



## THE CURRENT SITUATION OF THE DEPOSIT MARKET OF KAZAKHSTAN

Theoretically, deposits are the best source of funding for the banks in terms of availability and cost. Due to the significant developments in financial markets in 1990's and 2000's, the share of deposits in banks' funding slightly decreased. However, after 2008 global financial crisis, this type of funding regained its position in banks' liabilities over the world. Kazakhstan's banking sector faced the same situation. For instance, between 2005-2007, in average, the share of deposits in banks liabilities was 61%, while between 2013-2015, this ratio was 73.6%. This data shows that deposits are the main funding source in the banking sector, gaining more importance in recent years. However, the high dependence on only one funding source may increase banks' liquidity risks. These risks, which actually occurred between 2014-2015, caused banking system to suffer from the liquidity shortage.

In the second half of 2014, the oil prices started to decrease and slumped to \$50 per barrel in the beginning of 2015, while in the middle of 2014, the oil prices were \$110 per barrel. This factor affected the country's current account balance, which also negatively affected the national currency. However, at that time, the National Bank of the Republic of Kazakhstan's (NBRK) was implementing the currency peg policy, which did not allow the currency to depreciate. Despite the decline in the oil prices, the NBRK kept the currency rate stable, and committed to continue to implement this monetary policy in order to prevent households' speculative sentiment to gain a profits from the currency devaluation, by converting their investments (deposits, securities, and cash), which were in terms of national currency into the investments, which were in terms of foreign currency. In spite of the NBRK's commitment, the public's speculative sentiment was increasing and most of the households' savings were converted into the foreign currency investments.

In the beginning of 2014, the deposits in foreign currency were accounted for 37.4% (3.77 trillion tenge out of 10.09 trillion tenge) in total banking sector's deposits, while at the end of 2015, the share of these deposits in total banking sector reached 68.99% (10.45 trillion tenge out of 16.48 trillion tenge). These data show high dollarization of the deposits, and the reason of this dollarization was not only low oil prices but also the unwillingness of the NBRK to increase the threshold for the interest rates of personal deposits. The personal deposits are accounted for 42.6%, in the total banking sector's deposits at the end of 2015.

The NBRK controls the interest rates on personal deposits by the Kazakhstan deposit insurance fund (KDIF), which is its subsidiary company. The fund guarantee all of the personal deposits, which do not exceed 10 million tenge. However, in order to be a member of this fund, banks need to carry certain criteria, and one of which is not to accept deposits with an interest rate higher than the rate suggested by the fund. In 2015 and partly in 2014, the KDIF did not increase its suggested rate, which was 10.5% (annual effective interest rate). However, at that period, other investment instruments significantly increased their interest rates (REPO, currency non-deliverable forward, currency swaps). For example, 1-week KZT/USD NDFs (non-deliverable forward) rate was higher than 30% during the second half of 2014 and 2015, which means that households expected that tenge devaluation would be higher than 30%. The NDF's rate clarifies why people prefer to convert their national currency into foreign currency instead of holding it in national currency deposit with interest rate of 10.5%, because even without no return of interest, investments in foreign currency will gain value just due to the tenge devaluation. Therefore, most of the individuals converted their national currency deposits into foreign currency deposits. For example, as for the end of

2015, 78.9% (44.0% in the beginning of 2014) of individuals' deposits was in foreign currency, while nonbanking legal entities' foreign currency deposits were accounted for 60.7% (33.2% in the beginning of 2014) in the total banking sector deposits.

As shown above, nonbanking legal entities' foreign deposits share in the total banking sector deposits was lower than individuals' foreign currency deposits, and the reason for this is the fact that banks were able to change their interest rates on non-banking legal entities deposits. For example, from January 2014 to December 2015, non-banking legal entities' average interest rates on deposits in terms of tenge increased from 4.8% to 19.9%, while the rate of the individuals' deposits in terms of tenge for the same period increased from 6.4% to 8.0%. Because of high demand for personal deposits in foreign currency, their average interest rate decreased from 4.2% in the beginning of 2014 to 2.9% at the end of 2015, while the average rate for non-banking legal entities' foreign currency deposits decreased from 2.6% to 2.1% for the same period.

In January 2016, the KDIF increased suggested interest rate from 10.5% to 15%, which along with decreased speculative sentiment that would help the banks to decrease the share of the foreign currency deposits. As for March 2016, the share of deposits in foreign currency was accounted for 63.4% in the total banking sector's deposits, while the share of personal deposits in foreign currency decreased from 78.9% to 74.9%. The average interest rates on deposits in terms of tenge for individuals increased from 8.0% to 11.8% since January.

The appreciating tenge and the KDIF's relief measures may have a positive effect on the deposits de-dollarization. The de-dollarization will increase banks' lending to the economy, by improving banks liquidity, which is an important step to overcome the economic crisis.

## Politics, Foreign Affairs and Security

- On the sidelines of the meetings held by Visegrad Group (Czech Republic, Hungary, Poland and Slovakia) and the Eastern Partnership countries in Prague, the Minister of Foreign Affairs of Azerbaijan, Elmar Mamadyarov, stated the opportunities for further strengthening cooperation between Europe and Azerbaijan.
- During his official visit to Moscow, the Deputy Minister of Foreign Affairs of Iran, Hossein Amir-Abdollahian, and the Special Envoy for the Middle East and Africa, the Deputy Minister of Foreign Affairs of Russia, Mikhail Bogdanov, discussed the Syrian conflict settlement and the progress of intra-Syrian negotiations.
- During his official visit to Astana, the member of the Political Bureau of the Communist Party of China, the Secretary of the Party Committee of the Xinjiang Uygur Autonomous Region (XUAR), Zhang Chunxian, and the First Deputy Prime Minister of Kazakhstan, Bakhytzhan Sagintayev, discussed trade and economic issues, industrial and innovative cooperation, cooperation in transport projects and agriculture between Kazakhstan and XUAR.
- The President of Azerbaijan, Ilham Aliyev, signed an order on measures to eliminate the damage for civilians as a result of the recent escalation in Nagorno-Karabakh. To eliminate the damage, a total of 6 million manats was allocated to Executive Powers of Aghdam and Terter regions, including 3 million manats for each, from the reserve fund of the President of the Republic of Azerbaijan.
- During the meeting of the Intergovernmental Uzbek – Kazakh Demarcation Commission in Gulistan, the administrative center of Uzbekistan's Syrdarya region, final documents on the demarcation of the Uzbek – Kazakh state border were discussed.
- Russia's Permanent Representative to the UN Office and Other International Organizations in Geneva, Alexey Borodavkin, announced that the Russian – U.S. center to ensure a rapid response to violations of the ceasefire in Syria was opened in Geneva. The center aims to ensure daily information exchange and develop response measures.

## Economy, Finance and Energy

- Russia's oil and gas producer, Lukoil announced its plans to invest at least \$12 billion in development of a group of the Kandym gas condensate fields in the Bukhara region of Uz-

bekistan. To date, the Kandym project has already received investments exceeding \$3.6 billion. Lukoil jointly with the Uzbek National Holding Company Uzbekneftegaz launched the Kandym project in 2004. The natural gas production by Lukoil in Uzbekistan is planned to reach 6 billion cubic meters in 2016.

- The State Oil Fund of Azerbaijan reported that it has issued \$22.6 million to fund construction of a new generation floating drilling rig in Azerbaijan in the first quarter of 2016. The total \$718.6 million of \$1,117 billion has already been issued since the project was launched. The new rig can be commissioned in early 2017. The rig will be used for drilling of prospective structures and fields in Azerbaijan, such as the Umid field, Babek, Karabakh, Ashrafi and others.
- The Ministry Oil and Gas of Turkmenistan announced the country's plans to increase the production of natural gas to 83.8 billion cubic meters in 2016, which is 9% more than 2015. Considering China to be the main market for its natural gas exports TurkmenNefteGazStroi began the construction of a compressor station with a projected capacity of 30 billion cubic meters per year at the Malai natural gas field, which is a resource base of the Turkmenistan – China pipeline.
- During his official visit to Riyadh, the President of Turkmenistan, Gurbanguly Berdimuhamedov, and the representatives of the Chamber of Commerce and Industry of Saudi Arabia discussed opportunities for the Saudi companies to participate in the investment project on the development of the Galkynysh gas field.
- During his official visit to Tashkent, the Minister of Commerce of China, Gao Hucheng and representatives of the Ministry of Foreign Economic Relations, Investments and Trade of Uzbekistan discussed the status and prospects for developing bilateral trade and economic relations, as well as investment and financial cooperation. During the visit, the sides also signed a number of documents on joint implementation of the projects with total cost of \$15 billion.
- According to the annual report of the Asian Development Bank, the GDP of Kyrgyzstan will sharply fall to 1% in 2016 and then grow up to 2% in 2017. It was noted that Kyrgyzstan's GDP fell to 3.5% in 2015. Moreover, the current account deficit reached 17% in 2015 and the trade deficit reduced to \$2.4 billion while imports

and exports fell by 29% and 11% respectively.

- The Fitch Ratings agency downgraded Kazakhstan's credit rating from BBB+ to BBB. The Fitch Ratings reported that low oil prices led the government debts increase to 22.1% of GDP in 2015, compared to 13.9% in 2014.
- According to the Head of the State Customs Committee (SCC) of Azerbaijan, Aydin Aliyev, the customs revenues in the state budget for the first four months of 2016 amounted to 644 million manats, which exceeded the forecasts by 23%. Overall, the forecasts on customs revenues in the state budget of Azerbaijan in 2016 is planned to reach 1.81 billion manats.
- According to the Statistics Committee of the Ministry of National Economy of Kazakhstan, the inflation measured by consumer price index has reached 3.6% since early 2016. The inflation in the country stood at 0.6% in April 2016. The prices for food products, non-food products and paid services rose by 0.7%, 0.8% and 0.4% respectively. The year-on-year inflation for April 2016 reached 16.3%.

## Society and Culture

- The 14th International Culture and Language Festival took place in Astana. The festival was organized by the NURORDA on the occasion of the 25th anniversary of independence of Kazakhstan.
- Turkmenistan has appointed the Deputy Prime Minister Recep Bazarov as a board member of the International Fund for Saving the Aral Sea (IFAS). The IFAS, which was established in 1990s by Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, aims at financing joint projects and programs to save the Aral Sea and improve its ecological situation.
- According to the Ministry of Emergency Situations of Uzbekistan, at least 5 people died as a result of a landslide on Kamchik Pass in the Namangan region.
- According to the preliminary data of the Ministry of Emergency Situations of Kyrgyzstan, no victims and destructions were recorded after 5 magnitude earthquake which occurred 25 kilometers south-east of Erkeshtam village.