



## PROSPECTS ON FINANCIAL SECTOR IN KAZAKHSTAN

Kazakhstan is one of the most successful transition countries that achieved to move to free market economy from centralized economy. Kazakhstan entered into the period of economic revival after the widespread reforms in mid-1990s. Despite 1998 Asian crisis, the government implemented specific measures including trade protection and foreign exchange rationing. The macroeconomic indicators of Kazakhstan were relatively positive until the economy was hit by the negative effects of the Global Financial Crisis in 2008. Kazakhstan banking sector was also negatively affected by the Global Financial Crisis.

On the other hand, regarding the latest data, Kazakhstan's real GDP growth reduced from 6% in 2013 to 4.3% in 2014, due to weaker domestic demand. This especially resulted from the devaluation of the local currency in February 2014 and reduction in oil prices in 2014, together with weak external demand for Kazakhstan's crude oil, iron ore, and metal products.

In forecasts of international institutions such as European Bank for Reconstruction and Development, International Monetary Fund and World Bank, real GDP growth rate for 2015 was predicted as 5.1% in September 2014 but due to the sharp fall in oil prices that hit the export revenues of the country, the new forecast expects Kazakhstan's GDP growth at 1.5%.

Private consumption also was negatively affected by both devaluation and strict lending conditions for consumer loans. Inflation rates increased from 4.5% in January 2014 to 7.4% in the first months of 2015 due to devaluation and higher imported input prices.

To recover from these negative impacts on the economy, the Government launched an economic support program for 2014–15 of 1 trillion tenge

(5.5 billion dollars), aimed mainly to solve credit problems in the banking sector by reducing the level of non-performing loans (NPLs) and providing subsidized loans to small and medium sized enterprises (SMEs) in 2014. With this program, 500 billion tenge (2.75 billion dollars) will be allocated to support SME's, rehabilitate the banking sector and construct infrastructure for free economic zones. Another support for SME's is allocation of 100 billion tenge (550 million dollar) from the National Fund of Kazakhstan annually between 2015-2016 through interbank lending of the Damu Entrepreneurship Development Fund and the Development Bank of Kazakhstan.

Complex regulatory measures will be implemented to maintain financial stability. These measures aim to increase the role of national currency in economy, stimulate the growth of tenge liquidity of banks to further increase lending for the economy and recover the banking sector. In the program, it is planned to increase guaranteed payout to depositors of Kazakhstan Deposit Insurance Fund on deposits in tenge from the current amount of 5 million tenge to 10 million tenge (27,000 dollar to 55,000 dollar) in order to enhance the role of the national currency. The government plans to achieve this aim by increasing the fund's capitalisation and reducing the annual interest rate on guaranteed deposits in dollars from 4% to 3%.

In 2014, Kazakhstan's banking sector benefited from the economic support program. Problem Loans Fund was recapitalized by 1.4 billion dollar in 2014 and in the first months of 2015 in order to reduce NPLs, which constituted about 23.5% of total bank loans in December 2014. In February 2015 a number of NPL measures, which have to be fulfilled by banks until 2016 was

announced by the National Bank of Kazakhstan (NBK). In this sense, banks will be required to reduce NPL ratios to 10% by the end of 2015. Banking licenses, which are not able to comply with these requirements will be potentially withdrawn until 2016.

Tax exemptions for NPL write-offs were also extended. However, the NPL ceiling (set at 10% by end-2015) is still ambitious for several banks. Besides, strict monetary policy affected the rate of credit growth negatively. Credit growth reduced from double digits in the first half of 2014 to 2.3% in the first months of 2015. Nevertheless, subsidized loans to SMEs grew from 9% January 2014 to nearly 33% in February 2015, supporting credit growth. Besides, Basel III Standards, which set softer requirements for banks in terms of capital adequacy of banks in the first stage of transition will be reduced. This process will be monitored by the NBK.

We can conclude that the economic support program and other implementations in the financial sector aim to strengthen the economic stability in Kazakhstan. Non-bank financial institutions (NBFIs) can help commercial banks by targeting specific market segments, in which banks do not participate actively. However, in Kazakhstan's financial sector, NBFIs are significantly underdeveloped compared to the similar countries. In this sense, if a more conducive legal and institutional framework can be established, financial tools, which help easy access to finance (leasing, factoring, trade-credit financing) could be promoted. The new legislation in the banking sector is expected to increase credits, to encourage foreign and domestic investments, to improve financial stability and to enhance economic growth in Kazakhstan.

## Politics, Foreign Affairs and Security

- The fourth Summit of the European Union's East Partnership Program passed in Riga with participation of Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. During the Summit, participants discussed statement on energy security and alternative routes of energy supplies to the EU.
- Uzbekistan's delegation headed by Foreign Minister Abdulaziz Kamilov met with Marosh Shefchovich, the European Commission Vice President for the Energy Union and discussed the implementation of the Memorandum of Understanding (MoU) on cooperation in the energy sphere between the EU and Uzbekistan. The MoU was signed during the visit of the President of Uzbekistan Islam Karimov to Brussels in January, 2011.
- The meeting of Heads of Security Bodies and Special Services from the Commonwealth of Independent States (CIS) nations took place in Dushanbe. According to the CIS Executive Committee, the discussion touched upon such an issue as the possibility of participation of extremist and neo-Nazi organizations in implementation of "color revolutions" within the CIS area.
- The Head of the National Committee for BRICS Studies Vyacheslav Nikonov announced that the process of establishing the Development Strategy of BRICS was successfully finished and the Strategy would be presented in Ufa on July 8-9, 2015.
- The Prime Minister of Russia Dmitry Medvedev has revoked a decree that allowed delivery of NATO military equipment to Afghanistan through Russian territory. According to the signed document, all delivery of military hardware and equipment via rail, motor vehicles, or through Russian airspace would not be permitted.
- The Parliament of Ukraine, the Verkhovna Rada, terminated a treaty with Russia on cooperation in the military sphere. In addition,

Ukraine has broken its agreement with Russia on military transit to Moldova.

## Economy, Finance and Energy

- Turkish Petroleum Corporation (TPAO) announced that Turkey has started talks with Azerbaijan in the sphere of exploration of oil and gas. The parties have held the first round of the negotiations on this issue. TPAO has 19% share in Azerbaijan's Shah-Deniz gas deposit.
- The governmental officials of Iran announced the plans of the state to expand oil exploration operations in the Caspian Sea. In a bid to discover new oil and gas deposits in the Caspian Sea, other than the previously discovered Sardar-e Jangal field, Iran would start exploration operations at the offshore hydrocarbon block, named Block 8-1.
- During the official meeting of the Prime Minister of Pakistan Muhammad Nawaz Sharif with the President of Turkmenistan Gurbanguly Berdimuhhammadov in Ashgabat, the parties discussed the challenges for the full implementation of the Turkmenistan-Afghanistan-Pakistan-India project estimated at \$ 7-10 billion.
- After the 4 month period of the Eurasian Economic Union membership Armenia started suffering from the reducing trade volumes. Export of Armenia's goods decreased by approximately 23%, while import - by 30.5% in the first quarter of 2015, compared to the same period in 2014.
- The Government of Turkmenistan stated that the total investments in the development of oil and gas deposits in the Turkmen part of the Caspian Sea were expected to be over \$3 billion in 2015, compared to \$2.5 billion invested last year.
- The President of Iran Hassan Rouhani ordered funding \$175 million to several road projects stretched from the city of Tabriz to the Turkish border, including Tabriz-Ahar highway and Tabriz-Bazargan highway to be completed by late

2016, as well as building the infrastructure of Tabriz-Miyaneh railroad.

- The Industrial and Commercial Bank of China (ICBC) completed the deal on buying 75.5% of shares of Turkish Tekstilbank. The ICBC paid 669 million Turkish liras to purchase this package of shares.

## Society and Culture

- Iranian cargo ship carrying humanitarian aids to Yemen has arrived in the Gulf of Aden on its way to the Yemeni port of Hodeida. The cargo ship was going ahead under support of the Iran's 34th naval fleet, which was presented in the Gulf of Aden and the Strait of Bab el-Mandab.
- Russia would allocate \$2 million to the United Nations Children's Emergency Fund (UNICEF) programs to fight Ebola in West Africa's Guinea, Liberia and Sierra Leone. According to the agreement signed in New York, the Russian donations to UNICEF's fund would be spent mostly on improving sanitary and hygiene conditions to prevent new outbreaks of the deadly disease.
- Nearly 500 people reportedly have died of sunstroke in India as the country's south struggles to survive through a major heat wave. The highest temperature of around 48 degrees Celsius was recorded in the state of Telangana.
- HeliRussia-2015, an international exhibition displayed the latest achievements in the global helicopter industry, opened in Moscow. More than 200 companies from ten countries took part in the three-day fair.
- According to the Ministry of Emergency of Kazakhstan, saiga antelopes' death toll has been 3200 heads found on the area of 4.5 thousand hectares. Mass death of saiga antelopes happened in the Zhanibek area of the Western Kazakhstan area.