

FINANCIAL STRESS IN KAZAKHSTAN REMAINS MODERATE AMID A LIQUIDITY IMBALANCE



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MAIN CONCLUSIONS

- **ACRA's Kazakhstan Financial Stress Index (ACRA SFSI KZ) has recorded moderate growth in 2023.** Financial stress is generally low and is largely driven by tight monetary conditions, which increase maturity risk and interest expenses. We also note the consistently high foreign currency liabilities of the corporate segment, which are expected to be partially offset due to greater retention of foreign currency earnings against the backdrop of the ending of the mandatory regulation for their sale.
- **The base risks for the economy are associated with currency risk triggers, although their influence has somewhat weakened. In terms of the imbalance of assets and liabilities, the imbalance of liquidity is most noticeable in the financial sector.** This is happening against the backdrop of higher growth rates of the money supply relative to the volume of bank lending since March 2023, while the imbalance was mainly associated with the debt liabilities of second-tier banks and an increase in interest expenses.

FINANCIAL STRESS INDEX PERFORMANCE

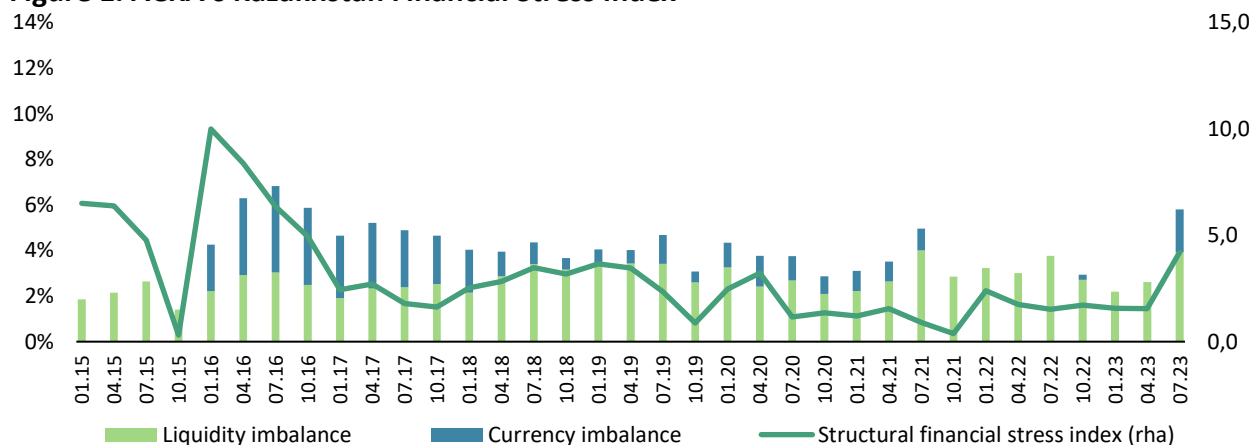
Main manifestations of financial stress

The ACRA SFSI KZ Kazakh structural financial stress index grew slightly at the start of the second half of the year, mainly due to the dynamics of the liquidity imbalance in the national currency¹, which were, nevertheless, moderate compared to episodes of rapid growth of the index in 2015–2016.

ACRA notes that since the start of the year, the Index has been influenced by interest rates at which liquidity was provided in the market, the differential of rates in tenge to rates in foreign currency, the background (although low) volatility of the tenge exchange rate, as well as more significant growth rates of the monetary supply in the economy relative to second-tier bank lending. Taking these trends into account, the ACRA SFSI KZ showed relatively high stress in the financial sector, while in the corporate sector, where stress was previously elevated, it shifted to negative values.

ACRA assumes that the influence of interest expenditures for banks' liabilities may decline in H2 2023 due to the stabilization of inflation dynamics, contributing to a potential reduction of the base rate by the regulator.

¹ Foreign currency liquidity is present in the calculations of both the currency balance and the maturity imbalance. 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

CURRENCY IMBALANCE

The estimated imbalance of assets and liabilities in foreign currency was formed in the economy under the influence of the financial and non-financial (corporate) sectors. In the non-financial sector, the deficit was due to foreign currency debt liabilities and a certain increase in interest expenses, although the impact of this sector is offset by the expected receipt of export earnings in foreign currency. In August 2023, the mandatory regulation to sell foreign currency earnings in the market was cancelled for quasi-state entities (previously it was set at 50%, in July it was lowered to 30%, and then it was completely removed), which contributes to greater retention of foreign currency earnings.

A positive balance of net assets of the public sector and the population formed in other sectors thanks to coverage of assets. This is mainly the public sector, where coverage by assets continues to be ensured mainly by the state's foreign currency debt assets. At the same time, there is a general trend toward a reduction in foreign currency debt liabilities of the state.

LIQUIDITY IMBALANCE

The main factor that determined the dynamics of the ACRA SFSI KZ in 2023 so far has been the liquidity imbalance, which shows that the trend of the previous years has continued. In 2016–2017, both types of imbalance — foreign currency and liquidity — had an equal contribution to the dynamics of the financial stress index, while since 2018, liquidity imbalance has become dominant as devaluation sentiment and tenge exchange rate volatility have decreased.

For the most part, this imbalance is influenced by the situation in the financial sector, where banks' short-term liabilities and interest expenses are increasing (which is associated with both an increase in the depository base and monetary conditions). We also note the favorable ratio of rates in foreign currency and in tenge against the backdrop of a global depreciation of the dollar in 2023 (the DXY index reached a local peak in October 2022, after which it weakened) and a short-term strengthening of the tenge in the middle of this year.

It seems that this trend will be in place until the end of 2023 or even H1 2024 as double-digit inflation (13.1% in August and September) provides for increased nominal rates on financial sector obligations amid relatively low devaluation expectations in the economy.

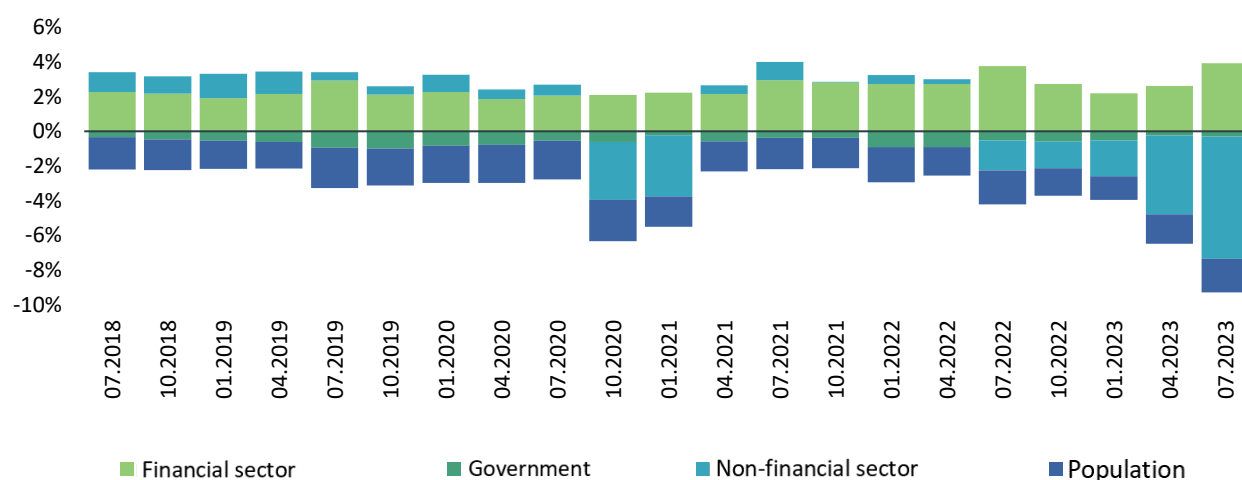
POTENTIAL OF TRIGGER EVENTS

Key financial stress materialization risks The currency risk trigger contributed much to the aggregate potential of the trigger event (risk potential) in 2022. The last time it surged was in the summer of the past year. However, in 2023, the trigger estimate — the normalized weighted volatility of the tenge exchange rate — became more moderate.

Triggers associated with the refinancing risk have been moderate since early 2022, which indicates that the probability of materialization of this risk is low. This is conditioned mostly by an insignificant spread between the market rate and the base rate, as well as by a relative stability of the base rate in 2023.

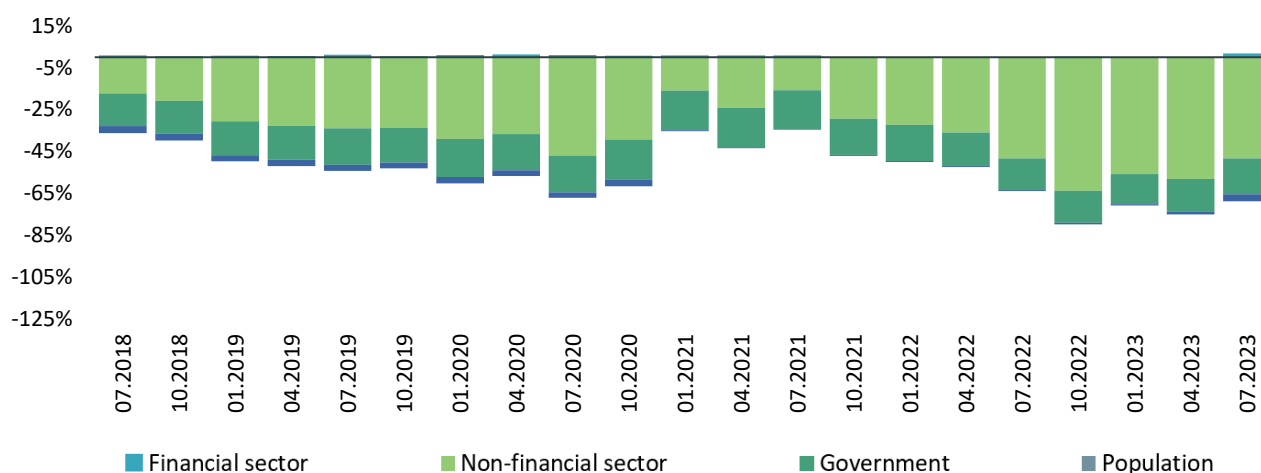
ACRA will continue to monitor and comment on the dynamics of these triggers.

Figure 2. Balance of liquidity by sector (positive values mean a negative imbalance)²



Sources: Kazakh national agencies, ACRA

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



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.

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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