

**Comment of Acting Director of Financial Stability and Research Department
of the National Bank of Kazakhstan Olzhas Kubenbayev Related to 2020
Financial Stability Report of Kazakhstan**

July 30, 2021

Within the implementation of the task to promote stability of the financial system, the National Bank of Kazakhstan, regularly releases Financial Stability Report of Kazakhstan since 2006, containing results of a comprehensive analysis and assessment of key risks and vulnerabilities of the financial sector.

In **2020 Financial Stability Report of Kazakhstan** the National Bank analyzed macroeconomic conditions and assessed credit, currency and interest rate risks, risks of liquidity, funding and dollarization of the banking sector.

Last year, the global economy suffered an unprecedented shock caused by coronavirus pandemic, which led to a steep and deepest drop in global economic activity, which, coupled with internal quarantine restrictions, significantly affected the economy of Kazakhstan. Declining external demand along with a significant drop in oil prices led to a drastic fall of pace of the economic growth of the country and a rupture of global supply chains put pressure on consumer prices and a current account of balance of payments. Compulsory introduction of quarantine measures negatively affected labor market and income of the population.

In order to mitigate negative impact of COVID-19 pandemic on the economy, given the instructions by the President of the Republic of Kazakhstan K.K. Tokayev, the Government in cooperation with the National Bank, adopted an anti-crisis package of measures intended to support individual households, the real and financial sectors of the economy. The National Bank took an active part in the implementation of the anti-crisis initiatives of the Head of State. Thanks to unprecedented anti-crisis measures, it was possible to avoid deeper economic recession, keeping GDP fall at no more than (-) 2.6%, while maintaining financial stability and supporting the population and businesses. By the end of 2020, inflation rate was at the level of 7.5%, current account deficit of the balance of payments amounted to (-) 3.7% of GDP, or (-) USD 6.3 billion.

Availability of a financial cushion in the form of sovereign assets made it possible to finance expansion of government spending required to implement the anti-crisis measures. However, in 2021, scale of support for the economy is comparable to an unprecedented volume of transfers from the National Fund last year, which entails accumulation of macro-fiscal risks and requires an early implementation of a **countercyclical fiscal rule**.

Over the past year, ability of **borrowing companies** to raise bank loans remained limited due to a **high debt burden**. At the beginning of last year, **more than a third of enterprises in the economy** had a low or negative capital, with nearly 74% of a total volume of bank loans concentrated in the real sector. These enterprises turned out to be the most vulnerable ones during the period of quarantine restrictions. Further lending to over-credited enterprises creates long-

term risks for financial stability of the banking sector and reduces ability of the economy to absorb shocks.

The banking sector itself closed the year **without systemic shocks**. An **independent assessment** of banking asset quality (AQR) allowed to diagnose quality of banks' loan portfolios and identify areas to improve their performance, transform business processes, policies and procedures.

Credit risk remains a key one for the banking sector. Despite increase in credit risks due to falling solvency of borrowers as a result of the coronavirus pandemic, in 2020 quality of banks' assets continued to get better due to implementation of measures to improve quality of assets during the AQR, independent settlement of problem loans by individual banks in the course of their merger, as well as withdrawal of an insolvent bank from the system. Historically, a significant level of credit risk is concentrated in the corporate segment. At the end of 2020, quality of the corporate portfolio improved but remained below the retail one.

In order to mitigate growth of debt burden of the population and SMEs affected by the quarantine, measures were implemented last year to defer loan payments. Among individuals, the deferral was most in demand for consumer unsecured and mortgage loans (40% and 28% of the total number of deferrals, respectively). Among SMEs, entrepreneurs from sectors of trade (24%), real estate (20%), industry (13%), services (11%) took advantage of the deferred payments. Timely provision of deferrals prevented a significant increase in the level of default by borrowers and enabled most borrowers to continue servicing loans. Meanwhile, some of the loans to SMEs that were repaid at the end of the deferrals granted in 2020 are more likely to be refinanced, keeping risks on balance sheets of banks.

Despite granted deferrals for servicing loans, **liquidity risks of the banking sector** remained at a **low level**. At the end of 2020, highly liquid assets amounted to **12.9 trillion KZT** or **41.5%** of the banking sector assets, up by **35.1%** over the year, and liquidity ratios of most banks were at levels **significantly exceeding normative ones**.

As for **funding**, core risks remained associated with its maturity. Share of real term deposits of individuals increased to 12.8% but it still remains insufficient (excluding transaction accounts and escrow deposits, share of term and savings deposits reached **14.6%** and **1.1%**, respectively).