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The Republic of Kazakhstan

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ACRA has affirmed the following ratings to the [Republic of Kazakhstan](#) (hereinafter, Kazakhstan, or the country) under the international scale:

- **Long-term** foreign currency credit rating at **BBB+** and local currency credit rating at **BBB+**;
- **Short-term** foreign currency rating at **S2** and local currency credit rating at **S2**.

The outlook on the long-term foreign currency credit rating is **Negative** and local currency credit rating is **Negative**.

Credit rating rationale

Positive rating assessment factors	<ul style="list-style-type: none"> • Expected return to economic growth after the recession in 2020 (potential growth is estimated at 4%). • Public debt is at a low level and favorably structured. • Stable external position due to substantial volume of reserves. • Moderate inflation and effective monetary policy.
Negative rating assessment factors	<ul style="list-style-type: none"> • Risk of materialization of contingent liabilities. • Low diversification of the export-oriented economy, which is vulnerable to a slowdown in world trade growth. • Poor quality of government institutions.
Negative outlook	<ul style="list-style-type: none"> • The Negative outlook assumes the possibility of a negative rating action within the 12 to 18-month horizon.
Potential rating upgrade factors	<ul style="list-style-type: none"> • Increased diversification of exported goods. • Reduction in size of contingent liabilities. • Significantly improvement in the quality of public governance.
Potential rating downgrade factors	<ul style="list-style-type: none"> • Increased public debt and deterioration of its structure. • Prolonged decline in economic growth. • Sharp decrease in the size of reserves relative to external debt and imports.

Sovereign model results

Block	Indicative credit rating for the block	Modifier	Score	Modifier corrections to the indicative credit rating	Final credit rating for the block
Macroeconomic position	AA-	Potential economic growth	+1	+1	AA
		Sustainability of economic growth	-1		
		Efficacy of structural, economic and monetary policies	+1		
Public finance	A+	Contingent liabilities and the risk of them materializing on the sovereign's balance sheet	-1	-1	A
		Fiscal policy framework and fiscal flexibility	-1		
		Market access and sources of funding	+1		
		Debt sustainability	+1		
External position	BB-	Balance of payment vulnerabilities	-1	+1	BB
		External debt sustainability	+2		
		Stability of currency regime	0		
Institutional framework	BB-	Willingness to pay	0	0	BB-
		History of defaults	0		
		Political instability and recent political decisions	0		
		Involvement in geopolitical conflicts, exposure to geopolitical risks	0		

Assigned credit rating

Indicative credit rating	BBB+
Modifier corrections to the indicative credit rating	0
Final credit rating	BBB+
Assigned credit rating	BBB+

MACROECONOMIC SITUATION AND ECONOMIC POTENTIAL

The Kazakh economy has experienced a double shock in 2020 caused by declining supply and demand in the domestic market amid the pandemic and a worsening market situation. However, ACRA believes that the country's economy will return to growth in the future.

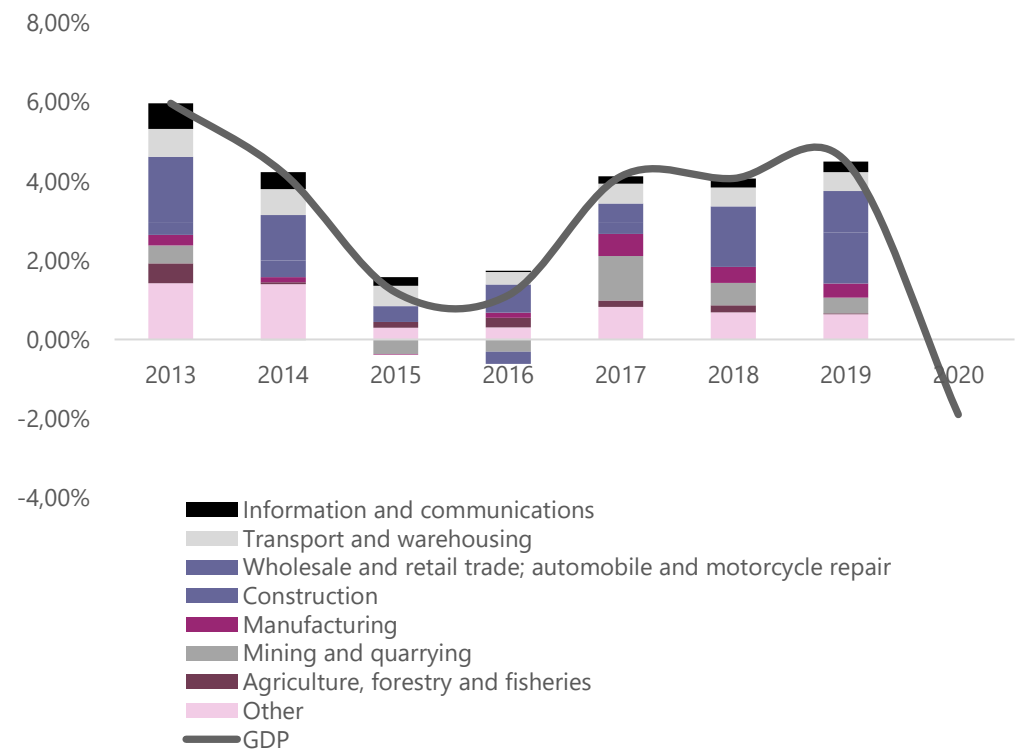
Kazakhstan is experiencing its first decline in economic activity since the 1990s. Falling prices for oil, the country's main export commodity, have led to lower foreign currency revenues and also resulted in Kazakhstan committing to reducing oil production from 90 mln tons in 2019 to 85.2 mln tons in 2020 under the new OPEC+ deal.

This spring and summer, a decline in internal supply and demand triggered by the introduction of quarantine measures in the country amid the coronavirus pandemic served as an additional shock. Lower economic activity year-on-year in the second and third quarters of the year was especially tangible. ACRA predicts that the sectors that will suffer the most this year include transport and warehousing, and also wholesale and retail trade (-6.8% and -7%, respectively).

It is noteworthy that the decline in economic activity in Kazakhstan in 2020 should be less significant than in the world as a whole (ACRA predicts the global economy to decline by 4.9%) and in a number of countries (the Russian, Ukrainian and Turkish economies are predicted to shrink by 6.6%, 7.7% and 5%, respectively)¹.

ACRA estimates that Kazakhstan's GDP will decline by 2% in real terms in 2020, followed by annual growth of 3–6% in 2021–2024. A stable inflow of foreign direct investment will be an important factor supporting medium-term economic growth. Steady population growth (at approximately 1–2% annually) provides a constant influx of labor and will also have a positive impact on the economy.

Figure 1. Structure of economic growth in Kazakhstan and GDP dynamics in real terms



Sources: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, ACRA

¹ IMF forecast for 2020 dated June 2020.

The economy is poorly diversified and dependent on the oil and gas sector. This state of affairs is set to continue in the long term. In 2019, the mining sector (primarily represented by the oil and gas industry) accounted for 9% of the country's economic growth and 54% of industrial growth. Despite fluctuating in certain years, the oil industry continues to contribute 16–30% of GDP.

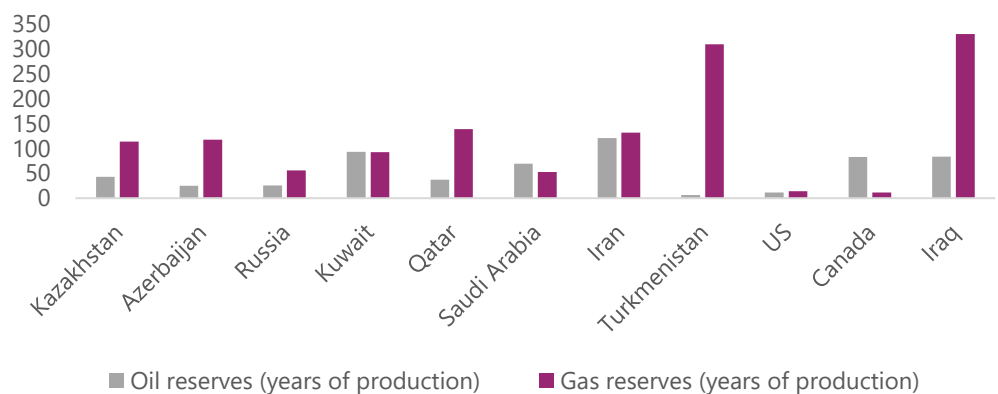
The mining sector attracts the largest volume of direct investments. Over the past decade (2010–2019), on average 36% of all direct investments were made in the sector, while in 2019 this share reached 56%. As for the industrial sector, the share of direct investment channeled to mining accounted for 68.5 and 78.6%, respectively. It is rather difficult to expect significant progress on economic diversification in the near future given significant inflow of investment into a single sector.

The inflow of investments is due to Kazakhstan's major oil and gas reserves, which significantly exceed the volume of reserves of oil exporting countries in the CIS and place the country among the global leaders in terms of oil reserves according to British Petroleum (*Fig. 2*). Hydrocarbon production schedules at Kashagan, Tengiz and Karachaganak, the country's largest oil fields, show that annual crude oil production will grow from 85 mln tons in 2020 to 99 mln tons in 2023. The IMF estimates that annual production at these fields could reach 105 mln tons by 2050. This should allow the sector to retain its position as the main driver of industrial production and economic growth in Kazakhstan.

At the same time, the long-term nature of oil and gas projects envisage continuous investment and a stable inflow of foreign investment into the economy. The risks of a sharp decline in investment or production activities, which could be triggered by industry cycles or price conditions, are extremely low in view of the obligations that oil producers undertook when signing production sharing agreements with the government of the Republic of Kazakhstan.

In addition to this, the Kazakh government has been taking measures for many years to facilitate structural transformation and diversification of the economy. The largest stimulus programs are the State Program for Industrial and Innovative Development of the Republic of Kazakhstan for 2010–2014 and the State Program for Industrial and Innovative Development of the Republic of Kazakhstan for 2015–2019. Other similar government programs include 30 Corporate Leaders, which seeks to transform Kazakhstan's 30 leading companies into modern transnational corporations, and the Cluster Initiative, which was approved in late 2013 and is designed to form promising economic clusters in the real sector of the economy by 2020. Although these programs have been in place for a decade, it is not possible to call them effective as structural change in the economy has been slow so far.

Figure 2. Oil and gas reserves as of the end of 2019



Source: ACRA's assessments based on the current level of annual production and the calculation of reserves in British Petroleum's 2020 energy outlook (issue 69)

Countercyclical support measures initiated by the government will support the economy. Kazakhstan's government and monetary authorities have adopted a set of measures to support the country's economy and population in response to the internal and external economic shocks described above. In total, the country's anti-crisis package amounts to KZT 5.9 tln (or 8.2% of GDP forecast for 2020) and is partially funded by the budget (KZT 2.1 tln) and extrabudgetary funds, including the State Social Insurance Fund.

Given the shortfall in budget revenues, the increase in transfers from the National Fund of the Republic of Kazakhstan (NFRK) and a higher budget deficit, fiscal losses in 2020 may amount to 10.9% of GDP. Although this is unprecedentedly high, the package of fiscal measures to support the economy will be just as significant. Due to this, according to ACRA's forecasts, economic growth in Kazakhstan will decrease moderately (up to 2% in real terms), and the government's countercyclical measures will serve as a key support factor (similar to the situation observed in 2015–2016).

It is noteworthy that although growth in Kazakhstan's budget deficit and a potential increase in public debt constrain the country's rating, these factors are not critical for the sovereign assessment.

Inflation will spike in 2020 and early 2021, but price growth should start slowing down from H2 2021. Over the past 11 years (up to and including 2019) the consumer price index (CPI) has not exceeded 10%, with the exception of 2015 when it hit 13.6% due to exchange rate shock and the transition to a new monetary regime. The largest contributor to inflation in the aforementioned period was the non-food sector, which is dominated by imports.

In 2020, inflation will be influenced by both deflationary (such as shrinking total demand) and inflationary factors (weakening of the tenge exchange rate and gaps in product supply chains from March 2020 due to the introduction of quarantine measures). This year the most significant inflationary factor is the growth in food prices, which sets the current situation apart from previous spikes in inflation.

According to ACRA's assessments, a decline in domestic demand is causing deflationary trends in Kazakhstan, which constrains inflation. However, in the coming months this factor will most likely lose its relevance as quarantine measures are lifted and domestic demand revives. At the same time, the devaluation of the tenge by around 13–16% relative to last year's average has led to an increase in inflation, and therefore the decision made on March 10, 2020 to raise the base rate to 12% was a preventive measure by the monetary authorities to reduce the volatility of the tenge and prevent a rush for foreign currency.

ACRA expects inflation to grow in H2 2020 and in early 2021, although its dynamics will be influenced by diverse factors (weakening of the quarantine regime, implementation of deferred domestic demand and the likely weakening of the tenge). If strict quarantine measures stay in place, then inflationary potential may be realized later. ACRA expects inflation in Kazakhstan to stand at around 7% in 2020 and then gradually decline from 2021 to 2024 (to 5.5% in 2024). Prompt decisions made by the country's monetary authorities made it possible to avoid a sharp spike in inflation and significant local currency volatility.

The monetary regime is flexible enough to adequately respond to potential risks. In 2020, Kazakhstan again experienced weakening of the tenge and inflation. A similar thing happened at the end of 2015, when sharp currency volatility (after the transitional to a floating exchange rate) was counterbalanced by the National Bank of Kazakhstan's (NBK) hike of the key rate.

In March–April 2020, the NBK adjusted interest rates and carried out foreign currency interventions. In March, in response to the situation in global markets caused by the coronavirus pandemic and falling oil prices, the NBK increased the base rate from 9.25% to 12% to stabilize inflation expectations and limit the impact of external shock on the

country's financial market. In addition, in February–March, the regulator carried out foreign exchange interventions totaling USD 1.5824 bln to avoid increased volatility of the tenge.

These interventions did not lead to a significant decline in gold and foreign exchange reserves, which amounted to USD 29.782 bln as of the end of March (total gold and foreign exchange reserves declined by USD 107 mln). Foreign exchange interventions were offset by banks increasing the volume of foreign currency funds held in correspondent accounts, as well as due to sales of gold to the NFRK. In April, the regulator lowered its base rate from 12% to 9.5% and expanded the corridor for changing the rate to 2 percentage points in order to dampen the impact of the coronavirus pandemic on the economy and support economic activity in the country. Subsequently, the NBK lowered the base rate to 9%, where it currently stands, in light of the negative dynamics in the economy for the first half of the year (real GDP declined by 1.8%).

On the whole, the monetary authorities are carrying out an adequate policy that adheres to inflation targeting but allows for short-term changes of focus in favor of other indicators depending on market conditions. Therefore, the monetary regime continues to be sufficiently flexible, which is especially important in periods of market uncertainty.

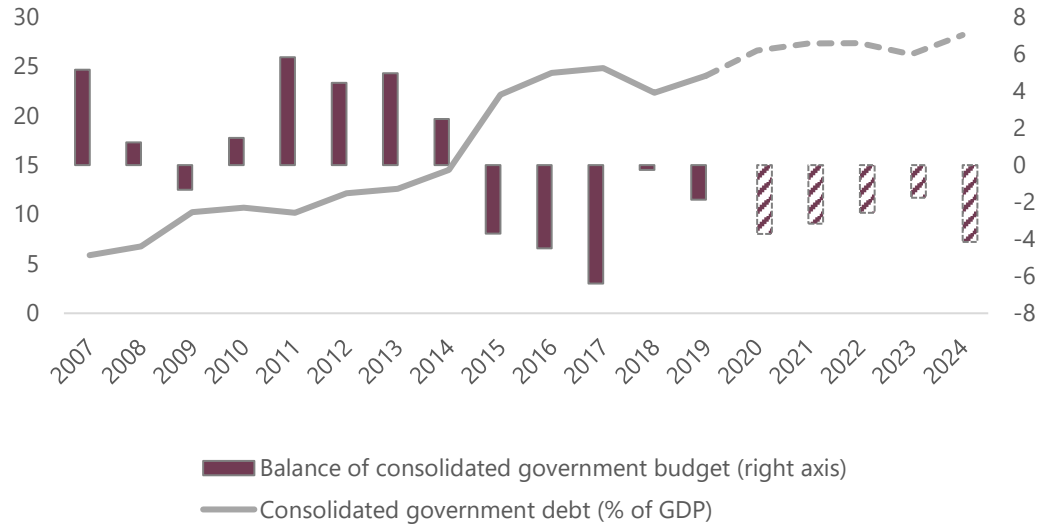
PUBLIC FINANCE

Kazakhstan's public debt is set to increase, but will remain moderate by international standards. As of the end of 2019, direct public debt of Kazakhstan's general government was low and stood at 24% of GDP. Debt increased sharply in 2015, rising from 14.3% the year before to 22.1%. This increase was caused by countercyclical policy measures employed by the government in reaction to the sharp decline in economic activity brought on by the oil price collapse in 2014. Debt also grew due to the revaluation of the foreign currency part of the debt caused by the sharp devaluation of the national currency. The debt could have been larger if it was not for transfers from the NFRK that equaled 6% of GDP. The budget deficits were covered by the NFRK and debt financing.

Growth of Kazakhstan's public debt was unavoidable in 2020, given the increase in the budget deficit. ACRA assumes that the country's direct public debt will stand at 26.6% by the end of the year, having increased by 2.6 pps of GDP compared to the end of 2019. Nevertheless, Kazakhstan will remain among the countries with moderate debt load, and due to this it will be possible to use countercyclical budget policy in the future. In addition, due to the expected faster (compared to the target as of the start of 2020) use of money from the NFRK, the size of the fund will fall to 35% of GDP as of the end of 2020 compared to 45% as of the end of 2019.

In 2020 to 2024, ACRA expects an increase in Kazakhstan's public debt, taking into account a projected budget deficit until 2024 and the government's intent to curtail the use of the NFRK for budget purposes.

Figure 3. Kazakhstan's public debt and budget balance, % of GDP



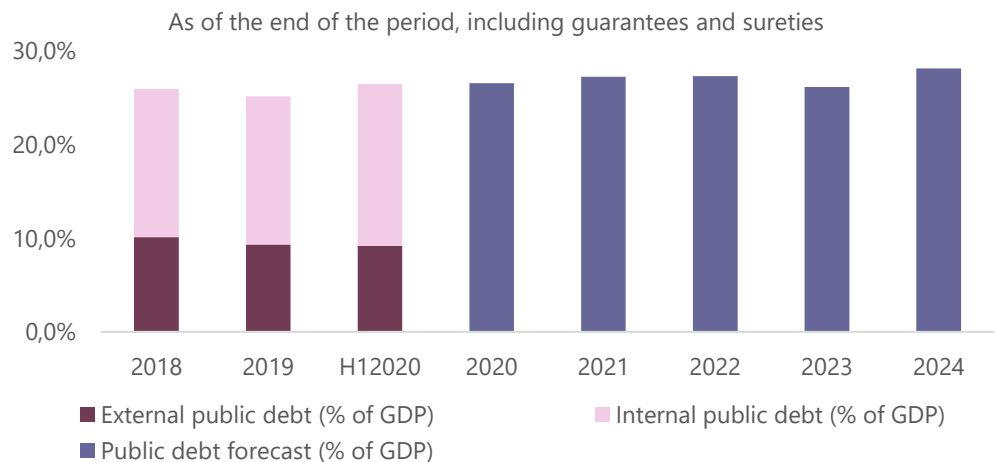
Source: Ministry of Finance of Kazakhstan, ACRA

The structure of public debt is favorable. At the end of 2019, the share of the government's foreign exchange debt fell to 9.3% of GDP (39% of total public debt). Midway through this year, it is practically unchanged at 9.2% of GDP, which is the forecast for 2020 as a whole. The country's external debt (USD 11.4 bln²) is entirely denominated in foreign currency. The government is making efforts to diversify the foreign currency component of its debt by using the currencies of the country's trading partners. Most of the direct debt has been provided at market rates.

As of April 2020, the share of government's long-term (more than one year) foreign currency debt stood at 100%. Eurobonds account for around half of the foreign currency debt, the rest is loans from international development banks. Almost all of the internal debt is long-term and is primarily made up of state treasury bonds.

Debt serving costs are insignificant despite the considerable share of market debt: in 2019 they amounted to 5% of total expenses, having fallen to a large extent vs. 2016 (7.4%).

Figure 4. External and internal public debt, % of GDP



Source: Ministry of Finance of Kazakhstan, ACRA

² According to statistics from the NFRK as of April 1, 2020, the external debt of government bodies accounts for about USD 11.4 bln; this is foreign currency debt (currency structure of the debt is provided). The Ministry of Finance of Kazakhstan reported the government's external debt at USD 14.9 bln as of June 1, 2020 without indicating its foreign currency structure.

The state budget will record a shortfall of 15% of tax revenues in 2020; the bulk of this potential deficit will be covered by transfers from the NFRK.

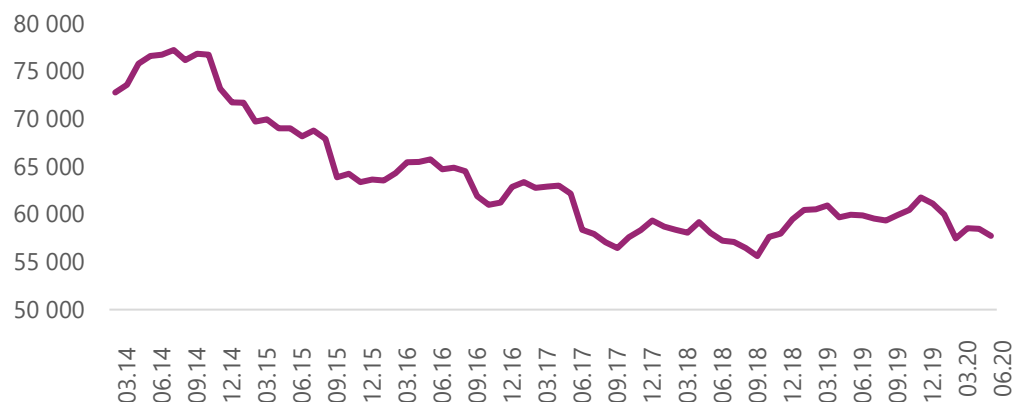
In 2019, the expenditure part of the budget grew to 19.7% of GDP from 18.6% a year earlier. This was largely the result of measures to encourage consumption (growth of the minimum wage, pensions, and public sector pay), despite the previous government's intention to carry out fiscal consolidation.

In 2020, the growth of the share of expenses in GDP will continue due to the government's anti-crisis package, which will be financed by transfers from the NFRK, among other sources. ACRA's base-case scenario with regard to Kazakhstan's budget and public debt envisages the deficit growing to 3.7% of GDP and public debt increasing to 26.6% of GDP in 2020. Public debt will exceed the pre-crisis level until 2023.

Budget flexibility is decreasing due to anti-crisis fiscal measures. The share of expenses on social needs³ accounted for 56% and 66% (KZT 7,547 bln and 9,436 bln) of all expenses in 2018 and 2019. ACRA expects the budget's social expenses, which are rather difficult to curtail during periods of reduced budget income, to increase. This is due to the fact that a certain package of anti-crisis measures was aimed at providing social support to the population in order to mitigate the shock from the recession in the economy.

NFRK assets exceed government debt. As of the end of H1 2020, NFRK assets amounted to USD 57.7 bln, which is almost one and a half times more than general government debt. If only the external part of public debt is taken into account, then the extent of coverage is around 507%. Excess of assets over liabilities of the government of Kazakhstan makes it a net creditor.

Figure 5. NFRK assets, USD mln



Source: NBK

The NFRK was established in 2001 to accumulate finances for future generations (accumulative function) and reduce the impact of unfavorable external factors on the national economy and budgets of all levels (stabilizing function).

The NFRK is financed by revenues from direct taxes paid by oil companies, including corporate tax, windfall profit tax, export rental tax, production sharing, bonuses, additional subsoil use payments (except taxes paid to local budgets), as well as other proceeds from operations (fines, non-tax revenues from organizations in the oil sector), proceeds from privatization, sale of land, investment income, and return of transfers to the budget.

From January to November 2019, 72% of NFRK revenue was generated by direct taxes, whilst 26%⁴ came from investment income, i.e. profit generated by managing the fund's

³ Expenses on education, healthcare, social support and welfare, culture, sport, tourism and the information space.

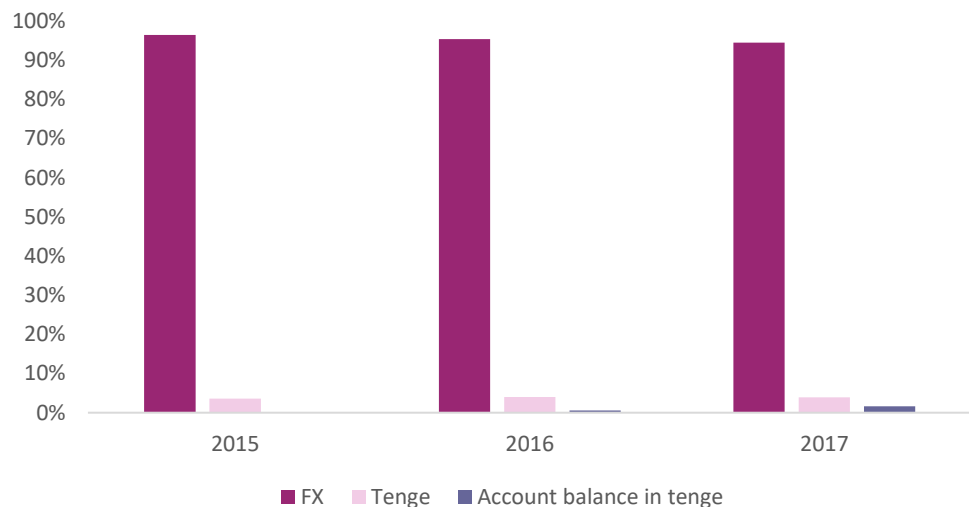
⁴ Latest available statistics as of August 2020: <https://www.gov.kz/memleket/entities/minfin/documents/details/2646?lang=ru>.

assets. In 2018–2019, the fund was used to make a KZT 2.6–3 tln guaranteed transfer to the consolidated budget of Kazakhstan. In 2020, the transfer will amount to KZT 4.77 tln.

The fund's assets grew from USD 0.76 bln in early 2001 to peak at USD 77.2 bln in August 2014. This was followed by a slight reduction to USD 56.5 bln in October 2017. As of June 2020, the NFRK's assets amounted to USD 57.7 bln (33% of GDP planned for 2020).

Assets shrunk in 2015–2017 because oil sector companies contributed less tax revenue due to the fall in oil prices, whereas the NFRK continued to make transfers to the country's budget in line with its obligations. The bulk of NFRK assets are denominated in foreign currency. ACRA expects the NFRK to grow to USD 72 bln (37% of GDP planned for 2021) by the end of 2021 in connection with plans to use the fund less and also due to anticipated growth of the extractive sectors of the real economy.

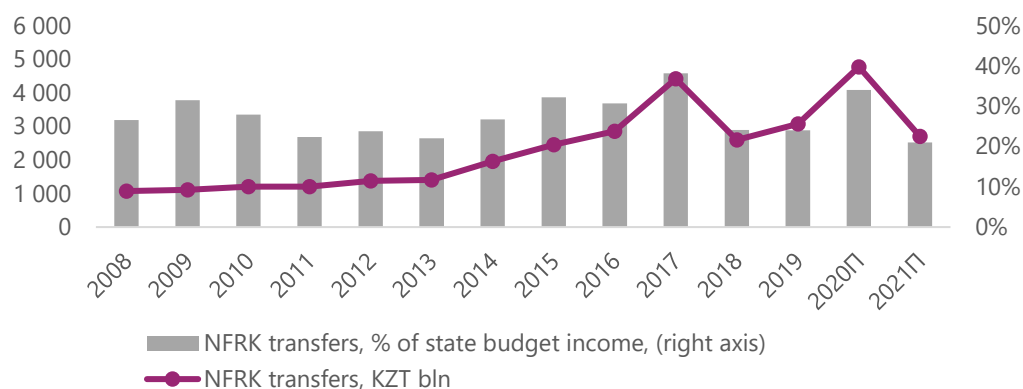
Figure 6. NFRK assets in foreign currency and tenge



Source: Government of Kazakhstan

Budget income cannot cover expenses without transfers from the NFRK. Prior to the coronavirus crisis, the government's goal was twofold — keep the non-oil deficit at around 5.4% of GDP and have the total size of guaranteed and target transfers unchanged in the period from 2019 to 2022. However, the government had to introduce a package of measures to support the economy in response to the crisis. As a result, ACRA expects the non-oil deficit of the state budget to reach 10.3% of GDP in 2020. Consequently, instead of curtailing the use of NFRK transfers as planned, its use was increased: from KZT 4.4 tln and KZT 2.6 tln in 2017 and 2018 to KZT 4.77 tln in 2020. This is evidence of substantial growth of the budget's dependence on oil income and transfers from the NFRK.

Figure 7. Transfers from the NFRK to the budget



Source: Ministry of Finance of Kazakhstan

One of the measures aimed at lowering the dependence of budget revenue on transfers from the NFRK is to increase the tax collection rate so that taxes will account for 18% of GDP expected in 2019 to 25% in 2025. The asset privatization program carried out by the Samruk-Kazyna fund may serve as another source of income, albeit temporary. An example of this is the IPO of a 15% stake in Kazatomprom in November 2018, which raised USD 451 mln. The list of companies to be privatized includes Kazakhtelecom, Air Astana, Kazakhstan Temir Zholy, KazPost, Samruk-Energy, and KazMunayGas. However, the global crisis has altered these plans and now it seems that the placements of major national companies is a longer-term issue.

The use of the fiscal rule does not contribute to a strengthening of budget discipline. The gradual reduction of NFRK assets since 2014 has prompted the government of Kazakhstan to limit the use of the fund.

A fiscal rule was introduced in 2016, which capped guaranteed transfers to the budget at USD 8 bln a year, but also allowed the limit to be exceeded by 15%. The rule was toughened in 2017 and the limit was reduced to KZT 2 tln (USD 7.6 bln) until 2020. However, the rule allows for transfers to be increased at the expense of target transfers in the following cases: 1) at the request of Kazakhstan's president, 2) for the purposes of countercyclical fiscal stimulus, and 3) to finance national projects and infrastructure investment.

In ACRA's opinion, the fiscal rule's uncertainties with regard to using transfers prevents it from strengthening budget discipline. In addition, the current practice of revising the size of guaranteed transfers, something that the government often resorts to, does not ensure compliance with budget restrictions. The government often resorts to this practice without setting formal rules for this process, and thereby weakens budget discipline and impairs the transparency of the budget process. For example, guaranteed transfers in 2019 were revised upwards from KZT 2.45 tln to KZT 2.7 tln, and the KZT 2 tln target was postponed until 2021. In 2020, the transfer part of budget income was also increased, to KZT 2.07 tln.

According to ACRA's calculations, if annual transfers from the NFRK are maintained at their historic maximum recorded this year (KZT 4.77 tln), the fund will be depleted by 2026–2027 (excluding income created by managing the fund). The fund should run out by 2045–2046 if the historic minimum of KZT 1.07 (recorded in 2008) is adhered to.

Contingent liabilities in the form of government guarantees and sureties are still negligible. At the end of H1 2020, the total size of guarantees and sureties issued by the Kazakh government amounted to KZT 858 bln (USD 1.7 bln), or 1.25% of GDP. Over 2019 and H1 2020, the size of internal sureties fell by KZT 7 bln and guarantees issued by the Kazakh government grew by KZT 207 bln. The volume of external guarantees is practically unchanged, while internal guarantees grew substantially (from KZT 9 bln as of the start

of 2019 to KZT 182 bln as of July 2020). The total size of guarantees and sureties issued by the Kazakh government continues to vary between 1% and 1.5% of GDP, which in ACRA's opinion indicates insignificant risk of downward pressure on the rating of the sovereign issuer.

It is noteworthy that prior to 2017, guarantees were handed out very rarely as the government took an extremely conservative approach to them. However, in 2018 the government began simplifying the procedure for providing guarantees to legal entities in order to support major infrastructure and industry products that stimulate economic growth. In particular, guarantees were provided to state enterprise KazAvtoZhol for Astana LRT, a joint project with the Export-Import Bank of China.

The government has traditionally provided sureties to public-private partnerships and infrastructure projects. At the present time, sureties have been issued for projects related to the construction of roads and power lines. The proceeds from tariffs are used to repay loans that are granted to carry out projects and secured by government guarantees and sureties.

Delinquency of loans issued under government guarantees is extremely rare. Namely, in 2016 the repayment of a loan was delayed due to the devaluation shock of 2015, although regular payments resumed very soon after. In a second case, a project had to be suspended and the search for a replacement investor is in progress.

Contingent liabilities associated with state-owned companies are high. The liabilities of the largest state-owned companies (that are part of the three largest holdings — Baiterek, Samruk-Kazyna and KazAgro) stood at 19.4% of GDP forecast for 2020⁵ as of the end of H1 2020.

The Samruk-Kazyna fund accounts for most of the debt of the quasi-state sector. This holding includes 22 major corporations that represent key sectors of the economy, including Air Astana, Kazakhstan Temir Zholy, Kazakhtelecom, Kazatomprom, KazMunayGas, and Samruk-Energo.

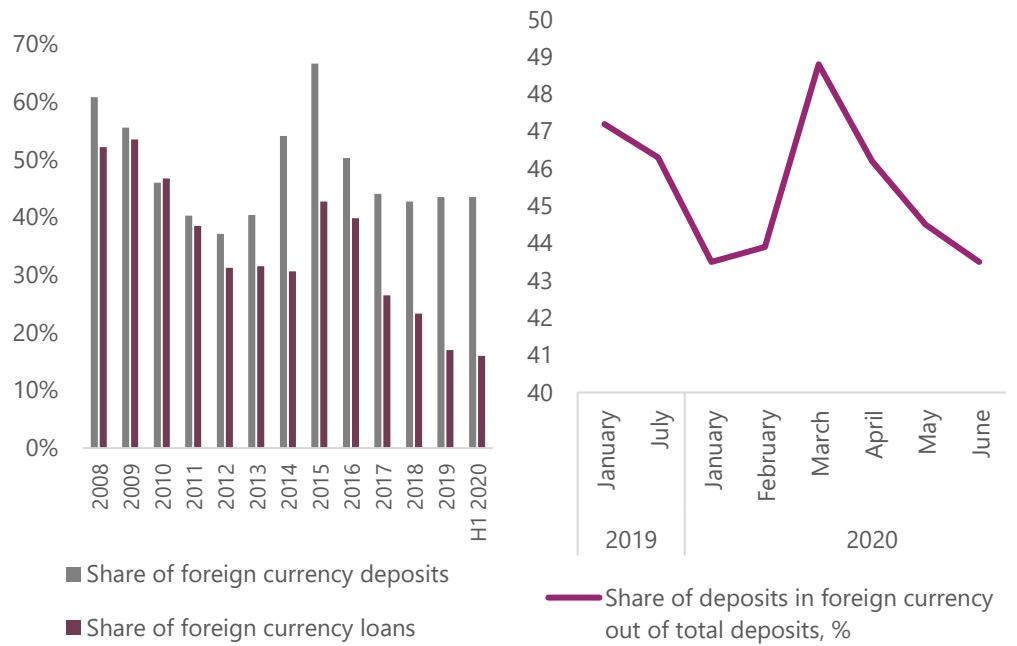
ACRA notes that the majority of state-owned companies are financially stable and capable of independently servicing their debts. However, we do not rule out the possibility of external shocks forcing the state to step in to provide support to such companies in the future, given that there are precedents for this.

All these companies are expected to be partially privatized through an IPO program, however this is currently on hold due to the unfavorable market situation.

The risk of contingent liabilities materializing in the banking sector is still present. Despite an improvement of the banking system's financial indicators since 2015 (*Fig. 9*), dollarization, which indicates of depositors' trust in the system, is still high. At the end of H1 2020, the share of dollar-denominated deposits stood at around 43.5%. It should be noted that this indicator has fallen considerably since hitting a peak of 67% in 2015.

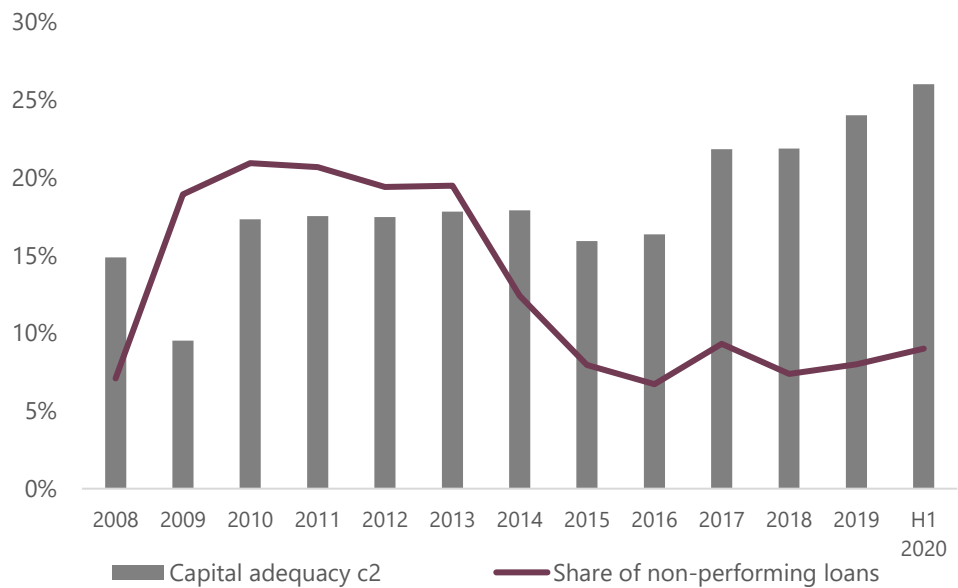
⁵ Data for Baiterek and KazAgo holdings is given as of December 31, 2019; data for Samruk-Kazyna is as of June 30, 2020.

Figure 8. Dollarization of the banking system



Sources: NBK, ACRA

Figure 9. Problem loans and capital adequacy indicators in the Kazakh banking sector



Sources: The Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market

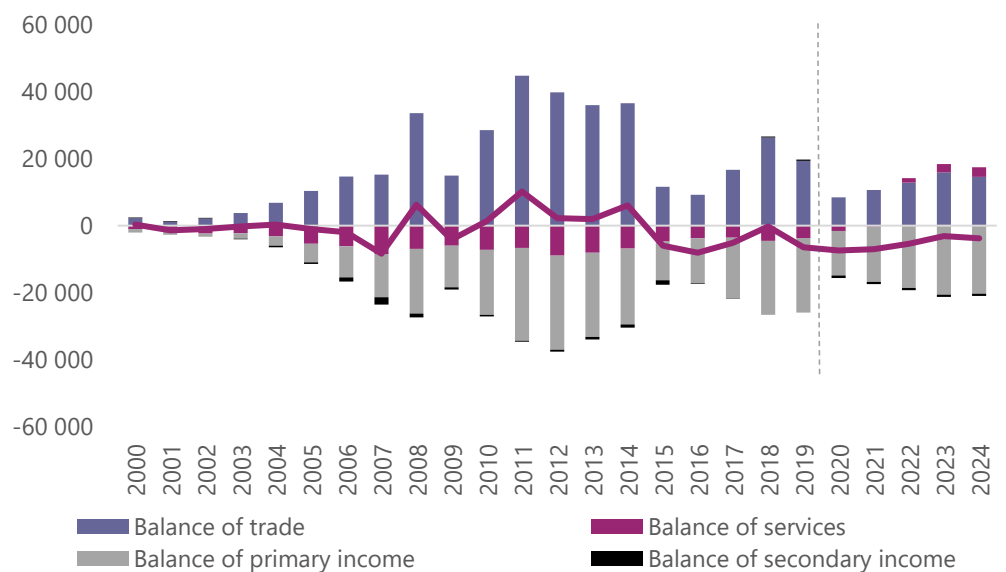
Furthermore, the support provided to Tsesnabank (second in terms of total assets at the end of 2018) in early 2019 shows that there are problems in the banking sector. At the same time, the removal of licenses from three banks in 2018 (Bank Astana, Eximbank, and Qazaq banki) is a sign that strengthening of banking regulations is on the agenda, whereas the push for consolidation of the banking sector is a way to increase financial stability. In 2020, the fall in GDP and the related decrease in household and business income may lead to a deterioration in the quality of bank assets due to an increase in problem loans, which has not yet been fully reflected in statistics.

EXTERNAL POSITION

The current account balance is negative due to the decline in oil prices and oil production cuts. In 2019, the current account was practically balanced. This year, however, a deficit is projected. Historically, the main factor affecting the current account balance is a combination of trade surplus and negative primary income balance. A strong positive trade balance is based on exports of mineral products, primarily oil, whose share varies from 65–80% in the country's commodity exports, while a negative balance is formed due to payments on foreign direct investments. In 2020, the current account balance is being shaped by a sharp decline in the trade balance and a less pronounced reduction in the income balance.

ACRA expects the current balance to be negative (from 0.1% to 3% of GDP) and the trade balance to be positive (2.8–4.1% of GDP) in 2020–2024.

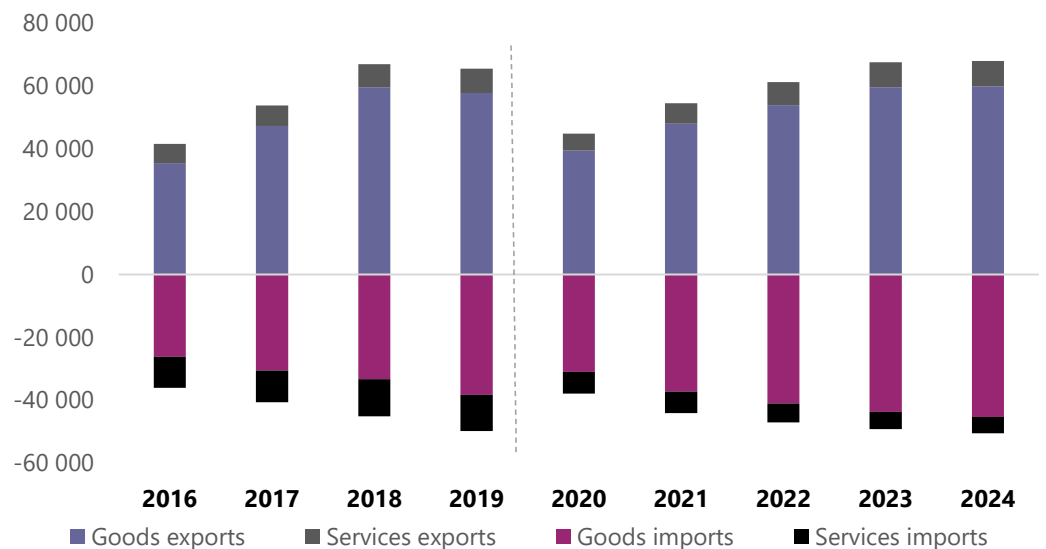
Figure 10. Current account, USD mln



Sources: NBK, ACRA

The country's trade balance is shaped by the impact of falling total exports amid a relatively lower rate of decline in imports. Export revenues are declining as a result of falling oil prices and lower production.

Figure 11. Foreign trade

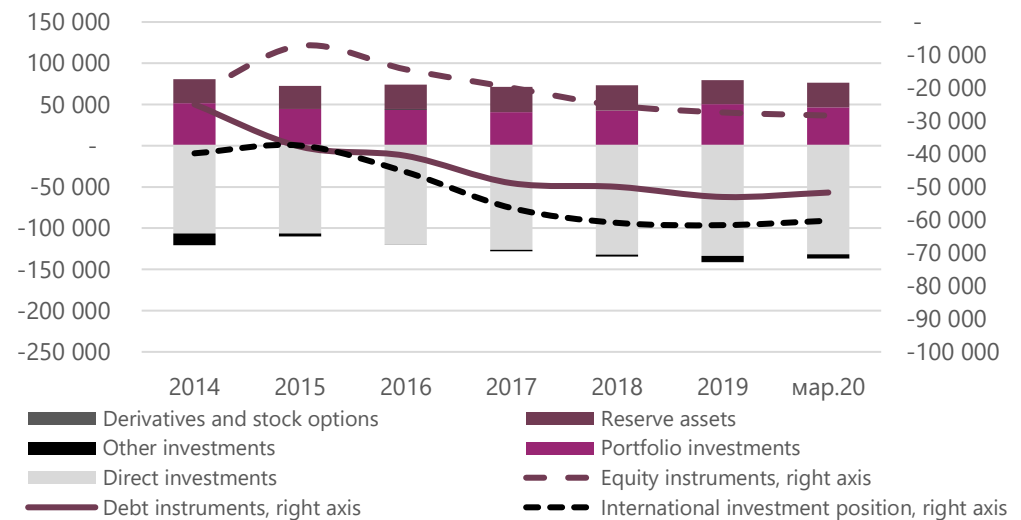


Sources: NBK, ACRA

The primary income balance is negative due to payments on foreign direct investments exceeding the income from Kazakhstan's investments abroad. This component of the current balance is relatively stable and predictable, unlike the trade balance.

Net international investment position: Kazakhstan is a net borrower. As of April 2020, the country's obligations to the outside world were estimated at USD 60 bln. The largest contribution to the negative balance of the international investment position was made by direct investments (both equity instruments and debt obligations). Kazakhstan's international assets are dominated by debt portfolio instruments, which amounted to around 41% of assets as of April 2020.

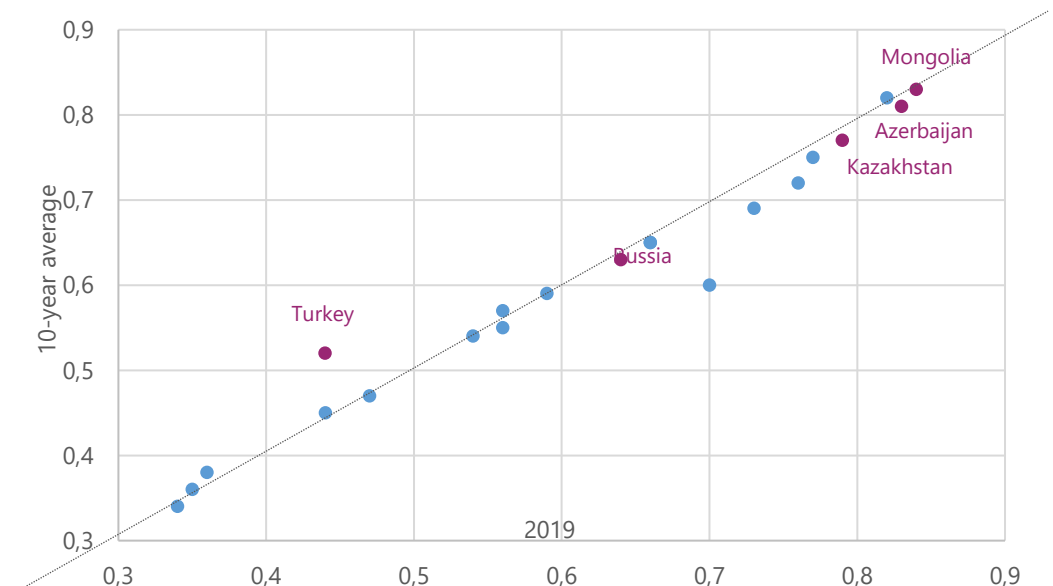
Figure 12. Kazakhstan's international investment position: balance of components as of the end of the period, USD mln



Source: NBK

Export diversification is low. Extractive industries, especially oil and gas production, continue to dominate in the structure of Kazakhstan's economy: as of the end of 2019, the country's export diversification index had deteriorated relative to the ten-year average (from 2010 to 2019). In January to March 2020, oil and gas condensate accounted for 63% of exports and oil, gas condensate and gas accounted for 67.5%. Kazakhstan's export diversification index was 0.79 in 2019 versus 0.58 for the sample group of countries with BBB category credit ratings.

Figure 13. Export diversification of Kazakhstan and the sample group



Sources: World Bank, ACRA

The external debt structure is stable. Kazakhstan's debt is mainly dollar denominated and long-term; the bulk of it is in the private corporate sector.

Kazakhstan's external debt (USD 152.7 bln as of April 2020, or 84.1% of 2019 GDP) is 64% made up of inter-corporate debt, while government bodies (including the NBK) only account for 8%, the banking system accounts for 3%, and corporations with unaffiliated lenders account for 25%. Kazakhstan's main lenders in terms of the structure of total external debt as of April 2020 were primarily the non-financial sector and financial non-bank entities.

Inter-corporate debt comprises almost two-thirds of external debt. 86% of this debt has been provided at floating rates, and is 97% denominated in foreign currencies (93% of which is USD). Almost half is owed to the Netherlands. The mining industry accounts for 83% of this debt.

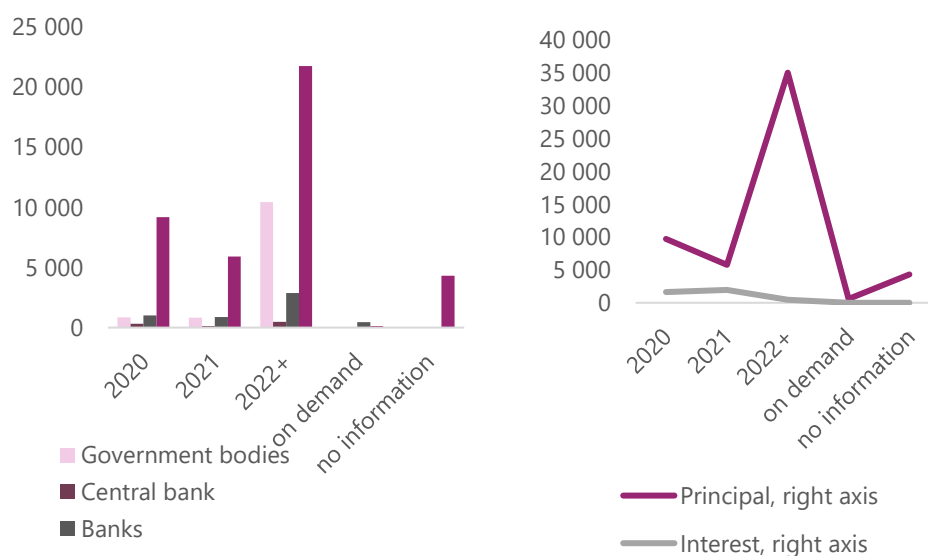
International reserves (USD 35.4 bln as of August 2020) cover 63.8% of Kazakhstan's external debt (excluding inter-corporate debt), if NFRK assets (USD 58.68 bln as of August 2020) are taken into account the coverage increases to 170%. Coverage of imports by the reserves is very high in Kazakhstan — as of June 2020, total reserves (including NFRK assets) covered 22 months of imports of goods and services for 2019 and 35 months' worth of imports of goods and services projected by ACRA for 2020.

Table 1. Main indicators of the level of coverage of Kazakhstan's imports in months

Coverage of imports by reserves	FX assets	Gross international reserves	NFRK	Total reserves
Imports of goods (2019)	3.52	10.20	17.90	28.10
Imports of goods and services (2019)	2.72	7.87	13.82	21.69
Imports of goods (2020)	5.52	16.01	28.10	44.12
Imports of goods and services (2020)	4.33	12.55	22.03	34.58

Sources: NBK, ACRA

Figure 14. Kazakhstan's external debt repayment schedule (excluding inter-corporate debt), USD mln

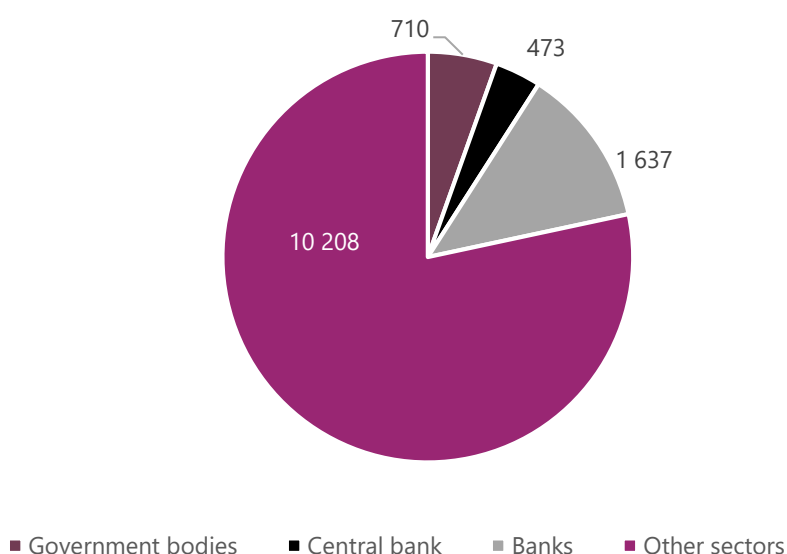


Sources: NBK, ACRA

Kazakhstan's external position is very stable. As of April 2020, short-term (by initial maturity) and long-term debt subject to repayment over the year amounted to 23.5% of the country's total external debt (excluding inter-corporate debt). Most of it was owed by the non-financial private sector. As of August 2020, the international reserves exceeded short-term external debt in terms of maturity (latest estimate as of April 2020) by 2.7 times, while both the international reserves and assets of the NFRK exceeded this debt by seven times.

The structure of the monetary authorities' international reserves is subject to liquidity risk as the share of gold in them stands at 65.6%, with the remaining share (34.4%) consisting of freely convertible currency. Sales of USD 400 mln worth of gold to the NFRK in March this year slightly lowered the liquidity risk. In times of crisis, assets in the form of monetary gold are a protective tool, but the possibility of selling large quantities of it without making losses is limited

Figure 15. Kazakhstan's short-term external debt*, USD mln



* Short-term external debt stands at 23% of total external debt; NFRK reserve assets cover short-term external debt by 271%, while NFRK reserve assets combined with NFRK assets provide 718% coverage (as of April 2020, excluding intra-corporate debt).

Sources: NBK, ACRA

INSTITUTIONAL FACTORS

Kazakhstan's institutional factors are assessed at below the global average. Kazakhstan ranks below the sample group of countries with BBB category credit ratings and also its regional neighbors in terms of the political stability indicator. The country scores higher than average for the human capital index and around average for public governance (Fig. 16).

The quality of Kazakhstan's institutional environment, as measured by the six indices of governance published by the World Bank (World Governance Indicators), is quite low. Of the countries evaluated in ACRA's sovereign model sample⁶, Kazakhstan falls into the bottom third according to two composite indices compiled by ACRA based on the World Governance Indicators. In a sample of about 200 countries used in the World Bank's calculations, Kazakhstan is at or below average depending on the index.

⁶ The sample includes 102 countries, which account for 96.4% of GDP and 97.9% of the world's public debt.

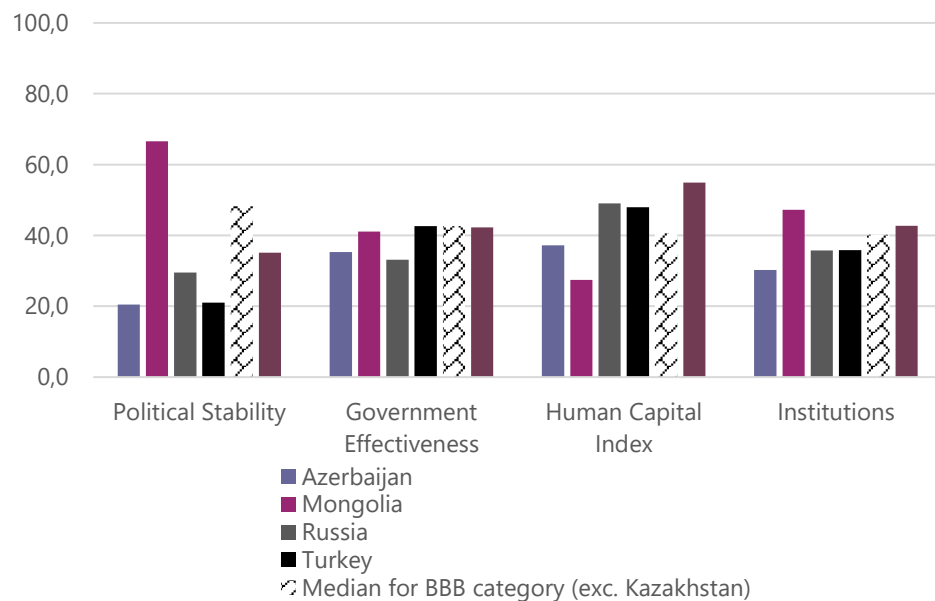
Over the past 10 years, Kazakhstan has improved its position on almost all World Governance indicators except “Political Stability and Absence of Violence” and “Voice and Accountability.”

This result can be interpreted as the cumulative result of the government’s measures as part of the “100 Concrete Steps” plan, which was aimed specifically at improving the quality and independence of public services, ensuring the rule of law, a more effective justice system and police accountability, government transparency and accountability.

Kazakhstan occupies a higher position in ACRA’s human capital index, which measures the population’s health and the quality of education, key drivers for long-term economic development. According to this indicator, Kazakhstan is near the middle of the sample⁷ along with Romania, Latvia, Bulgaria, and Hungary.

Kazakhstan’s high rank in the World Bank’s “Doing Business” index reflects the country’s achievements in improving the investment climate. According to the 2019 report, Kazakhstan ranked 25th out of 190 countries, improving three notches compared to 2018. Kazakhstan ranked seventh in “Protecting Minority Investors” and fourth in “Contract Enforcement.” In addition, the county ranked high in “Starting a Business” and “Getting Credit”.

Figure 16. Comparative assessment of Kazakhstan's institutional factors and countries with comparable ratings



Source: World Bank, ACRA

Measures aimed at developing pluralism and the political system may help improve the institutional quality of Kazakhstan if fully implemented. These measures include the amendment of the law “On committees and commissions of the Parliament of the Republic of Kazakhstan”, which regulates the status of the “parliamentary opposition”, as well as the easing of requirements for holding protests for social and political reasons.

⁷ See the previous footnote.

Appendix 1. Peer analysis of Kazakhstan

Comparison of macroeconomic and institutional indicators for 2019

		Kazakhstan	Azerbaijan	Chile	Russia	Turkey	Belarus
Macroeconomics	GDP per capita (USD)	27,880	18,076	25,155	27,147	27,875	19,995
	Real GDP growth (%)	4.5	2.2	1.1	1.3	0.9	1.2
	CPI (% y-o-y)	5.4	2.6	2.6	3.0	15.2	4.7
	Openness of economy (% of GDP)*	32.8	45.3	56.8	25.7	61.4	70.1
	Unemployment (ILO assessment)	4.8	5.4	7.3	4.6	13.7	4.6
Public finance	General government debt (% of GDP)	24	19	27.9	14	30.1	41.9
	External general government debt (% of GDP)	7.8	17.3	7.7	4.2	32.8	30.4
	General government budget balance (% of GDP)	-1.9	-0.3	-2.7	1.9	-3.3	0.6
External position	Current account (% of GDP)	-3.6	9.1	-3.9	3.8	1.2	-0.1
	Short-term external debt by remaining maturity to total external debt (%)	12	N/A	9.8	26	38.5	41.4
	External debt position (% of GDP)	86.3	33.1	70.1	29.6	59	64.5
	Export diversification index**	0.8	0.8	0.8	0.6	0.4	0.5
Institutional framework***	Political stability and absence of violence*	0.0	-0.8	0.4	-0.5	-1.8	0.4
	Government effectiveness*	0.0	-0.2	0.9	-0.1	0.1	-0.3
	Rule of Law*	-0.4	-0.6	1.0	-0.8	-0.3	-0.8

* Data for 2018.

** Ranges from 0 (high diversification) to 1 (no diversification). Indicates the extent of differences between the country's trade structure and the average world indicator.

*** Assessment of effectiveness ranges from -2.5 (weak) to 2.5 (strong).

Sources: IMF, World Bank, Ministries of Finance

Appendix 2. Key indicators

Balance of payments, USD mln

	2015	2016	2017	2018	2019	2020F
Balance of trade	11,627	9,253	16,728	25,579	19,118	8,460
Exports	44,826	35,486	47,301	59,630	57,822	39,465
Imports	33,199	26,232	30,573	34,247	38,704	31,005
Balance of services	-4,720	-3,762	-3,578	-4,660	-3,655	-1,569
Exports	6,177	6,085	6,505	7,320	7,773	5,315
Imports	10,898	9,847	10,083	11,979	11,428	6,884
Balance of income	-12,918	-13,623	-18,252	-21,815	-21,960	-13,301
Income receivable	4,110	3,958	4,537	4,931	4,827	
Income payable	17,029	17,581	22,789	26,746	26,788	
<i>including interest payments</i>	5,476	5,944	6,764	7,380	7,038	
Current account	-6,012	-8,132	-5,102	-223	-6,498	-7,398
Current account, % of GDP	-3.3	-5.9	-3.1	-0.1	-3.6	-4
International reserves at the end of the period	27,871	29,710	30,997	30,927	28,958	

Source: NBK

International investment position (assets and liabilities), USD mln

	2014	2015	2016	2017	2018	2019
External debt	157,115	153,007	163,308	167,218	158,825	156,802
long-term	94%	96%	96%	96%	95%	94%
short-term (up to 1 year)	6%	4%	4%	4%	5%	6%
External liabilities	217,651	197,709	218,291	227,103	219,077	222,447
Sovereign issuer, including	8,287	12,212	12,848	12,994	12,325	13,280
monetary authorities	954	899	756	926	770	891
general government	7,334	11,313	12,092	12,067	11,555	12,389
Banks	12,754	9,664	9,086	8,543	7,912	7,753
Other sectors	196,609	175,833	196,356	205,566	198,839	201,414
External assets	177,845	160,257	172,835	170,719	158,194	160,869
Sovereign issuer, including	105,244	94,187	94,135	93,184	91,871	94,317
monetary authorities	29,762	28,758	30,470	31,939	32,120	30,234
general government	75,482	65,429	63,665	61,244	59,750	64,083
Banks	19,377	5,528	7,355	7,382	6,148	8,294
Other sectors	53,223	60,541	71,345	70,153	60,175	58,258
Net debt	-39,806	-37,452	-45,456	-56,384	-60,883	-61,578
Sovereign issuer	-96,957	-81,975	-81,287	-80,190	-79,546	-81,037
Banks	-6,623	4,135	1,731	1,161	1,764	-541
Other sectors	143,385	115,292	125,011	135,413	138,664	143,156
International investment position (net), % of GDP	-18	-20	-33	-34	-34	-34
External debt, % of GDP	71	83	119	100	89	87

Source: NBK

Budget indicators, % of GDP

	2015	2016	2017	2018	2019	2020F
General government						
Revenue ⁸	20.6	19.8	21.3	17.5	18.6	19.7
Expenditure	19.0	20.1	23.0	18.4	19.7	23.1
<i>including debt servicing expenses</i>	0.7	1.1	0.8	1.0	1.0	1.0
Primary budget balance	2.3	0.9	-0.8	0.1	-0.1	-2.4
Overall budget balance	1.6	-1.6	-2.7	-1.3	-1.9	-3.7
General government debt	22.1	24.3	24.8	24.9	24.0	26.6
<i>% of income</i>	107.2	122.9	116.7	107.2	129.2	134.8
Central government						
Revenue	15.0	16.3	12.5	12.8	13.4	13.0
Expenditure	16.8	17.3	23.0	18.4	19.7	19.8
<i>including debt servicing expenses</i>	0.7	1.1	0.8	1.0	1.0	1.0
Primary budget balance	-1.1	0.1	-9.6	-4.6	-5.3	-5.8
Overall budget balance	-1.8	-1.0	-10.4	-5.6	-6.3	-6.8
Central government debt	21.2	18.9	18.7	16.9	18.7	
<i>% of income</i>	141.2	115.9	149.7	148.0	139.4	
Note: nominal GDP (bln tenge)	40,884	46,971	54,379	61,820	68,639	72,113

Source: Ministry of Finance of Kazakhstan

⁸ Excluding investment income from the National Fund of the Republic of Kazakhstan.

Rating history

August 26, 2020 — BBB+, outlook Negative

March 18, 2020 — BBB+, outlook Negative

September 24, 2019 — BBB+, outlook Stable

Regulatory disclosure

The sovereign credit ratings have been assigned to the Republic of Kazakhstan under the international scale based on the [Methodology for Credit Rating Assignment to Sovereign Entities under the International Scale](#) and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#).

The sovereign credit ratings of the Republic of Kazakhstan were published by ACRA for the first time on September 24, 2019. The sovereign credit ratings and their outlook are expected to be revised within 182 days following the publication date of the press release on the sovereign credit rating assignment as per the [Calendar of planned sovereign credit rating revisions and publications](#).

The sovereign credit ratings are based on information from publicly available sources, as well as ACRA's own databases. The sovereign credit ratings are unsolicited. The sovereign Issuer participated in the credit rating assignment.

ACRA provided no additional services to the Government of the Republic of Kazakhstan. No conflicts of interest were discovered in the course of the sovereign credit rating assignment.

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