

# KAZAKHSTAN STOCK EXCHANGE INC

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## PRESS-RELEASE

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### **Instability on the world financial markets affects the markets of KASE, however the situation does not make it possible to speak about a crisis**

In view of instability on the world financial markets Kazakhstan Stock Exchange (KASE) notes that the indicators of the Kazakhstan organized financial market respond adequately to the rise in the value of money in the world. However such situation does not make it possible to speak about a crisis in Kazakhstan.

Appearance of the first signs of a so called world liquidity crisis on the market of KASE was "shaded" by an action of a local factor – the intent of the National Bank of the Republic of Kazakhstan (NBK) to increase the normative of minimum reserve requirements (MRR) for second-tier banks (STB) on foreign loans from 8 up to 10 percent beginning August 29 of the current year. This intent was made public by the Regulator on July 23, 2007. The rate of USD to KZT quickly picked up due to a rising demand on the side of STB and their customers beginning August 24 of the current year.

The influence of the indicated factor on the local financial market appeared to be similar to the influence of the news of problems with high-risk mortgage loans (subprime mortgage) in the USA. A combination of both made it more expensive for Kazakhstan banks to take loans from abroad, and the oncoming liquidity crisis forced foreign investors to remove the money from our market. That gave occasion to an escalation of demand for American currency on the domestic market of the Republic.

Buying dollars in significant volumes on KASE lead to increased demand for tenge on the side of Kazakhstan banks. On August 3, 2007 this caused the 103 basis points rise of KazPrime-3M indicator from 6,65% per annum up to 7,68% per annum with subsequent smooth transition of the indicator to 9,00% per annum as for the current day. Apart from this by the beginning of this August repo "overnight" rates characterizing the value of the "shortest" tenge in Kazakhstan increased up to 12,3% per annum which is the quadrennial maximum. For the time being these rates firmed up at the level of about 9,0% per annum, however they are characterized with an increased volatility.

The on-going was responded by the Kazakhstan securities market.

At the beginning of the last decade of August under the influence of money removal by non-residents and also due to Kazakhstan banks GDR sales on the European stock exchanges the index of KASE\_Shares began to fall with increasing speed and reached the minimum of the last seven months – 2.387. Public awareness efforts by NBK, the Agency of the Republic of Kazakhstan on regulation and supervision of financial market and financial organizations (AFS), Kazakhstan banks and KASE allowed for check of the index decline. The most qualified investors started to purchase Kazakhstan banks shares that went down, which brought back KASE\_Shares to sub-crisis ratings by August 23 of the current year.

The buyers significantly reduced prices of demand on the bonds market however asking prices remained at the same level. The expansions of spreads lead to a significant fall of liquidity on the market of corporate and government bonds, and caused the fall of the Exchange trading volume.

The above listed is an evidence that the Kazakhstan financial market is affected by the events in the world. But with that there is nothing extraordinary and capable to cause substantial problems for Kazakhstan financial system operation.

For instance, on the Kazakhstan currency market, increase in the rate of USD to KZT with quicker rates and larger amplitude of change was observed in August through October 2006. This caused no negative consequences. Regularly increasing the refinancing rate within the framework of monetary

policy tightening NBK jointly with AFS since long have been taking measures thanks to which the money for non-residents of Kazakhstan become less available. That is why the KazPrime indicator was destined for continuous rise since the moment of its introduction. Beginning February 2007 repo "overnight" rates increase constantly on the Kazakhstan market and it has nothing to do with liquidity crisis. Qualified investors of the stock market made a right decision fast enough to support costs of Kazakhstan banks, as far as none of international rating agencies leveled down their ratings, having left not only the ratings but also the related forecasts at the previous levels. Main problems for the Kazakhstan bonds market were caused by the introduction into effect of new rules of pension assets investment on January 1 of the current year.

Therefore the opinion of KASE is that the bodies of state regulation of Kazakhstan financial market as well as professional participants of the Republic financial market were psychologically and physically ready to the observed liquidity reduction on our market. This reduction is estimated by them as a normal occupational situation which allows Kazakhstan financial system for successful performance.

KASE also addresses the citizens of the country with the request not to cause them and banking system needless difficulties related to premature deposits demands from bank accounts and speculative currency buying. These actions do not look justified as for today though the nervousness is easy to understand. Taking into account the gold and currency reserves at the disposal of NBK and state, NBK readiness to render help to STB, and also the experience of the previous increased volatility periods on markets, KASE wants to assure Kazakhstan citizens that the state financial system is far from any crisis at the present moment and the financial market operates normally.