The Impact of the Financial Crisis and the Main Directions of the Monetary Policy in Post-Crisis Period in Kazakhstan

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Before Crisis

GDP growth rate

External Debt, bln.$

Banks

Structure of Banks' Liabilities

Dec.1999=100%  Annual average growth rate, %

Assets, % to GDP  Capitalization on average for 1 bank, mln.$

Gross External Debt  Banks' Liabilities to Non-residents

<table>
<thead>
<tr>
<th>Year</th>
<th>External Debt, bln.$</th>
<th>GDP growth rate</th>
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</thead>
<tbody>
<tr>
<td>2000</td>
<td>13</td>
<td>110.2</td>
</tr>
<tr>
<td>2001</td>
<td>4.4</td>
<td>110.2</td>
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<tr>
<td>2002</td>
<td>4.7</td>
<td>110.2</td>
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<tr>
<td>2003</td>
<td>4.9</td>
<td>110.2</td>
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<tr>
<td>2004</td>
<td>5.1</td>
<td>110.2</td>
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<tr>
<td>2005</td>
<td>5.3</td>
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<tr>
<td>2006</td>
<td>5.5</td>
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<tr>
<td>2007</td>
<td>5.7</td>
<td>110.2</td>
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<table>
<thead>
<tr>
<th>Year</th>
<th>Banks' Liabilities to Non-residents</th>
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<tbody>
<tr>
<td>2000</td>
<td>40</td>
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<tr>
<td>2001</td>
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<td>53</td>
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<td>2004</td>
<td>55</td>
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Impact of World Crisis

Repayment of Banks' External Debt, bln.$

Liquidity, mln.$

- correspondent account in foreign currency
- correspondent account in Tenge
Impact of World Crisis

**Exchange Rate (KZT/$)**

- Dec.05: 135
- Dec.06: 130
- Dec.07: 125
- Dec.08: 120

**KazPrime, %**

- Dec.06: 5
- Jun.07: 7
- Dec.07: 9
- Jun.08: 11
- Dec.08: 13

**Deposits to residents**

- Dec.05: 0
- Dec.06: 20
- Dec.07: 40
- Dec.08: 60

**Credits to economy**

- Dec.05: 100
- Dec.06: 80
- Dec.07: 60
- Dec.08: 40

(All figures are expressed as % y-o-y change.)
Impact of World Crisis

- High world prices for food and oil products contributed to inflation increase
- In August 2008 annual inflation exceeded 20% (the highest rate for the last years)
Measures to Stimulate Economic Growth

1. A Joint (the Government, the National Bank, the Financial Supervisory Agency) Two-Year Action Plan for stabilizing of the economy and financial system:
   - Funding (USD 10bln.) has come from the National Oil Fund
     - provision of public support to the top four banks
     - steps to aid the completion of unfinished residential construction projects and spur housing demand
     - financial assistance to the SME and agricultural sectors
     - increased public investment in the industrial sector

2. A new Tax Code was adopted (on January 1, 2009):
   - corporate income tax has been reduced to 20%
   - mineral Extraction Tax replaces the royalties on oil production
   - the VAT was reduced from 13% to 12%

3. The Government, in cooperation with the local authorities, provided employment for workers temporarily unemployed
Financial Stability Measures

- The policy interest rate has been gradually cut from 11% to 7% (its lowest level ever).
- Since 2007, to ensure adequate short-term liquidity, the NBK provides refinancing loans to banks.
- The list of instruments accepted as collateral was expanded.
- The reserve requirements were reduced to the minimum level ever (1.5% for domestic liabilities and 2.5% for other liabilities), however banks still hold excessive reserves.
- In November 2009 reserve requirements for banks under debt restructuring process were set at 0% for all liabilities.
Financial Stability Measures

• The sharp deterioration of the balance of payments demanded the devaluation of national currency – Tenge

• Further supporting of Tenge could bring to the full depletion of foreign exchange reserves

• Main trade partners of Kazakhstan devalued their currencies

• Domestic producers and exporters needed support of their competitiveness
Tenge Devaluation and Maintenance of the Exchange Rate Stability

[Graph showing Tenge devaluation and maintenance of the exchange rate stability from Jan-07 to Jan-11 with key milestones and medium-term band indicated.]
Results

Low Inflation

Accumulation of Foreign Exchange Reserves

No Outflow of Deposits

High Liquidity

- correspondent accounts in foreign currency
- correspondent accounts in tenge
- short-term notes
- deposits
Results

Stable Exchange Rate (KZT/$)

GDP real growth rate, %

Current Account

Low Unemployment Rate
The main goals of financial sector development in post-crisis period

- financial sector stability
- creating conditions to prevent effect of instability factors and negative events which were detected during the last financial crisis
- stimulation of investment activity
- restoration of trust and confidence in the financial sector by both investors and consumers of financial services
Islamic Financing

- In February 2009 a Law of the Republic of Kazakhstan on issues of organization and operating of Islamic banks and organization of Islamic financing was adopted. The Law covers issues of operating of Islamic banks, Islamic investment funds, and issuance of Islamic securities in Kazakhstan.

- Development of a legal base for Islamic finance in Kazakhstan is accompanied with coming of new players. A first Islamic brokerage company and an Islamic consulting firm started their operations.
Islamic Financing

• The Law specifies following types of Islamic securities: shares and common stock of Islamic investment funds, Islamic lease certificates, and Islamic participation certificates. Islamic lease certificates are issued to finance purchase of real estate, ground areas, etc.

• The Governments of Kazakhstan and the UAE have signed an agreement to launch Al Hilal Bank in Kazakhstan. In March, 2010 the first Islamic bank was opened in Kazakhstan.

• At present the legislative field for the action in the republic of Islamic insurance (takaful) companies is developed.
The main tasks of financial sector development in post-crisis period

1. financial resources mobilization in the post-crisis period

2. consolidation of the financial sector supervision and regulation system

3. strengthening of the mechanisms of rights protection for investors and consumers of financial services

4. regulation of the systemic risks
The Financial Resources Mobilization

- attracting of institutional investors' funds by elaborating public private partnership as a main mechanism. It will make possible to implement and develop the potential of private initiative and preserve the function of the state in socially significant sectors of the economy

- development of the instruments of Islamic financing
Consolidation of the Financial Sector
Supervision and Regulation System

• implementation of the counter-cyclicality principle in regulation (for financial leverage, owner's capital, reserves and liquidity, and reserve requirements)

• the gradual increase in minimum size of a capital, especially for banks

• strengthening of the risk control of «systemically important» financial institutions, considering their impact on the other financial organizations, markets and instruments
Rights Protection for Investors and Consumers of Financial Services

- tightening of the requirements for board members of financial institutions

- establishment of «black lists» of financial organizations, their officials, issuers, shareholders whose activity resulted in the bankruptcy of financial institutions

- the quality of corporate governance and transparency of financial institutions will be improved

- the bonus system of the top managers of financial institutions will be improved

- the term «affiliated persons» will be expanded
Regulation of the Systemic Risks

- Implementation of the macroprudential regulation system:
  - Early detection of risks
  - Differentiated approaches in regulation of financial institutions depending on their significance and their «systemically important» character
- Strengthening of the role of the National Bank in providing of financial stability and implementation of macroprudential regulation through:
  - Determination of the main sectoral principles and approaches of the prudential regulation;
  - Development of anti-crisis management and losses minimization measures in a case of systemic risks realization.
Expected Results

- attraction of financial resources for further economic development
- creating conditions for sustainable development of the financial sector
- further development of all the segments of the financial sector taking into account the world experience
- gradual exit of the state from financial organizations capital
Thank You!

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