

A LOWER CURRENCY IMBALANCE RESULTS IN THE KAZAKH FINANCIAL STRESS INDEX DECLINING

DYNAMICS OF THE ACRA SFSI KZ



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MAIN CONCLUSIONS

- **At the very end of 2023, ACRA’s Kazakhstan Financial Stress Index (ACRA SFSI KZ) declined slightly.** Financial stress generally remains acceptable, however it exceeds the average levels of the index in previous years.
- **The base risks for the economy for a long time were associated with currency risk triggers, but weakening volatility in this market has reduced the likelihood of this trigger event.** As the Agency previously assumed, the risk ratio of the basic triggers was approximately equal due to the dynamics of the tenge exchange rate and the rate spread. Throughout 2024, according to ACRA, the overall impact of triggers will become less noticeable than in previous periods. This will be facilitated by the relative stability of the exchange rate of Kazakhstan’s national currency and the expected easing of monetary policy by the regulator.

FINANCIAL STRESS INDEX PERFORMANCE

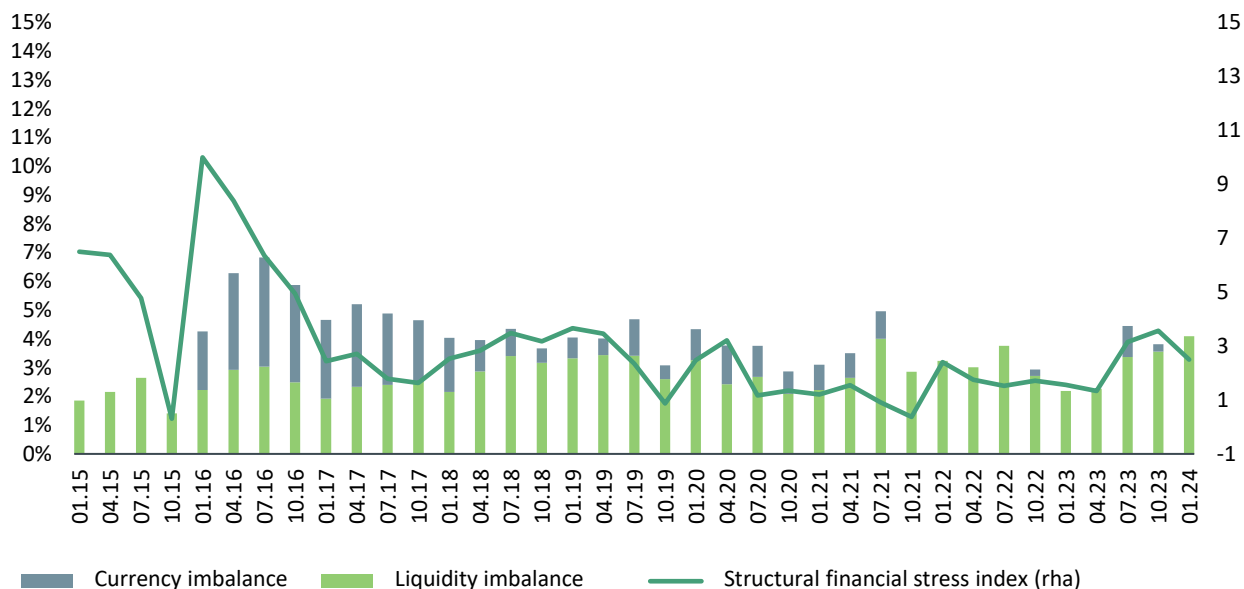
Main manifestations of financial stress After moderate growth in the fall of 2023, which was mainly due to the increased impact of triggers and, to a lesser extent, the dynamics of the liquidity imbalance in the national currency¹, the ACRA SFSI KZ decreased slightly at the beginning of 2024.

ACRA notes that the key impact on the stress index was exerted by the tenge liquidity imbalance, while the foreign currency liquidity imbalance faded away. This led to a slight decline in the ACRA SFSI KZ, although the index continues to be slightly above the indicators of 2020–2022.

In 2024, as interest rates fall and interest expenditures stabilize (amid a slowdown of inflation and easing of the regulator’s interest rate policy) the index dynamics may reach a plateau. If we consider the potential of trigger events, then the current entirely acceptable volatility of the tenge exchange rate and the stabilization of the spread of rates in the tenge to the base rate neutralizes the risk of trigger events occurring in the country’s financial sector.

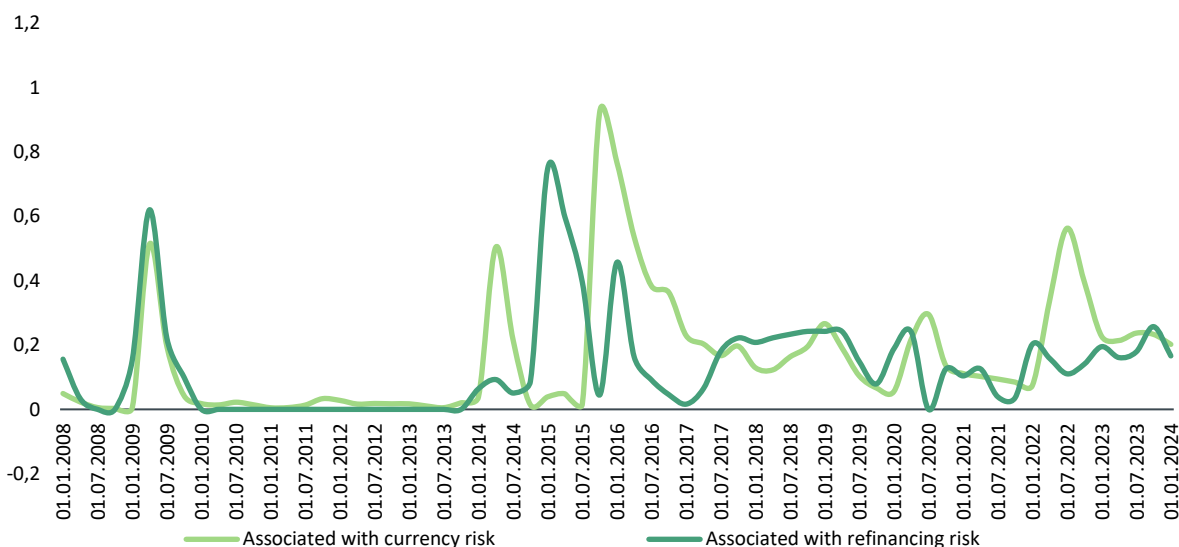
¹ Foreign currency liquidity is present in the calculations of both the currency balance and the maturity balance. The calculation is performed at the exchange rate on the required date, since foreign currency liquidity can be relatively quickly converted into domestic currency liquidity.

Figure 1. ACRA's Kazakhstan Financial Stress Index



Sources: Kazakh national agencies, ACRA

Figure 2. Financial stress index triggers



Sources: Kazakh national agencies, Kazakhstan Stock Exchange, ACRA

CURRENCY IMBALANCE

As of the start of 2024, the currency imbalance was close to zero, which was due to the positive difference between assets and liabilities in all sectors. Since the index calculation only takes into account the negative difference, reflecting the presence of a negative imbalance (a positive imbalance is not of a stressful nature), the aggregate foreign exchange imbalance at the beginning of the year was not a source of financial stress.

In the non-financial sector, without taking into account export earnings in foreign currency, there is traditionally a negative imbalance, which is leveled out by revenues from the export of raw materials.

LIQUIDITY IMBALANCE

As of the start of this year, the liquidity imbalance increased slightly. This slow growth trend, which has been observed since mid-2022, is explained mainly by liquidity dynamics in the financial sector, which were influenced by the growth of short-term liabilities of entities in this sector during recent years.

This trend, apparently, will be observed in the future, since inflation, although slightly decreasing, still remains elevated relative to the regulator's target, which leads to a prolonged period of high nominal interest rates in the financial sector.

POTENTIAL OF TRIGGER EVENTS

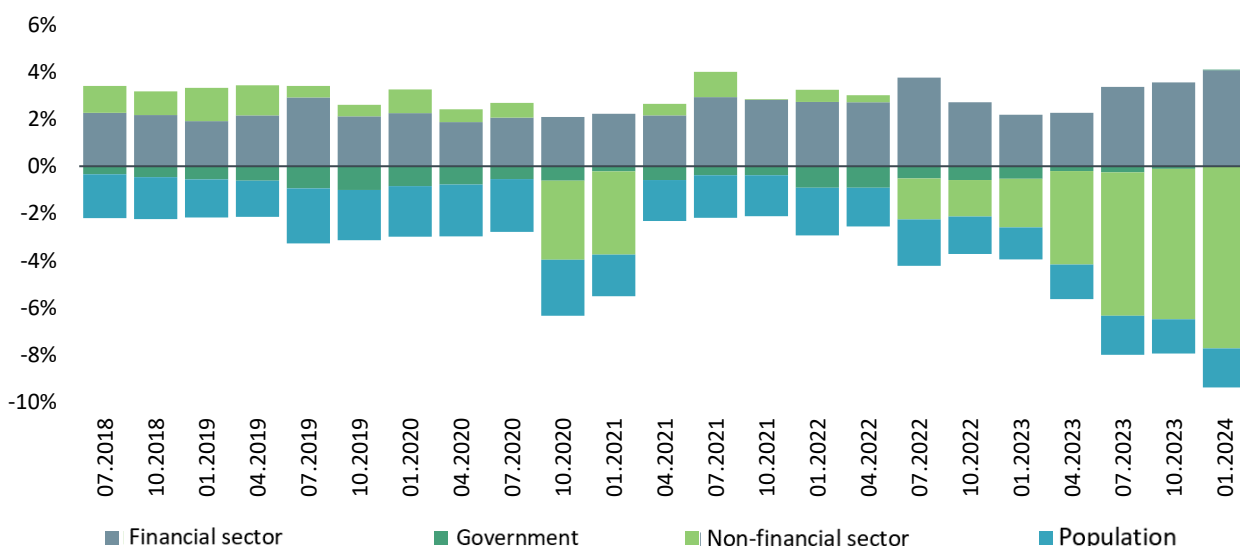
Key financial stress materialization risks

In 2022–2023, currency risk was the main contributor to the trigger event potential, given the shocks in the foreign exchange market (against the backdrop of the volatility of the Russian ruble), a significant inflow of foreign currency, and unstable foreign exchange earnings of exporters. However, in late 2023–early 2024, the impact of both triggers — currency risk and refinancing risk — became equal.

In 2023, the tenge's volatility became more restrained, and the previously observed currency shocks disappeared. By the beginning of this January, the situation had not changed significantly: the triggers of currency risk and refinancing risk still make a moderate and approximately equal contribution to the potential of a trigger event.

Given the expected stabilization of interest rates amid a gradual softening of monetary policy and the relatively low volatility of the tenge exchange rate, we can conclude that the analyzed triggers are entering a period of more moderate values. This will be reflected by the ACRA SFSI KZ in 2024.

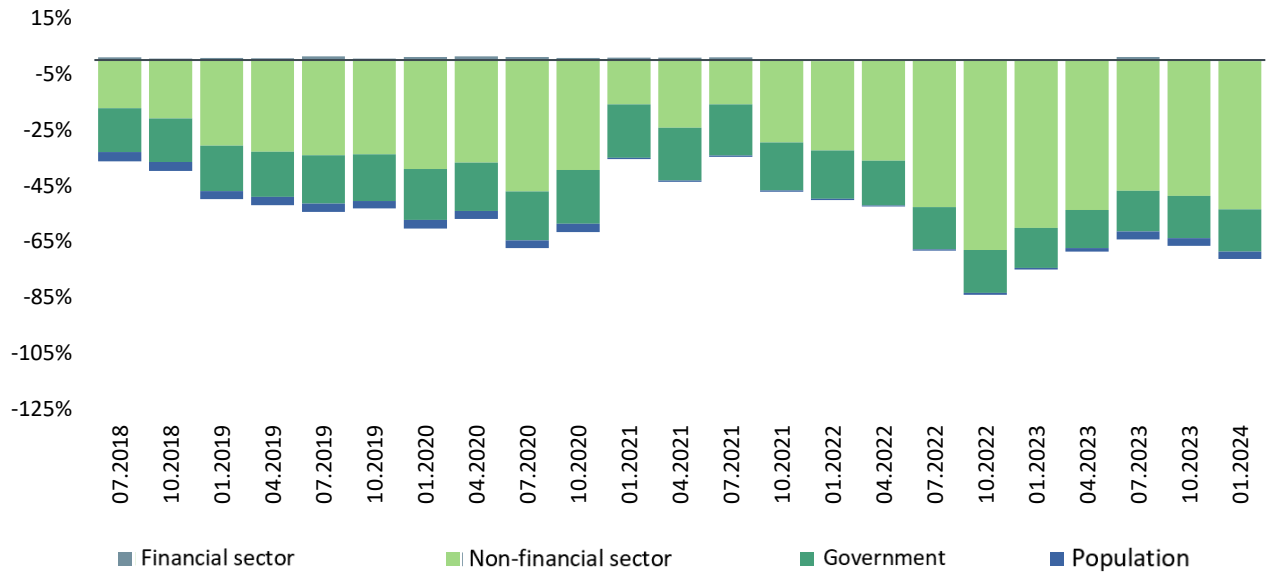
Figure 3. Balance of liquidity by sector (positive values reflect a surplus of short-term liabilities over assets)²



Sources: Kazakh national agencies, ACRA

² Balance is the difference between short-term assets and liabilities; it is shown as a percentage relative to the calculated aggregate debt position of all the specified sectors, non-residents, and the country's central bank.

Figure 4. Currency imbalance by sector (positive values mean a negative imbalance)³



Sources: Kazakh national agencies, ACRA

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RESEARCH

³ Balance is the difference between currency debt and interest assets and liabilities; it is shown as a percentage relative to the calculated aggregate debt position of all the specified sectors, non-residents, and the country's central bank.

APPENDIX

WHAT DOES THE ACRA SFSI KZ SHOW AND WHAT ARE ITS COMPONENTS?

For more details, see the [Structural Financial Stress Index \(ACRA SFSI\) Calculation Methodology](#).

The ACRA Financial Stress Index for Kazakhstan (ACRA SFSI KZ) assesses the proximity of the country's financial system to a crisis. Linking different sectors of the economy, the financial system can contribute to the spread of defaults (regardless of the reasons) in some markets to other markets. Large-scale financial crises can lead to disruptions in the real sector of the economy (initially, due to local liquidity crises), which determines their importance.

The ACRA SFSI KZ is based on structural imbalances of the financial system. The Index aggregates information on the financial condition of economic agents and assesses their vulnerability to specific types of risk.

The financial condition of economic agents is studied on the basis of the maturity and currency structure of assets and liabilities at the sector level (financial companies, non-financial companies, the population, and the government). Imbalances in assets and liabilities by maturity and currency can cause a systemic risk when trigger events occur; in case of large imbalances, even weak triggers can result in a systemic crisis. On the contrary, powerful trigger events are not so significant when imbalances are small. The ACRA SFSI KZ includes trigger events such as manifestations of instability in the foreign exchange market and the interbank loan market. The first can impact expectations on the value of foreign exchange cash flows, the second — on the availability of short-term funding.

The Index analyzes two types of imbalances: liquidity imbalance and currency imbalance. The liquidity imbalance indicator evaluates the amount of additional funds required by economic agents in the coming year in order to fully repay short-term debt and pay interest on debt obligations. The currency imbalance indicator evaluates the total demand of various sectors of the economy for foreign currency, not secured by the flow of foreign currency debt assets, expected foreign currency operating income, or cash reserves. In contrast to the liquidity imbalance, the currency imbalance indicator includes both short-term and long-term assets and liabilities.

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