

FINANCIAL STRESS IN KAZAKHSTAN HAS INTENSIFIED AMID HIGHER LIKELIHOOD OF TRIGGER EVENTS



ZHANNUR ASHIGALI

Associate Director, Sovereign and Regional
Ratings Group

zhannur.ashigali@acra-ratings.ru

Media contact:

SVETLANA PANICHEVA

+7 (495) 139 04 80, ext. 169
svetlana.panicheva@acra-ratings.ru

CONTENTS

- p. 2
- FINANCIAL STRESS INDEX PERFORMANCE**
- p. 3
- CURRENCY IMBALANCE**
- p. 3
- LIQUIDITY IMBALANCE**
- p. 4
- POTENTIAL OF TRIGGER EVENTS**
- p. 5
- APPENDIX**

MAIN CONCLUSIONS

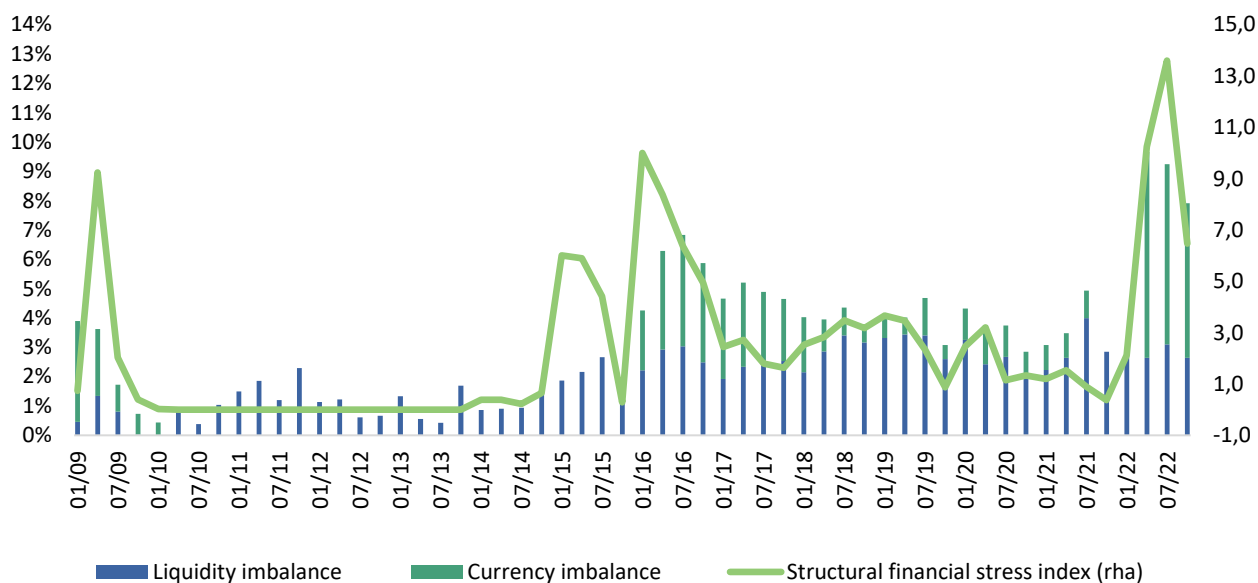
- **ACRA's Kazakhstan Financial Stress Index (ACRA SFSI KZ) reacted noticeably to the situation in the economy and financial sphere in 2022.** In June and July, the Index exceeded its 2015–2016 values and then declined slightly.
- **Currency risk manifests itself most noticeably in both the currency imbalance and potential triggers associated with this risk.** In ACRA's opinion, this is mainly due to the debt liabilities of the country's financial and corporate sectors.

FINANCIAL STRESS INDEX PERFORMANCE**Main manifestations of financial stress**

The ACRA SFSI KZ Kazakh structural financial stress index grew substantially in June and July 2022 and then declined somewhat, but was again heightened in October. The Index's performance reflected the intensification of the currency imbalance indicator amid relative stability of the liquidity imbalance indicator.

ACRA notes that the Index was influenced by the effect of interest rates at which liquidity was provided in the market in H2 2022, and by the volatility of the tenge exchange rate in Q2 and Q3. Taking these trends into account, as of October 2022, the ACRA SFSI KZ showed a relatively high level of financial stress.

The Index did not perform in this way in 2020–2021 due to lower volatility of the tenge, less significant spreads of market interbank rates to the base interest rate, and a much more moderate range of changes to the base interest rate by the National Bank of the Republic of Kazakhstan (NBK).

Figure 1. ACRA's Kazakhstan Financial Stress Index

Sources: Kazakh national agencies, ACRA

CURRENCY IMBALANCE

The currency imbalance that formed under the influence of both the financial and corporate sectors was the key factor that determined the performance of the ACRA SFSI KZ in 2022. The influence of these sectors was the strongest because there was a positive balance of net assets of the public sector and the population due to coverage of assets.

In the non-financial sector, the deficit was caused by short-term debt liabilities, which over the past few months have peaked (in tenge).

LIQUIDITY IMBALANCE

In 2022, there have not been any significant changes in terms of the formation of the liquidity imbalance — it stabilized after the peak recorded in summer 2021. For the most part, the liquidity imbalance is affected by the situation in the financial sector, where short-term liabilities have exceeded the volume of assets, including due to interest expenses. This was due to both the growth of the depository base and monetary conditions in the economy.

This trend is likely to continue in 2023, when the financial and corporate sectors will collectively keep the liquidity imbalance at a stable level with a less pronounced contribution to the Index's structure compared to the currency imbalance.

POTENTIAL OF TRIGGER EVENTS

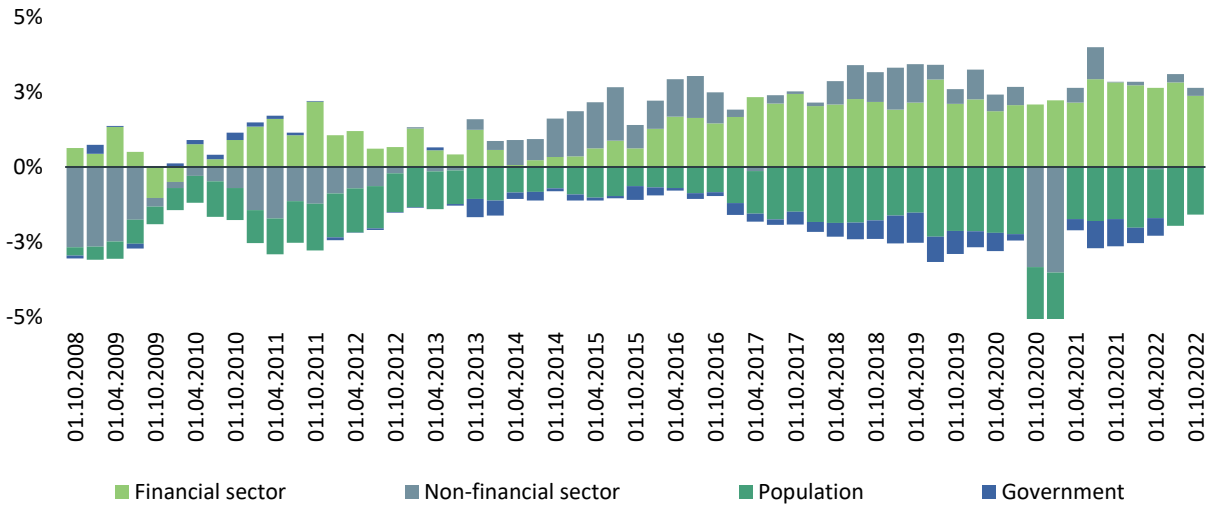
Key financial stress materialization risks

Normalized triggers associated with the currency risk are now at their maximums since late 2015, when the growth of trigger potential was induced by the change in the country’s currency regime. Note that before 2022, the dynamics of this type of triggers were rather stable.

Calculations show that triggers associated with refinancing risk equal 0.14, with the historic maximum at 0.75. This is a moderate value that evidences low probability of materialization of the refinancing risk event.

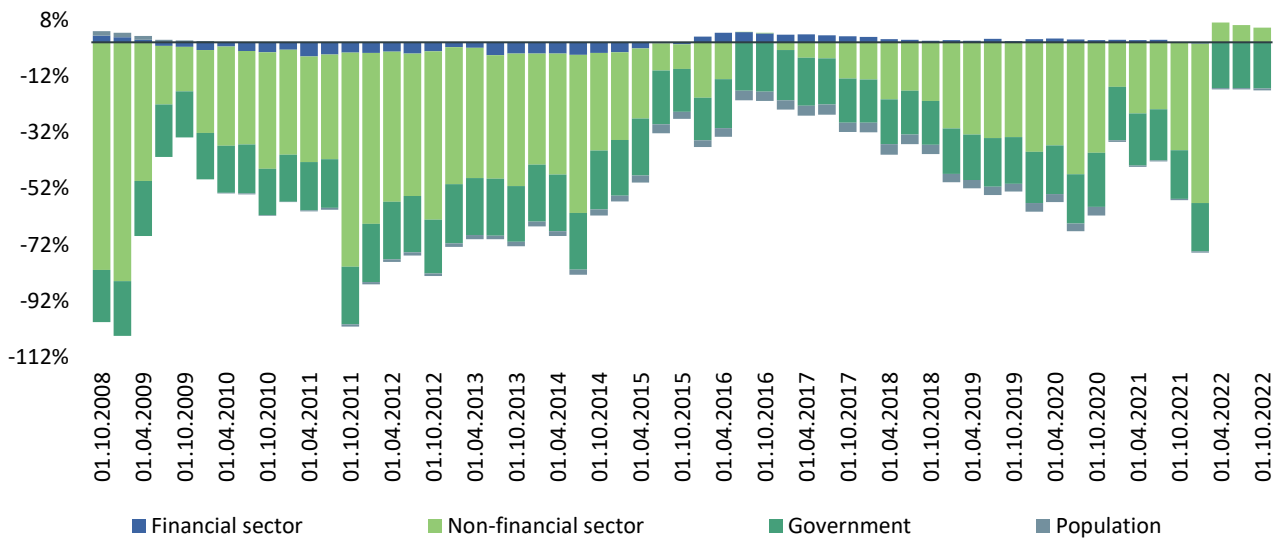
Given these trends, the key role will be played by events associated with the potential materialization of currency risk. ACRA will monitor and comment on the dynamics of these triggers.

Figure 2. Balance of liquidity by sector



Sources: NBK, ACRA

Figure 3. Currency imbalance by sector



Sources: Kazakh national agencies, ACRA

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.

(C) 2022

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bln. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website — www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website — www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by legislation of the Russian Federation.