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The Republic of Kazakhstan

Lead analysts:

Zhannur Ashigali, Associate Director
+7 (495) 139-0302, ext.157
zhannur.ashigali@acra-ratings.ru

Dmitry Kulikov, Associate Director
+7 (495) 139-0492, ext.122
dmitry.kulikov@acra-ratings.ru

The Government of the Republic of Kazakhstan (hereinafter, Kazakhstan, or the country) has been assigned the following ratings 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 **Stable** and local currency credit rating is **Stable**.

Credit rating rationale

Positive rating assessment factors	• Consistently high economic growth. • Low level of public debt. • Sustainable external position. • Modest inflation. • Effective monetary policy of the National Bank of Kazakhstan.
Negative rating assessment factors	• Risk of materialization of contingent liabilities. • Limited diversity of exports. • Poor quality of government institutions.
Stable outlook	• The stable outlook assumes that the rating will most likely stay unchanged within the 12 to 18–month horizon.
Potential rating upgrade factors	• Reduction in size of contingent liabilities. • Diversification of exported goods. • Higher quality and more effective government institutions.
Potential rating downgrade factors	• Significant slowdown of economic growth. • Increased public debt. • Sharp decrease in the size of the National Fund of the Republic of Kazakhstan's assets and international 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	A	Potential economic growth	+1	+1	A+
		Sustainability of economic growth	0		
		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	0	A+
		Fiscal policy framework and fiscal flexibility	0		
		Market access and sources of funding	+1		
		Debt sustainability	+1		
External position	B+	Balance of payment vulnerabilities	-1	+1	BB
		External debt sustainability	+2		
		Stability of currency regime	0		
Institutional framework	B+	Willingness to pay	0	0	B+
		History of defaults	0		
		Political instability and recent political decisions	0		
		Involvement in geopolitical conflicts, exposure to geopolitical risks	0		

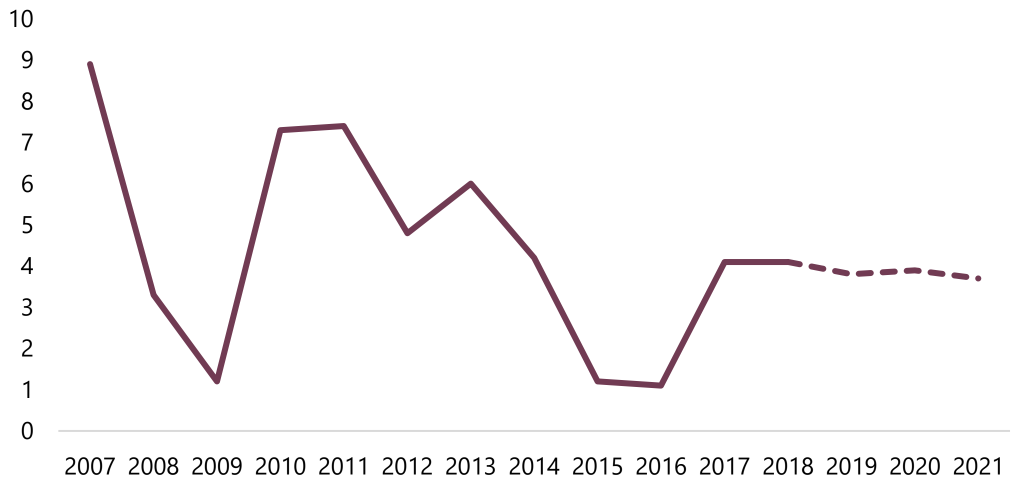
Assigned credit rating

Indicative credit rating	BBB
Modifier corrections to the indicative credit rating	+1
Final credit rating	BBB+
Assigned credit rating	**BBB+**

MACROECONOMIC SITUATION AND ECONOMIC POTENTIAL

Economic growth is consistently high since the country recovered from a downturn. Kazakhstan's GDP grew by 4.1% in 2018, matching growth in the year before. An external shock caused by the sharp fall in prices for oil, the country's main export, triggered a significant slowdown of economic growth in 2015–2016, with GDP growing by just over 1% for two years in a row.

Figure 1. Kazakhstan's real GDP growth, % year-on-year



Source: IMF

ACRA expects Kazakhstan's economy to grow by 3–4% annually over the next three years due to the consistently high growth rates of the mining sector and the processing and transportation associated with it.

The wealth of the country has steadily increased due to continuous economic growth.

The steady inflow of foreign direct investments, a key driver of economic growth, should continue to be an important factor supporting economic growth in the medium term.

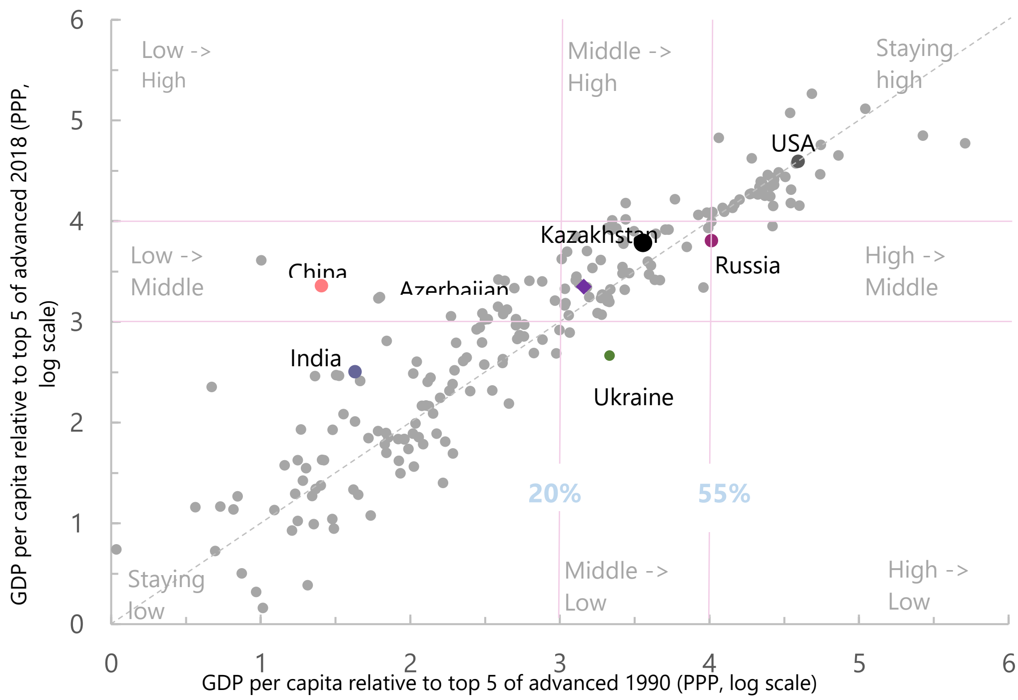
The growth of the country's population at about 1–2% per year is another positive economic factor as it provides for a constant influx of labor.

Continuous economic growth is the basis of the steady increase in the country's wealth. Kazakhstan's economy is characterized by consistent growth, which did not stop even in the crisis of 2015–2016. This ensures the continuous growth of per capita GDP and, as a result, the expansion of the country's tax base.

In terms of per capita GDP relative to the five most developed economies in the world, Kazakhstan is part of the middle-income group, although it is close to the upper boundary. Kazakhstan is ahead of other major economies in the CIS in terms of this indicator.

Kazakhstan has experienced continuous GDP per capita growth in spite of its poorly diversified economy, a factor which usually contributes to the volatility of growth and, in some cases, may hold back growth of national wealth.

Figure 2. Wealth dynamics of select countries from 1990 to 2018



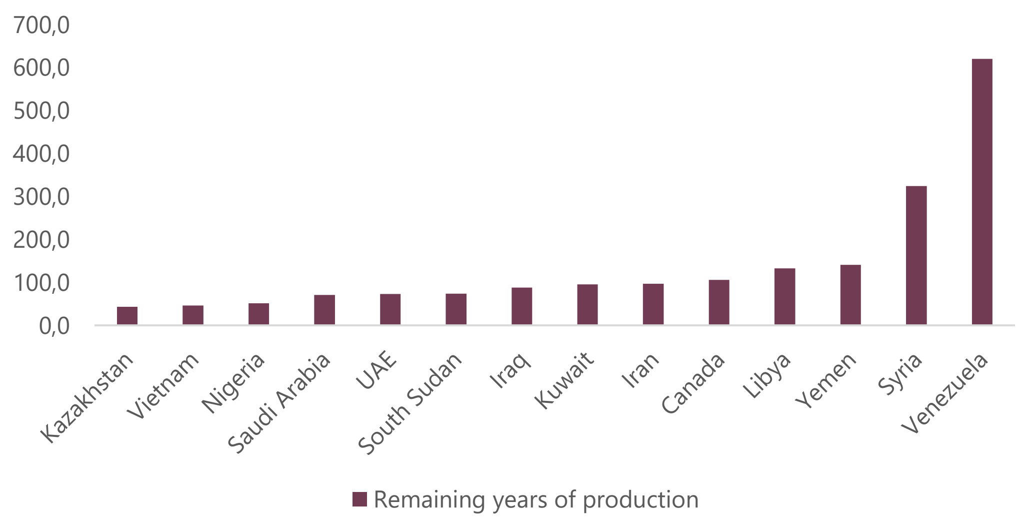
Source: World Bank, ACRA

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 2018, the mining sector (primarily represented by the oil and gas industry) accounted for 14% of Kazakhstan's economic growth and 59% of industrial growth. Despite fluctuating in certain years, the oil industry continues to contribute 16–30% of GDP.

The oil and gas sector simultaneously drives the country's economic growth and conducts external shocks.

The mining sector is a magnet for attracting direct investments to Kazakhstan. On average over the past decade (2009–2018), 26.9% of all direct investments were made in the sector, with this share reaching 49.8% in 2018. Similar indicators in the structure of direct investments in industry amounted to 62.6% and 54%. It is rather difficult to expect significant progress on economic diversification in the near term given this major inflow of investment into a single sector.

Figure 3. Oil reserves, remaining years of production



Source: ACRA's assessments based on the current level of annual production and the calculation of reserves in British Petroleum's June 2019 energy outlook

The inflow of investments is due to Kazakhstan's major oil reserves, which place the country in the 14 top oil rich countries globally (see Fig. 3). Hydrocarbon production schedules at Kashagan, Tengiz and Karachaganak, the country's largest oil fields, show that annual crude oil production will grow from 90 mln tons in 2018 to 99 mln tons in 2023. The IMF estimates that annual growth could reach 105 mln tons by 2050. This should allow the sector to retain its position as the 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 undertake when signing production sharing agreements with the government of the Republic of Kazakhstan.

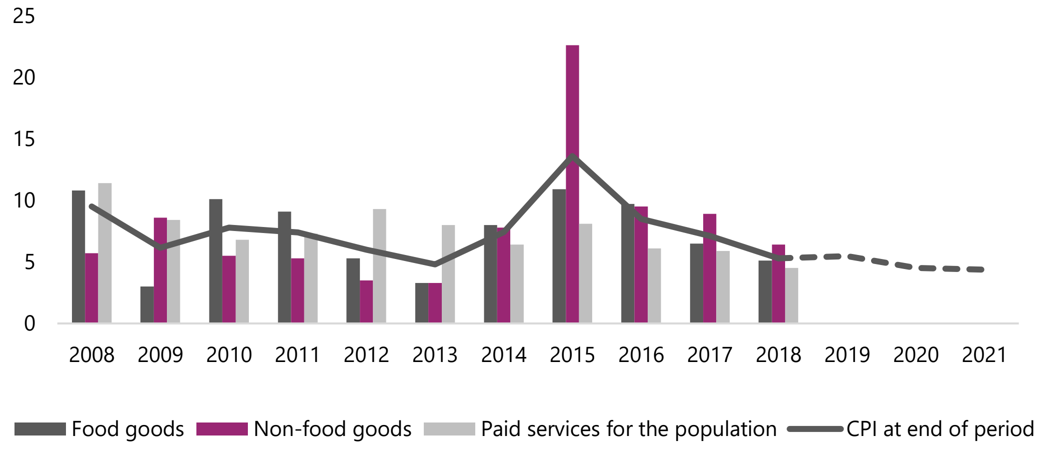
In addition to this, the Kazakh government has been taking measures for many years to facilitate structural transformation and diversification of the economy. The largest stimulus programs are the State Program for Industrial and Innovative Development of the Republic of Kazakhstan for 2010–2014 and 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 shape 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 highly effective as structural change in the economy is slow.

Oil prices have a considerable influence on inflation. Over the past ten years (until 2018), the consumer price index has not risen above 10%, with the exception of 2015, when it reached 13.6% (see Fig. 4). The non-food sector, which mainly consists of imports, is the biggest contributor to inflation.

The inflation spike in 2015 was caused by the devaluation of the national currency due to falling oil prices. At the same time, the monetary authorities used reserves to support the stability of the nominal exchange rate of the tenge. However, after Russia switched to a floating exchange rate for the ruble (the national currency of Kazakhstan's main trading partner) in 2014, the tenge appreciated in real terms relative to the ruble. As a result, in addition to the direct revaluation of the nominal rate of the tenge, the currency regime had to be brought into line with the requirements dictated by the new conditions for exchange rate formation in relation to the free floating ruble. This was a consequence of Russia's significant share in Kazakhstan's imports, which ranges from 33% to 40% depending on year.

ACRA expects that as the influence of oil prices on the Russian currency weakens (due to Russia's fiscal rule), the tenge will fall in value against both the dollar and the ruble in the event of a potential oil price drop, and this will result in a reduction in the share of Russian imports and a slight decrease in the tenge's dependence on the ruble. While an oil price increase would not act as a strong factor for ruble appreciation due to the oil market's reduced influence on the Russian currency, the tenge may strengthen against the dollar and the ruble. The first scenario would cause inflation in Kazakhstan to grow, whilst in the second it would depend on the ratio of purchasing power and the prices of imported products and services in tenge.

Figure 4. Dynamics and structure of inflation (consumer price index, %)



Source: Statistics Committee of the Republic of Kazakhstan

Effective monetary policy has stabilized inflation. The reduction of annual inflation as of the end of the period (December/December) from 13.6% in 2015 to 5.3% in 2018 is a product of the regulator's restrained monetary policy. In particular, the national currency transitioned to a floating exchange rate in late 2015 and since then any sharp fluctuations have been offset by aggressive hikes of the key rate, which subsequently underwent a gradual reduction. ACRA expects annual inflation to continue falling in 2019 and settle at 5% over the next two years. This should improve Kazakhstan's macroeconomic stability. The floating exchange rate policy supports the competitiveness of the country's exporters and at 9.25%, the current interest rate is keeping inflation within the target corridor of 4–6%.

PUBLIC FINANCE

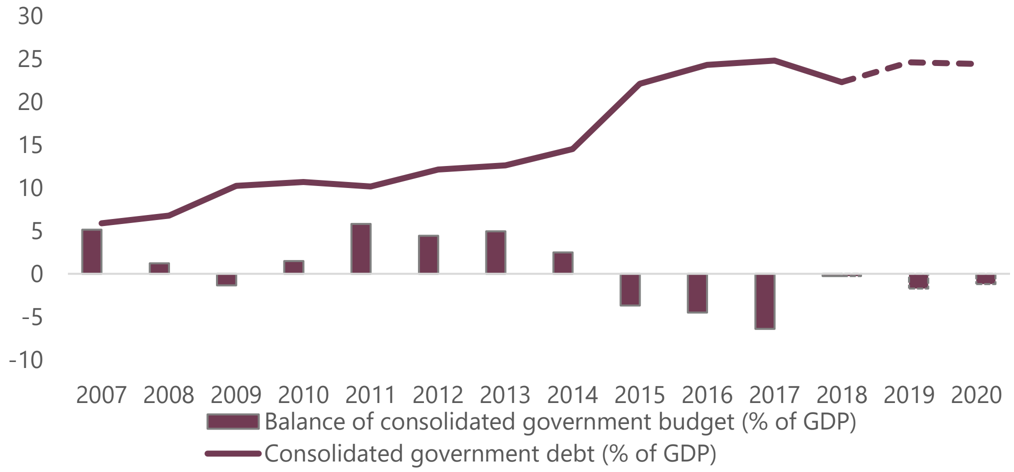
The low level of public debt allows an active fiscal policy to be carried out.

Kazakhstan's low public debt should continue to decrease. At the end of 2018, direct public debt of Kazakhstan's general government was low and stood at 22.3% 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 sharp devaluation of the national currency fueled by the fact that part of the debt was denominated in foreign currency. This increase could have been larger if it was not for transfers from the National Fund of the Republic of Kazakhstan (NFRK) that equaled 6% of GDP. The budget deficits in 2016 and 2017 (5.3% and 4.3%, respectively) were covered by the NFRK and through an increase in direct debt compared to 2015.

The current level of the direct public debt gives the Kazakh government ample opportunities to apply a countercyclical fiscal policy in the future and puts it in a more favorable position compared to other sovereign governments. The NFRK only enhances these opportunities. These factors make Kazakhstan's economy more resilient to potential external shocks.

In 2019–2021, ACRA expects relative stability of public debt amid a more balanced budget and high economic growth rates.

Figure 5. Kazakhstan's public debt and budget balance, % of GDP



Public debt is balanced both in terms of currencies and the repayment schedule.

Source: Ministry of Finance of Kazakhstan

The structure of public debt is favorable. At the end of 2018, the share of the government's foreign exchange debt fell to 38%, which is lower than in 2012. 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.

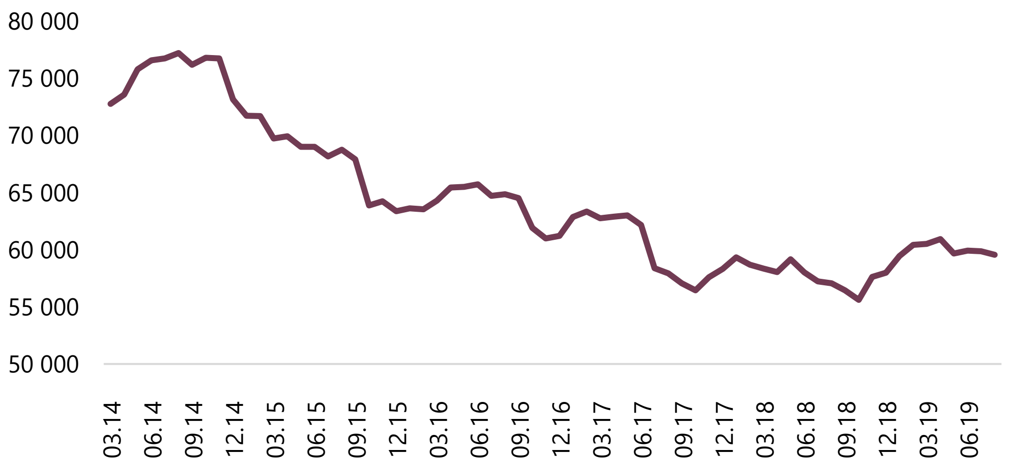
In September 2019, the share of government's long-term (more than one year) foreign exchange debt stood at 93%.[1] Eurobonds account for around half of the foreign exchange debt, the rest is loans from international development banks.

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 2018 they amounted to 4.6% of total expenses, having fallen to a large extent vs. 2016 (7.4%).

NFRK assets are more than sufficient to cover public debt. As of the end of 2018, NFRK assets totaled USD 58 bln, which exceeds public debt of the general government by more than 1.5 times. If the foreign currency component of public debt is looked at separately, these assets cover around 504%. Kazakhstan is a net creditor in terms of the ratio of the government's assets to obligations. As of August 2019, the NFRK's assets amounted to USD 59.6 bln.

Figure 6. NFRK assets (USD mln)



Source: NBK

[1] When summing up the total debt by the structure of public debt by debt sources (debt of the government, NFRK, and local government bodies) as of January 1, 2019 more than USD 1.4 bln is unaccounted for.

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.

In 2018, 56% of revenue was generated by direct taxes, whilst the remaining 44% came from investment income, i.e. profit generated by managing the fund's assets. In the same year, the fund was used to make a KZT 2.6 tln guaranteed transfer to the consolidated budget of Kazakhstan.

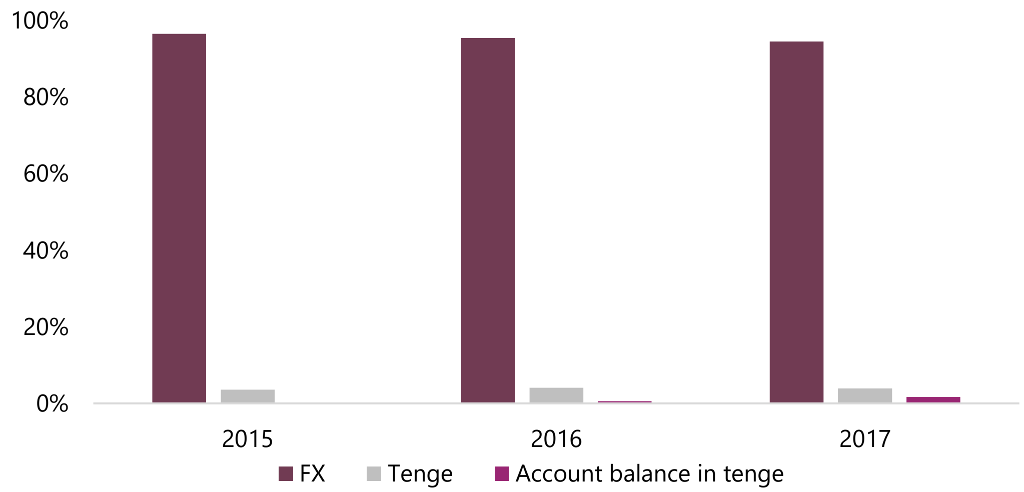
The fund's assets grew from USD 0.76 bln in early 2001 to peak at USD 77.2 bln in August 2014. This was followed by a slight reduction to USD 56.5 bln in October 2017. As of August 2019, the NFRK's assets amounted to USD 59.6 bln (see Fig. 6).

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.

Assets have grown since the end of 2018, but the level of accumulation of funds is still a great deal below the one that was achieved in early 2014.

The lion's share of NFRK assets are denominated in foreign currency (see Fig. 7). In 2019–2021, ACRA expects the NFRK to grow to USD 72 bln in connection with plans to use the fund less and also due to anticipated growth of the extractive sectors of the real economy.

Figure 7. Structure of NFRK assets by currency type



Source: Government of the Republic of Kazakhstan

The flexibility of the expenditure part of the budget will decrease.

Budget flexibility is projected to decrease. In 2018, the expenditure part of the budget equaled 18.6% of GDP, down from 23.3% in 2017. This was the result of an absolute fall in budget expenses (in 2018 they decreased to KZT 11.3 tln from KZT 12.5 tln in 2017) and GDP growth. ACRA estimates the share of expenses at 20.7% of GDP in 2019 and within 19–20% in the subsequent period until 2023.

The share of expenses on social needs[2] accounted for 56% of all expenses in 2018. ACRA expects the budget's social expenses, which are rather difficult to curtail during periods of reduced budget income, to increase. This is down to the need of the newly elected president of Kazakhstan to fulfil his pre-election promises with regard to increasing social support.

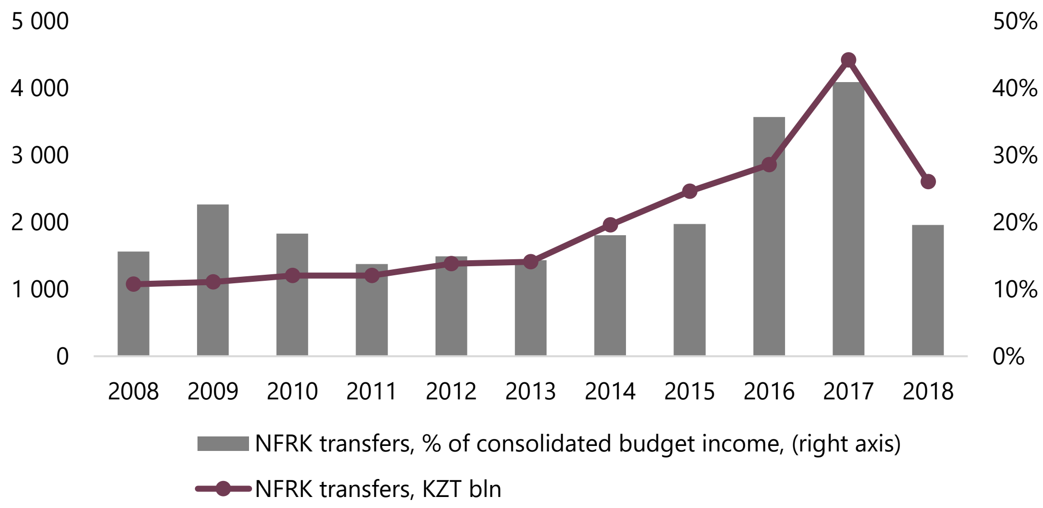
[2] Expenses on education, healthcare, social support and welfare, culture, sport, tourism and the information space.

The NFRK makes Kazakhstan a creditor nation.

The income part of the budget cannot cover expenses without transfers from the NFRK. The non-oil deficit (not including transfers) was 5.6% of GDP in 2018. This demonstrates the difficulty of balancing the current level of expenses using the tax and non-tax revenues that remain after replenishment of the NFRK. In 2014–2017 the aforementioned deficit ranged from 7% to 13% of GDP.

In 2019–2022, the government intends to simultaneously stabilize the non-oil deficit at around 5.4% of GDP and the total size of guaranteed and target transfers. KZT 4.4 tln of transfers in 2017, actual execution of transfers in 2018 at KZT 2.6 tln, and KZT 2.7–3 tln worth of transfers planned for 2019–2022 points toward a trend of more restrained use of NFRK funds.

Figure 8. Transfers from the NFRK to the budget



Source: Ministry of Finance of Kazakhstan

Guaranteed transfers from the NFRK support the income part on Kazakhstan's budget.

One of the measures aimed at lowering the dependence of the income part of the budget on transfers from the NFRK is increasing the tax collection rate — from an expected 18% of GDP 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. According to the government, privatization may generate around USD 67 bln in income in 2019–2020. The list of companies to be privatized includes Kazakhtelecom, Air Astana, Kazakhstan Temir Zholy, KazPost, Samruk-Energy, and KazMunayGas.

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 considerably to KZT 2 tln (USD 7.6 bln) by 2020. However, the rule allows for guaranteed 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, this target transfer loophole limits the impact of the fiscal rule and ultimately 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. 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.

According to ACRA's calculations, if annual transfers from the NFRK are maintained at their historic maximum, the fund will be depleted by 2023–2024 (at the current exchange rate of 386 tenge to the dollar and excluding income created by managing the fund). The fund should run out in 2040–2041 if the historic minimum is adhered to.

Contingent liabilities in the form of government guarantees and sureties are negligible. At the end of 2018, the total size of guarantees and sureties issued by the Kazakh government amounted to 1.1% of GDP (USD 1.713 bln or KZT 658 bln). The total public debt of Kazakhstan is equal to 23.4% of GDP if these guarantees and sureties are taken into account.

Government guarantees and sureties are insignificant, unlike the debt of state-owned companies.

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. Guarantees were provided to state enterprise KazAvtoZhol for Astana LRT, a joint project with the Export-Import Bank of China. It is planned to provide a guarantee to state enterprise KazVodKhoz to carry out agriculture projects in Kazakhstan.

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 resume 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 is high and almost half of their debt is denominated in foreign currency. The debt of the largest state-owned companies (that are part of the three largest holdings — Baiterek, Samruk-Kazyna and KazAgro) stood at 24% of GDP as of the end of 2018 and was almost 50% denominated in foreign currency.

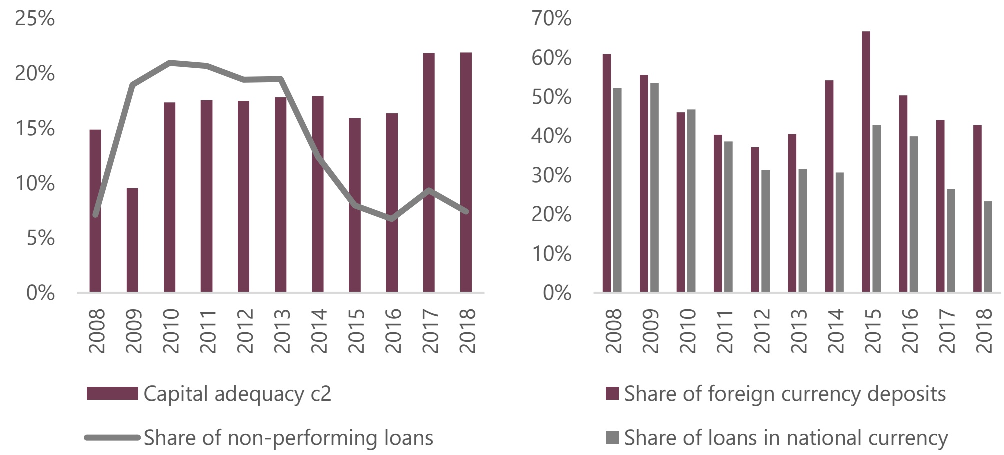
National Welfare Fund Samruk-Kazyna accounts for most of the debt of the quasi-state sector. This holding includes 22 major corporations that represent key sectors of the economy, including national giants such as Air Astana, Kazakhstan Temir Zholy, Kazakhtelecom, Kazatomprom, KazMunayGas, and Samruk-Energo.

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 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 (see Fig. 9), there is still a high level of dollarization — an indicator of depositors' trust in the system. At the end of 2018, the share of dollar-denominated deposits stood at around 43%. It should be noted that this indicator has fallen considerably since hitting a peak of 67% in 2015.

Figure 9. Problem loans and capital adequacy



Source: NBK

Furthermore, the support provided to Tsesnabank (second in terms of total assets at the end of 2018) in early 2019 demonstrates that many of the problems in the banking sector have not been resolved yet. 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.

EXTERNAL RISKS

Kazakhstan is likely to maintain its current account balance in the short term. In contrast to a string of deficits for three consecutive years from 2015 to 2017, the current account was balanced in 2018. The deficits were caused by a sharp decline in export revenues due to a drop in oil prices, production volumes, and relatively low import flexibility.

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 has varied from 65-80% in the country's commodity exports over the past ten years.

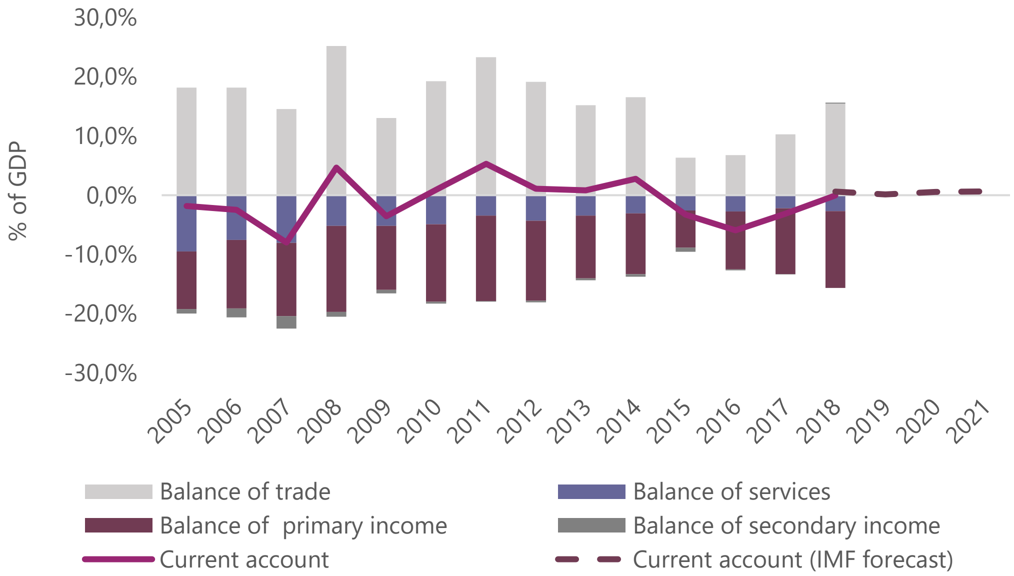
A positive trade balance and primary income payments to non-residents remain key factors in Kazakhstan's balance of payments.

The primary income balance is negative due to payments on foreign direct investments exceeding the income from Kazakhstan's investments abroad. Due to the long-term nature of projects in the oil industry, this component of the current balance is relatively stable and predictable.

ACRA expects the current account to remain balanced in the coming years (see Fig. 10) due to the fact that the negative primary income balance will be compensated by a trade surplus. The latter is likely to equal the 2018 level due to the stability of oil prices and production levels, as well as fairly stable import volumes supported by investment demand for imports from oil sector companies.

ACRA also notes that even in the crisis years of 2015-2017, the current account deficit was supported mainly by direct investments rather than portfolio investments, which makes the country's balance of payments generally quite stable and less susceptible to short-term investment preferences. However, it is worth noting that the main flow of direct investment is directed to the growing oil sector. In the long term, when the oil industry enters a stable phase of development, the investment flow may weaken.

Figure 10. Kazakhstan's current balance structure

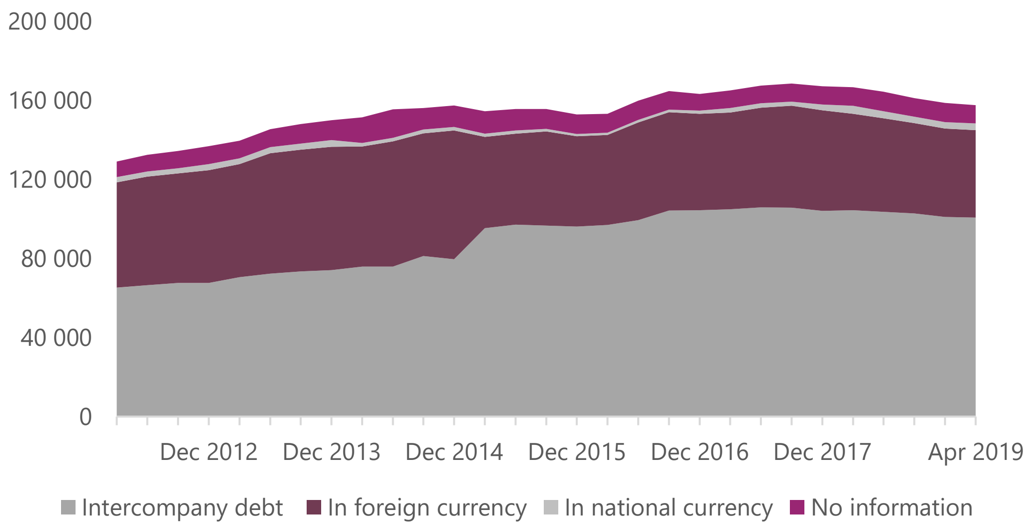


Sources: NBK, IMF

Intercompany debt is excluded from the country's analysis on external position. At the end of March 2019, Kazakhstan's external debt, including intercompany debt, was 88% of 2018 GDP. Excluding intercompany debt, this figure was 31.7%. Debt rose from 30-45% in 2005-2010 to 64% in 2018 with a jump in 2014. This growth was driven by the launch of major projects in the oil sector and the transport industry that serves it, where financing was mainly provided by funds invested by foreign parent companies in there subsidiaries in Kazakhstan, not by borrowing from the financial market.

At the same time, investments of foreign parent companies are repaid by revenues from oil sales under production sharing agreements. Therefore, subsidiaries registered in Kazakhstan do not bear the risks associated with obligations to repay intercompany debt, despite the fact that it is reflected in the statistics of the country's external debt. Due to the specifics of repaying this type of debt, ACRA has excluded it from its analysis of Kazakhstan's external debt and external debt coverage with external obligations.

Figure 11. Kazakhstan's external debt, USD mln



Source: NBK

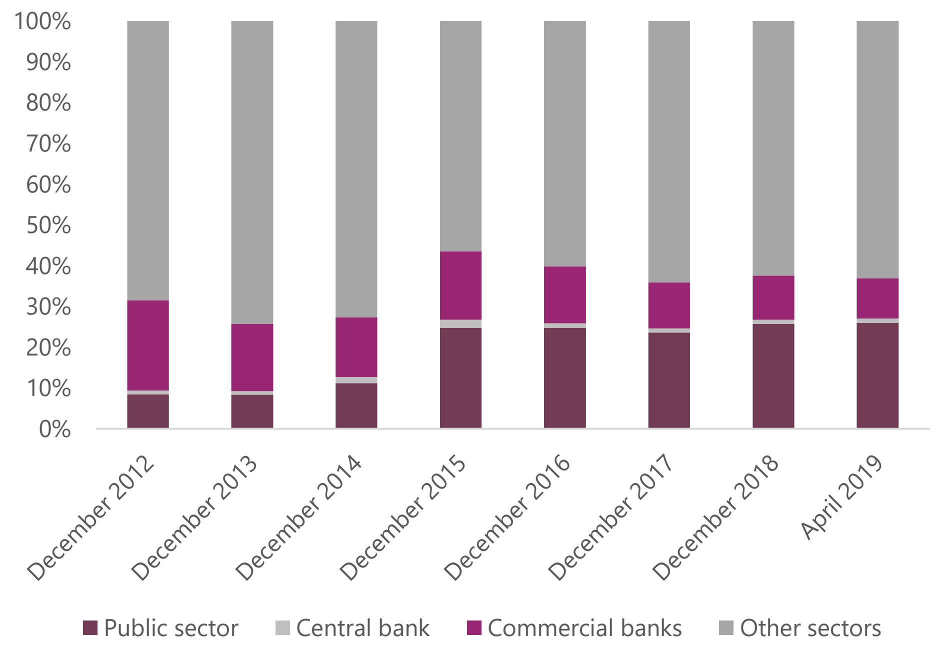
Kazakhstan's external debt is insignificant compared to the scale of its economy.

Kazakhstan's external position is very stable. At the end of 2018, Kazakhstan's external debt, excluding intercompany debt, was 33.9% of GDP. Most of the country's external debt is foreign exchange debt, the bulk of which is in the corporate sector (mainly large state-owned companies), while public foreign exchange debt is insignificant (see the "Public finance" section).

At the end of 2018, Kazakhstan's foreign debt coverage[3] via foreign-currency reserves was 54%, while this figure reached 154% when taking into account NBK assets. This makes the country's external position very stable and creates a solid liquidity cushion for all sectors of the economy, even in the event of long-term deterioration in external financial conditions. In 2018, import coverage with foreign-currency reserves was also high at 11 months.

The foreign-currency reserves of the NBK in recent years have been generally stable and equaled USD 28.2 bln as of August 2019. The only significant decrease in the volume of foreign-currency reserves came in 2015-2016 when they fell to USD 27.6 bln in February 2016 from USD 29.2 bln at the end of 2014.

Figure 12. Foreign currency debt by economic sectors (excluding inter-firm debt), % of total



Source: NBK

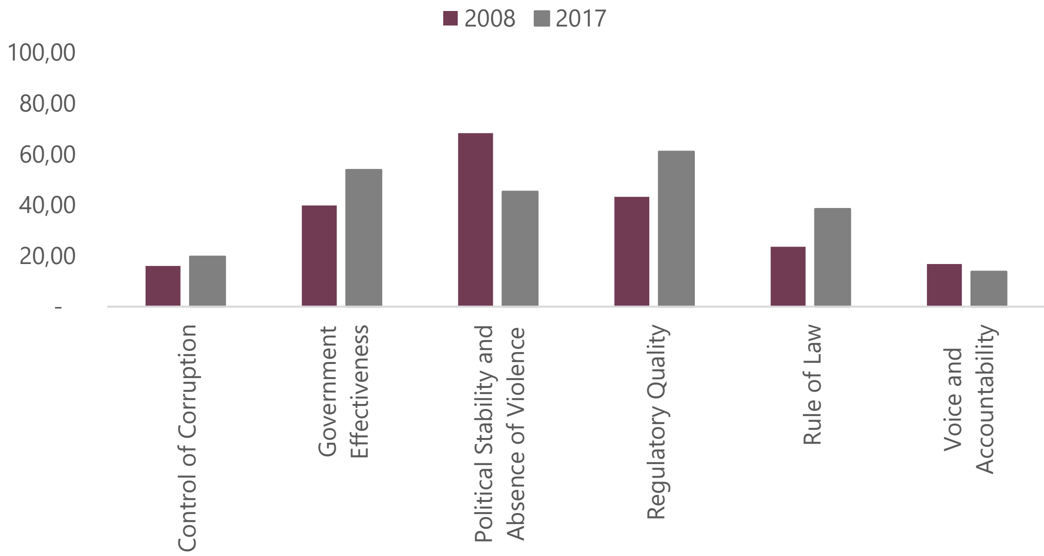
INSTITUTIONAL FACTORS

Assessments of Kazakhstan's institutional quality are consistently low.

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 sample[4], Kazakhstan falls into the bottom third according to two composite indices compiled by ACRA based on 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 (see Fig. 13).

[3] Excluding intercompany debt.
[4] The sample includes 102 countries, which account for 96.4% of GDP and 97.9% of the world's public debt.

Figure 13. Kazakhstan: World Governance indicators



Source: World Bank

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.”

Kazakhstan’s improved investment climate has allowed it to strengthen its position in the World Bank’s “Doing Business” index.

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 sample[5] along with Armenia, Russia, and Uruguay.

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 2018 report, Kazakhstan ranked 28th out of 109 countries[6], improving eight notches compared to 2017. Kazakhstan ranked first in “protecting minority investors” and fourth in “contract enforcement.” In addition, the county ranked high in “registering property,” “dealing with construction permits,” and “paying taxes.”

The election of the country’s new president has reduced the potential risks associated with the transit of power.

Among recent key political events, the election of the country’s new president Kassym-Jomart Tokayev should be noted. His political statements indicate intentions to maintain the authority, economy, and society of Kazakhstan’s previous president, Nursultan Nazarbayev. This mitigates the risks of power transfer, which have weighed on Kazakhstan for a long time.

The priorities of the new president include economic diversification, long-term oil and gas projects, privatization of state-owned companies (a moratorium on the creation of quasi-public sector entities has already been announced), public sector reform, as well as the third stage of Kazakhstan’s modernization, which involves the country’s economy becoming competitive on the global scale and sustainable advances towards becoming one the world’s top 30 most advanced countries.

[5] See the previous footnote.

[6] According to the results for fall 2019 (these estimates will be included in the 2020 report), Kazakhstan improved its rank to 25th.

The country's leadership has proposed using citizens' pension savings to partially address Kazakhstan's acute housing market issues. This approach could lead to reduced demand from the Unified Accumulative Pension Fund (UAPF) for government bonds. At the end of 2018, the UAPF held about 47% of government securities issued by Kazakhstan's Ministry of Finance denominated in the national currency.

Measures aimed at developing the political system (if fully implemented) should be a positive factor in assessing the institutional quality of the sovereign government's creditworthiness.

Appendix 1. Comparative analysis of Kazakhstan and the sample group

Comparison of macroeconomic and institutional indicators for 2018

		Kazakhstan	Azerbaijan	Chile	Malaysia	Russia	Turkey
Macroeconomics	GDP per capita (USD)	27,550	18,076	25,97[illegible]	30,860	29,267	27,956
	Real GDP growth (%)	4.1	1.4	4.0	4.7	2.3	2.6
	CPI (% y-o-y)	6.0	2.3	2.3	1.0	2.9	16.3
	Openness of economy (% of GDP) *	30.3	45.3	27.9	67.9	23.4	27.1
	Unemployment (ILO assessment)	4.9	5.2	7.2	3.4	4.7	10.9
Public finance	General government debt (% of GDP)	22.3	18.8	25.5	55.6	11.3	30.4
	External general government debt (% of GDP)	6.8	30.7*	7.7	12.2	2.7	12.3
	General government budget balance (% of GDP)	0.3	4.0	-1.5	-3.6	2.8	-3.6
External position	Current account (% of GDP)	0.0	12.9	-3.1	0.0	6.9	-3.5
	Short-term external debt to total external debt (%)	5.1	n/a	9.8	43.3	10.6	25.9
	External debt position (% of GDP)	88	37*	61.9	63.1	27.8	58.0
	Export diversification index **	0.8	0.8	0.8	0.4	0.6	0.4
Institutional framework***	Political stability and absence of violence	0.0	-0.8	0.4	0.2	-0.7	-1.8
	Government effectiveness	0.0	-0.2	0.9	0.8	-0.1	0.1
	Rule of Law	-0.4	-0.6	1.0	0.4	-0.8	-0.3

* 2017 data.

** 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, National sources (Kazakhstan)

Appendix 2. Key indicators

Balance of payments, USD mln

	2013	2014	2015	2016	2017	2018
Balance of trade	**35,960**	**36,619**	**11,627**	**9,253**	**16,728**	**26,359**
Exports	85,126	79,073	44,826	35,486	47,301	59,630
Imports	49,166	42,454	33,199	26,232	30,573	33,271
Balance of services	**-8,113**	**-6,843**	**-4,720**	**-3,762**	**-3,578**	**-4,596**
Exports	5,971	7,002	6,177	6,085	6,505	7,275
Imports	14,084	13,846	10,898	9,847	10,083	11,871
Balance of income	**-25,893**	**-23,662**	**-12,918**	**-13,623**	**-18,252**	**-21,815**
Income receivable	5,505	4,978	4,110	3,958	4,537	4,931
Income payable	31,398	28,640	17,029	17,581	22,789	26,746
including interest payments	4,967	5,093	5,476	5,944	6,764	7,380
Current account	1,954	6,114	-6,012	-8,132	-5,102	-52
Current account, % of GDP	1	3	-3	-6	-3	0
International reserves at the end of the period	24,715	29,209	27,871	29,710	30,997	30,927

Source: NBK

External position (assets and liabilities), USD mln

	2013	2014	2015	2016	2017	2018
External debt	150,033	157,115	153,007	163,308	167,218	158,787
long-term	94%	94%	96%	96%	96%	95%
short-term (up to 1 year)	6%	6%	4%	4%	4%	5%
External liabilities	**150,033**	**157,115**	**153,007**	**163,308**	**167,218**	**158,787**
Sovereign issuer, including	5,764	8,287	12,212	12,848	12,994	12,325
monetary authorities	547	954	899	756	926	770
general government	5,218	7,334	11,313	12,092	12,067	11,555
Banks	11,160	10,119	7,973	7,153	6,502	5,752
Other sectors	133,108	138,708	132,822	143,307	147,722	140,710
including intra-corporate loans	74,179	79,135	96,264	104,468	104,108	101,060
External assets, excluding shares	**228,963**	**237,356**	**208,989**	**216,395**	**210,752**	**200,495**
Sovereign issuer, including	175,648	188,806	169,249	165,884	158,221	156,933
international reserves	24,715	29,209	27,871	29,710	30,997	30,927
NBK assets	70,790	73,187	63,392	61,218	58,334	57,988
other external assets	80,143	86,410	77,986	74,956	68,890	68,018
Banks	25,577	18,894	5,190	6,992	7,067	5,844
Other sectors	27,738	29,656	34,550	43,519	45,464	37,719
Net debt	**-78,931**	**-80,242**	**-55,982**	**-53,087**	**-43,534**	**-41,708**
Sovereign issuer	-169,884	-180,519	-157,037	-153,036	-145,227	-144,608
Banks	-14,417	-8,774	2,783	161	-565	-91
Other sectors	105,370	109,052	98,272	99,788	102,258	102,991
International investment position (net), % of GDP	14	18	20	33	35	36
External debt, % of GDP	63	71	83	119	103	88

Source: NBK

Budget indicators, % of GDP

General government	2015	2016	2017	2018	2019F	2020F
Income [7]	16.7	16.2	16.9	18.5	18.6	18.5
Expenses	20.3	20.7	23.3	18.6	20.7	20.6
including debt servicing expenses	0.7	1.1	0.8	1.0	н/д	н/д
Primary budget balance	-2.9	-3.4	-5.6	0.8	н/д	н/д
Overall budget balance	-3.7	-4.5	-6.4	-0.3	-2.1	-2.1
General government debt	22.1	24.3	24.8	22.3	24.6	24.4
% of income	132.5	150.6	146.8	134.6	132.4	132
Central government						
Income	15.0	16.3	17.8	14.2	15.6	15.0
Expenses	16.8	17.3	20.0	15.3	17.6	17.1
including debt servicing expenses	0.7	1.1	0.8	0.9	н/д	н/д
Primary budget balance	-1.1	0.1	-1.3	-0.1	н/д	н/д
Overall budget balance	-1.8	-1.0	-2.1	-1.1	-2.0	-2.1
Central government debt	21.2	18.9	18.7	16.9	19.0	19.4
% of income	141.2	115.9	105.2	132.8	121.9	128.7
Note: nominal GDP (bln tenge)	40,884	46,971	54,379	61,820	67,668	74,526

Source: Ministry of Finance of Kazakhstan

[7] Excluding investment income from the National Fund of the Republic of Kazakhstan.

Rating history

None.

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 have been assigned to the Republic of Kazakhstan for the first time. 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.

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