

October 2020
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REPUBLIC OF KAZAKHSTAN

Investor Presentation

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Key Credit Highlights



Effective decision-making and institutional depth showcased by rapid implementation of supportive measures to limit the impact of COVID-19

Solid growth track record supported by structural reforms to encourage economic diversification and improve the domestic investment environment

Substantial accumulation of government financial assets driven by prudent fiscal policy and careful stewardship of the country's rich natural resource base

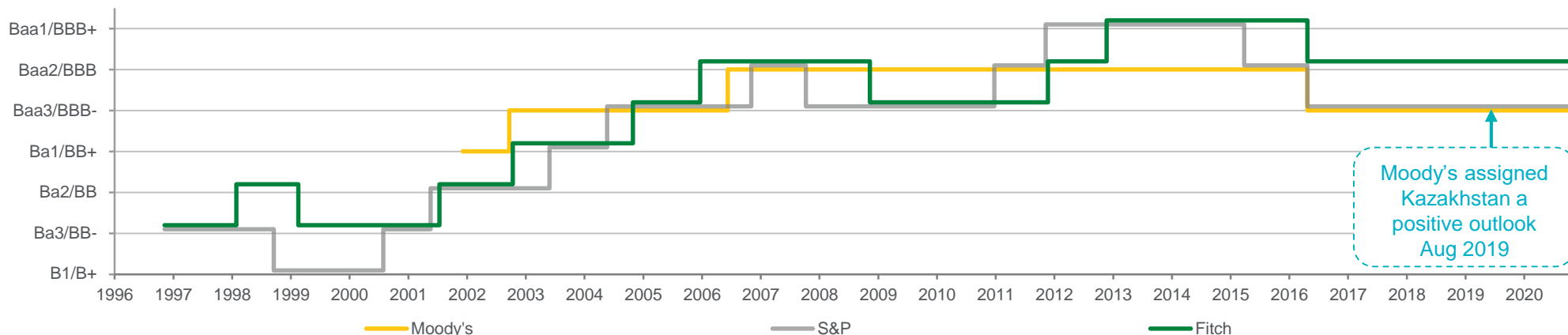
Robust external balance sheet, fiscal buffers and low debt underpin macroeconomic resilience and enable the government to sustain its longer-term development goals

Commitment to implementation of reforms to strengthen the banking sector, uncover problems and bolster the regulatory and supervisory regime

Credit Strength Recognised by Credit Rating Agencies

Kazakhstan is one of the very few countries globally that has maintained a positive rating outlook, notwithstanding the impact of the twin oil price and COVID-19 shocks. Against the wave of sovereign downgrades and negative outlooks since early 2020, this highlights the country's fundamental credit strengths and economic resilience.

Kazakhstan's rating history



Selected highlights

Moody's

"Kazakhstan's credit profile is supported by a very low level of public debt, very high debt affordability, and sizeable fiscal reserves held in foreign-currency assets, which provide a significant buffer against external shocks such as the coronavirus outbreak"

Moody's Investor Services – August 20, 2020

S&P

"The government's strong balance sheet, built primarily on the budgetary surpluses of the latest period of high commodity prices that ended in late 2014 and accumulated in the National Fund of the Republic of Kazakhstan (NFRK), support our ratings on Kazakhstan."

Standard & Poor's – September 4, 2020

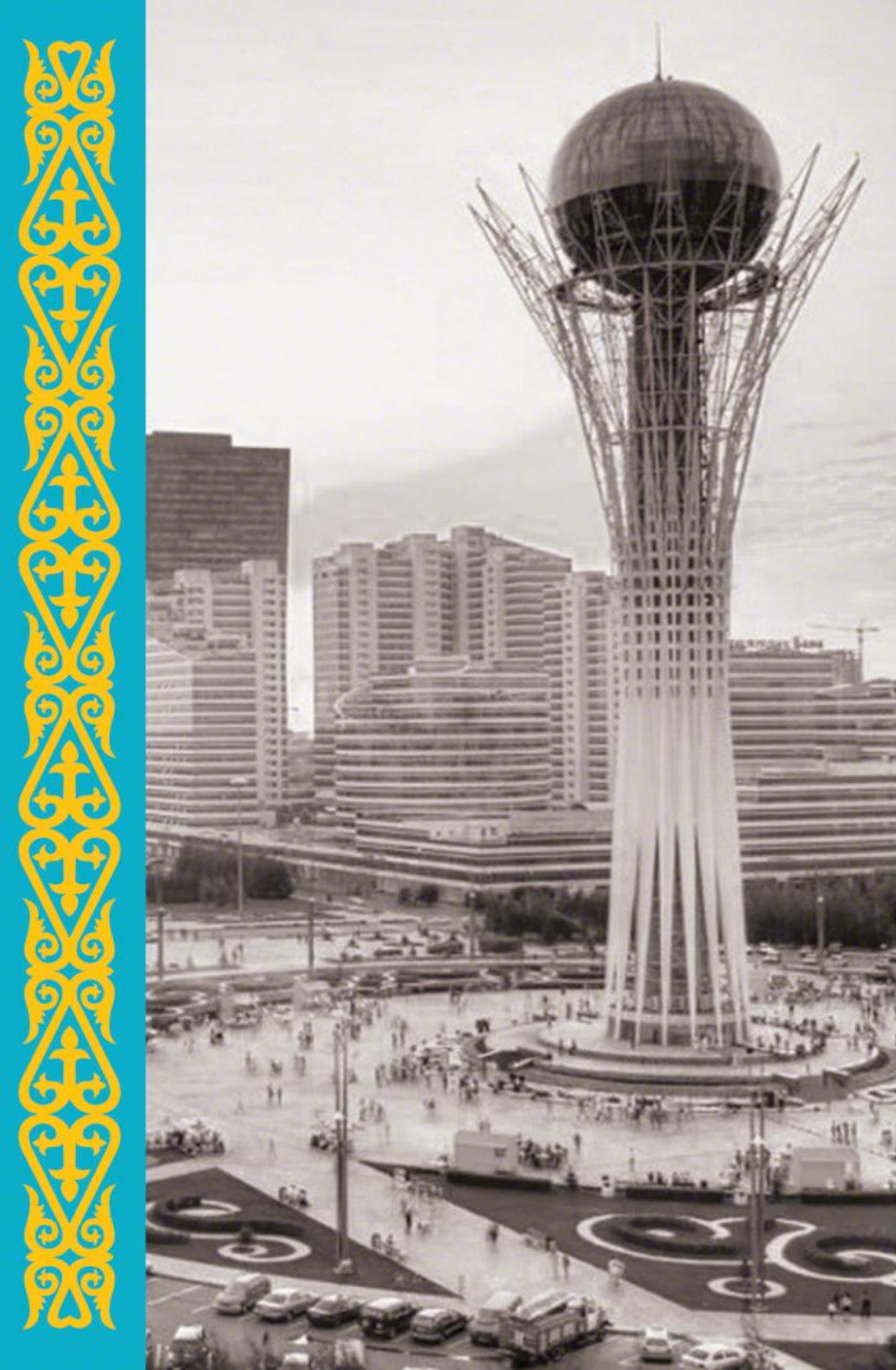
Fitch

"Kazakhstan's 'BBB' IDRs balance strong fiscal and external balance sheets underpinned by accumulated oil fiscal revenues [...]. Public debt remains low and external and fiscal buffers robust despite the oil price and coronavirus shocks."

Fitch Ratings - August 21, 2020

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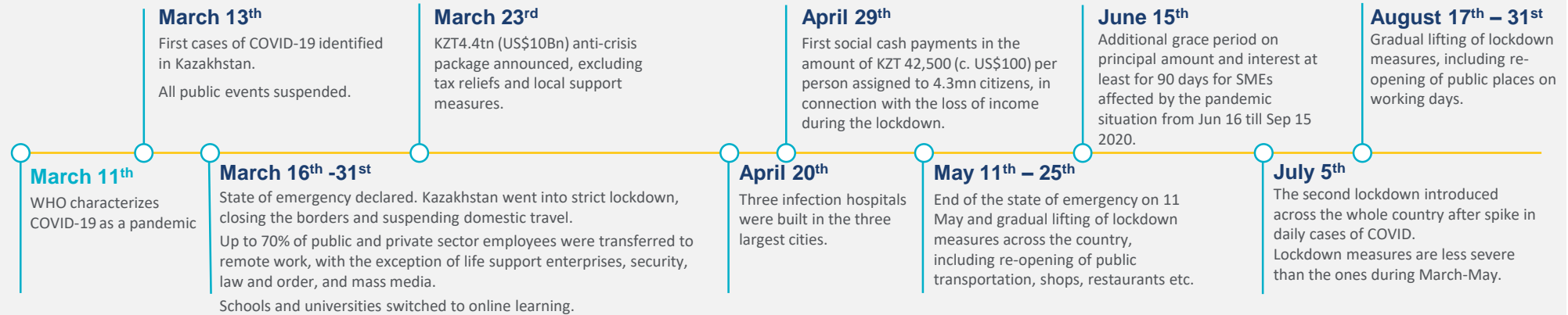


1. COVID-19 Response

COVID-19 Response Measures

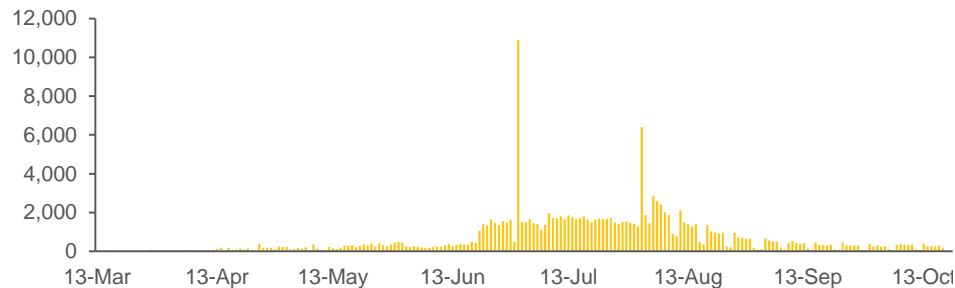
The government's supportive measures to limit the impact of the crisis showcase the effectiveness of decision-making as well as demonstrate the resilience of the economy.

Government has been swift and effective in responding to the crisis



The Spread of the Virus has been Contained

(COVID-19 daily cases)



Source: WHO, Public Sources, Government of Kazakhstan

The Government is Well Positioned to Contain The Crisis

Kazakhstan entered the crisis in a strong position, with low government debt reflecting its strong track record of fiscal prudence and good macroeconomic fundamentals. It has more fiscal space and is better positioned to withstand the global shocks than most of its peers

- The government and NBK have taken proactive and well-targeted measures to mitigate the impact of the shocks on the local economy. Measures announced in April include a KZT 5.9 tn fiscal package and programmes of preferential lending to SMEs, excluding temporary prudential regulation relief to support business lending, easing banks' capital and liquidity, postponement of loan repayments for SMEs and general public and households.
- The government redrafted its 2020 Budget by incorporating the new fiscal measures and introducing a new conservative oil price assumption of \$20/barrel

COVID Response measures

Kazakhstan has unveiled a wide set of measures to curb the impact of the coronavirus. These measures were proactive and well-targeted.

Fiscal Measures

- A temporary **VAT reduction** for agricultural and food products
- **Zero custom duties** on essential imports
- Business owners **exempted from property tax and land tax** until December 31st 2020
- Self-employed individuals **exempted from personal income tax** until December 31st 2020
- Oil refineries **exempted from excise tax** on exported gasoline and diesel fuel until December 31st 2020
- SMEs allowed to **defer all taxes and other obligatory payments** until June 1st 2020
- The **deadline for tax declaration submission was postponed** to September 30th 2020
- The **penalty accrual on unfulfilled tax obligations was ceased** until August 15th 2020

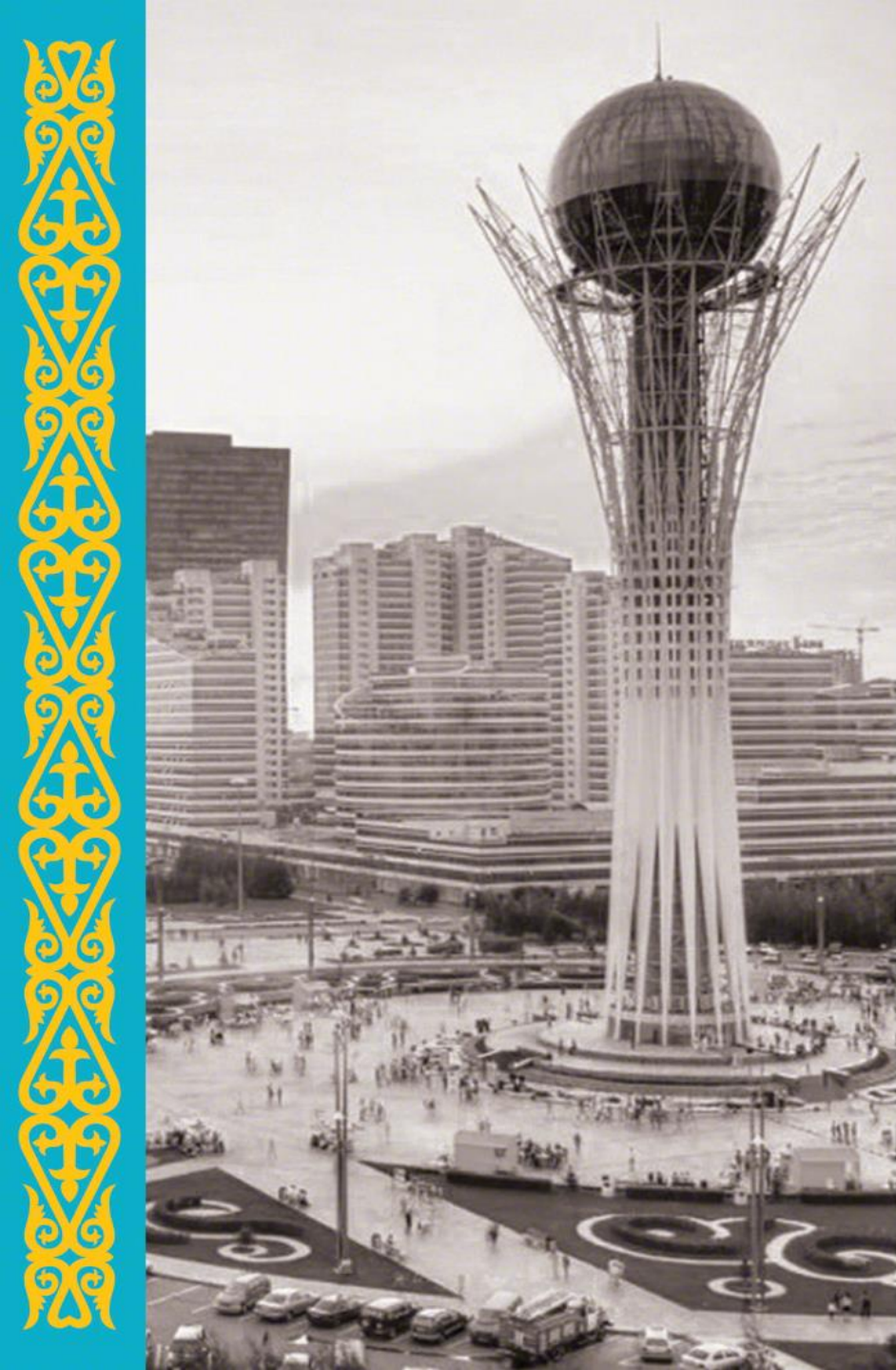
Monetary and Economic Measures

- Employment Roadmap program is expected to help find jobs for over 250,000 people: KZT 1tn allocated to support employment
- NBK in cooperation with the Agency for Regulation and Development of Financial Markets initiated a program of concessional lending to support SMEs' working capital, the amount will reach KZT 800bn
- The Government made amendments to the existing "Economy of Simple Things" lending support program by increasing the financing up to KZT 1 tn
- Farmers got access to loans with the total amount of KZT70bn at 5% via the "Ken Dala" program and KZT170bn at 6% via the "Economy of Simple Things" program available through National Holding Kazagro. In addition, farmers were able to finance their operations through forward contracts (under their future harvest). Also, diesel and other fuel types were under off-take for the next sowing season
- Under the state program "Nurly Zher", additional support measures in the amount of KZT 390 bn were taken to stimulate the construction and purchase of affordable housing
- Business entities received access to low-interest loans under the rescue package

Measures to Ensure Financial Stability

The Agency for Regulation and Development of the Financial Market implemented measures to ensure the financial stability of the banking sector, and reduce the debt burden of the population and businesses:

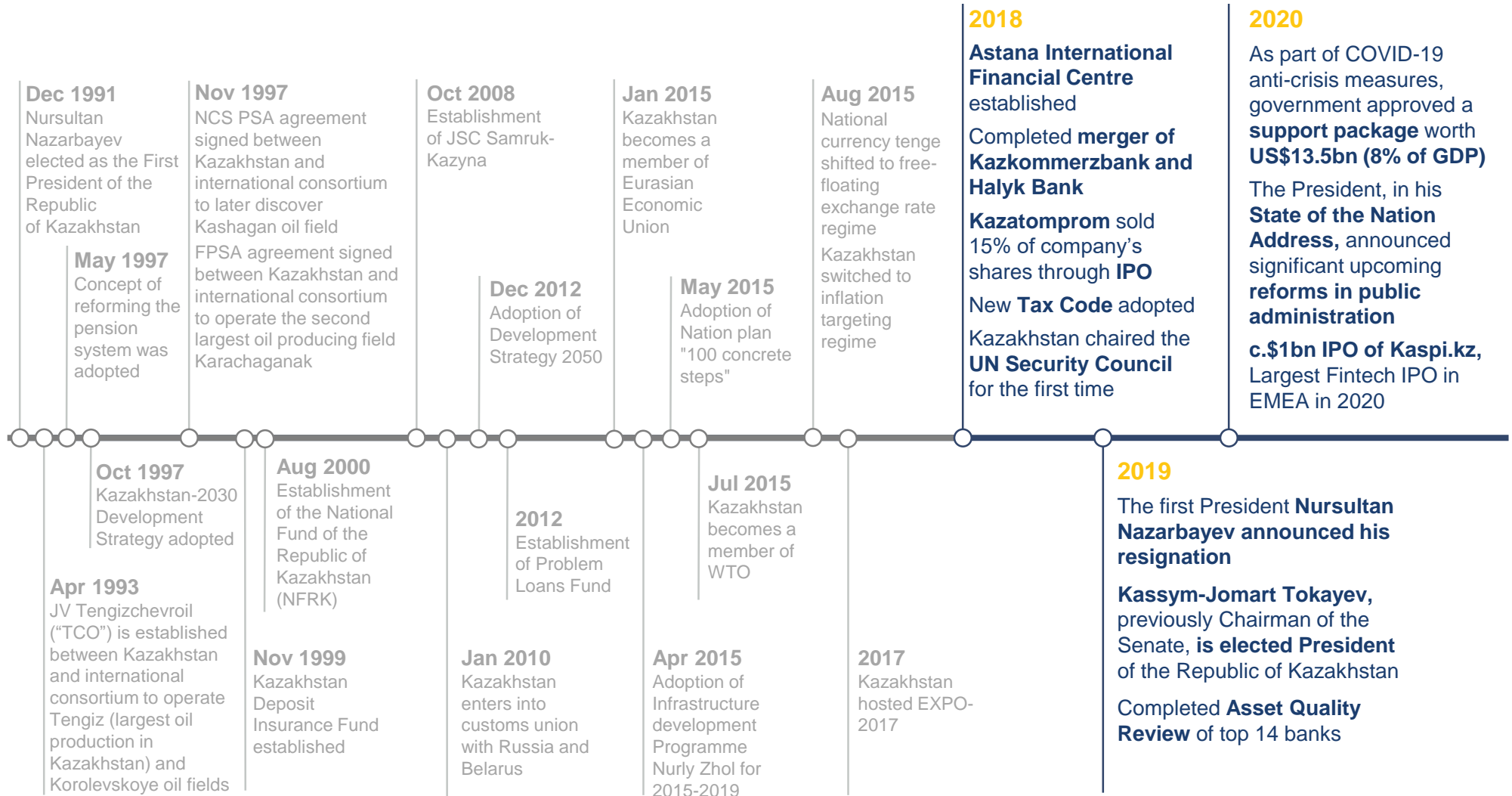
- Temporary credit burden relief for borrowers
 - *A 90-day credit payment deferral for citizens and SMEs*
- Countercyclical regulatory measures
 - *Support of banks' capital and liquidity in order to maintain lending to the economy*
- Proactive and Forward-looking supervisory approach based on AQR and stress-testing results
 - *Emphasize improvement of processes and policies and formulate Recovery and Resolution Plans under different scenarios*



2. Broad Reform Momentum

Key Historic and Recent Milestones

Recent decades have seen a systematic approach to the expansion of government capabilities and development efforts.



Recent Reforms

Kazakhstan has been implementing a wide range of reforms to enhance the local business environment, incentivise private sector investment and strengthen institutions.

Monetary policy, banking and financial market development

- Establishment of an independent regulator (Agency for Regulation and Development of the Financial Market) to ensure an appropriate level of protection of the rights and legitimate interests of consumers of financial services (2019)
- NBK started publishing data on conversions and transfers of the National Fund on a monthly basis to ensure greater transparency (2020)
- A joint Action Plan for the inclusion of government securities in international indices was developed (2020)
- NBK coordinated the volumes of purchases and sales of foreign currency by companies in the quasi-public sector in order to minimize the impact on the foreign exchange market (2020)
- Implementation of the Delivery versus Payment system for NBK notes and government bonds to improve international settlement line between the Central Securities Depository and Clearstream (August 2020)
- A special collegial body in the NBK – Monetary Policy Committee – will be created to make decisions on the base rate to improve the implementation of monetary policy (starting work from January 2021)

Structural reforms

- Agency on strategic planning and reforms established, which reports directly to the President
- State Programme for Industrial and Innovative Development 2020-2025
- Infrastructure development programme Nurly-Zhol 2020-2025
- Kazakhstan Business Roadmap 2025
- Comprehensive Privatization Plan (92.8% complete)
- Supporting the SME sector and substituting imports: implementation of subsidized financing programme Economy of Simple Things

Other reforms

Public procurement

- Updated law on state procurement and ongoing development of single procurement regulation for both state agencies and quasi-sovereign companies

Management of SOEs

- Improvements of policies and standards on information disclosure in the light of ongoing privatization and IPOs in particular
- Optimization of structures of National Holdings: planned consolidation of KazAgro Holding and Baiterek

Fiscal Policy Reforms

- Small enterprises exempt from taxes and tax audits during 2020-2023

State-of-Nation Address

In his state-of-nation address (September 2020), President Kassym-Jomart Tokayev outlined seven areas of focus for the nation's economic recovery.

Fair distribution of wealth and duties

1

The leading role of private entrepreneurship, fair competition

2

The opening of markets for a new generation of entrepreneurs, growth of productivity

3

The increase of complexity and operability of the economy

4

Human capital development, investments in a new form of education,

5

A green economy and environmental protection

6

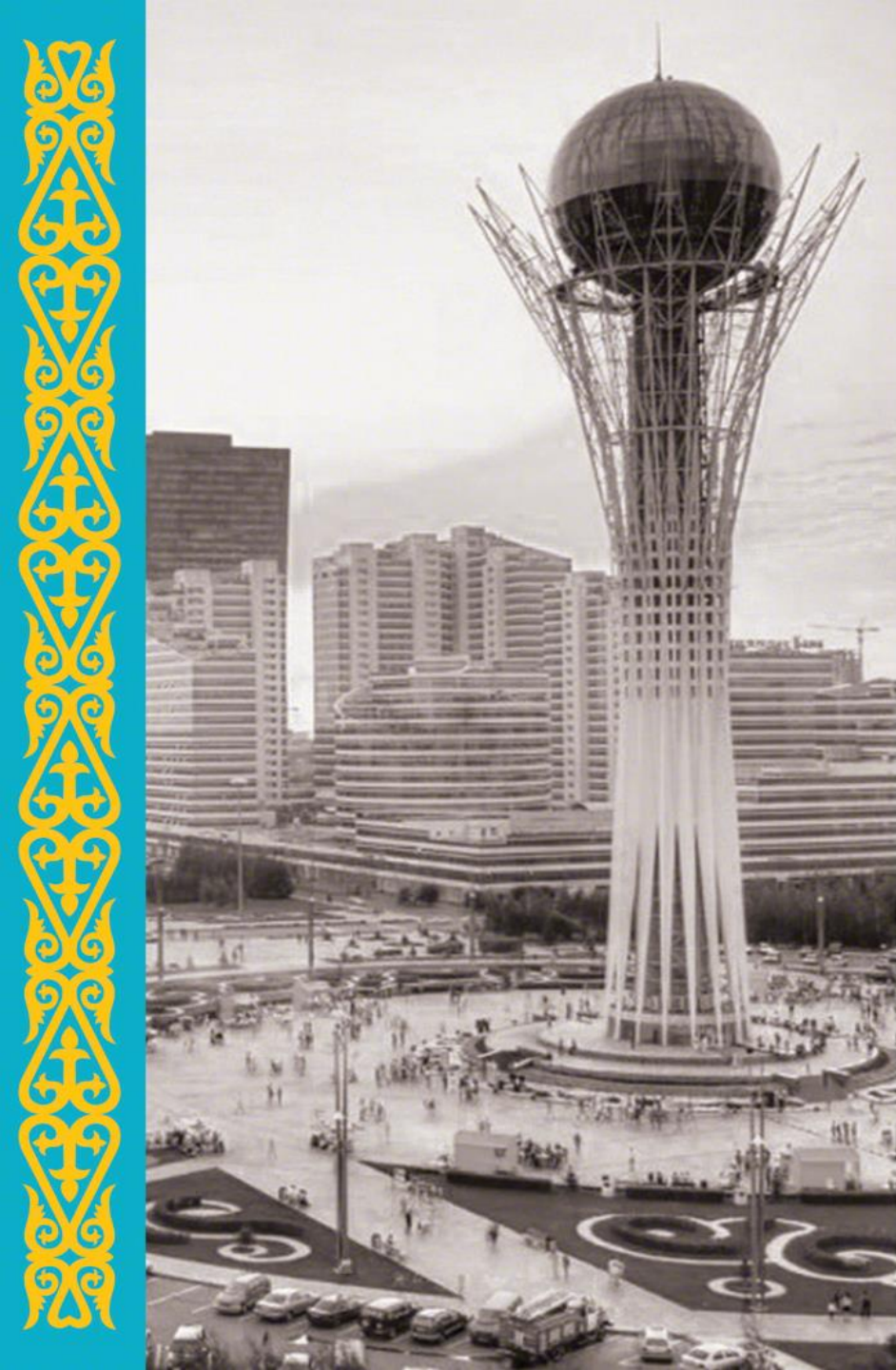
Well-reasoned decisions by the state with greater accountability to the public

7



Key Objectives

- I. **Strategic Investment Agreement:** Expanded legislative package of measures of **state support** for large investors in priority sectors, including ensuring the stability of maintaining current terms and conditions for investors.
- II. Changes and additions to the **Strategic Development Plan of the Republic of Kazakhstan** until 2025, providing for:
 - increase in **manufacturing** production volumes **by 1.5 times**;
 - reconstruction and provision for **24 thousand km of republican roads**;
 - increase in the share of **SMEs in GDP to 35%** and the number of people employed in SMEs to **4 million people**;
 - ensuring **100% coverage of children under 6 years of age with preschool education and upbringing**;
 - complete equipping of state medical organizations with the necessary equipment;
 - renovation of hospitals' key bed capacity and **replacement of outdated infrastructure**;
 - bringing life expectancy to **75 years**
- III. Development and approval of the concept of **low-carbon** development of Kazakhstan until 2050, including measures for "**green growth**" and deep **decarbonization** of the national economy
- IV. Elaboration of a new concept for the **development of local self-governance**, providing for:
 - strengthening control over the process of **approval of local budgets**, including mechanisms for passing **public expertise**, as well as the use of online surveys for socially significant expenses aimed at infrastructure and social initiatives;
 - strengthening the **financial capabilities of local self-governance** by expanding property rights and increasing the income of rural districts, the next stage in the development of "**public participation budgets**"



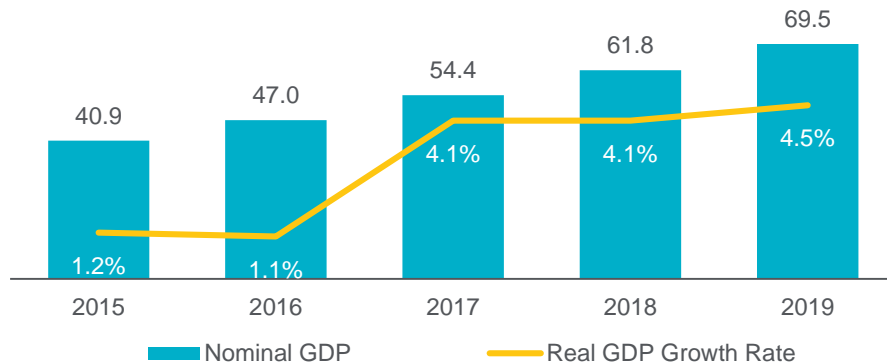
3. Economic Growth & External Finances

Strong Record of Economic Resilience and Growth

Kazakhstan has a strong growth track record demonstrating a higher degree of resilience vis-a-vis peers in the face of the twin shocks stemming from the COVID-19 pandemic and the oil price crash.

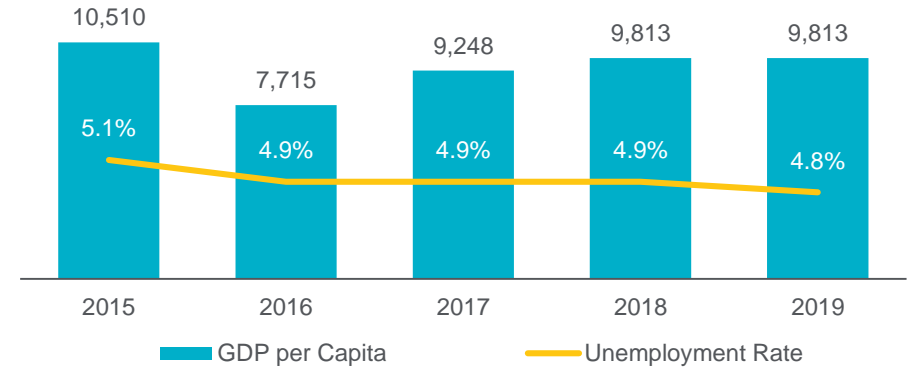
Real GDP Growth and Nominal GDP

(KZT Tn, %)



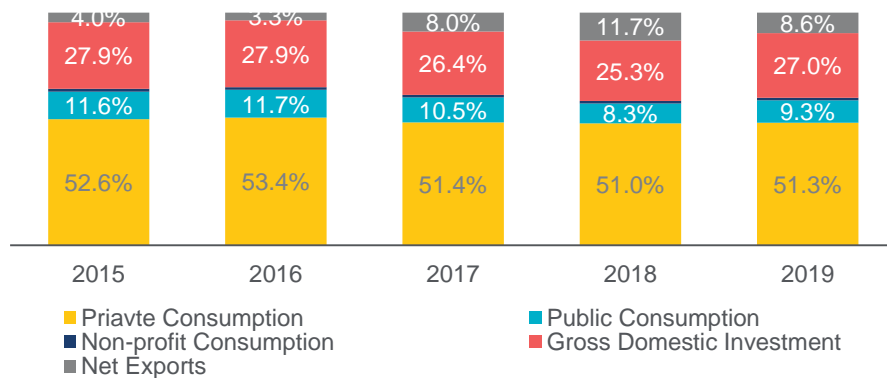
GDP Per Capita and Unemployment

(USD, %)



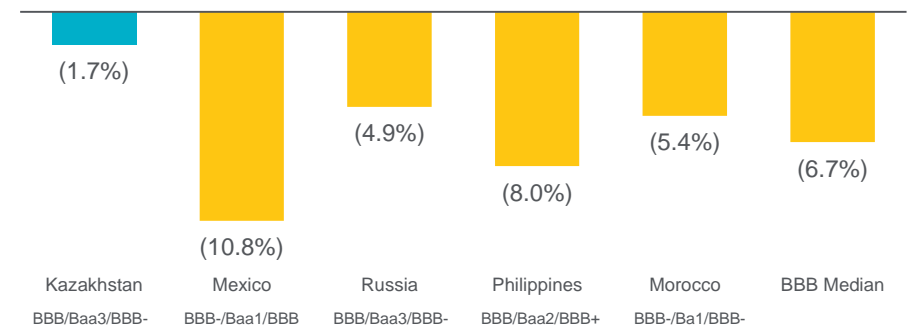
GDP Breakdown by Expenditure Component

(% of GDP)



Real GDP Growth Projection vs BBB Rated Peers

(%, 2020F¹)



Source: Ministry of National Economy Committee on Statistics, unless otherwise stated.

Note: ¹Fitch Sovereign Data Comparator September 2020

Natural resource endowment: Energy sector still key source of growth

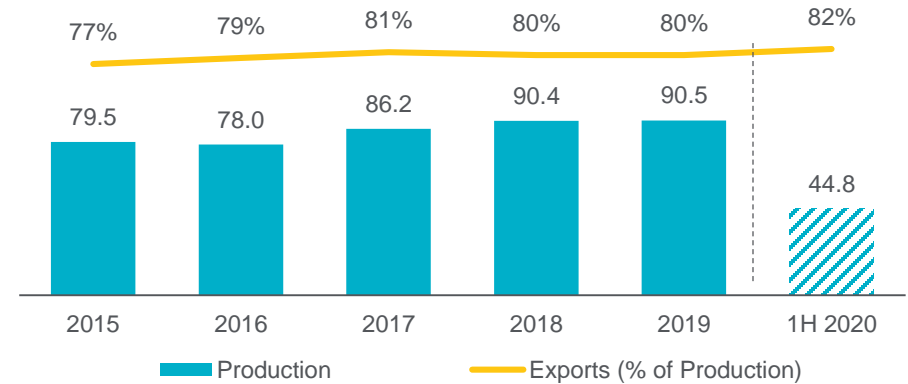
Kazakhstan's growth is underpinned by its strong resource endowment with some of the world's largest proven reserves of mineral deposits.

Hydrocarbon Resources

(% of Global, 2019)		Reserves	Production
Oil	Kazakhstan	1.7%	2.0%
	Europe & CIS	9.2%	18.9%
Natural Gas	Kazakhstan	1.3%	0.6%
	Europe & CIS	34.0%	27.1%
Coal	Kazakhstan	2.4%	1.4%
	Europe & CIS	30.5%	14.1%

Kazakhstan's Oil Production

(Million Tonnes, % of Production)

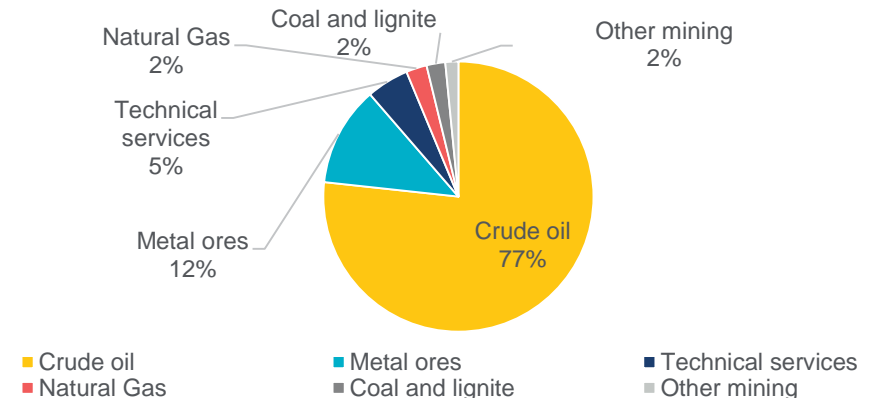


Substantial Mineral Deposits

	World ranking of proven reserves	World ranking in production	Share of world production ³
Uranium	#2	#1	41.7%
Gold	#14	#11	3.0%
Chromium	#1	#4	15.2%
Lead	#8	#9	2.0%
Zinc	#6	#10	2.3%
Manganese	#10	#14	0.7%
Copper	#19	#10	3.4%

Share of Extractive Sector Production

(%, 2019)



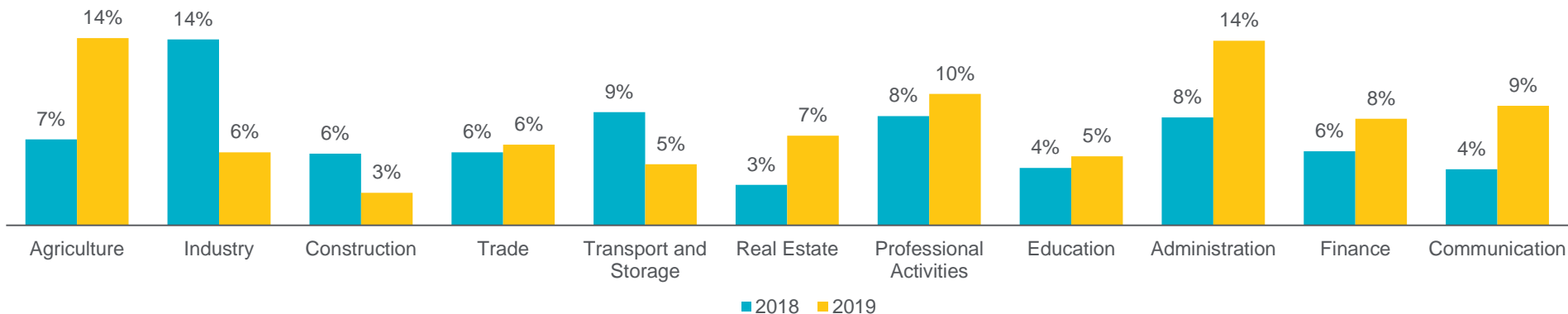
Source: BP Statistical Review of World Energy, USGS Mineral Commodity Summaries, Ministry of National Economy Committee on Statistics

Focus On Diversifying the Economy

Continued economic diversification has underpinned Kazakhstan's resilience in the current crisis and reforms remain a key priority for the government.

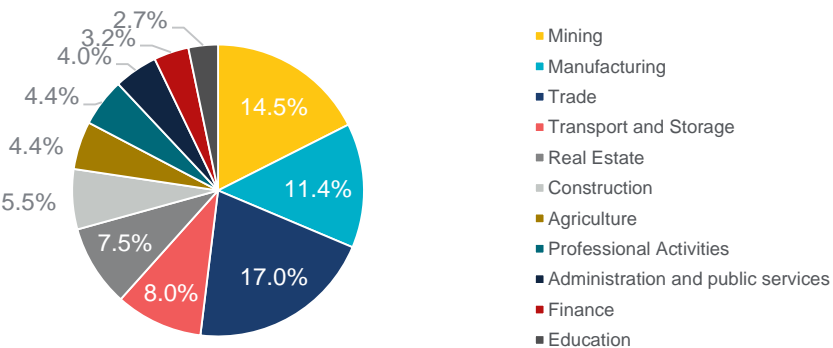
Growth Rates by Sector

(Real GDP Growth)



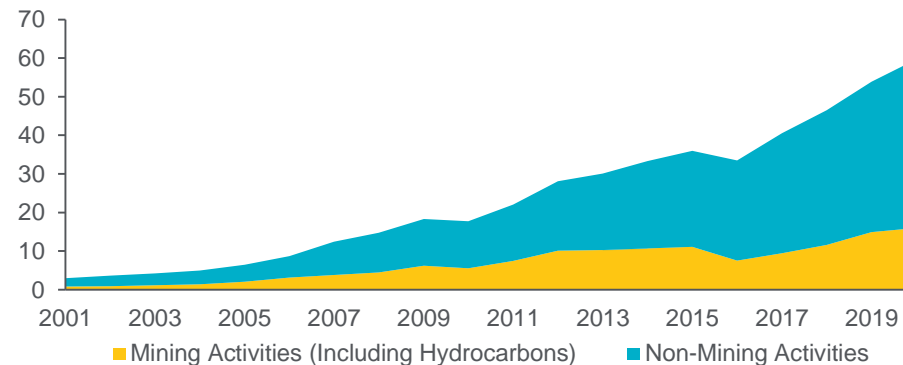
GDP Contribution by sector

(% of GDP, 2019)



Real GDP By Mining and Non-Mining

(KZT Tn)



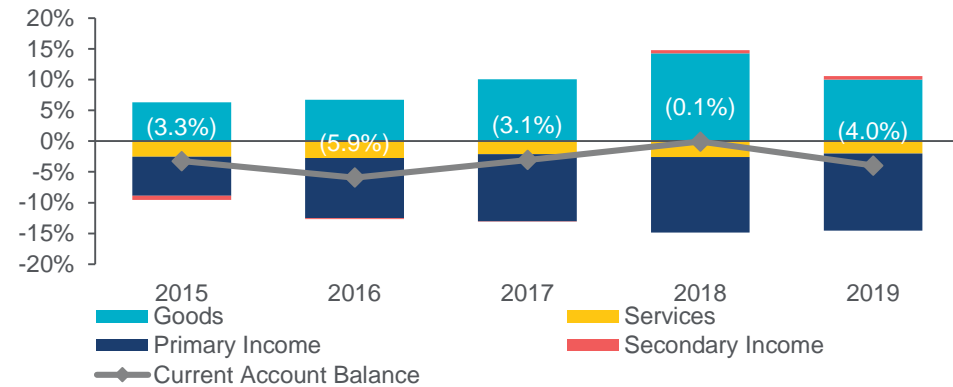
Source: Ministry of National Economy

External Balances to Continue Improving

Kazakhstan has a strong external position with a long track record of withstanding exogenous shocks while its ongoing shift to a more diversified economic base will enhance its resilience.

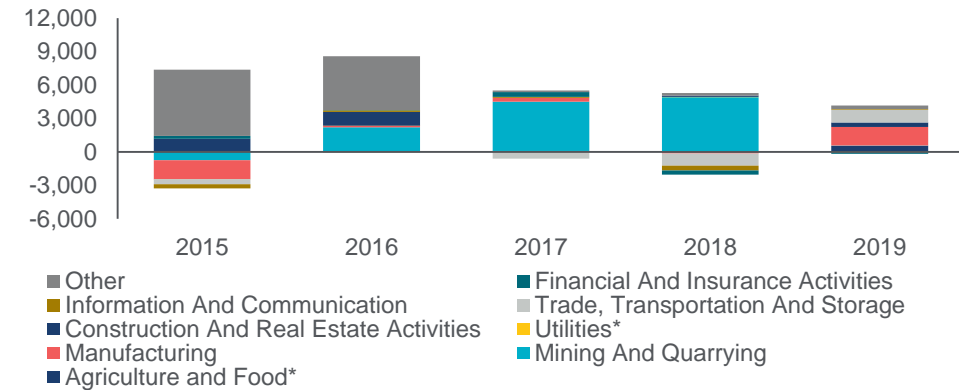
Current Account

(% of GDP)



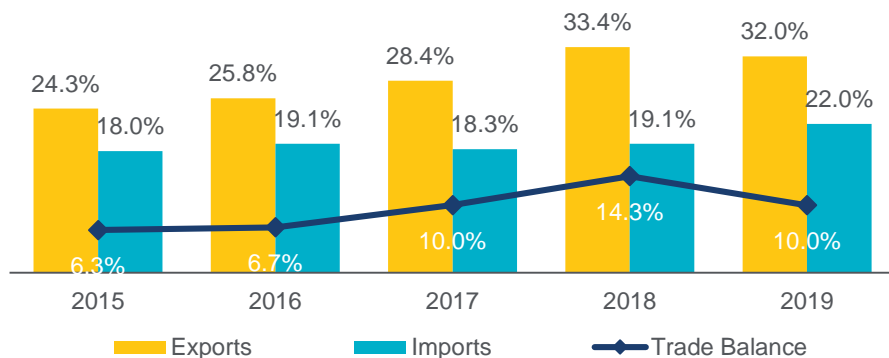
Net FDI Inflow by Economic Activity

(USD Mn)



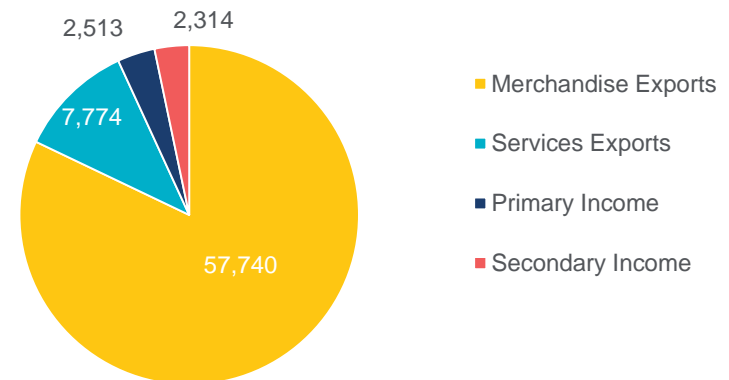
Trade Balance

(% of GDP)



Breakdown of Current Account Receipts

(USD Mn. 2019)



Source: National Bank of Kazakhstan

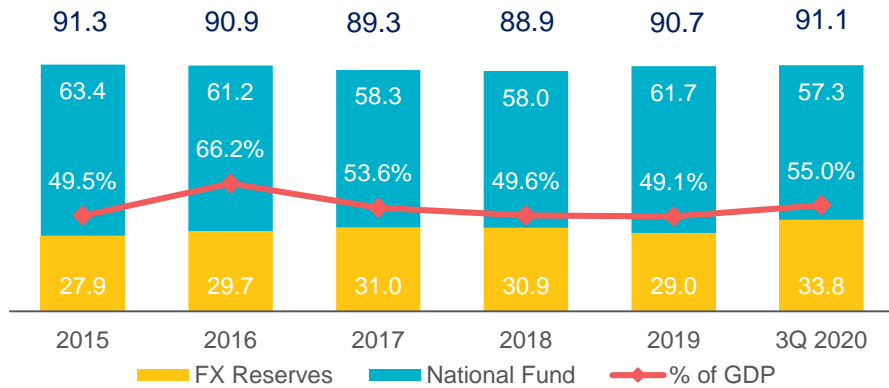
Note: *Agriculture and Food includes Agriculture, Forestry and Fishing and Accommodation and Food Service Activities, Utilities includes Electricity, Gas, Steam and Air Conditioning Supply and Water Supply; Sewerage, Waste Management And Remediation Activities

Robust foreign asset buffers make Kazakhstan an outlier among peers

The substantial fiscal and external buffers built through prudent management of the natural resource endowment distinguish Kazakhstan from its regional and rating peers, providing a cushion against exogenous shocks.

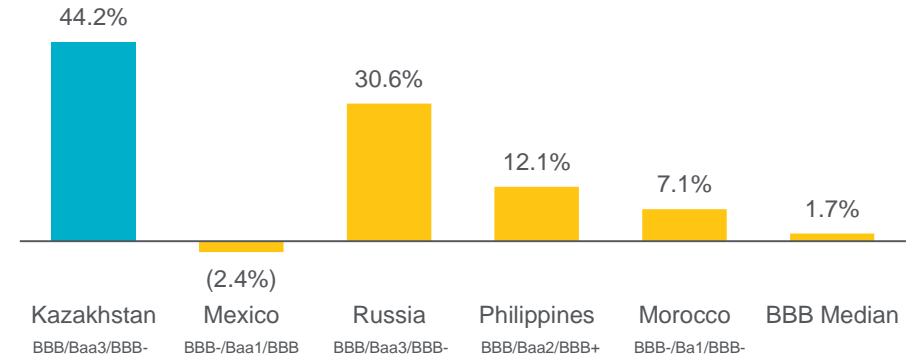
Total Foreign Assets

(USD Bn, % of GDP)



Sovereign Net Foreign Assets vs BBB Rated Peers

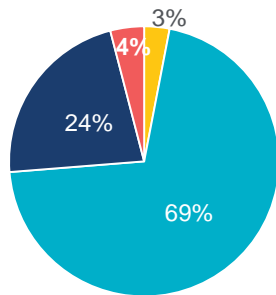
(% of GDP, 2019¹)



Composition of Market Value of the National Fund (USD 57.3 bn)

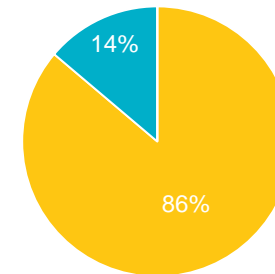
(% of Total)

■ Cash and MMI ■ Bonds ■ Stocks ■ Gold



Savings Portfolio – USD 54.2 bn

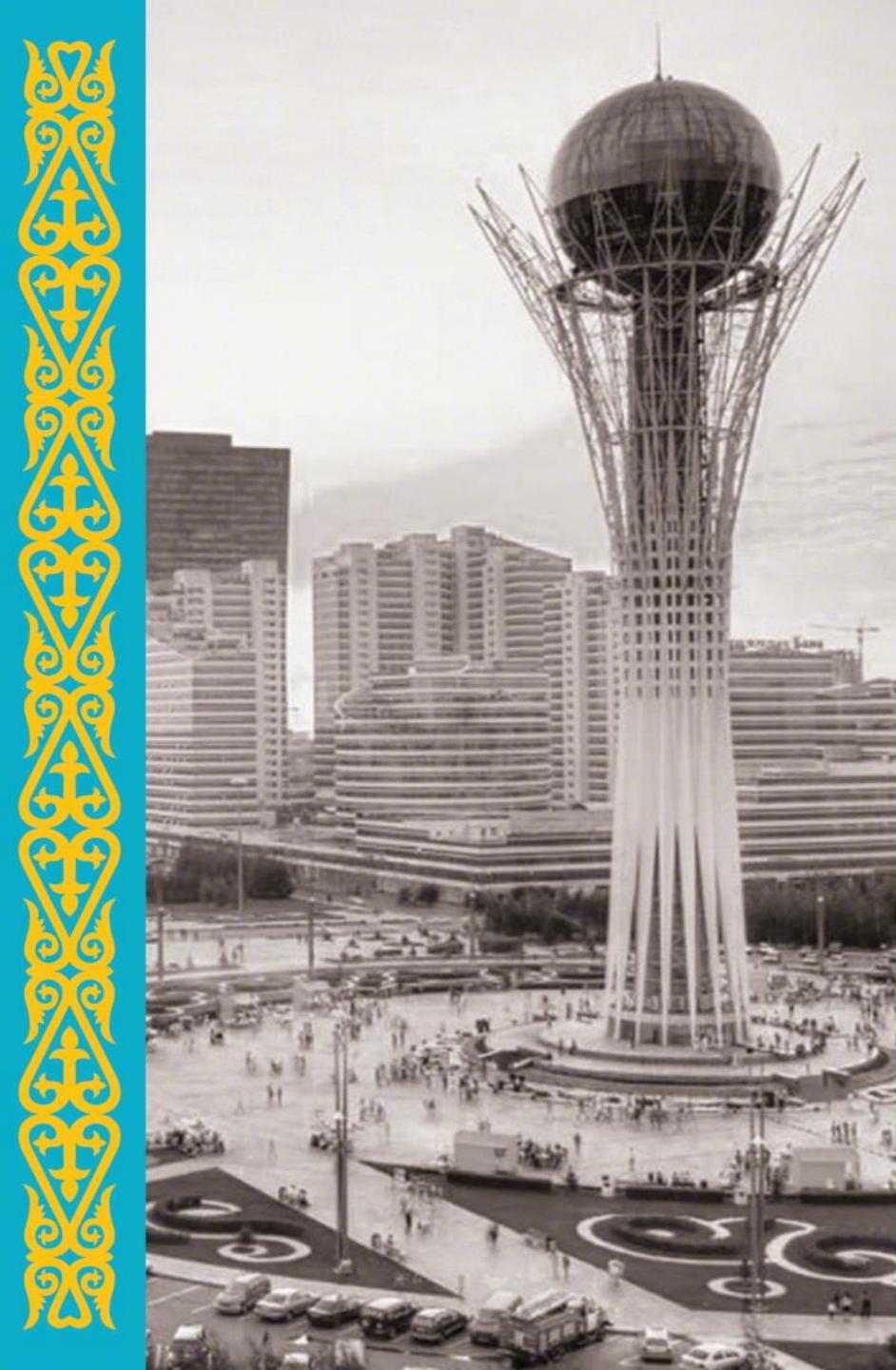
■ Cash and MMI ■ Bonds



Stabilizing Portfolio – USD 3.1 bn

Source: National Bank of Kazakhstan, unless otherwise stated

Note: ¹Fitch Sovereign Data Comparator September 2020

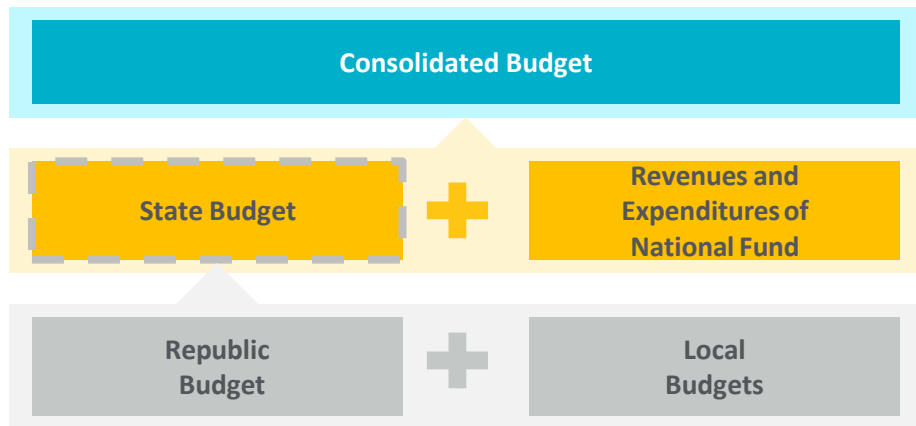


4. Prudent Fiscal Performance

Fiscal Performance

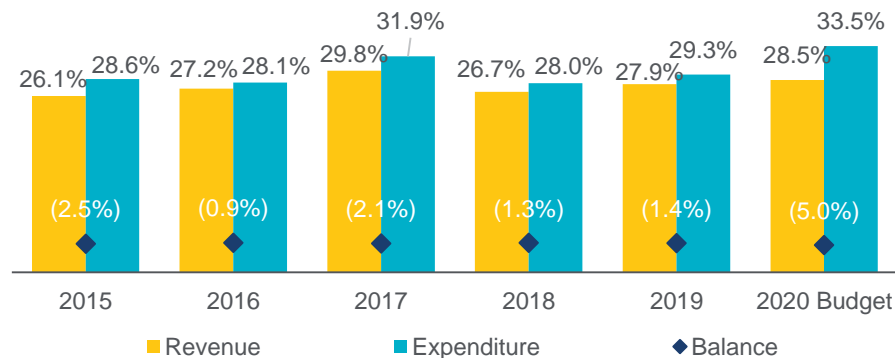
Kazakhstan has a conservative budgeting approach. A counter-cyclical rule will be introduced into the Budget Code by the end of 2020, as a reflection of Kazakhstan's fiscal discipline and prudence.

Kazakhstan Public Finance Structure



Consolidated Budget

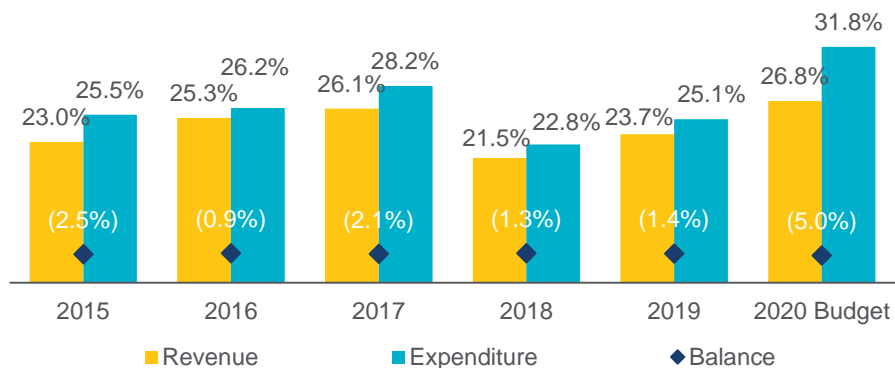
(% of GDP)



Note: 2020 Budget compared to 2019 GDP

State Budget

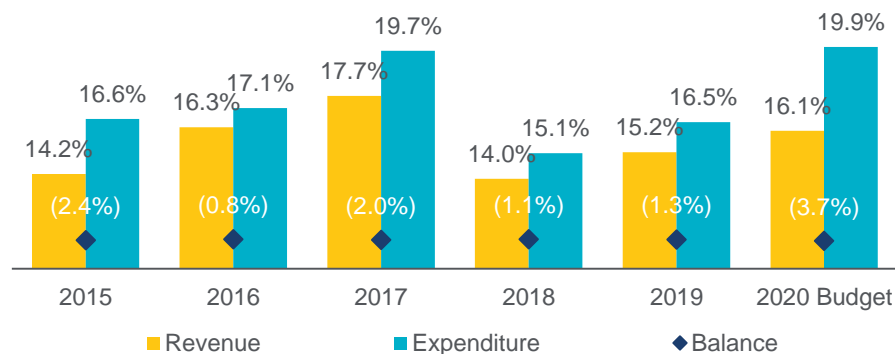
(% of GDP)



Note: 2020 Budget compared to 2019 GDP

Republican Budget

(% of GDP)



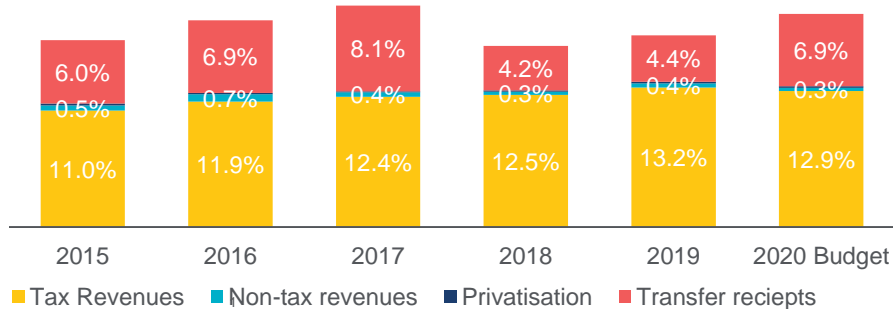
Note: 2020 Budget compared to 2019 GDP

State Budget

Kazakhstan benefits from a diversified revenue base, increasingly reliant on tax revenues with less dependence on transfers from the National Fund.

Composition of State Budget Revenues

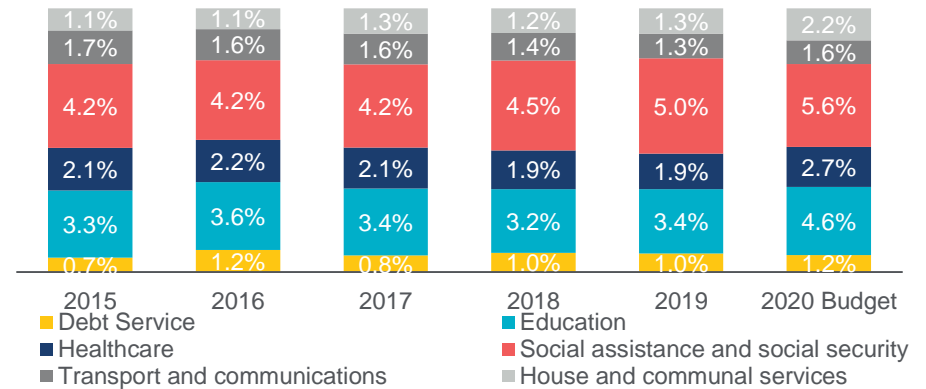
(% of GDP)



Note: 2020 Budget compared to 2019 GDP

Composition of State Budget Expenditure

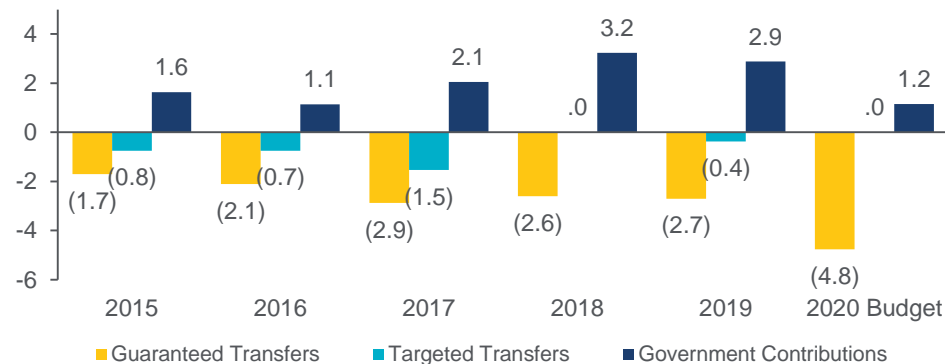
(% of GDP)



Note: 2020 Budget compared to 2019 GDP

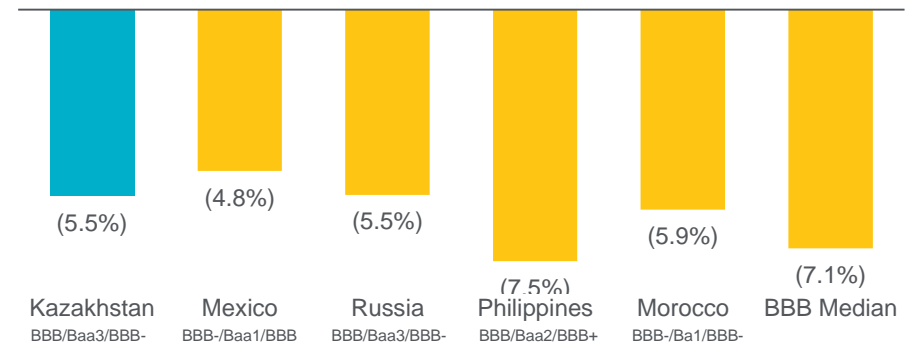
Key Inflows to and Outflows from the National Fund

(KZT Tn)



Fiscal Balance vs BBB Rated Peers

(% of GDP, 2020F¹)



Source: Ministry of Finance, unless otherwise stated

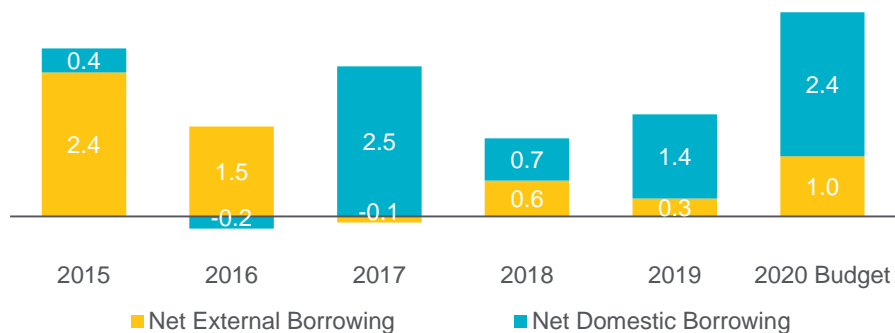
Note: ¹Fitch Sovereign Data Comparator September 2020

Government Debt

Modest government debt levels, with a developing domestic market.

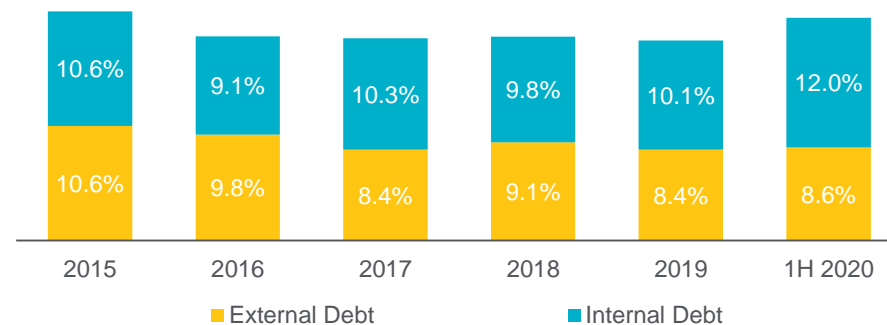
State Budget Financing

(% of GDP)



Total Government Debt

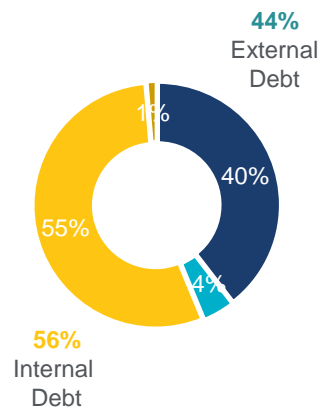
(% of GDP)



External and Internal State and Guaranteed Debt Breakdown

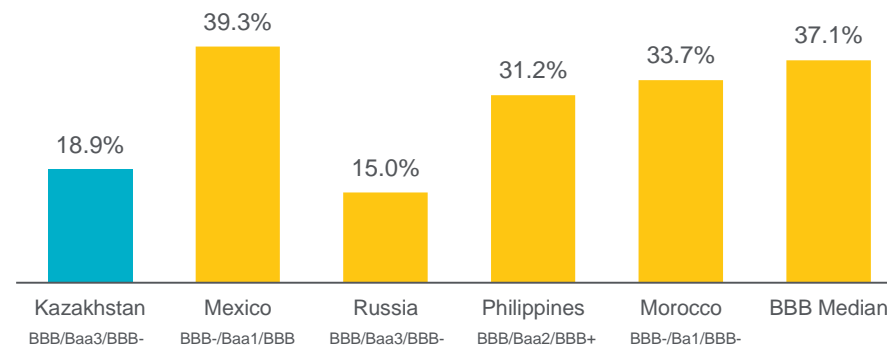
(USD Bn, 1H 2020)

	1H 2020
General Government External Debt	14.9
External Debt Guaranteed by Government	1.6
Government Domestic Bonds	20.7
Internal Government Guarantees	0.5
Total	37.7



Sovereign External Debt vs BBB Rated Peers

(% of CXR, 2020F¹)



Source: Ministry of Finance, National Bank of Kazakhstan, unless otherwise stated

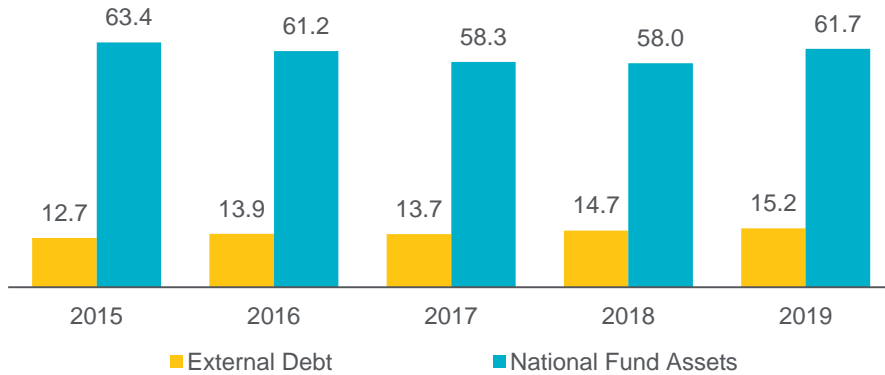
Note: ¹Fitch Sovereign Data Comparator September 2020

Strong External Balance Sheet and Debt Servicing Capacity

External debt a fraction of foreign assets with diverse sources of funding lowering the cost of debt.

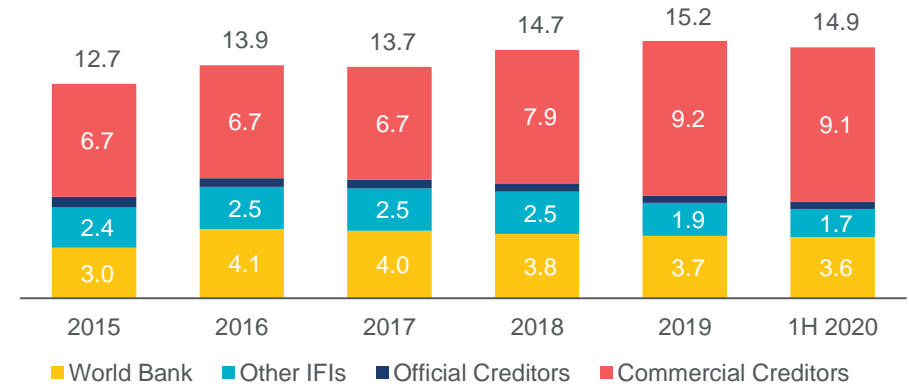
External Government Debt and Foreign Liquid Assets

(USD Bn)



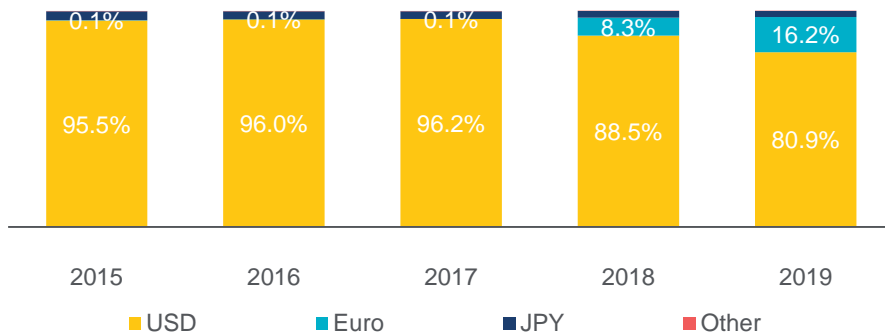
External Government Debt Sources

(USD Bn)



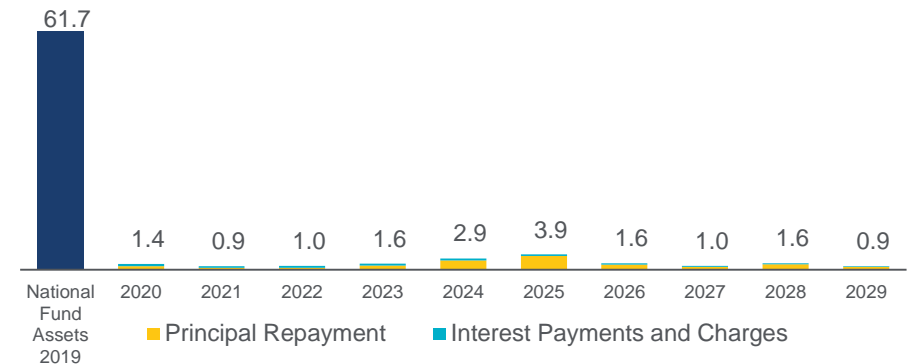
External Government Debt by Currency

(% of Total)



External Government Debt Amortization Schedule

(USD Bn)



Source: Ministry of Finance

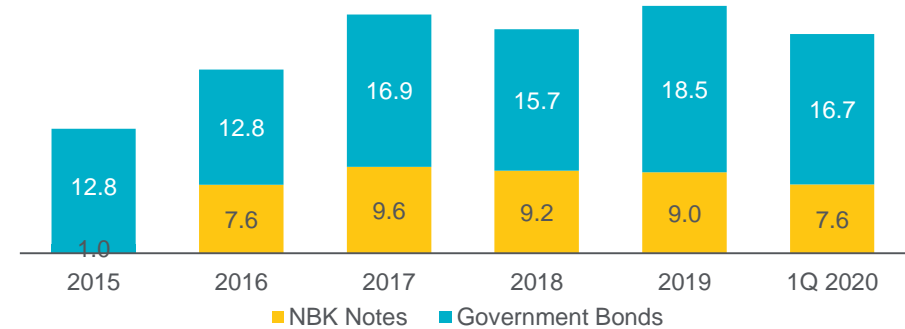
Developing Domestic Debt Markets

Deepening domestic capital markets provide government with a borrowing pool to diversify its funding base.

- Kazakhstan's domestic capital markets have been developing steadily over the past few years, with a 20+ CAGR in trading volumes of Government securities over the past 5 years
- The government and NBK has enacted several reforms to improve and develop domestic markets, including:
 - Effective government bonds yield curve supported by regular benchmark issues
 - Buy-back of illiquid governments bonds and issuance of benchmark size bonds with the outstanding amount of over \$1 billion equivalent.
 - Implementation of DVP through Clearstream
 - Law amendments to introduce multilateral netting in settlement process

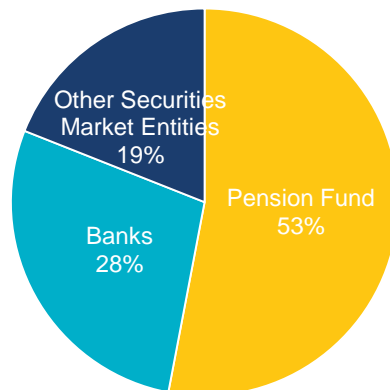
Government Issued Debt Securities

(USD Bn)



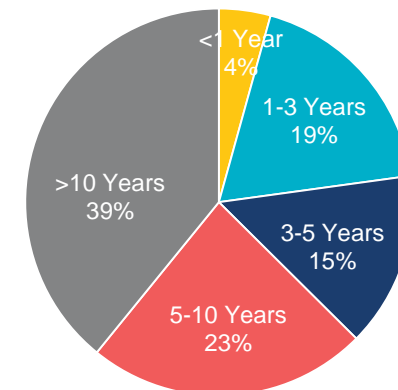
Distribution of Government bonds by holders

(% of Total, September 2020)



Distribution of Government bonds by maturity

(% of Total, 2019)



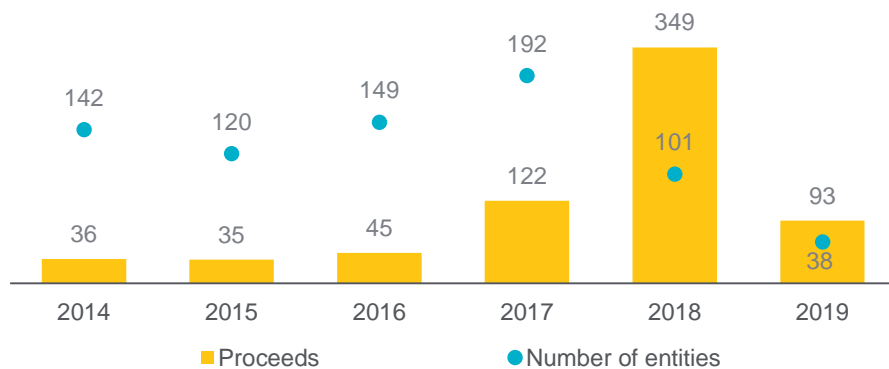
Source: Ministry of Finance, National Bank of Kazakhstan, Stock Exchange

Privatisations and Deepening of Financial Markets

Kazakhstan has launched two Comprehensive Privatisation Plans (2012-2015 and 2016-2020) to foster private investment and create a dynamic private sector.

The ambitious privatisation program has delivered on goals






(KZT Bn, 501 entities privatised out of 538 per 2016-2020 Privatisation Plan)



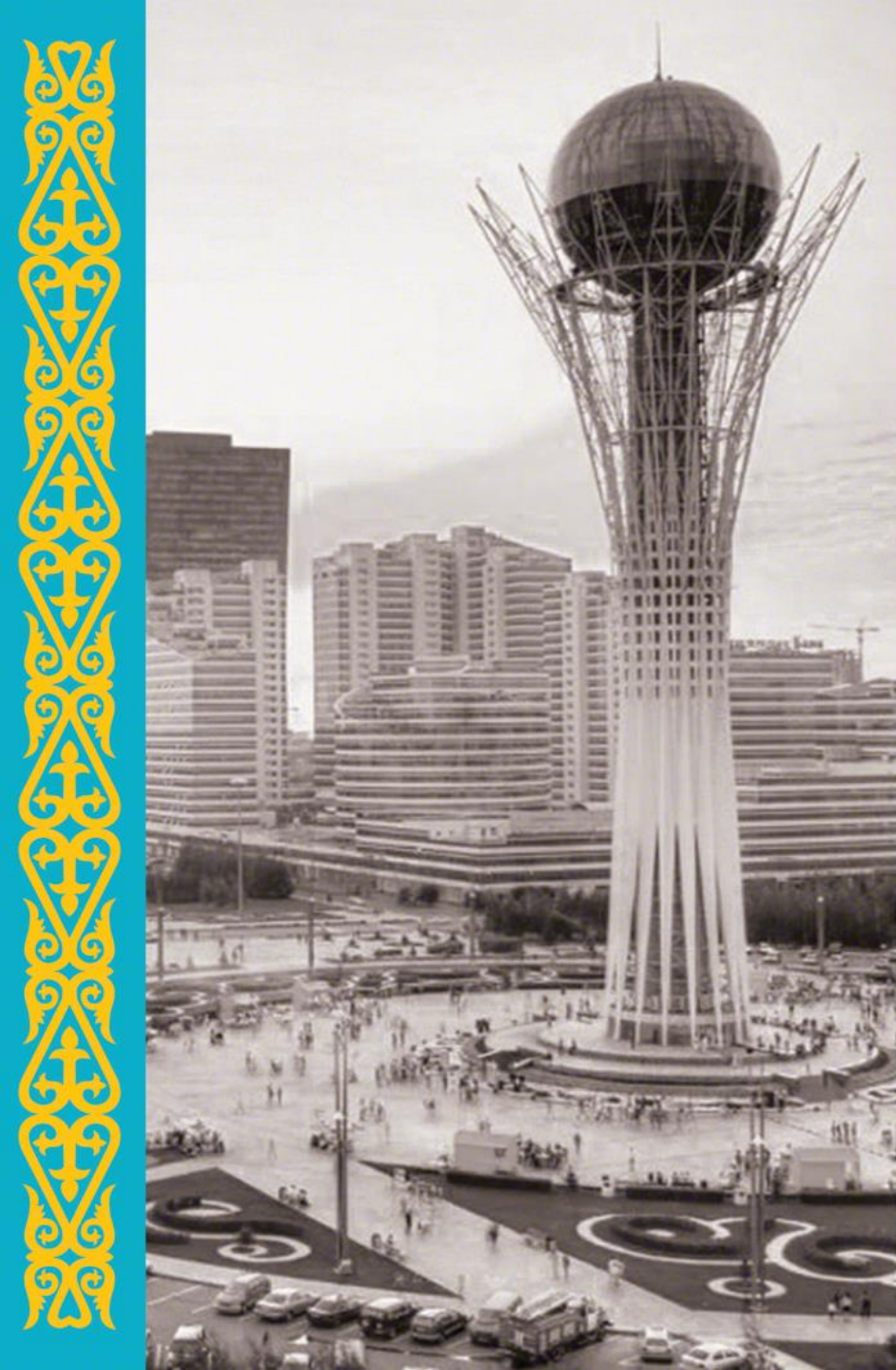
AIFC – an important step towards integrated financial markets

- The Astana International Financial Center was developed in the context of the 100 Concrete Steps program to deepen Kazakhstan’s financial markets
- Only one year after its official launch, the AIFC has registered around 200 companies in its jurisdiction. This number has increased since 2012 to 580+ as of October 2020
- Several landmarks operations have already taken place on the AIFC, including the IPO of Kazatomprom and the issuance of the government’s first EUR-denominated Eurobond in November 2018. Additional ones are expected in 2020 and 2021

Major privatization program targets

Oil and Gas	Transportation	Communications	Industrial	Power sector
				

Source: Samruk Kazyna, Ministry of National Economy



5. Banking Sector, Monetary and Exchange Rate Policies

Monetary and Exchange Rate Policies

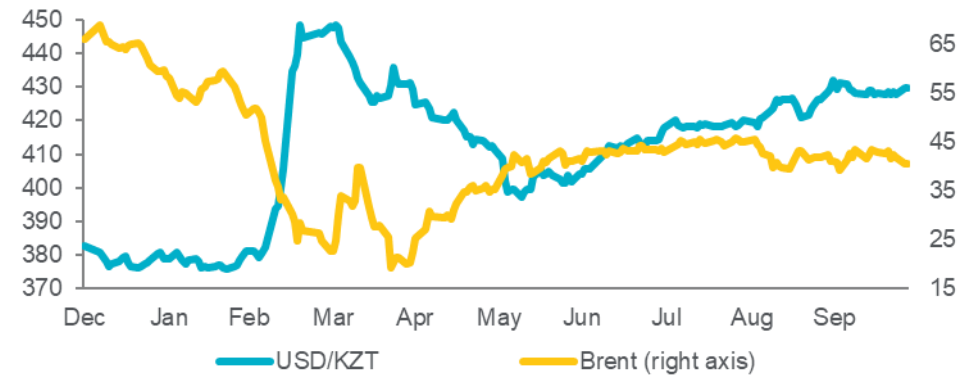
Kazakhstan's flexible exchange rate acts as a shock absorber for the economy and together with the inflation targeting regime raise policy buffers and support economic resilience.

Overview and current situation

- Kazakhstan's free floating exchange rate policy is consistent with its inflation targets.
- As part of its transition to the inflation targeting regime in September 2015, NBK introduced the base rate to promote price stability.
- In March 2020, the base rate was increased to 12.0% to prevent the spread of the consequences of the external COVID-19 induced shock to the country's economy and to protect tenge assets. Afterward, the base rate was reduced in April to 9.5% to smoothen the negative consequences of the coronavirus and to support business activity. The base rate was reduced to 9% in July, as inflation has stabilized around 7%. At the last two decisions on September 7 and October 26, 2020, the National Bank left the base rate unchanged.

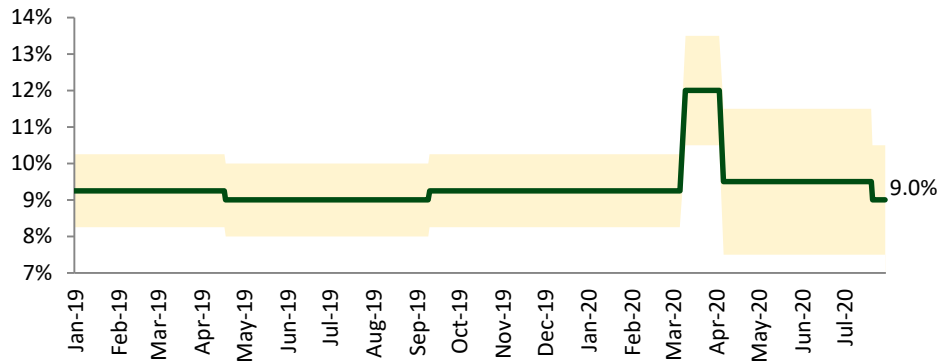
The Tenge in 2020

(USD/KZT, USD)



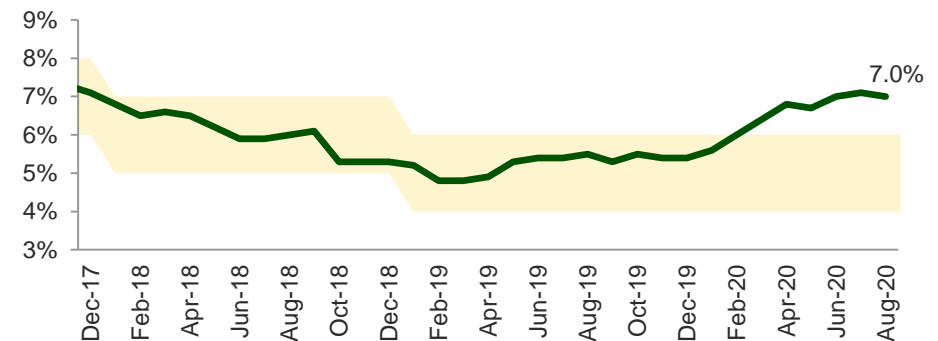
National Bank Rate

(%)



Inflation Rate

(CPI, Annual % Average)



Focus on Strengthening the Banking System

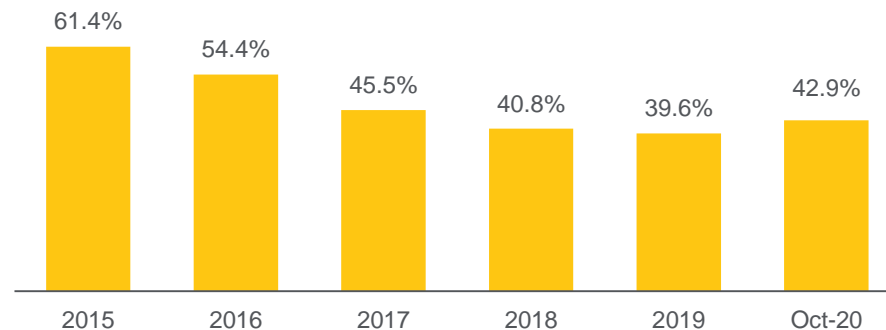
The banks have robust balance sheets with declining dollarization and loan to deposit ratios, with core funding base consisting of domestic customer deposits.

Strengthening Banking Sector

- The banking sector's overall resilience to economic shocks has recently improved. Most banks have ample capacity to absorb losses due to good pre-impairment profitability and significant capital buffers.
- Taking into account Asset Quality Review (AQR) outcomes and all implemented measures, all banks in the scope of the AQR have sufficient CET1 capital to comply with regulatory requirements and cover expected credit loss
- Kazakhstan has low level of foreign currency denominated debt, mainly tied to exports, eliminating currency and tenor mismatches
- In the coming months, the Agency for Regulation and Development of Financial Market and NBK will closely monitor the implementation of recovery plans in all participating banks to ensure appropriate and effective measures are being put in place to support the development of identified priority risk management aspects

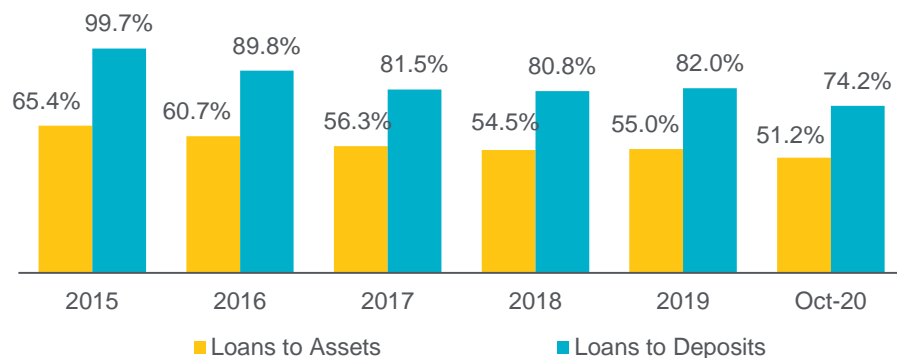
Bank Assets

(% of GDP)



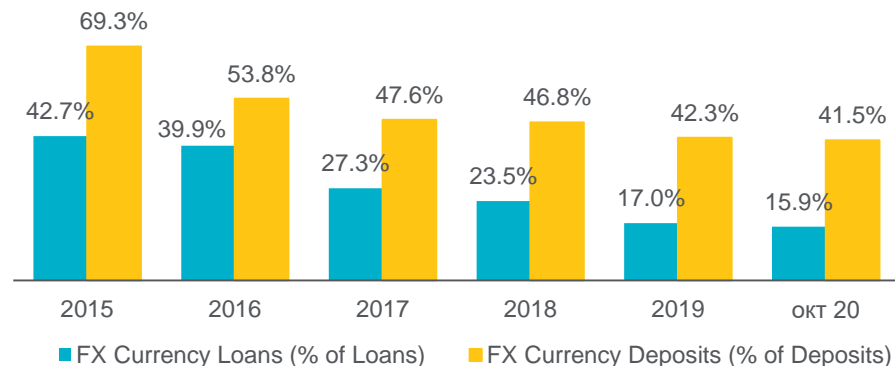
Balance Sheet Structure

(%)



Foreign Currency Exposure

(%)

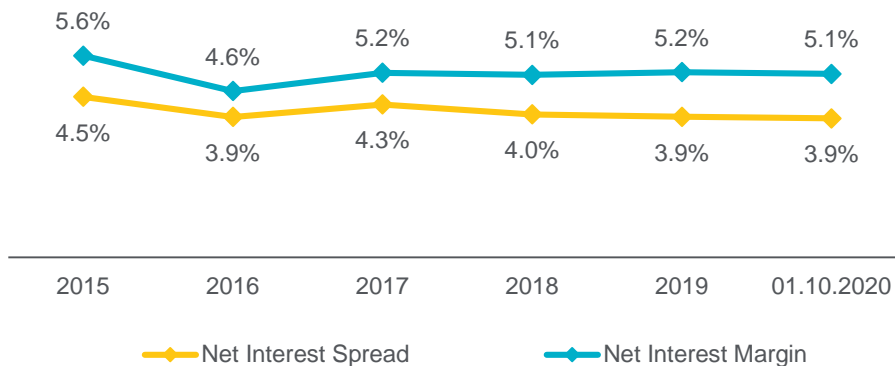


Improving Loan Portfolio Quality

The banking sector was in sound health going into the crisis as indicated by the recent Asset Quality Review and the temporary loosening of banking regulations will help to contain the risk of disruptions.

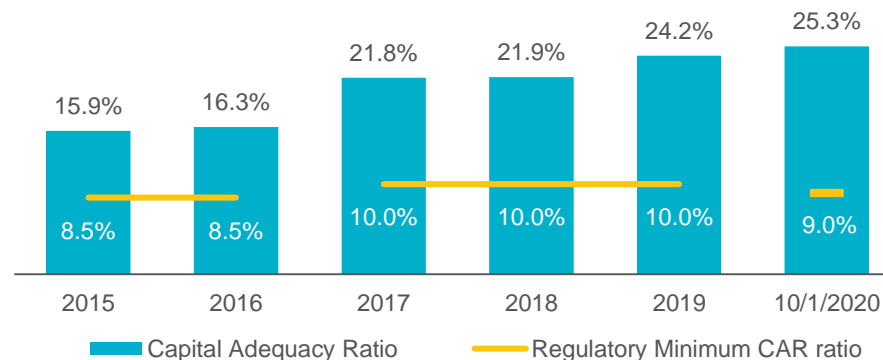
Profitability

(%)



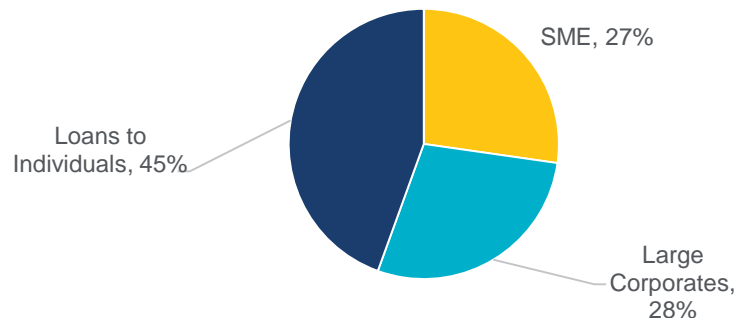
Capital Adequacy Ratio

(%)



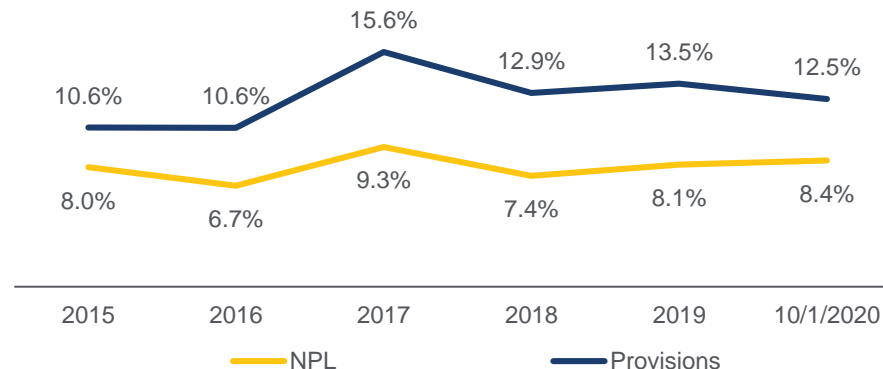
Loan Portfolio by Type of Borrower

(% of Loan Portfolio, September 2020)



Non-Performing Loans and Provisions

(% of Loans)



Source: The Agency for Regulation and Development of Financial Market



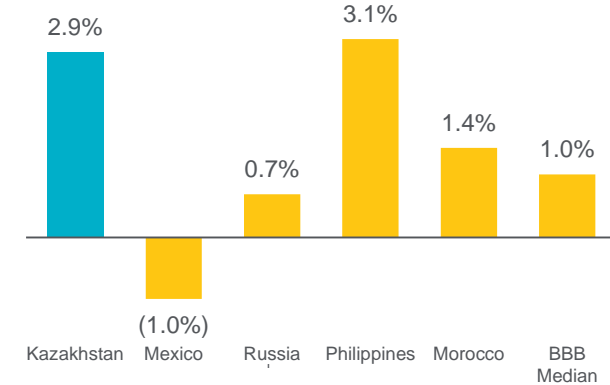
Appendix

Kazakhstan Well Positioned Compared to Peers

On a quantitative basis, Kazakhstan is considerably stronger than peers and the Government is committed to focus on reforms to continue to diversify and strengthen the economic structure, to strengthen governance and institutions.

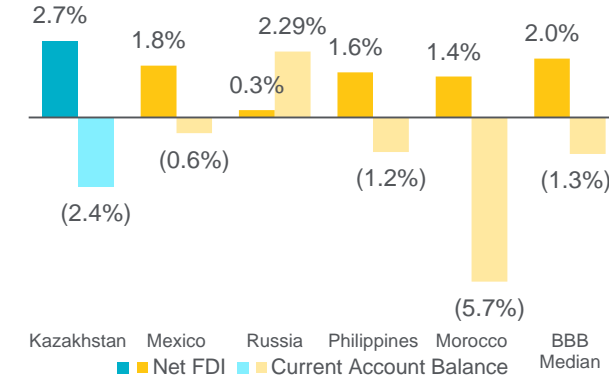
Real GDP Growth

(% of GDP, 2019-2022F Average)



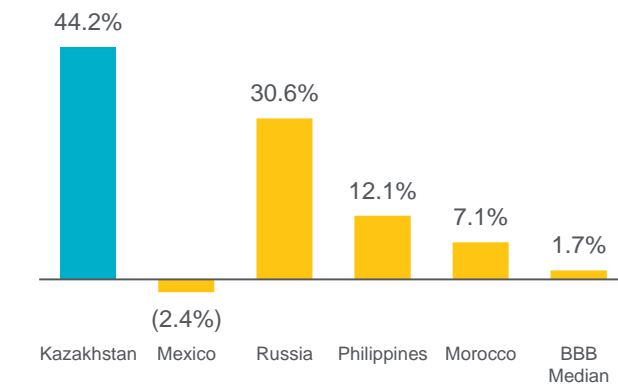
Current Account Balance & Net FDI

(% of GDP, 2019-2022F Average)



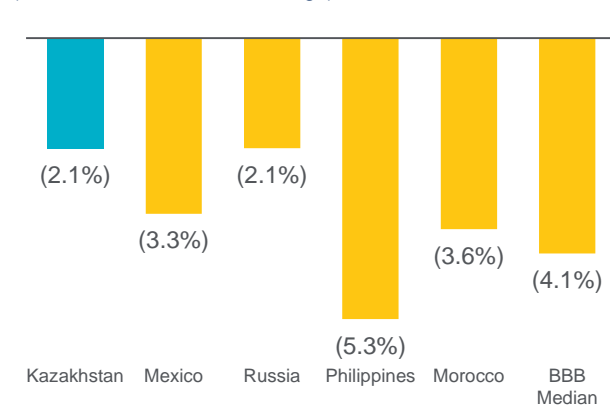
Sovereign Net Foreign Assets

(% of GDP, 2019)



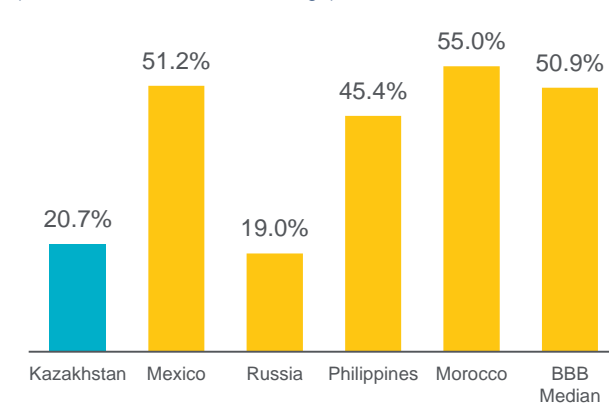
Fiscal Balance

(% of GDP, 2019-2022F Average)



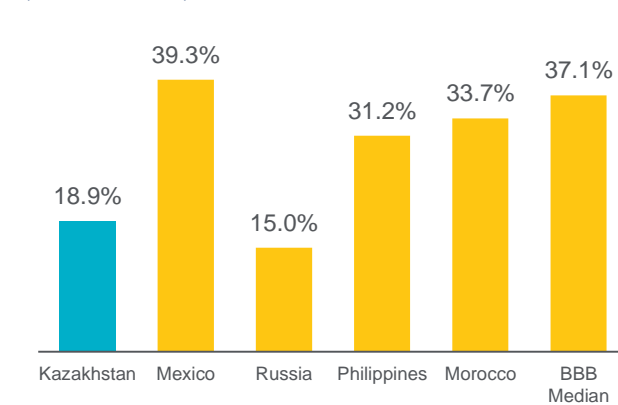
Government Debt

(% of GDP, 2019-2022F Average)



Government External Debt

(% of CXR, 2019)



Source: Fitch Sovereign Data Comparator September 2020