

**Dear colleagues, dear guests,
ladies and gentlemen!**

Let me, on behalf of the National Bank, welcome all Congress participants and congratulate you with the forthcoming National Currency Day!

We are holding this Congress on the threshold of the **30th anniversary of Independence - the most important milestone** in the history of modern Kazakhstan!

The First President – Leader of the Nation, Nursultan Nazarbayev, **laid the foundations of the new statehood** by defining **strategic development guidelines** of our Motherland for many decades ahead.

Over the past three decades the **foundations** of an independent state have been created and established - the **borders** were defined and the main legal document - **the Constitution** - was adopted. The **new financial system** and our own **national currency - the tenge** have become the **fundamental** elements of independent statehood.

Owing to our achievements, we can now see how the country has been **transformed** and how a **new generation** of Kazakhstanis has been formed over the past 30 years.

Dear Congress participants!

By **strengthening and developing the foundations and values** of independent Kazakhstan, this September the President of Kazakhstan Kassym-Jomart Tokayev defined the **main areas** of further development of our country, **confirming them today** in his video address to the **financial community**.

Kazakhstan, as well as the world economy, for the last **2 years** has been experiencing the **deepest crisis** of this century due to the coronavirus pandemic. In such environment the financial sector is facing **three global challenges** derived from the Head of State's theses announced today.

The first one is the **widespread growth of inflation and increased inflationary pressure** amidst supply and demand **imbalances** in global commodity markets and **gaps in supply chains**.

The world economy is **recovering dynamically** and, owing to vaccination, has already returned to **pre-pandemic** levels in the 3rd quarter of this year. Global real GDP growth in 2021 is expected to be the fastest in more than **40 years** at **5.9%**, as projected by the IMF.

The rapid growth of demand with **limited supply** that followed the recovery of the global economy leads to the **record high** for many years **raw materials** and **transportation** costs and, as a consequence, an increase in **inflationary pressure** in the world.

The second challenge, which offers new **perspectives and great opportunities**, is the **rapid digitalization** of the entire

global economy under the influence of the pandemic. **Transformational processes** have brought to the fore **new formats** of financial services that meet the requirements of **mobility, convenience and security**.

The third global challenge on the agenda is **combating climate change**. The Head of State himself devotes a great deal of attention to this problem. Today he stressed the importance of an active **transition to a green economy** and the implementation of **sustainable development** principles for the financial sector.

Besides the direct impact on climate conditions, changes in the financial landscape incorporating principles of responsible investment are ahead of us.

Taking into account global challenges and current trends, this March the National Bank approved **the Monetary Policy Strategy 2030**, which consists of three key areas - strengthening the **institutional and operational framework to conduct monetary policy**, development of the **financial sector** as an effective **intermediary and conductor** of monetary policy, as well as further diversification of the **economy** with increased countercyclicality of **macroeconomic policy**.

The Strategy closely intertwines the tasks for all government entities responsible for the implementation of effective macroeconomic policy. Therefore, to fully implement all monetary policy objectives, in February this year we signed a new **Agreement on Coordination** of Macroeconomic Policy Measures for 2021-2023 with the Government and the Agency for

Financial Market Regulation and Development, continuing the practice **first** established in 2019.

Today I want to share with you the **preliminary results** of the implementation of the Monetary Policy Strategy and our **future plans**.

FIRST. Conducting an adaptive monetary policy and increasing its effectiveness.

The main mandate of the National Bank is to ensure **price stability**.

During the acute phase of the pandemic, we conducted an **expansionary monetary policy** to support **economic activity** in the context of **suppressed domestic demand** that exacerbated the **disinflationary effect** of the quarantine tightening measures.

Once the economy has entered a positive growth trajectory, we are reversing the **monetary policy stance** amid growing **pro-inflationary risks**.

The **increase in inflation** observed today is caused **equally** by both external and domestic factors.

1. On the one hand, the aggravation of **supply-demand** mismatch in global markets leads to **disruptions in supply**, rising **transportation** costs, prices of **raw materials and food** products. Growth of **food prices** in the world has been the highest in the past **10** years, while **metals** prices increased **1.5 times** during the year. The cost of **transportation** of dry cargo, reflecting the demand for raw materials, has increased **3.2 times** since the end of 2019 and **7 times** compared with May 2020 due

to a shortage of containers amid growing buying orders.

As a consequence, the external inflation backdrop is worsening with renewed historical highs. In the U.S., inflation has reached **30-year highs** (since 1990), reaching **6.2%**; in the **EU**, it is also at a record **4.1%**.

In this environment, central banks are beginning **to tighten monetary conditions**. Since the beginning of September this year, **24** central banks have raised key rates. In Russia - a key trading partner of our country - since the year beginning, the rate has **accumulatively** been raised by **3.25% to 7.5%** against the background of the **five-year maximum** inflation rate of **8.1%**.

Amid high inflationary pressures, **the Fed and the ECB** began to roll back stimulus measures. In September, **the ECB** announced its intention to reduce the volume of bond purchases. On November 3, **the U.S. Fed** announced that starting December it was beginning to roll back its quantitative easing programme **by \$15 billion** monthly.

2. The negative **external inflation background** is aggravated by **internal imbalances** in some commodity markets and **income** growth as the economy recovers, for the leveling of which, together with the Government, **urgent** steps are taken within the framework of the **Anti-inflationary Response Package** adopted in September.

Joint efforts are yielding the first results - the annual inflation rate stopped growing for the **first** time in the last **6**

months against the background of the slowdown in **food prices** from **11.5%** to **11.3%**.

As I noted at the meeting of the Government, **in October** the number of **regions with accelerated** annual inflation **decreased** from **13** to **7** (out of **17**).

In general, the economy of Kazakhstan still maintains steadily **high inflationary environment**. **Significant growth** of prices for food products supports **high inflation expectations** of the population, which in October reached **10.3%**.

Taking into account significant abnormal growth of inflation in **summer months, since July** of this year the National Bank started conducting the **disinflationary** monetary policy, having increased the **policy rate** three times in total by **75 basis points** from **9.0%** to **9.75%**.

3. In our opinion, the adoption of **systemic and preventive measures to eliminate imbalances** in the commodity markets as part of the Anti-inflationary Response Package will **stabilize** inflation near the upper bound of the target corridor of **4-6%** in the **second half of 2022**.

We expect that the slowdown in inflation will occur against the easing **external inflationary pressure**, a gradual decline in global **food prices**, and the recovery of global **supply chains**.

4. For sustainable **price stabilization in the economy**, it is important to implement an initiative to improve the **coordination** of monetary and fiscal policies through the **legislative implementation of the countercyclical budget rule** by the end

of **2021** and start applying it in **2022** onwards in the formation of the republican budget for **2023-2025**.

The new rule will limit the growth rate of **government spending** and the guaranteed **transfer from the National Fund** to a level not exceeding the amount of **contributions** from the oil sector at a **conservative cutoff price**, **isolating** the business cycle from commodities and reducing the **pro-inflationary pressure** in the economy.

SECOND. A return to market financing of the economy with the elimination of price distortions in the financial markets is **one of the important priorities for increasing the effectiveness of the monetary policy.**

In 2020-2021, within the framework of implementation of **anti-crisis initiatives** of the President of our country, the National Bank made **its contribution** and allocated **2.3 trillion tenge** to stimulate business activity, support employment and infrastructure development.

As a matter of fact, owing to the **initiatives of the Head of State**, Kazakhstan's economy returned to the **pre-crisis** level, and its growth for the last 10 months reached **3.5%**.

1. I would like to elaborate on the **involvement of the National Bank** in implementation of programmes to support the economy.

1) The National Bank financed and launched the **Programme of concessional lending to business entities** to support entrepreneurs in the most **affected sectors of the**

economy. During the programme's implementation, more than **1.5 thousand** businesses (*1 552 in total, including individual entrepreneurs - 233, large enterprises - 48, small and medium sized entrepreneurs - 1 271*) have received loans worth **1.1 trillion** tenge. As we can see, today **almost all sectors** of the economy are in the growth zone, so the programme will be **completed by December 31 this year.**

2) In order to provide employment and **prevent the unemployment growth**, the National Bank took part in the implementation of the **Employment Roadmap** by financing local executive bodies on a **repayable basis** for a total amount of **900 billion tenge.** The programme will also be **completed this year.**

3) The **market** mortgage product "**Baspana hit**", which was launched to foster long-term housing lending, will also be **completed in this year.** As of today, almost **600 billion** tenge have been allocated within the framework of this programme - the plan is fully implemented.

4) By instruction of the Head of State, the National Bank will continue **implementation** of the "**Economy of simple things**" Programme and the Programme of preferential mortgage **7-20-25** in 2022. As of today, the loans for **940 billion** tenge have been already granted within the framework of the Economy of simple things, and more than **400 billion** tenge are allocated within the framework of the **7-20-25** programme out of **1 trillion** tenge.

2. As the goals of **economic diversification** and reduction of **import dependence** are achieved, the National Bank considers it

important to **gradually move** state support to the economy to **market-based measures** in order to improve the **effectiveness** of monetary policy and **reduce inflationary pressures**.

Preferential financing that does not depend on the market rate creates a **distortion of the value of money** in the economy and **competition** in both the financial market and the business environment. The Government also recognizes these factors and plans to adopt a **5-year roadmap** to gradually move away from non-market instruments of state support that distort the real value of credit funds.

In order to improve the effectiveness of monetary policy, the National Bank, in accordance with the previously announced timeline, is the **first** to begin **withdrawing** from state programmes to support the economy, planning to discontinue its participation **before 2025**. However, given the **pace of economic recovery**, we do not exclude **early completion of the main programmes by the end of 2023**.

3. An important dimension in the development of market financing is the improvement of the **government securities market** and **shaping the market** yield curve. This will allow to establish a benchmark for rates in the longer-term segment and launch the process of **market funding of long-term projects**.

Since last year, the National Bank and the Ministry of Finance intensified their joint work on increasing the attractiveness of the government securities market for foreign investors. The work on inclusion of government securities in the JPMorgan Global

Emerging Market Bond Index is underway. At present, our government securities have been placed on the "radar" of inclusion in this index. In 2022 it is expected to **include government securities in the FTSE Frontier Emerging Markets index**.

In an effort to facilitate investors' access to Kazakhstan market, Kazakhstan's post-trade infrastructure was improved to a **world standard** within the framework of the Central Securities Depository line with **Clearstream**, an international clearing organization.

Further institutional development of the Central Securities Depository is intended to transform from a **local record-keeping center into a regional settlement and clearing hub**. To implement this goal, the depository's efforts are focused on building a **flexible infrastructure**, with appropriate IT modernization, providing access to a wide range of stock market operations, and including the functions of an organizer of trading on the OTC (over-the-counter) market and a corporate actions hub.

The Kazakhstan Stock Exchange has **significantly expanded** its offerings of various types of financial instruments, including mutual funds and ETF index funds. A **foreign equity trading floor** will be launched on November 15 this year. Against this background the number of retail investors on the stock market increased significantly. Over the last two years the **number of retail accounts** increased by almost **70%** and as of

November 1 amounted to more than **206 thousand**.

The technological **modernization** of KASE trading and clearing systems has been completed. A central counterparty function has been introduced on all markets, which **reduces risks** for all trading participants, contributes to an **increased** liquidity on the exchange market and, accordingly, the launch of **new instruments**.

In the near future the Exchange will focus on attracting **SMEs** to the stock market, further increasing the activity of **retail clients** and developing the infrastructure for financing **sustainable development** projects.

THIRD. Digitalization has become one of the key drivers of financial market recovery around the world. In many ways, Kazakhstan is moving **at the forefront of the financial industry's digital agenda**. Under the influence of digital services, we have observed a significant **increase in cashless payments** in the country. For instance, within 5 years, the volume of non-cash payments of the population has shown **26-fold** increase, and the share of payments via the Internet and mobile services has reached a record high, rising from **22% to 83%**.

It is important not to miss the momentum of change and support **further digitalization** of the financial industry through the development of the following key areas.

1. Equally accessible digital financial market infrastructure is a priority for the National Bank. Its important components are the **National Payment System and the Digital**

Biometric Identification Platform being created by the instruction of the Head of State.

These reforms will raise the provision of financial services **to a higher quality level**. The updated digital infrastructure will become **more accessible to all market participants** and will make it possible to create new generation financial services **faster and cheaper**.

2. 63 central banks around the world are exploring the introduction of **national digital currencies**. Together with market participants, the National Bank has also launched the Digital Tenge pilot project. We see **significant potential for the project** to increase the availability of payment services and reduce the cost of transactions in the economy. The digital tenge platform may also open up opportunities for the creation of fundamentally new services. At the same time, it is necessary to **assess in detail all possible risks and benefits** from the issue of the national digital currency. **In December of this year**, a **Whitepaper on the results of the pilot project** will be published, which will cover the outcomes of the technological experiment, the results of research and discussions with market participants and the expert community.

3. In a rapidly changing economic environment, it is important to ensure **high-tech interaction** between regulators and market participants by creating a unified **financial market business data platform**. **The credit registry**, together with other financial market data sources, will form the basis for a unified

data warehouse - the **financial data lake**. This will open up new opportunities for the application of advanced analytics (**AI, ML**) for supervisory and regulatory purposes and will simplify regulatory compliance for market participants. The introduction of RegTech and SupTech technology will ensure the transition to **data-centric supervision and regulation** and reduce market costs.

4. We also see a steady trend towards the creation of **platform business models and the formation of ecosystems** in the financial market. Ecosystems are blurring the boundaries between industries, with consumers being able to receive a range of different services on a 'one-stop-shop' basis. However, their further development is also a **challenge for regulation**. Ecosystems are **the future of financial markets**, but they must be built in an **open manner** in the interest of aggregate industry efficiency.

5. **Consumer personal data** has become a critical asset for the financial market. It is important to ensure **non-discriminatory access** to data and to **shift the focus of competition** to processing efficiency. Consumers should have **full control** over access to their data and be assured of its **security**. Given the increasing risks of cyber-attacks and fraud, it is important to pay special attention to **cybersecurity and privacy protection**. To ensure these principles, the National Bank, in cooperation with other regulators, will create a **legal framework** and appropriate **infrastructure for data exchange and storage**, including from

public databases. Work will continue on the development of **Open API** standards and **Open Banking** infrastructure.

6. Digitalization is also improving regulators' interaction with consumers of financial services. The Kazakhstan Deposit Insurance Fund (KDIF) has piloted an "**Electronic Guarantee Payments Portal**". As of today, there are no equivalents of such an online reimbursement system in the CIS. For the convenience of citizens and the market, **omni-channel interaction** is being established through the **Single Contact Centre**.

7. As part of business processes digitalization, the National Bank is working on the implementation of a **unified** integrated automated system of **asset and risk management** in order to comprehensively address the tasks of improving the **effectiveness of asset management and financial risk control**.

The emergence of the best-in-class investment management solution for various asset classes at the National Bank helps **accelerate investment decision-making** and **reduce operational risks**, which ultimately leads to **increased efficiency**, including in the management of the gold and foreign currency assets, the National Fund and Unified National Pension Fund assets.

FOURTH. For further development of the financial market and raising external investments for development of the country's economy, the access to the financial market of Kazakhstan will be extended to the **participants of the International Financial Center Astana**.

Taking into account successful international experience of functioning of financial centres the **AIFC Act on currency regulation** developed with direct participation of the National Bank and Agency was approved on November 10 this year. The act comes into force from **December 1** this year.

It determines the **list of financial services** that can be provided from the **AIFC platform throughout** our country, taking into account the provision of financial stability of the Kazakhstani market.

This step will allow the AIFC to **fully** realize the potential of a financial centre as the main platform for raising **foreign investment**, will give impetus to the development of the **financial market** and support **economic growth**.

FIFTH. The development of a green finance market is a **strategically important area** of development. The global market for **ESG-based sustainable bonds** is growing rapidly (*from USD 326 billion in 2019 to USD 600 billion in 2020*).

The global ESG investment boom is having an impact on Kazakhstan as well. For instance, three green bond issues worth **34.2 billion** tenge have been listed on Kazakhstan's stock exchanges since 2020. The legal environment and infrastructure for the development of the green finance products market continues to be intensively developed.

The National Bank, in cooperation with the Agency, is also taking a number of measures to further **implement ESG principles**.

In 2022, it is planned to develop **recommendations for the implementation of ESG principles by financial institutions**. Also, by the end of 2022, it is planned to introduce requirements for internal risk management systems and corporate governance system to **account for ESG factors and related risks** in the strategy and business model of financial institutions.

In the medium term, it is planned to make a **transition** from voluntary disclosure to **mandatory disclosure** of ESG activities of companies in compliance with international recommendations on the **Kazakhstan Stock Exchange and the Astana International Financial Centre Exchange**.

The large-scale transition to mandatory disclosure of non-financial information will allow investors and rating agencies to assess financial instruments for their **ESG eligibility** for inclusion in their investment portfolios.

In addition, the investment portfolios of pension assets and funds managed by the National Bank plan to include a **separate ESG investment classification**.

These measures, together with the stimulus measures of the Government, will give impetus to further development of the green finance market.

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Dear guests, friends, ladies and gentlemen!

We have come together after a **long break** and are slowly beginning to return to a **normal life**. Of course, the consequences

of the pandemic will remind us for a long time, but I wish that this **does not affect our communication** in any way.

The National Bank directs all its efforts at conducting a **transparent monetary policy**, ensuring **financial stability** and creating a **modern digital infrastructure** of the financial market with **equal access** for all its participants.

I would like to sincerely congratulate everyone on **National Currency Day**, the professional holiday of the financial sector workers, as well as on the forthcoming **30th Anniversary of Independence of our Motherland** - the main holiday of each citizen of Kazakhstan. I wish everyone all the best, good health, good luck and to achieve your goals!

Thank you for your attention!