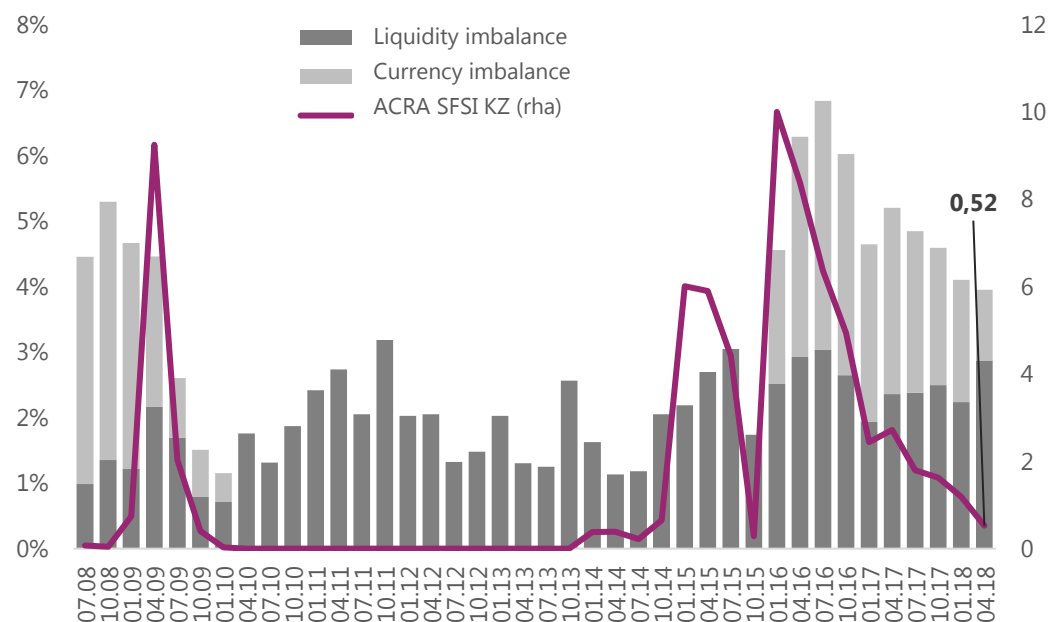
Financial stability in Kazakhstan has reached its pre-crisis level

Structural Financial Stress Index for Kazakhstan

In early 2018, the Structural Financial Stress Index for Kazakhstan (ACRA SFSI KZ) continued sliding¹ and reached 0.52 pts by the end of 1Q2018, which is much lower than the previous values of ACRA SFSI KZ (Fig. 1).² It indicates a growth of stability in the national financial system. The index is very close to its pre-crisis level: in 2010–2013, its value was equal to zero. In this period, the interest rate spread and the foreign exchange rate were the lowest.

Like in many other oil-exporting countries, in Kazakhstan, the currency risk is stronger than the interest rate risk, and the level of financial system stress depends on the FX rate volatility rather than the spread of interest rates (Fig. 2). In 2010–2013, the volatility of KZT exchange rate was minimal, simultaneously with zero values of financial system stress, as compared to the entire lifetime of the index (Fig. 3). In 1Q2018, caused by a decline in the volatility of KZT exchange rate, the relevance of the currency risk trigger also declined, while the refinancing risk trigger (calculated using the interest rate spread) remained almost unchanged in the past period. In view of those factors taken together, ACRA SFSI KZ is now close to its pre-crisis values.

Figure 1. Structural Financial Stress Index for Kazakhstan is declining



Source: ACRA estimates

¹ See [Higher share of short-term borrowings has not increased financial instability in Kazakhstan](#) of March 19, 2018.

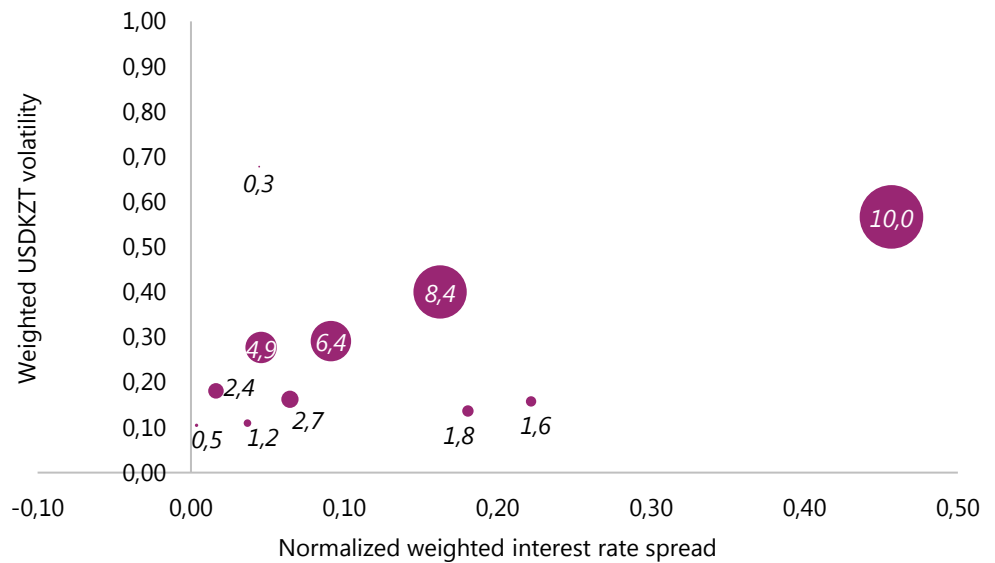
² "0" is minimum, "10" is maximum.

For more details on the methodology used to calculate ACRA SFSI KZ, please see [Structural Financial Stress Index \(ACRA SFSI\) Calculation Methodology](#).

Trigger is an event that may lead to a change in expectations regarding periods when incoming and outgoing flows arise, or in the amount thereof.

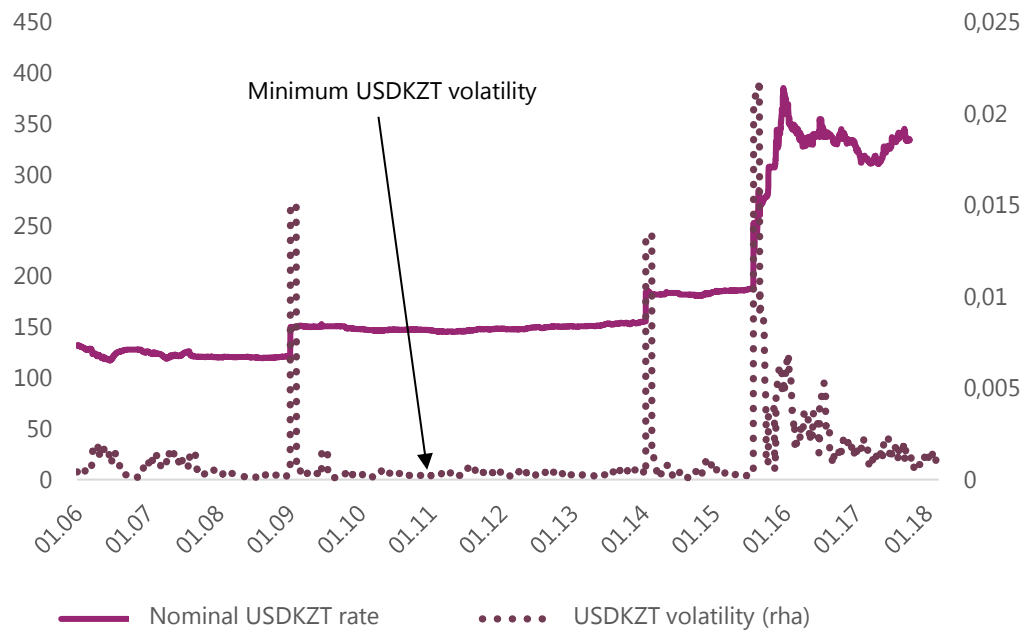
Imbalance represents a skewness in the profile of expected cash inflows and outflows in terms of maturities or currency in a specific sector.

Figure 2. ACRA SFSI KZ and the volatility of interest rates and KZT exchange rate (circle area indicates the value of ACRA SFSI KZ)



Source: ACRA estimates

Figure 3. Financial stress minimum was observed in the period of the lowest USDKZT volatility



Source: ACRA estimates

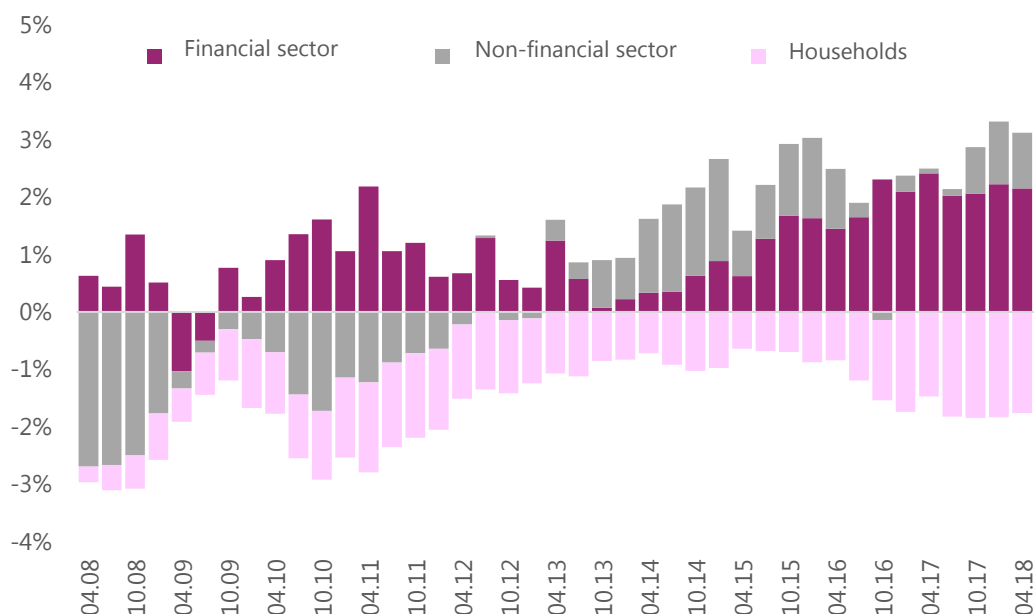
See [Among CIS oil exporters, only Kazakhstan will evade the risk of slowing down economy](#) of April 9, 2018.

In 1Q2018, multiple factors strengthened the financial stability: first, there were neither significant variations in the KZT exchange rate nor increase in the interest rate spread; second, the trends in currency imbalance and tenge liquidity imbalance were inconsistent. In particular, on the back of decelerating inflation and lower inflation expectations, the base rate dynamics slowed down. Amid more significant plunge in market rates, the rate spreads fell to a minimum.

The financial sector became a main driver that decreased the currency imbalance in the national economy (Fig. 5), which was caused by a decline in the expected currency outflows: currency interest expenses fell by KZT 165 billion, and the currency debt liabilities fell by KZT 760 billion. The shrink in the currency imbalances was also facilitated by the inflow of currency in late 1Q2018.

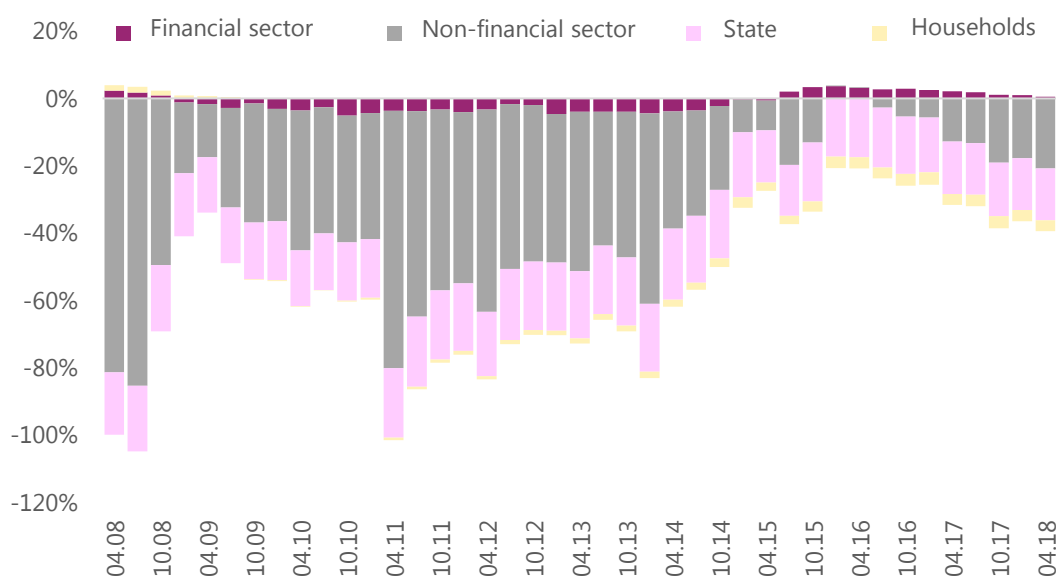
On the contrary, the liquidity imbalance increased (Fig. 4), predominantly, in the non-financial sector, as short-term financial obligations grew significantly in such segments as manufacturing, IT, and professional and technology business.

Figure 4. Liquidity imbalances by sector (positive values indicate liquidity shortages)



Source: ACRA estimates

Figure 5. Currency imbalances by sector (positive values indicate the potentially unsecured portion of currency denominated obligations)



Source: ACRA estimates

Since October 2017, the National Bank of the Republic of Kazakhstan (NBRK) has refrained from active currency interventions, and since March 2018, the demand for short-term notes of NBRK has been declining on the back of external economic factors mainly. The inflow of portfolio investments into the US securities impairs the demand for securities of emerging markets, including Kazakhstan. The open position on the NBRK transactions was stable in general, as the volumes of deposits placed with commercial banks and NBRK notes issued since early 2018 demonstrated low volatility.

In 2H2018, the potential risks for the Kazakhstan's financial system may be caused by the growing demand for foreign currency, driven by seasonality and expectedly weaker tenge in case of growing exchange rate for base currencies. Therefore, the currency imbalance may become stronger in 2H2018, while the liquidity imbalance is expected to change insignificantly, if no external shocks occur. This will be supported by the expected period of stable interest rates: the base rate will likely continue to decline, but at a slower pace in view of possibly stronger inflation in September-December.

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Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)

75, Sadovnicheskaya embankment, Moscow, Russia

www.acra-ratings.com

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