QAZAQSTAN ULTTYQ BANKI

REPORT

of the National Bank of the Republic of Kazakhstan

for 2019

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ANNUAL REPORT

of the National Bank of the Republic of Kazakhstan
for 2019

Nur-Sultan, 2020

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Review of the Annual Performance

1. At the end of 2019, inflation had been at 5.4% (December to December of the previous year). In conjunction with the monetary policy implementation in line with the inflation targeting regime, throughout the year the National Bank was making effort to achieve the inflation target of 4–6% as set for 2019.

2. In 2019, the GDP growth, according to the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, accounted for 4.5%. The growth was observed in all key sectors of the economy, with the largest contribution to the GDP growth being made by trade (1.2% out of 4.5%), the industry (1.1%) and construction (0.7%).

3. The current account deficit in 2019 amounted to 6.5 billion US Dollars (in 2018 the deficit made up 0.2 billion US Dollars). The current account deficit was driven by a decline in the balance of trade surplus given a deteriorating external market environment of energy prices. In 2019, a net outflow on the financial account (excluding operations with the National Bank's reserve assets) made up 1.6 billion US Dollars.

During 2019, a net capital inflow on foreign direct investments amounted to 5.7 billion US Dollars.

4. The National Bank continued to adhere to a free floating exchange rate regime. The situation in the domestic foreign exchange market was predicated by the dynamics of oil prices in the global markets and the exchange rate movements in the countries – Kazakhstan's trading partners. In 2019, the exchange rate fluctuated within the range of 373.56–390.13 tenge per the US Dollar.

5. During 2019, the banking sector assets went up by 1.6 trillion tenge (by 6.6%) and totaled 26.8 trillion tenge. At the end of 2019, the loan portfolio made up 14.7 trillion tenge, having increased by 7.1% since the beginning of the year. Provisions which had been created in line with requirements of international financial reporting standards on the banking sector's loan portfolio amounted to 2.0 trillion tenge (13.4% of the total loan portfolio). Loans which are past due over 90 days on the principal and/or accrued interest

equaled 1.2 trillion tenge (8.1 % of the total loan portfolio of banks). Since the beginning of 2019, banks' liabilities have increased by 0.9 trillion tenge (by 4.2 %) and made up 23.2 trillion tenge.

6. As at the end of the year, the volume of bank credits to the economy went up by 5.9 % to 13.9 trillion tenge. During 2019, loans in the domestic currency increased by 14.5 % to 11.6 trillion tenge, whereas foreign currency loans went down by 23.1 % to 2.3 trillion tenge. As a result, the relative share of loans in the tenge in the overall lending volume increased from 77.1 % to 83.4 %. In 2019, the long-term lending grew by 6.5 % to 11.8 trillion tenge and short-term lending – by 2.7 % to 2 trillion tenge.

7. Deposits of residents with depository organizations increased by 2.5 %, totaling 19.0 trillion tenge. On the year-over-year basis, deposits in the domestic currency went up by 13.1 % and amounted to 10.8 trillion tenge, and foreign currency deposits decreased by 8.7 % and totaled 8.2 trillion tenge. As at the end of 2019, deposit dollarization decreased from 48.4 % to 43.1 %.

8. Total assets of insurance organizations grew by 15.0 % to 1.5 trillion tenge. Liabilities of insurance organizations totaled 0.7 trillion tenge, exceeding those as at the end of 2018 by 12.5 %. Insurance reserves amounted to 0.6 trillion tenge (87.3 % of total liabilities), being by 9.8 % larger as compared to 2018. The total volume of insurance premiums increased by 32.1 % and made up 0.5 trillion tenge.

9. At the end of 2019, total pension assets amounted to 10.8 trillion tenge, having increased by 1.3 trillion tenge (by 13.1 %). During 2019, the overall size of pension contributions went up by 1.0 trillion tenge (by 15.2 %) and made up 7.5 trillion tenge. In 2019, retirement benefit payments amounted to 210.2 billion tenge.

10. Within the framework of the "7-20-25. New Housing Opportunities for Every Family" Residential Mortgage Program, 12,012 loans totaling 138.5 billion tenge were disbursed as at the end of 2019.

11. In 2019, the National Bank continued to implement the Residential Mortgage Loan Refinancing Program. 26,650 loans totaling 158.3 billion tenge were refinanced; borrowers' debts on interest payments, fees and penalties of 57.6 billion tenge had been forgiven.

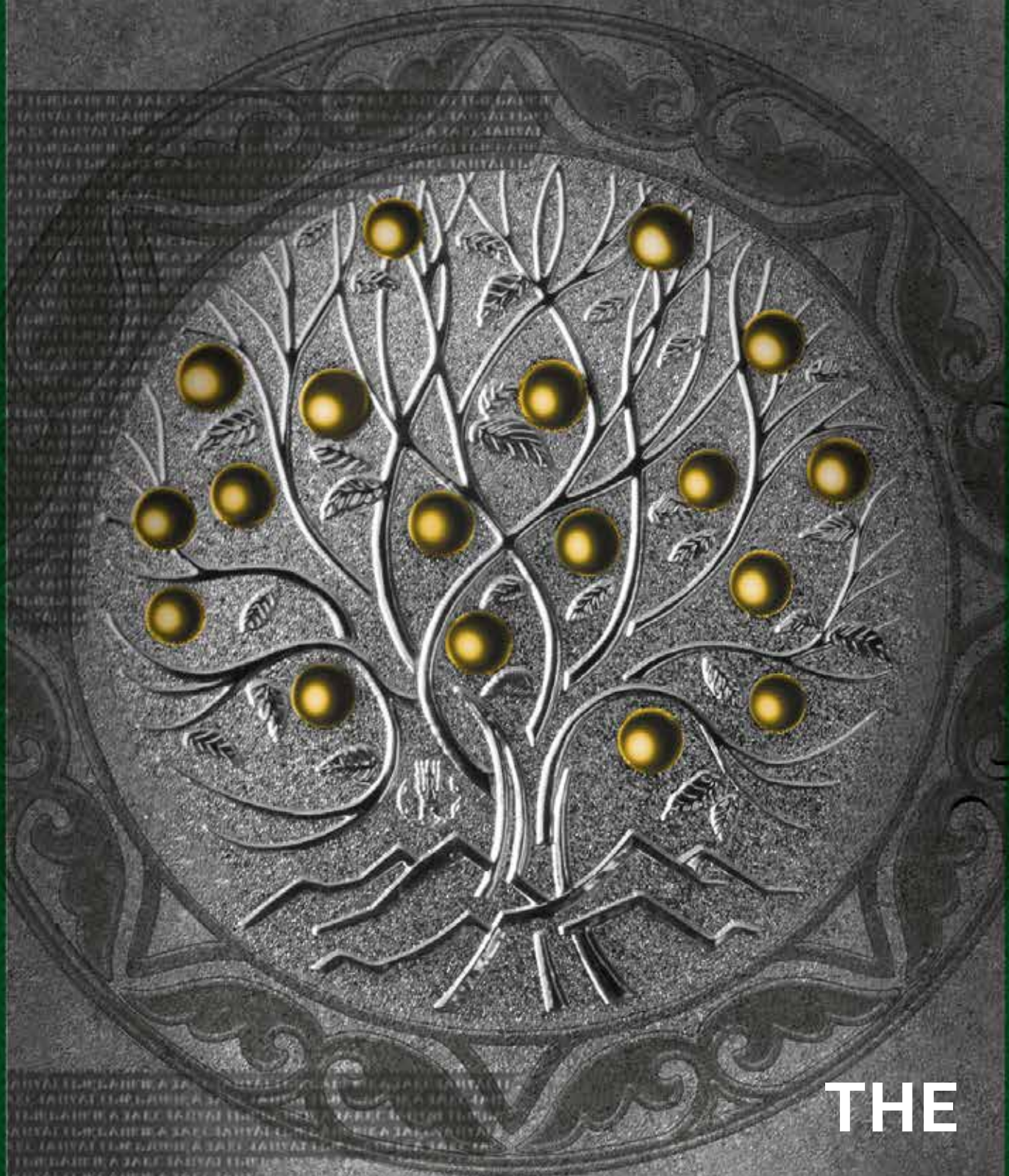
Under the Program for Refinancing of Foreign Currency Mortgage Loans, banks refinanced 7,505 loans totaling 65.5 billion tenge.

12. In 2019, 41.6 million transactions equaling 762.1 trillion tenge had been processed through the interbank system of money transfers and the interbank clearing system.

At the end of 2019, 32.0 million payment cards had been in circulation; this exceeds the number of cards in circulation in 2018 by 37 %. The number of transactions processed with the payment cards issued in Kazakhstan in 2019 went up by 94.0 %, and the transaction amount – by 52.1 %.

13. As at the end of 2019, gross gold and foreign exchange reserves of the National Bank amounted to 29.0 billion US Dollars.

14. As at the end of 2019, the total market value of the National Fund's portfolio was 65.5 billion US Dollars.



THE NATIONAL BANK'S DEVELOPMENT IN 2019

The National Bank's Goal and Objectives

The National Bank – the central bank of the Republic of Kazakhstan – represents the upper (first) tier of the country's banking system.

The National Bank's goal is to ensure the price stability. In broad terms, its mission is to improve the people's welfare in Kazakhstan through ensuring a low inflation rate and the **financial system stability**.

Under the laws, the National Bank's objectives are as follows:

- *formulating and implementing the country's monetary policy;*
- *ensuring the functioning of payment systems;*
- *carrying out currency exchange regulation and currency control;*
- *helping to safeguard the financial system's stability;*
- *carrying out statistical activities in the field of monetary statistics, financial market statistics and the external sector statistics.*

In 2019, the National Bank performed such functions as regulation, control and supervision of the financial market and financial organizations as well as providing an appropriate level of protection of rights and legitimate interests of the financial services consumers.

Pursuant to the Law of the Republic of Kazakhstan "On amendments to some legislative acts of the Republic of Kazakhstan related to regulation and development of the financial market, microfinance business and taxation", from January 1, 2020, the functions of regulation of the financial market and protection of consumer rights had been assigned to a newly established Agency for Regulation and Development of the Financial Market.

1.2. Organizational Structure and Staffing

The National Bank is making effort to enhance the staff performance, build up its capacity, and optimize the organization structure and staffing plan in order to fulfill the National Bank's objectives in an efficient manner.

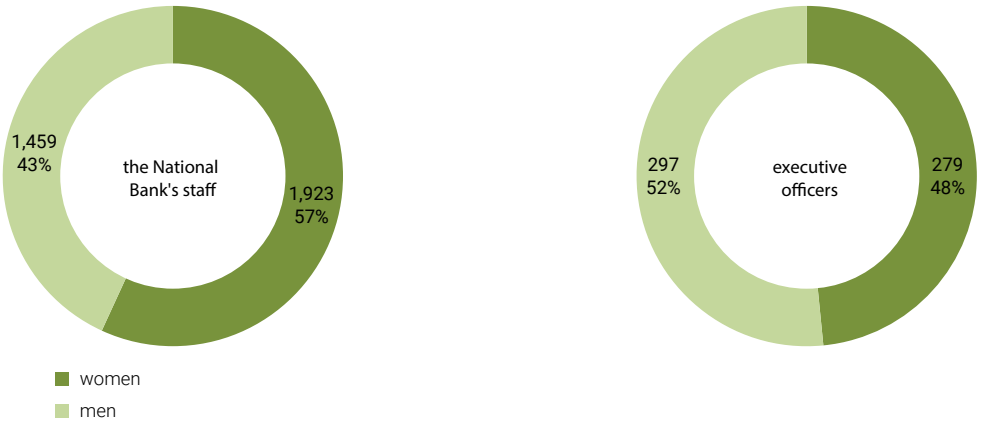
At the end of 2019, the National Bank's organization structure included 30 business units in the head office (26 departments and 4 divisions), 18 branches and 3 republican state-owned enterprises under its jurisdiction (Table 1.2.1, Appendix 1 to Section 1.2, Figure 1.2.1).

Table 1.2.1. Staff Size of the National Bank

National Bank's Structure	Staff Size at End-2019	
	According to the Organizational Chart, number	Staffing Table, Number of Individuals
Head office	1,287	1,167
Branches	1,300	1,324
Subtotal:	**2,587**	**2,491**
National Bank's organizations (RSOEs)	1,027	891
Grand total at the National Bank:	**3,614**	**3,382**

Women within the office staff accounted for 788 individuals (67.5%), in branches – 782 (59.1%), in the National Bank's organizations – 353 (39.6%). The gender distribution among the managerial staff was as follows: the number of female executives was 279 individuals, including in the head office – 132 individuals (51.2%), in branches – 108 individuals (53.7%), and in the National Bank's organizations – 39 individuals (33.3%) (Figure 1.2.2).

Figure 1.2.2. Gender composition of the National Bank's staff



The average age of the head office staff was 38 years old, in branches – 41 years old, and in the National Bank's organizations – 42 years old.

During 2019, the rate of the staff turnover at the head office of the National Bank accounted for 5.4%; in branches – for 9.1%; and in the National Bank's organizations – 5.3%.

In 2019, a staff selection campaign was conducted in order to enlist specialists to the National Bank's employee pool; in the course of selection, 746 resumes had been reviewed. Based on the selection campaign outcomes, 125 candidates were enlisted into the employee pool.

In 2019, 45 candidates enlisted into the employee pool were employed, as well as 11 master's students who have undergone training under the MSc in Finance Study Program at the Nazarbayev University.

During 2019, 1,709 employees of the National Bank have undergone training and career enhancement: within the Republic of Kazakhstan – 1,473, in the CIS-countries – 84, abroad – 152 employees. Under the Contract with the Nazarbayev University, six employees had undergone training at the Executive MBA program, and one employee – under the MSc in Finance Study Program. In 2019, 29 employees of the National Bank have passed the professional certification (CFA, ACCA, CISA, CPM, CIA, and CMA).

1.3. Risk Management

The risk management system of the National Bank is created in order to manage risks and provides reasonable but not absolute guarantees against possible losses. The management of the National Bank's gold and foreign currency assets, the National Fund's and the Unified Accumulative Pension Fund's assets carried out by the National Bank implies a need for ongoing financial risks analysis and assessment. As part of the financial risk management process, the National Bank ensures the functioning of the system for market and credit risks identifying and assessing along with the risk level controlling and monitoring methods. In order to control the level of credit and market risks which assets under the management of the National Bank are prone to, the appropriate limits and restrictions are settled, and had to be regularly reviewed according to the current market changes and the aproved investment strategy.

In 2019, the investment strategy of gold and foreign exchange assets was revised to specify the list of permitted for investment financial instruments, to update a strategic allocation of financial assets in the form of portions of sub-portfolios, and to tighten the requirements to the credit rating of financial instruments.

In the rules for the implementation of investment operations of the National Fund of the Republic of Kazakhstan in 2019 were also reconsidered the limitations on risk parameters.

Pension assets were invested in accordance with the list of permitted for investment financial instruments as set forth by the Protocol of the Council for Republic of Kazakhstan National Fund Management. In order to manage market risks stemig from of the Unified Accumulative Pension Fund's pension assets investment, the National Bank has defined the strategic asset allocation with setting of an overall risk.

Credit risk is managed through developing requirements to credit quality as of the financial instruments, as their issuers and counterparties of the National Bank. In addition, the system of credit risk limits was designed in a way to set limits on operations with counterparties, on financial instrument purchases from one issuer, on concentration, and limits on custodian.

For the purpose of minimization of potential losses in case of credit events,the settled credit risk limits are based on the assessment of political and economic situation in the countries where investments could be potentially made with the use of such indices as Bloomberg Country Risk Aggregate Score and Worldwide Governance Indicators which include such indicators as anti-corruption efforts, government efficiency, political stability, the rule of law, the quality of regulatory framework, a right to vote and accountability, and credit quality of issuers.

Portions of pension assets to be invested were allocated depending on the issuer's credit rating; a smaller portion of pension assets would be invested into an issuer with a lower credit rating based on assessments of its financial condition according to the most recent published financial statements of the issuer. The lowest acceptable credit rating of B- and BB- was set for issuers-residents of the Republic of Kazakhstan and non-resident issuers, respectively. Along with that investment of pension assets was not allowed in the emitters with the same credit rating above a fixed level of concentration.

Methods and instruments of financial risk management were enshrined in the National Bank's regulations and have been gradually improved and updated based on changes in the investment market environment. In 2019, based on the financials and international credit ratings calculation methodology credit risk limits on operations with counterparties have been revised. In addition, the list of sources for obtaining primary from S&P and Reuters software products was extended within the framework of existing agreements with foreign companies.

The approach to credit risk management of the Unified Accumulative Pension Fund's pension assets has been revised. A new approach includes a two-tier system of credit risk management in the course of pension asset investment. The upper tier sets limits on types and groups of issuers according to their credit quality, and establishes a general risk profile for investment activities of the pension asset manager. A new procedure allows setting maximum credit risk limits for residents and non-residents of the Republic of Kazakhstan by types of issuers and their credit quality as well as counterparty limits that enable to regulate placement of temporary available funds on deposits at foreign banks.

In accordance with International Financial Reporting Standard 9 "Financial Instruments", the expected credit losses of the National Bank's financial assets are calculated on a quarterly basis and provisions for such losses are formed. The calculation of expected credit losses is based on the credit ratings of financial assets assigned by the international rating company Standard & Poor's, and on the default probability table prepared by S&P Global Market Intelligence.

On a quarterly basis, the National Bank had settled internal credit ratings and indicative limits for banks of the Republic of Kazakhstan; which are based on the methodology assessing bank's classic financial indicators and credit rating set by international rating agencies as well as bank's loan portfolio.

The operational risk management at the National Bank is based on an adapted model of three lines of defense and COSO principles (the Committee of Sponsoring Organizations of the Treadway Commission). An appropriate mechanism has been established for each of the lines of defense, which predetermines the effective management of operational risks. The enhanced role of the second line of defense is an essential element of the model, adjusted to the National Bank's activities. The second line of defense analyzes the existing processes of the National Bank and together with business units implements the elaborated recommendations regarding risk minimization.

In order to ensure the National Bank's continiuos operation framework relevant plans which help to implement an uninterrupted performance of critical business processes were designed and approved in 2019. The testing to check the above plans was conducted within several scenarios.

Pursuant to the anti-corruption legislation, the Rules for internal review of corruption risks at the National Bank were approved; the Rules, among other things, contain the framework to monitor how anti-corruption action plans are fulfilled, with bringing up the subject of holding persons liable for a failure to fulfill the plans. With a view to arrange a systemic effort on prevention of corruption

offense, the Anti-Corruption Action Plan of the National Bank for 2020–2021 was drafted and approved.

In 2019, the received appeals (complaints) of individuals and corporate entities in accordance with the Law of the Republic of Kazakhstan "Regarding the procedure for handling appeals of individuals and corporate entities" and messages to anticorruption@nationalbank.kz email and the hotline were handled. No instances of violations by the National Bank's staff of the laws of the Republic of Kazakhstan, including on anti-corruption, have been detected.

In 2019, a webinar was arranged for the National Bank's staff to explan provisions of the National Bank's policy for combating the legalization (laundering) of crime proceeds and financing of terrorism and the workshop for directors of the National Bank's branches on anti-corruption issues.

1.4. Communication Policy

The National Bank makes an ongoing effort to raise awareness among the general public, financial institutions and the expert community about its activities by publishing official press releases, newsletters and reports on its official Internet resource, provides explanatory comments of the senior management in the mass media on current issues.

In 2019, the National Bank's representatives took part in forums, conferences, round table discussions, conducted meetings with leading economists, analysts, experts and the professional market participants.

On November 15, 2019, a conference entitled "Financial Market and the Real Sector of Kazakhstan's Economy" was held in Almaty. In his speech, the National Bank's Governor outlined the tasks for a short- and medium-term perspective. Based on the outcomes of the conference, focal points of the Governor's speech were published on the National Bank's official Internet resource.

On December 30, 2019, the National Bank held a briefing where it communicated the interim results of the asset quality review of the banking sector. In addition, the press release was posted on the official Internet resource and in the social media, and the report of the review outcomes and explanatory materials were published in the mass media.

The National Bank is systemically conducting press conferences, briefings and round table discussions for the mass media with participation of the National Bank's senior management and the staff, meetings with the public to give an explanation on the areas of focus. In 2019, six briefings for the mass media were conducted with participation of the National Bank's Governor and seven meetings with representatives of the expert community to discuss the level of the base rate, where detailed comments about inflation and inflation expectations and on the situation in the external and domestic market were provided.

In 2019, over 80 explanatory materials and interviews of the National Bank's senior management and the staff about the monetary policy, debt relief on the consumer loans, the state of gold and foreign currency assets and the National Fund's assets, on the progress in implementation of the "7-20-25" Government Mortgage Lending Program were published in Kazakhstan's mass media. Responses to inquiries from the mass media on current topics of the National Bank's activities were provided. Press releases on the base rate, restricted remedial actions in respect of microfinance organizations, banks and insurance organizations, on issue of collectible coins into circulation, overviews about currencies of developing markets and inflation reports were posted on the National Bank's official Internet resource and in the social media. In addition, the following information was posted on the official Internet resource: the data on international reserves and assets of the National Fund, on the foreign currency mortgage loan refinancing program and the "7-20-25" Mortgage Lending Program, about operations conducted as part of the monetary policy, including foreign currency interventions. News in the formats of video digest, expert opinions of the National Bank's representatives, and draft regulations prepared by the National Bank were published in the social media. In 2019, 47 press releases and 263 newsletters had been disseminated in the mass media.

As part of the special project "National Bank informs, explains, and comments", seven special type pages of the National Bank were prepared and posted in the national papers "Egemen Kazakhstan" and "Kazakhstanskaya Pravda" in the Kazakh and Russian languages in 2019.

In 2019, 1,713 materials were posted on the National Bank's accounts on Facebook, Twitter, Telegram and Instagram, and 204 videos – on YouTube.

1.5. International Cooperation

In 2019, the National Bank continued to build up a long-term mutually beneficial cooperation by maintaining an ongoing dialogue with its key partners – international financial organizations.

In 2019, the National Bank's senior management took part in the Spring and Annual Meetings of the Board of Governors of the IMF and the World Bank Group. In the course of these visits, meetings with the heads of central banks, representatives of international financial organizations and asset management companies, senior management of the IMF, World Bank Group and the International Financial Corporation had been held.

The National Bank organized visits of the IMF mission to the Republic of Kazakhstan in order to provide consultations in accordance with Article IV of the IMF Articles of Agreement.

In May 2019, an IMF regional meeting for heads of central (national) banks and Ministers of Finance of the Caucasus, Central Asia and Mongolia was arranged in Nur-Sultan under the auspices of the Astana Economic Forum, "The Inclusive Growth Policy" with participation of Christine Lagarde, the IMF Managing Director.

Also, the National Bank submitted an application from the Republic of Kazakhstan to have the IMF Regional Technical Assistance Center headquartered in Kazakhstan, upon consideration of which the IMF announced that the Center will be dislocated in Almaty.

In 2019, the National Bank's senior management conducted meetings with the World Bank representatives.

The National Bank continued to bring in technical assistance from international financial organizations for a further development of the country's financial sector. Based on the meetings in November 2019, the scope of works on the Asian Development Bank's technical assistance project on the methodology of a supervisory review and assessment process was agreed upon and an agreement about the start of technical assistance in February 2020 was reached.

In 2019, the working group, consisting of representatives from the National Bank, European Bank for Reconstruction and Development as well as from the financial market continued to review the existing and to design new money market indicators. The working group's goal is to study possibilities of using the interbank lending market index as a targeted rate of the monetary policy.

The National Bank continued to implement technical assistance from the European Bank for Reconstruction and Development to design a new regulatory framework in respect of financial derivatives that is aimed to develop the derivatives market in the Republic of Kazakhstan. A relevant draft law was prepared based on the outcomes.

In 2019, the international rating agency Moody's confirmed the long-term credit ratings in foreign currency and in the domestic currency at Baa3. The rating outlook was changed to a "positive" from a "stable".

In 2019, the National Bank's delegation visited the Bank of Spain with a view to study the process of rehabilitation and restructuring of the banking sector; the Bank's delegation visited the National Bank of Poland to get consultations on the use of inflation targeting regime, transparency and communication of the monetary policy and exchange rate policy. In October 2019, experts from the Deutsche Bundesbank visited the National Bank in order to conduct an external review of the internal audit function at the National Bank.

In the context of developing the integration cooperation, in 2019 the National Bank with central (national) banks of the EAEU member states, jointly signed the Concept for establishing a common financial market in the EAEU. On December 26, 2019, the Agreement on harmonization of legislation of the EAEU member states in the area of the financial market was signed.

The National Bank participated in the review of Agreement on the mutual access to placement and negotiation of securities on exchanges (trade organizers) in the EAEU member states; the Agreement on the access for brokers and dealers of one EAEU member state to exchanges (trade organizers) of other member states; the Road Map for creating a Common exchange space in the EAEU; the Agreement on the procedure for information sharing in respect of the credit histories related data; the Agreement regarding the Advisory Board on the exchange rate policy of the EAEU member states; the Agreement regarding the audit activities within the EAEU territory; the Agreement between the National Bank of the Republic of Kazakhstan and the National Securities and Stock Market Commission of Ukraine in the field of supervision in the securities market; the Memorandum of Cooperation with the Financial Market Supervision Chamber of the Republic of Azerbaijan; the Strategy

for economic development of the CIS until 2030; the Treaty between the CIS member states on counter-acting the money laundering and terrorist financing and financing of weapons of mass destruction; the Agreement on free trade of services, on arranging and making investments by the CIS member states.

The National Bank was taking part in the work of regular sessions of the Advisory Board on Financial Markets with the Eurasian Economic Commission; Advisory Board on Foreign Exchange Policy of National (Central) Banks of the EAEU member states; Consultative Committee on Macroeconomic Policy; Consultative Committee on Statistics; Interstate Coordination Council of Heads of Insurance Supervision of the CIS Member States; Council of Heads of Government Authorities in Charge of the Securities Market Regulation of the CIS Member States; Eurasian Council of Heads of Central (National) Banks; Meetings of the Council of the Interstate Bank.

In the context of bilateral cooperation with the People's Republic of China, the Bank continued to work on the draft Agreement between the Government of the Republic of Kazakhstan and Government of the People's Republic of China on encouraging and mutual protection of investments as well as a draft Agreement on cooperation in the sphere of banking and insurance supervision with the Banking and Insurance Regulatory Commission of the People's Republic of China.

With a view to fine-tune the practice of cross-border communication on the issues of bank supervision and regulation, the study of prospects and opportunities in respect of greater share of domestic currencies of the Republic of Kazakhstan and the People's Republic of China, as well as on the matters related to anti-counterfeiting measures in the cross-border areas with the People's Republic of China was being conducted.

On November 15, 2019, the National Bank, in cooperation with the Financial Institutions' Association of Kazakhstan, arranged a conference entitled "Financial Market and Real Sector of the Economy in Kazakhstan". The Conference was attended by the senior management of the National Bank, Chairperson of the Financial Institutions' Association of Kazakhstan, heads of banks, representatives from the local offices of international financial organizations and members of the diplomatic corps. The Conference agenda covered aspects of economic growth, financial soundness and government lending programs. During the panel discussions, Conference delegates discussed the issues of insurance frameworks, payment systems and their development prospects as well as capital markets and their capacity.

1.6. Statistical Activities

The National Bank's activities in the field of statistics represent a set of arrangements aimed to collect, process and disseminate information and statistical data for the purposes of analysis and timely assessment of the current state of the economy, development prospects of the financial system and the real sector.

The statistical activities at the National Bank have a multilateral and multisectoral aspect and are built on the basis of fundamental principles of statistical accounting, with consideration of international recommendations and best practices of foreign central banks. As regards to statistics, the National Bank is closely communicating with international organizations, government authorities of the Republic of Kazakhstan and supervised financial and non-financial organizations.

Top-priority objectives in developing the statistics activities are to build up a centralized data management system, to ensure common information processing standards and develop information technologies. Implementation of these objectives will allow ensuring transparency of the data collection and processing, improving their quality, reducing the burden on respondents and ensuring efficiency of the management decision-making.

Monetary Statistics

One of the focal points in statistical activities of the National Bank is to generate financial statistics, which includes the banking statistics that is prepared under the national methodology developed by the National Bank, and the monetary statistics compiled in accordance with the IMF methodology.

Financial statistics indicators are used in formulating the monetary policy of the Republic of Kazakhstan and in the decision-making in the process of its implementation, in the course of preparation of information about the status of international reserves, assets of the National Fund, reserve money, monetary aggregates, key indicators of the credit and deposit segments of the financial market and other information.

Financial statistics are also in demand by international financial organizations as a source of information for statistical publications and research.

Monetary statistics include collection, control and aggregation of data from banks and non-bank financial organizations, including from mortgage companies, insurance (reinsurance) organizations, the Development Bank, and the Unified Accumulative Pension Fund.

Financial statistics are disseminated by publication of the aggregate statistical information in the form of spreadsheets and the "Statistical Bulletin of the National Bank of Kazakhstan" official monthly publication on the National Bank's Internet resource, as well as by submission of standardized reports to the IMF and analytical accounts on the National Bank and depository organizations to the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan as part of compliance with the Special data dissemination standard.

Along with the statistical information, the National Bank publishes methodological commentaries which provide insight into principles and approaches to the generation of data of monetary and financial statistics.

In dealing with the integration associations, the National Bank is in ongoing cooperation with the Eurasian Economic Commission of the EAEU as regards the methodological work and provision of information on financial statistics in line with the approved formats and deadlines.

External Sector Statistics

The external sector statistics include collection and processing of baseline statistical data, preparation of consolidated statistical reports and analytical tables in various breakdowns on the balance of payments, international investment position and external debt.

The aggregated data is disseminated as part of the National Bank's communication with the competent authority in the field of government statistics (also, in order to build up the national accounts system) and in accordance with a special data dissemination standard.

The data on the external sector statistics is published in the official publication of the "Balance of Payments and External Debt of the Republic of Kazakhstan" on the official Internet resource of the National Bank.

In 2019, the National Bank made effort to bring the current account on the balance of payments in conformity with the IMF methodology as regards to the recognition of branches of foreign construction and drilling companies which operate within the Republic of Kazakhstan as Kazakhstani residents, and to improve the quality of the balance of payments estimators on operations of individuals: travelling, shuttle trading, personal transfers reflected in the current account on the balance of payments. To update the "travelling" estimated item, new methodological approaches were designed: information sources had been identified, nominal parameters were disaggregated, and the list of countries for which the assessment of an average rate of expenditure for one trip is made was extended based on purposes, countries, types of transportation and duration of stay.

Interviews of Enterprises in the Real Sector

In order to assess macroeconomic trends, since 2000 the National Bank has been monitoring enterprises in the real sector of the economy on a quarterly basis and since 2016 – on a monthly basis. The monitoring process gives an opportunity to track and analyze the condition of industrial enterprises including their financial position and expectations regarding a change in the economic environment. The monitoring outcomes are used by the National Bank in the process of analysis and assessment of how certain sectors and the economy of the Republic of Kazakhstan are developing.

The monitoring system of the real sector of the economy involves the survey of enterprises which participate in the voluntary response poll. In 2019, over 3,000 enterprises from all sectors of the economy participated in the polls.

In 2019, the National Bank implemented a monthly collection of questionnaires via a web-portal thus enabling to reduce the burden on respondents significantly.

Role of Regulatory Reports in Implementation of Supervisory and Control Functions by the National Bank

Regulatory reports are the unified reporting forms with their deadlines and frequency being strictly prescribed by the National Bank's regulations.

The National Bank gathers regulatory reports from the financial market participants, bank conglomerates, insurance groups, microfinance organizations, collection agencies, entities of currency relations (in the frame of currency control and control of activities related to setting up exchange operations with foreign currency) and participants in the payment system of the Republic of Kazakhstan (in the context of regulation of the procedure and methods of payments and transfers). Based on the information received, the National Bank prepares consolidated data about

the state of the financial market, compliance with prudential ratios and limits, and builds a system of early risk indicators. This information is posted on the official Internet-resource of the National Bank. The results of analysis of the received information may serve as the basis for applying restricted remedial measures and sanctions in respect of subordinate organizations as well as unscheduled examinations by the National Bank.

Over the most recent years, significant modifications have been initiated in respect of the reporting forms, the used approaches to determining important indicators and calculation of mandatory prudential ratios, and requirements to the insight of disclosed ratios have been strengthened.

Information Support for Carrying Out Statistical Activities of the National Bank

Information from subordinate organizations is collected mainly electronically via the National Bank's web-portal; to process this information, several information systems are employed that are oriented at individual segments of the financial market. As information technologies become more sophisticated, the National Bank makes an effort to upgrade the process.

In particular, a portal solution for submission of reports by different types of respondents was implemented. The National Bank's web-portal is being migrated to a new technological platform, and obsolete information systems are gradually removed.

The National Bank implemented two mutually complementing information systems for gathering data at the transaction level (a data centric approach) and for collection of the aggregated indicators (a matrix approach). The two systems form a unified platform of business data collection and processing from the financial market entities.

Thus, the basis for a full-scale implementation of the Single Window Project for collection of information from the financial sector was established. To realize this principle, an effort has been made to ensure a unified data format, directories and methodologies, common reporting deadlines and frequency, a unified system of data collection as well as to reduce the burden on respondents, to build a reference data base and ensure integration with various databases, including the public ones.

In addition, with a view to reduce the burden on the financial sector, the National Bank's powers to receive reports from the regulated entities of the financial market had been enshrined.

Since 2012, the National Bank has been working on transition to the data collection in a data-centric format at the level of original detailed data. This will enable it to ensure flexibility in changing the data composition, increase the quality of data via formalization of the logic control procedures at the level of indicators, eliminate their duplication and minimize the collection of aggregated data.

At the first stage, this approach was implemented in relation to the "Loans and contingent liabilities" (Credit Register) financial instrument. In 2013, the National Bank applied indicators of the first order; their implementation allowed canceling a number of aggregated reporting forms on loans. In 2019, the list was extended due to implementation of indicators of the second order that are aimed to disclose information about collateral on a loan and a contingent liability.

In 2019, the National Bank completed the works for automation of collection of reports that used to be submitted by banks to the" Kazakhstan Deposit Insurance Fund" JSC.

The next stage in implementation of the "Single Window" concept will be activities aimed to consolidate metadata on indicators which are reported in line with the Credit Register with the databases of the credit histories that will serve as a source for the Unified business data base for the purposes of the National Bank and the "State Credit Bureau" JSC.

1.7. Research Work at the National Bank

Analytical and research work at the National Bank allows building a strong foundation for a scientifically proven monetary policy and macroprudential policy and promote the development of a human capital at the National Bank.

In 2019, the National Bank continued to conduct economic research and to design forecasts of key macroeconomic indicators. The outcomes of such research were published on a regular basis in various publications and were highlighted in the speeches of the National Bank's top officials.

In 2019, the National Bank conducted four forecast rounds where key macroeconomic indicators including inflation were constructed for a medium-term horizon. Based on the in-depth analysis performed as part of each forecast round and inter-forecast rounds, including a comprehensive and detailed insight into the situation in the domestic and external markets, the decisions regarding the base rate level were made. This work was accompanied by preparation and publication of analytical and research materials highlighting certain aspects of the monetary policy, fiscal policy, macroeconomic development, financial stability, and payment systems development.

Based on the outcomes of each forecast round, the National Bank was publishing press releases "On the Base Rate" as well as the "Inflation Report" official publication. In these documents, the information about the development of macroeconomic situation in Kazakhstan, external environment, development of the banking and money market, inflation forecasts for a medium-term horizon was presented. In 2019, the structure and content of the Inflation Report were updated with the focus on the enhanced analytical material and on a shorter timeframe for preparation and publication. The publication includes topical insets (boxes) of analytical nature which are devoted to the assessment of fiscal impulse, dynamics of the seasonally adjusted inflation and other topics important for Kazakhstan's economy.

In 2019, the National Bank was fine-tuning the modeling techniques that are used to construct both short-term and long-term forecasts. The work on refinement of modeling tools at the National Bank also included the receipt of Technical Assistance from the IMF whose main goal was to train the staff on the aspects of medium-term forecasting and fiscal policy analysis. As part of the IMF technical assistance, the relevance of equation parameters in Kazakhstan's quarterly projection model was verified, and calibration of certain model parameters was conducted.

In 2019, six working papers and one analytical note devoted to the monetary policy and fiscal policy issues, analysis of macroeconomic indicators, real sector development, balance of payments, assessment of a potential for improvement of the non-oil trade balance and analysis of Kazakhstan's foreign trade as well as application of modeling techniques for GDP projection were published on the National Bank's Internet-resource.

The outcomes of research work were also published in the National Bank's official publication, the "Economic Outlook". In 2019, two issues of this publication were posted on the National Bank's Internet-resource. The main topics of these articles included the matters related to the financial market, balance of payments, the use of new technologies in the monetary policy. The second issue was devoted to the second Scientific and Practical Conference of the National Bank on macroeconomic modeling that was conducted in Almaty on September 27, 2019. The purpose of the event was to discuss current topics in the field of macroeconomics: development and application of the results of macroeconomic modeling and forecasting in the decision-making, the empiric analysis in the field of the monetary policy, and problems of the labor market. The conference was attended by representatives of the academic and scientific community of Kazakhstan, the EAEU experts, representatives from the Central Bank of Russia, National Bank of Belarus and the Eurasian Development Bank.

The results of the National Bank's research are also published in the international periodicals. In 2019, an article devoted to designing of the yield curve in the market with low liquidity using the example of Kazakhstan was published in the scientific magazine of the Bank of Russia "Money and Credit" No. 4 (December 2019).

During 2019, the National Bank continued to post on its official Internet-resource a quarterly publication, "Financial Market Review", where the main trends in the financial market are analyzed with a view to provide a more complete picture of the key liquidity flows in the financial market to the market participants. Outcomes of surveys conducted among the real sector enterprises in the form of reports entitled "Market Review. The Outcomes of Enterprise Surveys in the Economy" and "Sectoral Market Review. The Outcomes of Enterprise Surveys Broken Down by Sectors" were published. In 2019, based on the enterprise surveys, the National Bank started to publish Kazakhstan's business activity index, which represents a leading indicator that characterizes the state of the economy in the real sector. This index allows studying and forecasting the dynamics of economic trends, critical and turning points of a business cycle.

With a view to implement the policy of safeguarding financial stability, the Bank went on with publishing the "Trends in the Lending"; this publication includes a review of current issues and the analysis of key trends in the development of the lending market. The annual "Review of the Oversight of Payment Systems and the Development of the Payment System Market for 2018" was published.

The detailed information regarding the research and analytical work performed by the National Bank is posted on the National Bank's official Internet-resource on a regular basis.

1.8. Providing Public Services

In 2019, the National Bank provided 2,235 public services, of which 806 public services were rendered in an electronic form, including through the "e-Government" portal – 358 services, via the "e-Licensing National Database" information system – 448; and 1,429 public services were provided in hard copies.

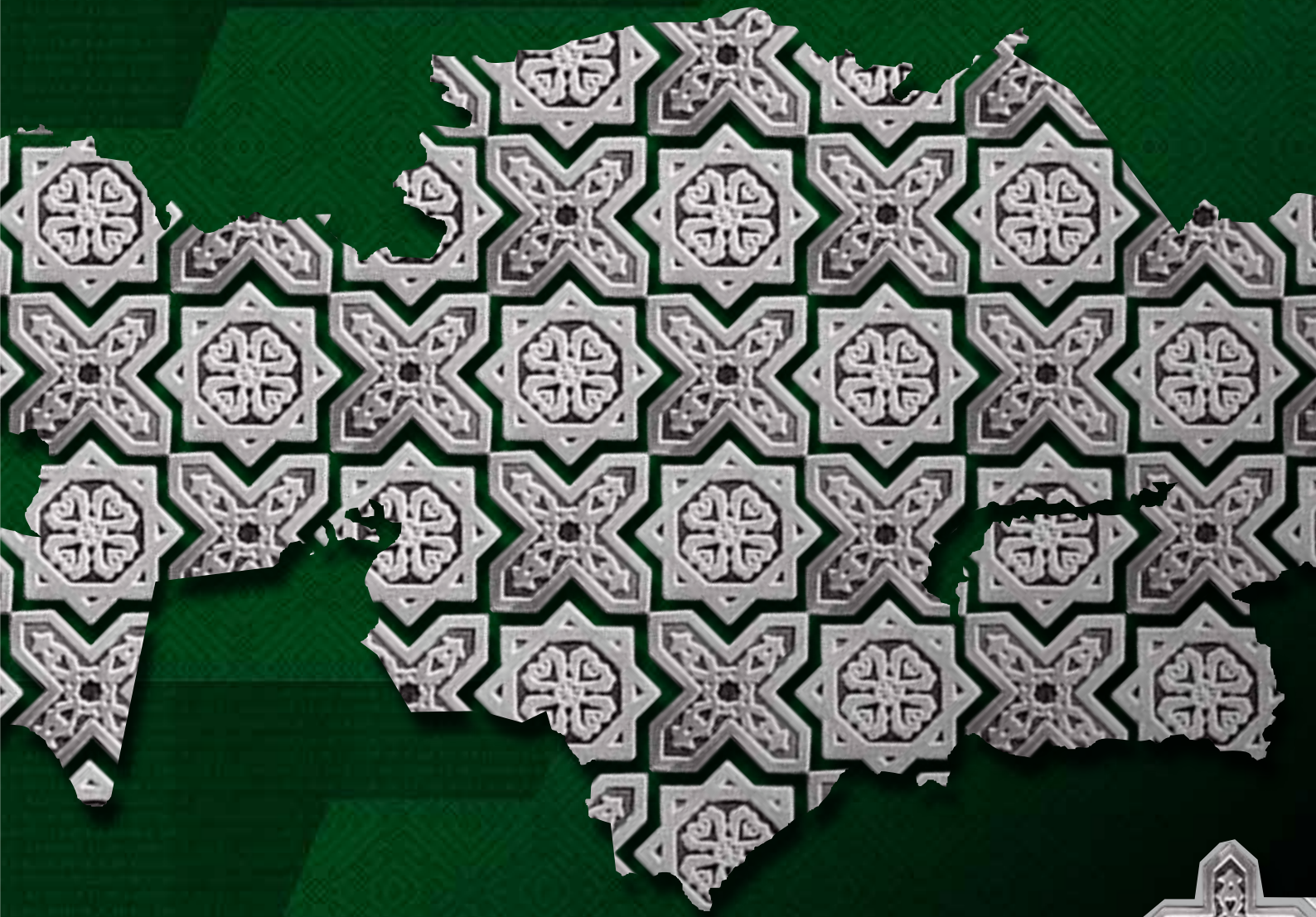
In order to optimize business processes in the provision of public services, the National Bank was taking part in the work of the inter-departmental commission on selection of public services that should be provided via the Government for Citizens Corporation. Based on the outcomes of the work done by the public services commission, the National Bank made the decision to convert one public service to a composite provision, to exclude one public service from the Public Services Register and to convert one public service to a solely electronic form of service provision.

As a result of implementation of the commission's decisions as well as of amendments made to the legislation, at end-2019 the National Bank was providing 39 public services, of which 24 were rendered electronically and 15 – electronically and in hard copy.

The Law of the Republic of Kazakhstan as dated November 25, 2019 No. 272-VI "On amendments to some legislative acts of the Republic of Kazakhstan concerning provision of public services" provides for consolidation of certain public services, reduction of the timeline for their delivery and of the list of documents to be submitted, provision of public services related to the opening of a bank and establishment of an insurance (reinsurance) organization under the principle of composite services.

Based on the outcomes of public monitoring process conducted by an independent research center, the extent of satisfaction with public services provided by the National Bank accounted for 84.4%, with the average score of 4.93 out of 5.

EXTERNAL AND INTERNAL MACROECONOMIC ENVIRONMENT



2.1. Development of the Global Economy

In 2019, the external economic environment was generally weakly positive for Kazakhstan. The declining world oil prices and metal prices, volatility in the global foreign exchange markets and financial markets as well as a feeble economic growth in the trading partner countries had been the challenges for the domestic economy. At the same time, cooling of trade tension worldwide and the reduced uncertainty about Brexit by the end of the year as well as a moderate inflation growth in Russia and in the countries of the European Union was a positive moment.

During the last two years, given a political uncertainty and weak trade and investment flows, the global economic activity was steadily declining. According to the IMF's preliminary estimates, in 2019 the global economic growth accounted for 2.9% (in 2018 – 3.6%). Slower growth rates were observed in many developed economies (USA, Germany, France, Canada) and developing economies (China, India, Russia, Mexico).

In 2019, the economic growth of Russia decelerated nearly by half and made up 1.3%[1] (in 2018 – 2.5%). A negative contribution to the GDP dynamics was made by the declining exports and decreasing transactions with real estate as well as poor performance in the construction sector and of the domestic demand. The mining and the manufacturing industry, trade and transport served as the growth drivers. By 2019, the average annual exchange rate of the ruble against the US Dollar depreciated by 3.0%[2] (in 2018 depreciation was deeper and accounted for 7.7%). As at the end of 2019, inflation decelerated to 3.0%[3] (the declared goal for inflation was 4%), being driven by expansion of food supply, a sluggish consumer demand and appreciation of the ruble by year-end.

As at the end of 2019, for the first time since 1990s, growth rates of the Chinese economy had slowed down to 6.0%[4] (in 2018 – 6.4%). Deceleration of the economic growth, first of all, had been a reflection of the trade war with the USA, resulting in the decline in exports and trade. An additional constraining effect was exerted by a sluggish domestic demand; this was discernible via low rates of retail sales including of new cars and machinery. A number of stimulative measures were undertaken in order to support the economy, including abatement of taxes, reduction of minimum reserve requirements, and interest rates on short-term loans. The exchange rate of the Chinese Yuan against the US Dollar demonstrated feeble dynamics and had depreciated slightly by the year-end only. The average annual exchange rate of the Yuan against the US Dollar depreciated by 4.5%[5] as compared to 2018, which, together with the outburst of African swine fever, turned to be the main reasons for acceleration of inflation that reached 4.5%[6] by the year-end against the target of 3.0% (in 2018 – 1.9%).

The economy of the European Union was also characterized by weaker dynamics. At the end of the third quarter of 2019, the GDP growth in the European Union made up 1.7% (in the third quarter of 2018 – 1.9%). Apart from uncertainty around the Brexit, the industrial sector, trade and exports exerted a constraining effect on the economic growth in the European Union. A negative contribution to the economic growth was also made by the car industry in Germany that had a sharp decline given the transition to new environmental standards. A strong labor market and growing wages continued to significantly support the economy. In 2019, the average annual exchange rate of the Euro against the US Dollar depreciated by 5.4%[7]. Throughout the year, inflation was smoothly decelerating; however, it accelerated to 1.6%[8] by the year-end.

During 2019, the policy rate in the USA was reduced three times. At the meeting of the US Federal Reserve System in December 2019, the decision to maintain the policy rate within the range from 1.5% to 1.75% per annum was made. Such decision was adopted in light of a strong performance in the labor market, the growing consumer spending as well as due to the fact that inflation was staying within the targeted range.

In 2019, the global oil market was characterized by a high price volatility. The most important events were associated with deceleration of the global economy amidst the progression of trade war between the USA and China, the US sanctions against Iran and Venezuela, prolongation of OPEC+ deal, a record-high growth

[1] According to the data from the Federal Service of the Government Statistics of the Russian Federation (Rosstat).
[2] According to the data from Reuters.
[3] According to the data from the Federal Service of the Government Statistics of the Russian Federation (Rosstat).
[4] According to the data from National Bureau of Statistics of China.
[5] According to the data from Reuters.
[6] According to the data from National Bureau of Statistics of China.
[7] According to the data from Reuters.
[8] According to the data from Eurostat.

of shale oil extraction in the USA and other countries outside of OPEC, as well as disruptions in oil supplies from the Middle Eastern countries. Being influenced by the above factors, the Brent oil price was reaching the maximum of 74 US Dollars per barrel but was also falling to minimum of 54.9 US Dollars per barrel[9]. During 2019, the average oil price had been at 64.0 US Dollars per barrel[10], which is by 9.9% less than in 2018.

Trends in the non-ferrous metals market in 2019 were divergent. In the first half of the year, a downward trend was typical for prices of all groups of non-ferrous metals. The largest drop in prices was recorded in June 2019. In the second half of the year, the earlier observed weak price was replaced by a gradually recovering growth. During the year, the main downward pressure on metal prices was put by the trade tension between the USA and China. An additional pressure was produced by a downturn in the industrial sector in big industrial economies and by a recession in the global car industry. In 2019 compared to 2018, the average annual price of aluminum declined by 14.9%, of zinc – by 12.6%, of lead – by 10.8% and of copper – by 7.9%[11].

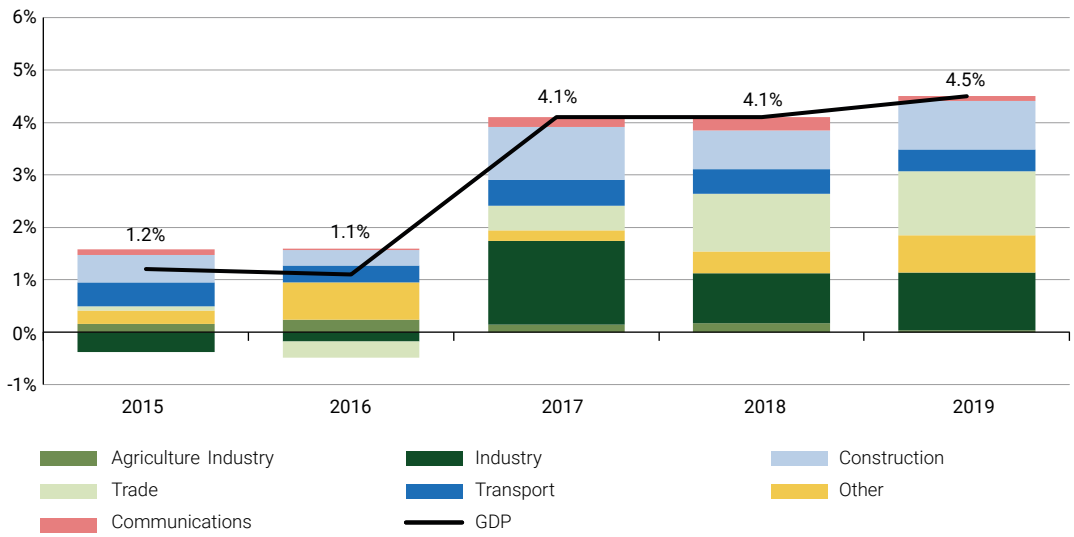
2.2. Real Sector of the Economy

In 2019, Kazakhstan's economy accelerated its growth rates as compared to 2018.

Positive growth factors included the household consumption owing to the increasing real income of the population as well as gross formation as a result of implementation of large investment projects in the industry. A positive contribution was made by the general government consumption against the increase in the budget spending on labor compensation and purchase of goods and services by the general government. The upturn of exports was supported by the accelerating exports of non-ferrous metals.

According to updated information, during 2019 GDP in Kazakhstan grew to 68.6 trillion tenge in current prices, having increased by 4.5% in real terms as compared to 2018 (Figure 2.2.1).

Figure 2.2.1. Contribution by economic sectors to the real GDP growth, as % versus the corresponding period of the previous year



[9] According to the data from Reuters.

[10] According to the data from the World Bank.

[11] According to the data from Reuters.

In 2019, the economic development was characterized by acceleration in the mining and manufacturing industries owing to extraction of minerals and their processing as well as in the wholesale and retail trade, construction and transport sectors.

During 2019, the industry advanced by 3.8% owing to a 3.7% growth in the mining industry and a 4.4% growth in the manufacturing industry. A positive contribution to the upturn in the mining industry was made by the increased output of metal ores (a 15.8% growth), namely iron ore (by 9.3%) and ores of non-ferrous metals (by 16.9%). However, after reduction in the output of crude oil and gas condensate in mid-2019 because of the well shutdowns in connection with a boosted content of stratal water and scheduled maintenance works with a complete halting of production in the main oil and gas fields, by the year-end volumes of crude oil and natural gas production restored and grew by 0.2% in annual terms.

A growth of 4.4% was observed in the manufacturing industry that was driven by an increase in production of the metallurgical industry by 4.1%, oil refinery by 6.6%, beverages by 10.2%, light industry by 13.5% and engineering by 20.9%.

Implementation of the government sector-wide support programs appeared to be a considerable factor for 12.9% growth in the construction sector. An advancement of the sector is mainly related to the construction of industrial facilities, for example, reconstruction of the "Zhairem Mining Complex" JSC, and construction and assembly works at the "Tengizchevroil" LLP. Besides, the growth in volume of construction works was also caused by road construction, ductworks under the project of "Construction of "Saryarka" main gas pipeline" and of "Abay Arena" cultural and sports complex.

As at the end of 2019, the volume of trade services went up by 7.6%. The growth in the sector was secured by the increase in sales volumes by 8.2% and 5.8% in wholesale and retail trade, respectively. The expansion of wholesale turnover was driven by the increase in sales of non-food products, namely crude oil and metals. The boost of retail sales is associated with expansion of the consumer demand as a result of the increasing money income of the population and the consumer lending.

Given a growing extraction of mineral resources as well as positive trends in trade, the boost in transport and warehousing services in 2019 accounted for 5.1%. The main contribution to the growth of the sector was made by the increased freight turnover of the motor transport.

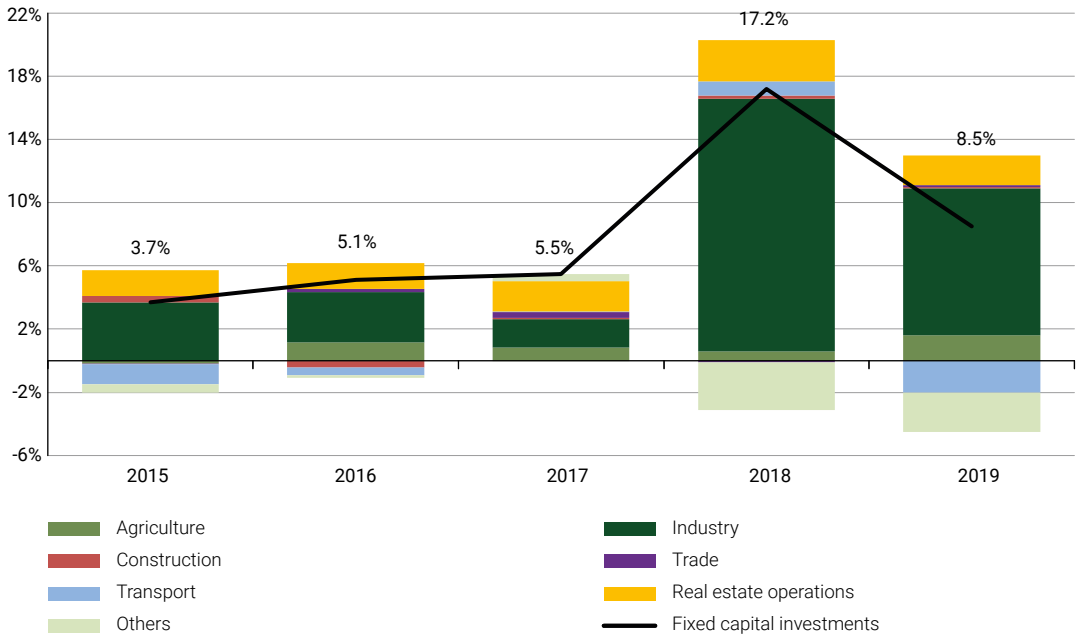
During 2019, gross agricultural output went up by 0.9%, being driven by a 4.0% growth of animal production. A 1.7% decline in the gross output of plant production caused by a poor grain crop has negatively affected the sector's development.

Communication services showed positive dynamics with their growth accounting for 5.2%. The main contribution to the sector's growth was made by the expansion of Internet and mobile communication services.

During 2019, the volume of fixed capital investments went up by 8.5% (in 2018 – by 17.2%) (Figure 2.2.2). The increase was secured mainly by higher growth rates of investments in real terms into the professional scientific and technical activities (a 51.0% growth), agriculture (41.1%), and the industry (15.0%), and real estate operations (14.7%). The largest shares in fixed capital investments are held by the mining industry (44.6%), real estate operations (13.1%), transport and warehousing (9.2%).

The key source for funding fixed capital investments is still represented by own resources of enterprises; their share in the total investment volume made up 78.8% in 2019.

Figure 2.2.2. Contribution by economic sectors to the growth in fixed capital investments, as % versus the corresponding period of the previous year

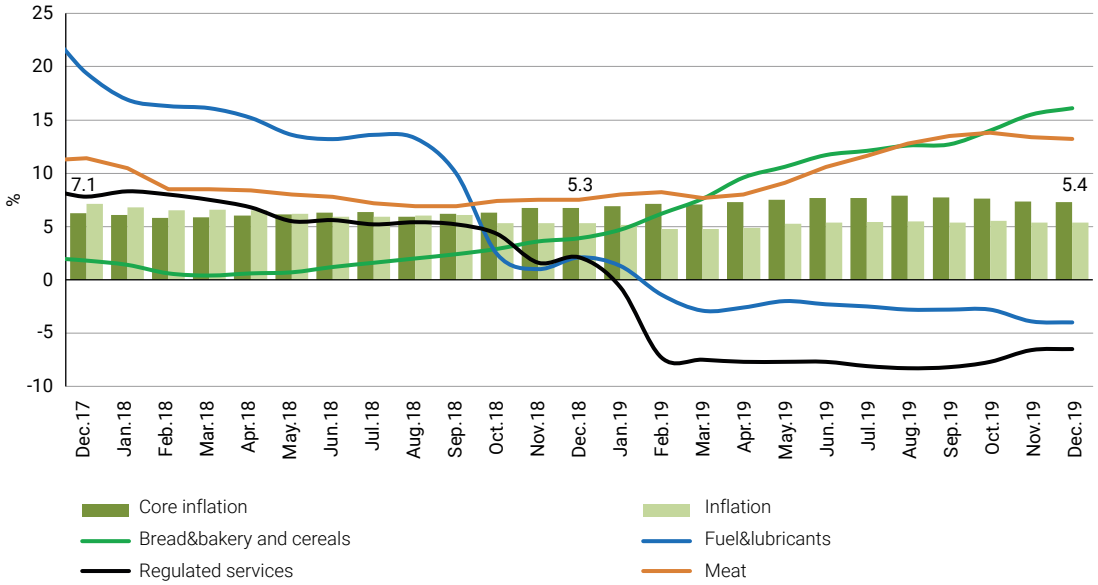


2.3. Inflation

At the end of 2019, the annual inflation in Kazakhstan made up 5.4% (in 2018 – 5.3%), being within the target range of 4-6% set for 2019.

Throughout the year, the core inflation was standing above the headline inflation, having increased to 7.9% in annual terms in August 2019 and decelerating to 7.3% by the end of 2019 (Figure 2.3.1).

Figure 2.3.1. Dynamics of the core inflation, inflation and its components



Within the structure of inflation, the price of foodstuffs went up by 9.6% (in 2018 – by 5.1%), of non-food products – by 5.0% (6.4%), and of regulated services – by 0.7% (4.5%).

Acceleration of inflationary processes in 2019 was caused by a rise in food prices, specifically, prices of meat and meat products (13.2%) as well as bread and bakery and cereals (16.1%).

In 2019, prices of meat exports went up dramatically, being accompanied by an increase in volumes of meat exports given a heightened external demand for meat (mainly, in Uzbekistan). According to the data from the Ministry of Agriculture of the Republic of Kazakhstan, in 2019 as compared to the previous year, exports of meat and meat products grew by 1.9 times expressed in terms of meat. This led to a rise in prices of meat exports that accounted for 13.5% in annual terms during January-November 2019. In addition, because of a low grain crop in 2019 prices of forage crop rose by 6.9%.

The main reason for the growth in prices of bread and bakery and cereals had been a low supply of cereals that occurred because of reduction in stocks. In the second half of 2018 – beginning of 2019, the external demand for wheat was expanding. In 2018, exports of wheat went up by 44.8%. Against this background, starting from August 2018, the stocks of wheat within the country started to decrease and they could not be replenished due to a poor yield of cereals in 2019.

According to the data from the Ministry of Agriculture, in 2019 the harvest of cereals and pulses was lower than in 2018 by 13.6%. Along with that, at the end of 2019 cereal stocks decreased by 19% as compared to 2018. Reduction in supply of cereals caused a gradual rise in agricultural producer prices and in the production of flour and bread and bakery.

Deceleration in prices and tariffs for paid services to their historical minimums happened to be a constraining factor for inflation in 2019. Prices and tariffs for paid services were slowing throughout the year; this was related to a decline in prices for regulated services. In January-February 2019, tariffs for certain types of utilities (cold and hot water supply, wastewater disposal, heating, gas supply, and electricity) were reduced. Tariffs for these services did not change in the months that followed. Electricity tariffs had been an exception; their marginal levels were increased in November 2019. As a result, in 2019 regulated services cheapened by 6.5%.

In 2019, non-regulated services appreciated by 3.6% in terms of price as a result of increase in prices of recreational services (6.8%), out-patient services (6.7%), hairdresser's services (6.0%), catering services (5.9%), house rental payments (5.1%).

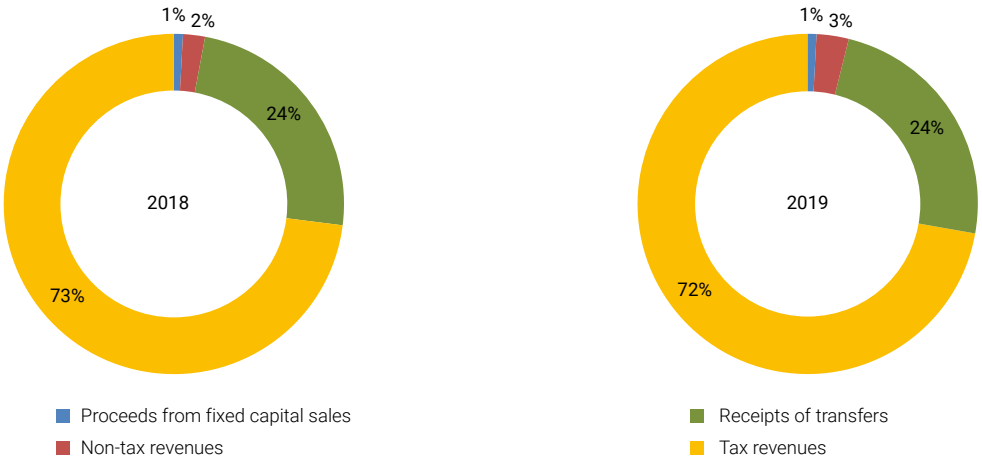
The rise in prices of non-food products was demonstrating stability: the annual growth in 2019 accounted for 5.0%. The annual decline in prices of gasoline by 4.6% as well as disinflation processes in certain markets of non-food products (clothes and footwear, household utensils, furniture) were conductive to an overall deceleration of inflation. A rapid deceleration of inflation in Russia to 3% at the end of December 2019 against the Central Bank's target of 4% was also conductive to general disinflation processes. Taking account of the fact that Russian goods constitute a major portion in consumption of non-food products (in kind), deceleration of inflationary processes in Russia had a favorable effect on the domestic pricing.

2.4. Public Fiscal Policy

Kazakhstan's fiscal policy in 2019 was characterized by the increased budget spending on social welfare and social security, on wages, retirement benefits, scholarships, and allowances. These measures of the Government of the Republic of Kazakhstan led to the growth in the expenditure side of the budget and to larger volumes of transfers from the National Fund.

As at the end of 2019, tax revenues accounted for nearly two thirds of the state budget revenues (72.2%) and transfers – for almost one third (24.1%) (Figure 2.4.1). The largest contribution to the structure of tax revenues was made by the value-added tax (29.2%), corporate income tax (21.4%) and personal income tax (9.5%), and the percentage of other taxes was 11.3%.

Figure 2.4.1. Structure of the state budget revenues, %

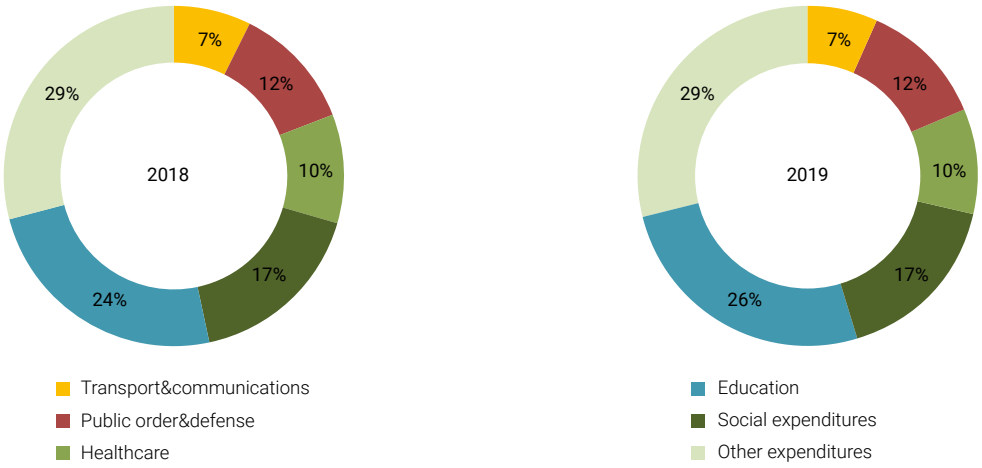


As compared to 2018, tax revenues to the country's budget went up by 16.8%. Within the structure of taxes, the largest growth had been demonstrated by the receipts from the value-added tax – by 32.4% (due to the growth in production of goods by 4.8% and services by 4.4% in key sectors of the economy, as well as the improvement of tax administration); the tax on international trade and foreign operations – by 9.9% (as a result of the rise in world oil prices and the increase of a floating rate of customs export duty on crude oil and light petroleum products); as well as from excises – by 10.1% (against a phased increase of the excise rate on tobacco and alcohol products within the EAEU framework). Receipts from the corporate income tax increased by 17%, from individual income tax – by 4.5%, and from social tax – by 12.6%.

Receipts of transfers from the National Fund to the budget went up by 18.1% from 2.6 trillion tenge in 2018 to 3.1 trillion tenge in 2019.

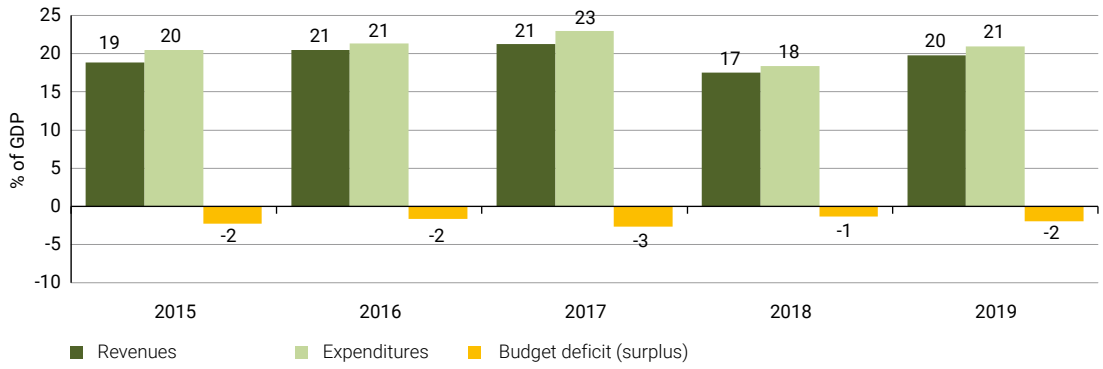
In 2019, the state budget spending increased by 19.3% as compared to 2018. A significant growth was observed on those items, which have traditionally been the main beneficiaries of the government spending. Expenditures for healthcare went up by 10.1%, for education – by 19.7%, utility service – by 22%, and for social welfare and social security – by 26% (Figure 2.4.2). A 78.2% increase in expenditures on the "Others" item stemmed from the raise of wages to certain categories of civil employees, and the staff of organizations funded from the state budget. At the same time, there was a decline in expenses on such items as the fuel and energy complex and subsoil use (by 2%) and official transfers (by 76.9%).

Figure 2.4.2. Structure of the state budget spending, %



At the end of 2019, the state budget deficit amounted to 1.3 trillion tenge, or 1.9% of GDP (Figure 2.4.3). Non-oil deficit had been at 7.9% of GDP.

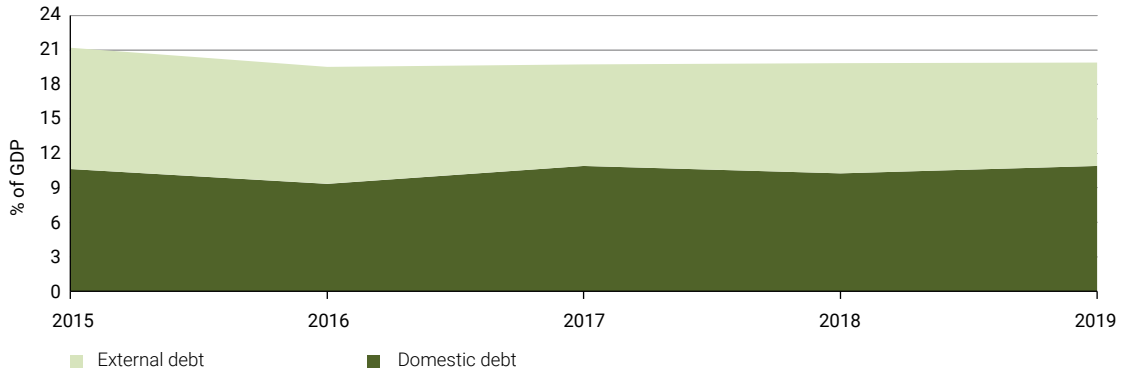
Figure 2.4.3. State budget execution



In 2019, contrary to 2018, receipts to the National Fund (excluding investment returns) were lower than the amount of resources allocated to the national budget in the form of transfers by 186.6 billion tenge. This was caused by a 9.0% reduction in the receipt of direct taxes from enterprises of the oil sector (except taxes paid to the local budget). The reduction occurred largely because of the decreased receipts from the corporate income tax (by 9.5%) and the share of the Republic of Kazakhstan in the product sharing under the concluded contracts (by 11.2%). At the same time, revenues from the windfall profit tax increased by 1.9 times.

At the end of 2019, the government external debt amounted to 5.8 trillion tenge (15.2 billion US Dollars), or 8.5% of GDP, having increased by 2.9% as compared to 2018 (Figure 2.4.4). Within the total amount of government's external debt of the Republic of Kazakhstan, Eurobonds accounted for a major portion – 58.8%, as well as foreign loans of the International Bank for Reconstruction and Development – 24.2% and the Asian Development Bank – 10.9%. The government domestic debt of the Republic of Kazakhstan went up by 16.8% because of the growth in long-term treasury obligations by 28.7% and amounted to 7.0 trillion tenge, or 10.3% of GDP at the end of the year.

Figure 2.4.4. Government debt of the Republic of Kazakhstan



2.5. Balance of Payments and External Debt

As at the end of 2019, the current account showed up a deficit of 6.5 billion US Dollars (in 2018 – 0.2 billion US Dollars) (Appendix 1 to Section 2.5, Table 2.5.1). Deficit of the current account was caused by reduction of the balance of trade surplus amidst the deteriorated external environment of world energy prices.

In 2019, world prices of Brent oil declined by 9.9% on average versus 2018, equaling 64.0 US Dollars per barrel. Exports of goods under the balance of payments classification amounted to 57.8 billion US Dollars, having decreased by 3.4% versus 2018. The cost of oil and gas condensate exports (58.1% of official exports), as compared to the indicator for 2018, went down by 11.2% mainly because of reduction of contractual prices. Exports of ferrous metals went down by 16.6% both due to reduction of contractual prices and because of decreased volumes of physical supplies. Exports of non-ferrous metals showed a minor decline – by 1.4% owing to reduction of contractual prices against the increasing volumes of physical supplies. Grain exports grew by 3.6%.

Imports of goods under the balance of payments classification amounted to 38.7 billion US Dollars, having increased by 13.0% versus the indicator for 2018. The largest increase in the value of imports was observed among investment goods (40.7% of total imports) – by 29.0%, or by 3.5 billion US Dollars. Imports of interim consumption goods decreased insignificantly – by 1.4%. Imports of consumer goods went up by 10.9%, or by 929.0 million US Dollars. Along with that, food imports increased by 5.8% and imports of non-food products grew 14.1%, or by 736.3 million US Dollars.

The deficit in the balance of international services decreased by 21.6% versus the indicator for 2018 to 3.7 billion US Dollars. While exports of services increased by 6.2%, imports of services went down by 4.6%. Foreign trade turnover on international services decreased by 0.5% and equaled 19.2 billion US Dollars.

The deficit in the balance on primary income made up 22.3 billion US Dollars, having increased by 1.0% versus the indicator for 2018, primarily due to reduction in returns of foreign direct investors with over a half of such returns being directed to finance their subsidiaries in Kazakhstan.

Returns on investments of residents decreased by 4.2% and amounted to 2.4 billion US Dollars. Half of these returns are revenues from the country's official reserves (reserve assets and foreign assets of the National Fund), which went down by 10.7% to 1.2 billion US Dollars.

Investment returns payable to non-residents increased by 0.5% to 23.2 billion US Dollars, where returns of non-residents on direct investments grew by 1.7% from 20.4 billion US Dollars in 2018 to 20.8 billion US Dollars in 2019. Of which, 77.1% are represented by returns on equity participation in the form of distributed income and dividends or in the form of a share of foreign direct investors in retained profit (or loss) of Kazakhstani enterprises (reinvestments). Payouts of interest to creditors who are not in direct investment relationship went down by 9.4% and totaled 2.4 billion US Dollars.

A net outflow on the financial account (excluding reserve assets) in 2019 amounted to 1.6 billion US Dollars (in 2018 – a net outflow of 2.6 billion US Dollars). The increase in assets of residents exceeded the growth in liabilities thus ensuring a net capital outflow on financial operations or "net lending by Kazakhstan to the rest of the world".

In 2019, a net capital inflow (a negative balance) on foreign direct investments amounted to 5.7 billion US Dollars (in 2018 – 4.9 billion US Dollars) and was secured by reduction in assets and expansion in liabilities of residents. A drop of 2.1 billion US Dollars in financial assets on foreign direct investments is related to the removal of capital of foreign subsidiaries by residents.

The rise in liabilities on foreign direct investments amounted to 3.6 billion US Dollars. Liabilities of residents on foreign direct investments increased due to reinvestment of returns of non-residents (retained profit of direct investors). At the same time, repayment by Kazakhstani enterprises of their debt obligations to foreign affiliated entities and large payments of super-dividends to non-residents that are treated as negative investment according the balance of payments classification, have partially offset the growth in liabilities of residents.

A gross inflow of foreign direct investments into Kazakhstan decreased by 0.6% versus 2018 and amounted to 24.1 billion US Dollars. Investments into extraction of crude oil and natural gas (50.1% of the gross inflow of foreign direct investments in 2019) remained virtually the same as in 2018 and equalled 12.1 billion US Dollars. Foreign direct investments into the metallurgical industry (11.6% of the gross inflow) increased by 2.1% to 2.8 billion US Dollars, into wholesale

and retail trade, motor maintenance (12.3% of the gross inflow) went down by 9.1% to 3.0 billion US Dollars.

In the structure of gross inflow of foreign direct investments by countries, the following countries are dominating: Netherlands (30.2% of gross receipts), USA (23.0%), Switzerland (9.3%), China (7.0%), Russian Federation (5.8%), France (4.4%), Belgium (3.6%) and the Great Britain (2.5%).

On portfolio investments, a net capital outflow amounted to 6.2 billion US Dollars (in 2018 – 2.6 billion US Dollars). The capital outflow was due to the growth in foreign assets of residents by 6.0 billion US Dollars, including the National Fund's assets. Reduction in liabilities on portfolio investments of 0.2 billion US Dollars in 2019 was driven by repayment of Eurobonds by banks and entities in the non-bank sector. At the same time, the 1.15 billion Eurobond issue by the Ministry of Finance of the Republic of Kazakhstan in the third quarter of 2019 had partially compensated the outflow on portfolio investments.

On medium- and long-term instruments reported under "Other investments" item, there was a net capital outflow of 0.3 billion US Dollars (in 2018 – a net capital outflow of 2.4 billion US Dollars). The inflow was secured by the growth of liabilities of Kazakhstani enterprises to non-residents on long-term credits and loans. A net outflow on short-term debt instruments went down by 33.8% from 2.2 billion US Dollars in 2018 to 1.5 billion US Dollars in 2019. A net capital outflow was enabled by a buildup of bank assets at foreign accounts, the growing receivables of Kazakhstani enterprises as well as by the increase in foreign cash held by the population.

Reserve assets (excluding the National Fund's assets) as at January 1, 2020 were estimated at 29.0 billion US Dollars, thus covering the financing needs of 6.9 months of Kazakhstani imports of goods and services.

At the end of 2019, the external debt of the Republic of Kazakhstan amounted to 156.8 billion US Dollars, where the external debt of the public sector accounted for 8.5% or 13.3 billion US Dollars, external debt of the banking sector – for 3.1% or 4.8 billion US Dollars, debt of "Other sectors" that is not related to direct investments – 26.4% or 41.3 billion US Dollars, and intercompany debt of the sector – for 62.1% or 97.4 billion US Dollars (Appendix 2 to Section 2.5, Table 2.5.2).

During 2019, the country's external debt reduced by 2.0 billion US Dollars (in 2018 – a reduction of 8.4 billion US Dollars) due to the balance of payments operations (by 2.6 billion US Dollars) and other changes (by 0.8 billion US Dollars), which were partially offset by the growing market value of Eurobonds of the government and quasi-government sector (by 1.4 billion US Dollars).

During 2019, external debt of the Government of Republic of Kazakhstan went up by 834.5 million US Dollars because of the issue of Eurobonds worth 1.2 billion Euro by the Ministry of Finance of the Republic of Kazakhstan that was partially offset by repayment of government foreign loans. The National Bank's foreign liabilities increased by 120.7 million US Dollars owing to the growing demand for short-term notes on the part of non-residents. The external debt of "Banks" (banks and the "Development Bank of Kazakhstan" JSC) shrank by 942.5 million US Dollars because of a scheduled and early repayment of Eurobonds and foreign loans.

Contraction of the external debt against steady GDP volumes helped to improve relative parameters of the external debt. The external debt to GDP made up 87.4% as at the end of 2019 (at the end of 2018 – 88.6%). However, due to reduction of annual volumes of exports of goods and services, the ratio of external debt to exports was 239.0% (at the end of 2018 – 236.7%) (Appendix 3 to Section 2.5, Table 2.5.3).

During 2019, Kazakhstan's net external debt went up by 2.5 billion US Dollars to 49.4 billion US Dollars and accounted for 27.6% of GDP.

The government sector and the sector of "Banks" act as a net lender to the rest of the world (49.1 billion US Dollars and 3.0 billion US Dollars, respectively), and "Other sectors" – as a net debtor (101.6 billion US Dollars).

MONETARY POLICY

3.1. Ensuring the Price Stability

In 2019, the National Bank implemented its monetary policy in accordance with the principles of inflation targeting. The main efforts were focused on maintaining inflation within the set target range of 4-6%.

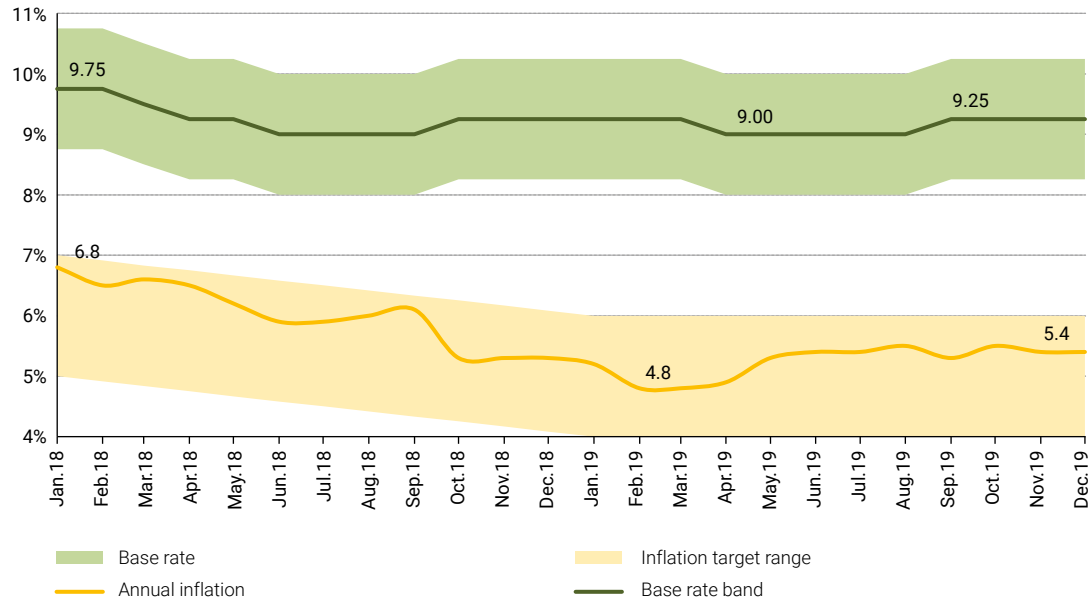
On March 26, 2019, the Agreement on coordination of macroeconomic policy measures for 2019 was signed that was drafted with a view to ensure effective communication between the Government of the Republic of Kazakhstan and the National Bank to support the well-being of the population and improvement of its living standards.

The inflation goals had been redefined. The inflation target range for 2019–2021 was set at 4–6% followed by a transition to a medium-term goal of 4% starting from 2022.

The National Bank was promoting the achievement of inflation targets by setting the base rate. The interest rate band of the base rate remained unchanged throughout the year and was +/- 1 percentage point.

During 2019, the inflation dynamics had been forming in an uneven fashion thus determining the behavior of the base rate and the monetary policy focus (Figure 3.1.1).

Figure 3.1.1. The base rate path and the annual inflation rate



On January 14 and March 4, 2019, the base rate was retained at 9.25%. The implemented decisions allowed maintaining monetary conditions neutral and were determined by persisting risks that the inflation background will increase, including risks associated with imbalance of the dynamics of inflation components.

In April 2019, the National Bank reduced the base rate from 9.25% to 9.00%. This decision was driven by deceleration of actual inflation, a stable level of inflation expectations, anticipations regarding deceleration of inflation in countries main trading partners and positive trends in the global commodity markets.

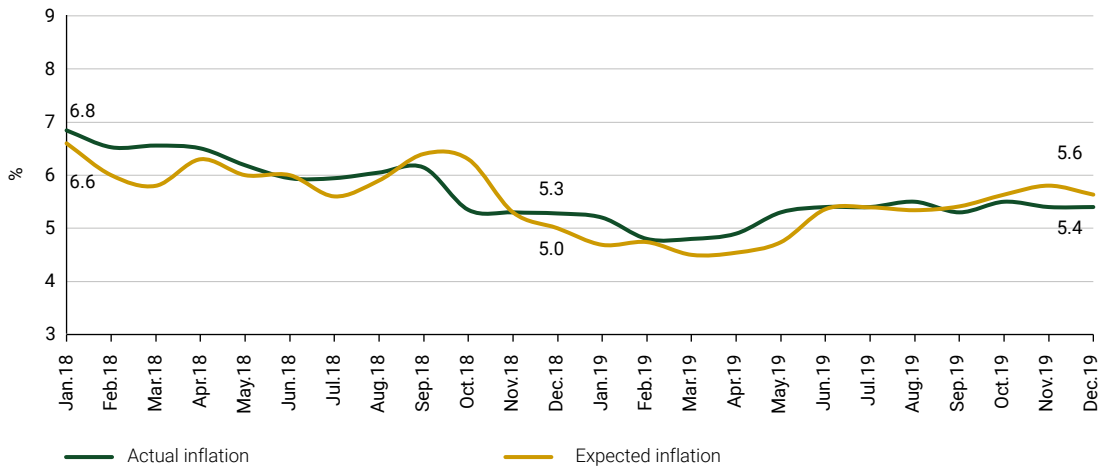
Starting from the second quarter of 2019, pro-inflationary pressure intensified being caused by a significant fiscal impulse, rise of world food prices, growth of the business activity and deterioration of the current account on the balance of payments. As a result, on September 9, 2019, the base rate was increased to 9.25%.

In October and December, 2019, the National Bank retained its base rate at 9.25%. The internal factors, particularly the expansion of consumer demand and the accelerated growth of economic activity continued to exert pro-inflationary pressure. At the same time, the impact made by factors of the external sector was neutral.

In the fourth quarter of 2019, monetary conditions were assessed as weakly contractory being driven by the necessity to take proactive measures in order to keep the inflation within the set target.

Inflation expectations of the population continue to be unsteady and exposed to impact on the part of short-term factors including shocks in some markets of goods and services (Figure 3.1.2).

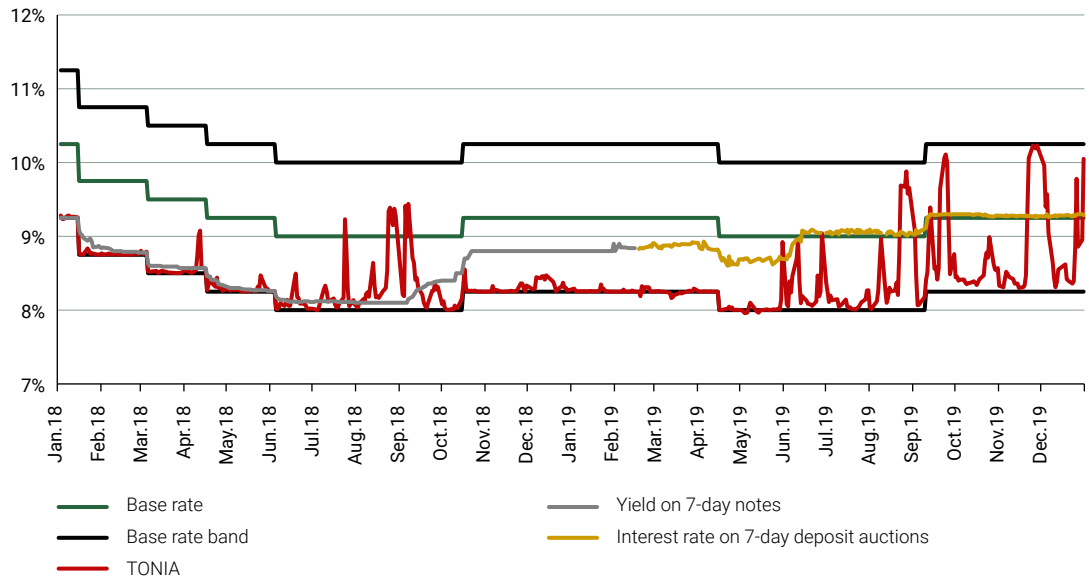
Figure 3.1.2. Dynamics of actual and expected inflation



A quantitative assessment of inflation anticipated in 12 months increased from 5.0 % in December 2018 to 5.6 % in December 2019. At the beginning of 2019, a sizeable reduction in tariffs for utility services had a downward pressure on the expected inflation. At the same time, as price of key foodstuffs that account for a significant portion of household spending were rising, inflation expectations of the population had demonstrated an upward trend in the second half of 2019.

In 2019, a structural liquidity surplus in the tenge was persisting in the banking system. The monetary policy operation measures helped to maintain the targeted TONIA interest rate within the target band of the base rate, but primarily at the lower boundary of the interest rate band (Figure 3.1.3). Individual surges of interest rates to the mid-point of the interest rate band were associated with the periods of heightened demand for the tenge liquidity given depereciation of the tenge against the US Dollar.

Figure 3.1.3. Monetary policy operations of the National Bank



In order to limit a potential realization of inflation risks, the National Bank conducted operations to binding the excess liquidity.

In implementing the monetary policy, the Bank used a set of open market instruments and standing facilities. The following monetary policy instruments were used: overnight deposits, foreign currency swaps and repo operations at the platform of the Kazakhstan Stock Exchange and, deposit auction and auction through which the National Bank's short-term notes are placed.

The bulk of excess liquidity was withdrawn by the National Bank via short-term notes with 28-day maturity and the 7-day deposit auctions. Issues of short-term notes with maturities of 3, 6 and 12 months were funneled to build a yield curve in the financial market.

With a view to make its policy more effective, from February 18, 2019, the National Bank started to conduct deposit auctions which replaced auctions of short-term notes with maturity of 7 days. 7-day deposits in the framework of standing facilities were suspended. Such changes were intended to increase efficiency of the interest rate channel of the National Bank's monetary policy transmission mechanism.

From June 2019, the National Bank started to implement a proactive policy in managing the money market interest rates. From mid-June 2019, the yield on short-term notes was increased to the level above the base rate. The increase of yields together with retention of the relevant interest rate differential along the entire short-term section of the yield curve resulted in formation of the TONIA target money market rate closer to the base rate level.

As a result, there was an overflow of resources from short-term notes to notes with a longer maturity. The share of notes with maturity of 6–12 months increased from 43% in May to 56% in December, thus limiting the potential of a quick overflow of the tenge liquidity to the foreign exchange market.

From August 2019, as part of improvement of the monetary policy instruments, changes were made to the minimum reserve requirement framework. The structure of reserve assets had been changed – the use of cash for compliance with requirements was limited to the amount of not more than 50% of requirements (earlier there was no limitation for the use of cash). Besides, changes have affected the structure of bank liabilities and ratios. The structure of bank liabilities used to calculate minimum reserve requirements is divided by currency and by maturity and consist of four types of liabilities and the following ratios:

- *short-term liabilities in the domestic currency – 2%;*
- *long-term liabilities in the domestic currency – 0%;*
- *short-term liabilities in foreign currency – 3%;*
- *long-term liabilities in foreign currency – 1%.*

Measures to expand the potential for regulation of short-term liquidity were carried on. On October 15, 2019, an additional window was launched at the Kazakhstan Stock Exchange to provide and withdraw liquidity

in the domestic currency by the National Bank via swap and repo operations. Operations are conducted by the National Bank on a daily basis from 5.00 pm to 5:30 pm at the initiative of banks.

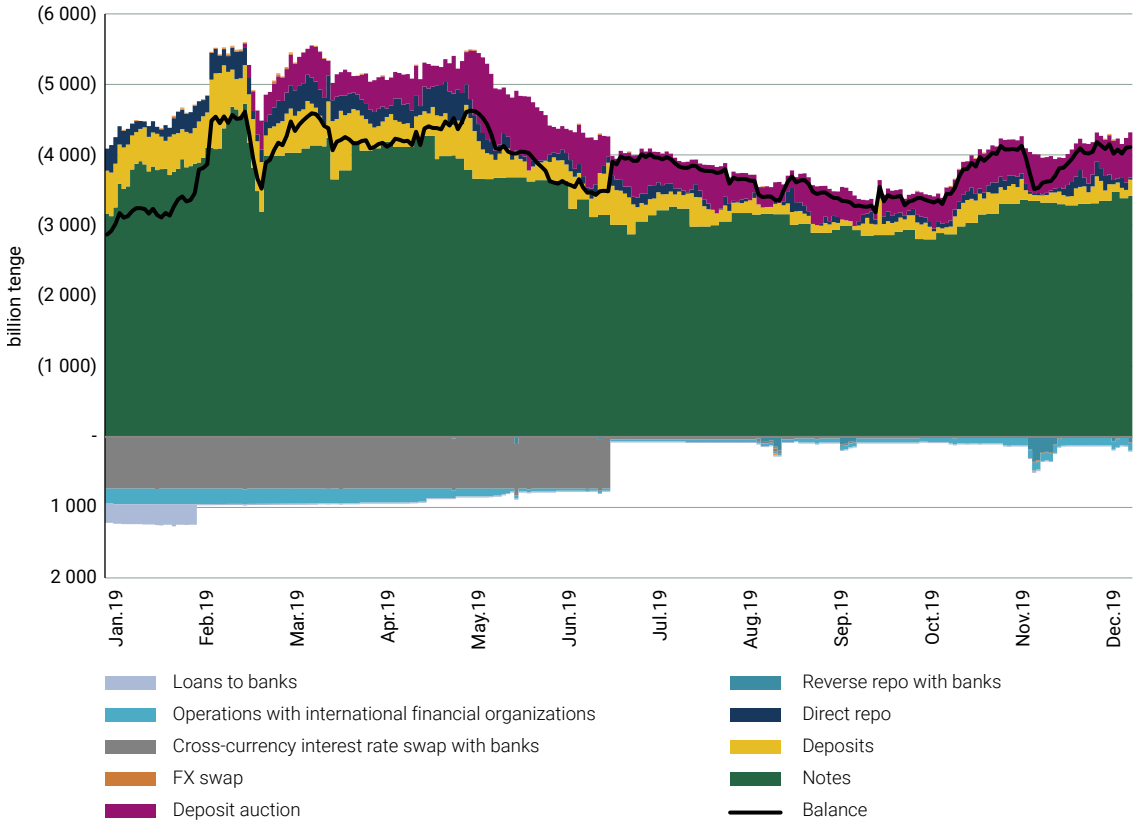
Taken together, such measures help to enhance the monetary policy transmission mechanism and to maintain the inflation at a target level.

3.2. Money Market and Foreign Exchange Market

Money Market

In 2019, the money market was functioning in the environment of excess liquidity. The structural liquidity surplus in the money market amounted to 4.1 trillion tenge at the end of 2019 (at the beginning of the year – 3.1 trillion tenge) and was putting pressure on interest rates (Figure 3.2.1).

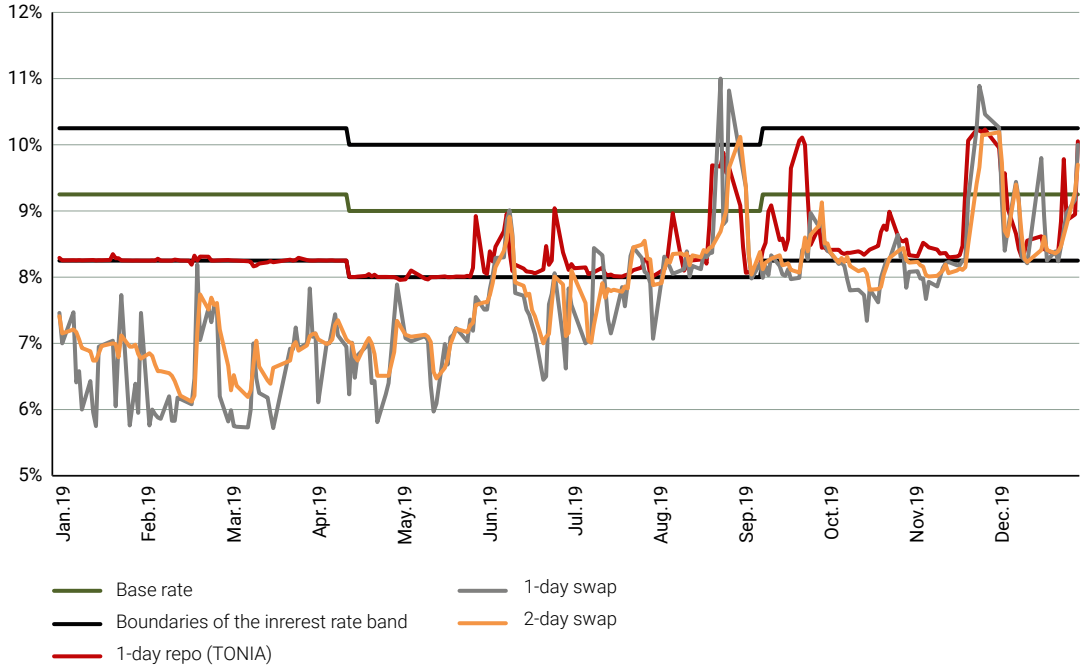
Figure 3.2.1. Exposure on the National Bank's operations



In the first half of 2019, based on resource allocations as part of the banking system rehabilitation and an inflow of temporary available budget resources to banks, most transactions in the overnight repo market were conducted at interest rates in the lower range of the interest rate band (Figure 3.2.2).

In the FX swap market, because of an outflow of foreign currency funding from the banking system, a heightened demand for the Dollar liquidity was observed. This resulted in that interest rates in the swap market were setting at lower levels as compared to the repo market. The resulting spread between interest rates allowed the market participants to enter into arbitrage transactions between the two markets thus increasing the supply in the repo market. In these conditions, occasional breakthroughs of the lower boundary of the base rate band were observed (Figure 3.2.2).

Figure 3.2.2. Interest rates in the repo and swap markets

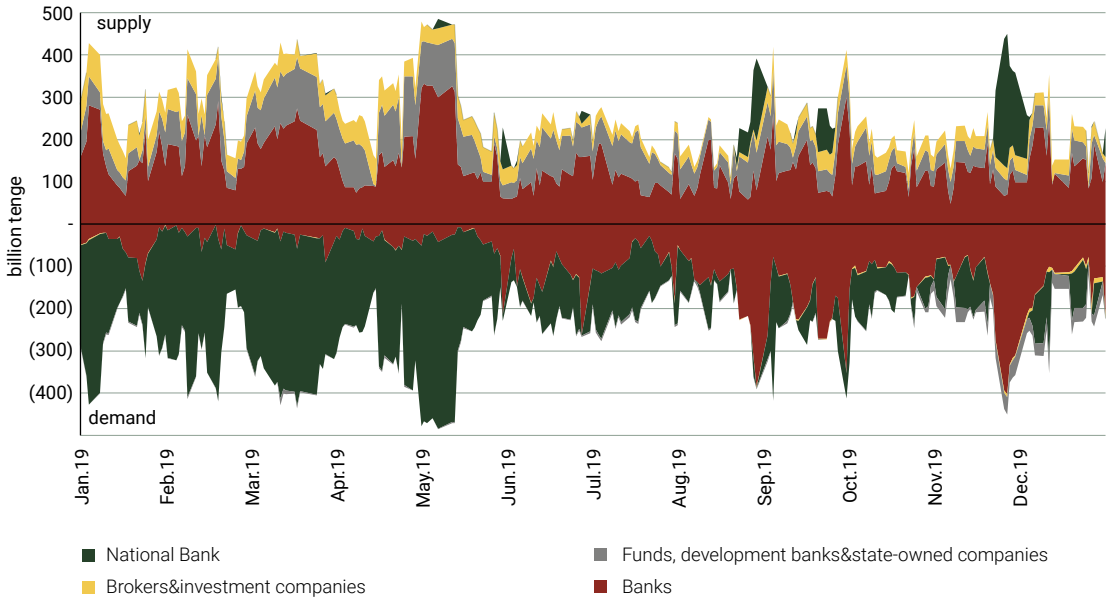


In the second half of the year, the increase in the money market rates was furthered by the National Bank's measures for boosting the yield on short-term notes and extending their maturities as well as contraction in the tenge liquidity given repayments of cross-currency interest rate swaps by banks. As a result, a targeted TONIA rate started to pull away from the lower boundary of the interest rate band and to set closer to the base rate.

In certain periods, there was heightened interest rate volatility in the market, which was caused by a short-term depreciation of the exchange rate of the tenge and the tax payment periods.

In the first half of 2019, the National Bank remained the largest participant in the market of overnight autorepo operations with government securities ensuring the yield on the tenge assets at the level of the lower boundary of the base rate band (Figure 3.2.3).

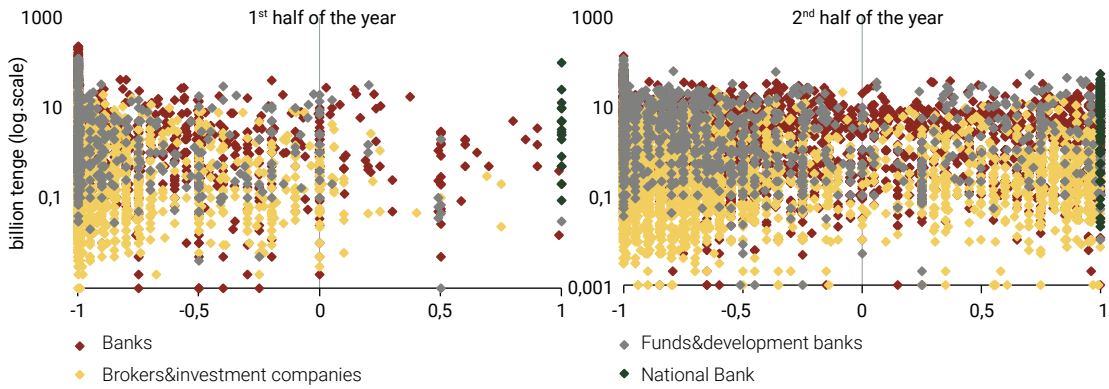
Figure 3.2.3. The structure of one-day repo market in 2019



In the second half of 2019, also due to the opening of an additional window for liquidity provision and withdrawal by National Bank in October the shares of banks both in the structure of supply and in the demand for liquidity increased while the share of withdrawals by the National Bank decreased.

As a result of those measures that were aimed to increase the monetary policy effectiveness, placements by the market participants became less concentrated within the target band (Figure 3.2.4).

Figure 3.2.4. Interest rates on placements of the tenge in the overnight repo market



*0 – the base rate level, +1/-1 interest rate band of the base rate

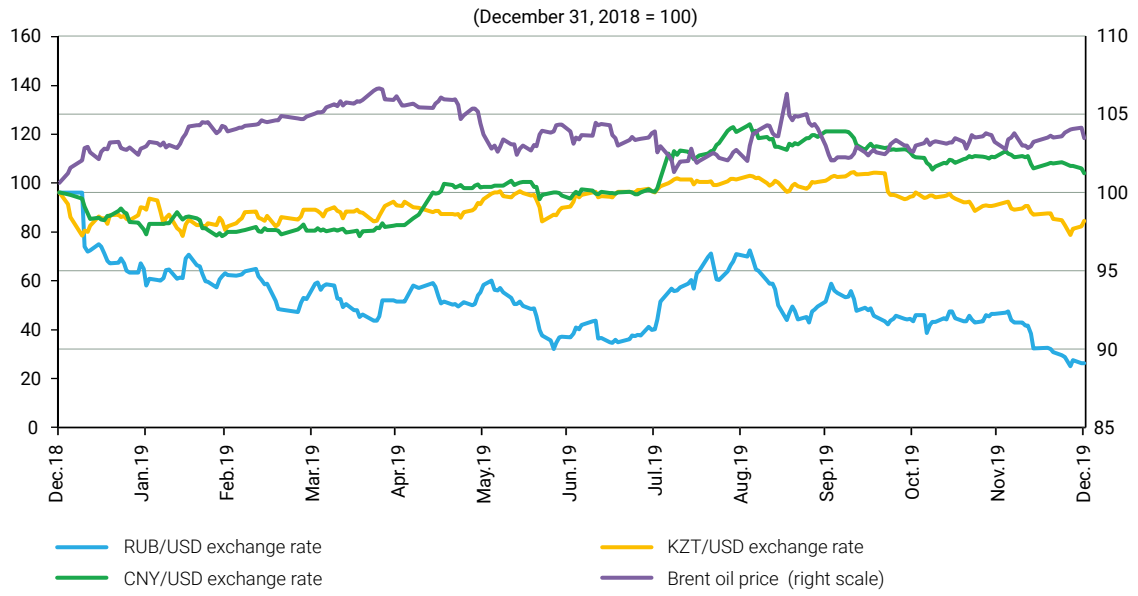
The National Bank, jointly with the Ministry of Finance of the Republic of Kazakhstan, was working on building the yield curve, increasing attractiveness of instruments in the tenge and boosting liquidity of the government securities market. The issuance of the most demanded government securities with maturity from 2 to 10 years was resumed. Successive placements of short-term notes helped to build expectations in the short-term segment of the yield curve. The Ministry of Finance was also conducting auctions to place government securities for longer maturities, thus, enabling to build expectations over a long-term section of the yield curve.

Foreign Exchange Market

In 2019, the situation in the foreign exchange market was determined by the dynamics of oil prices in the global markets and currencies of countries – Kazakhstan's trading partners.

In January–April 2019, the tenge was demonstrating an appreciation trend given a favorable situation in the global oil market and the strengthening exchange rates of domestic currencies of countries – Kazakhstan's trading partners (Figure 3.2.5). Also, the pressure on the exchange rate of the tenge was decreasing in the midst of the balance of payments current account surplus.

Figure 3.2.5. Movement of the Russian ruble, Chinese Yuan and the tenge against the US Dollar, oil prices

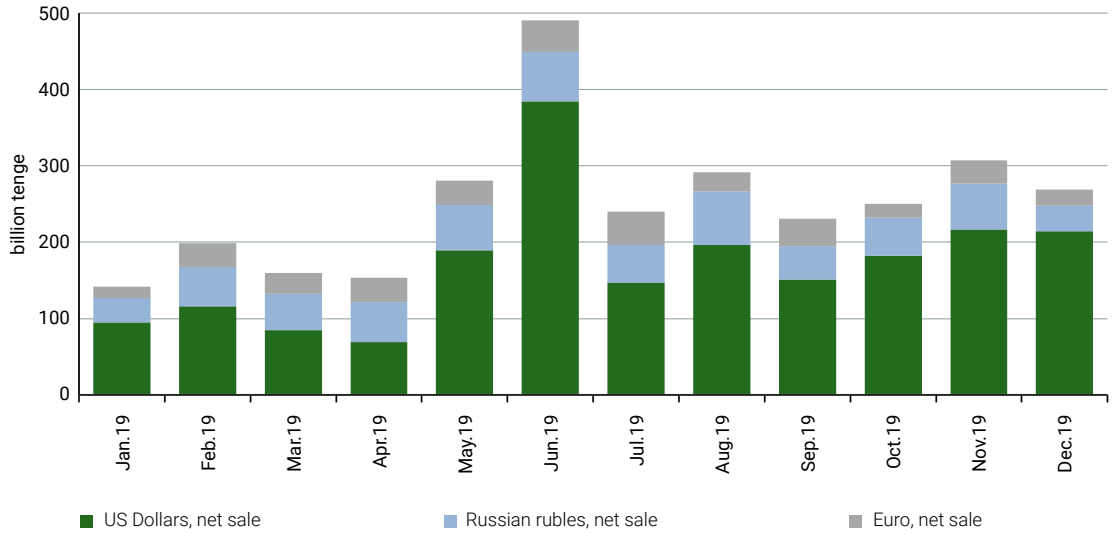


In May–August 2019, the external sector was characterized by volatility. The price of oil in the global market decllined by 17.0% from 72.8 to 60.4 US Dollars per barrel. Domestic currencies of countries – Kazakhstan's trading partners were also losing its value. The Russian ruble had depreciated against the US Dollar by 2.8%, and the Yuan – by 6.2%.

The dynamics of internal factors was also exerting pressure on the tenge. In June, negative sentiment in the society associated with expectations about depreciation of the tenge after elections of the President of the Republic of Kazakhstan intensified. There was a hightened demand for foreign exchange by the market participants in the environment of its low supply.

The highest growth in volumes of net sales of the US Dollars by exchange offices over the last four years was also observed in June 2019. However, in the following months the situation in the foreign cash market had normalized and the volume of net sales of the US Dollars was generally staying at the level of prior years (Figure 3.2.6).

Figure 3.2.6. Purchase/sale of foreign exchange by the population



In August 2019, unfavorable situation in external market was levelled down by favorable impact of internal factors. In the third decade of August, given the sales of foreign currency proceeds by exporters, the balance in the demand and supply of foreign exchange was restored and volatility of the tenge decreased.

In September–December 2019, there were favorable trends in the external sector. The price of oil in the global market went up by 9.2% from 60.4 to 66.0 US Dollars per barrel. Currencies of countries – Kazakhstan's trading partners demonstrated appreciation during the period. The Russian ruble appreciated against the US Dollar by 6.9%, and the Yuan – by 2.7%.

In November 2019, a quarterly tax week – the period when subsolil users sell their foreign currency proceeds – was also conductive to appreciation of the tenge. An inflow of portfolio investments in government securities from non-residents appeared to be the most significant internal factor, which supported the exchange rate of the tenge in December 2019.

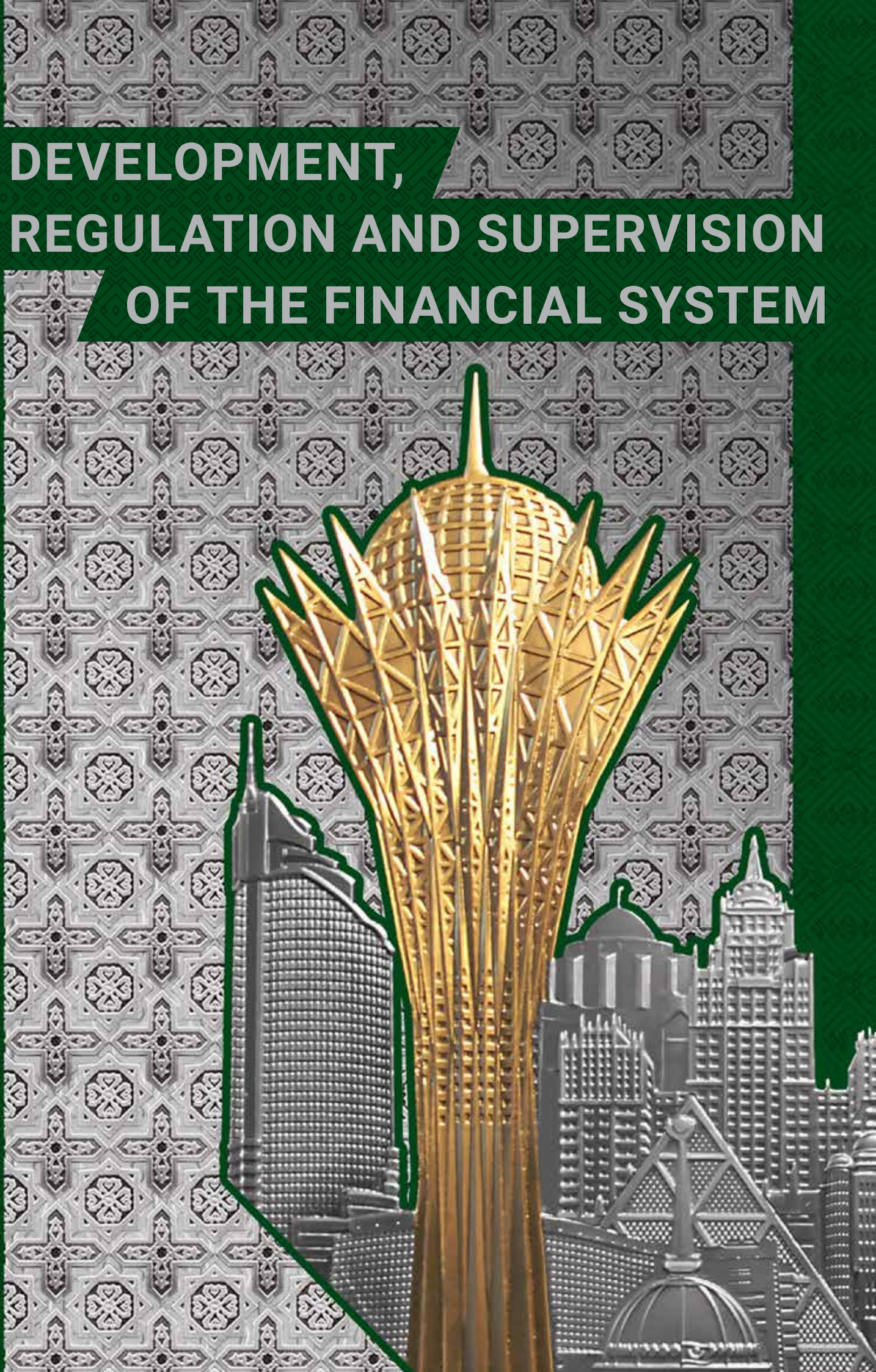
With a view to make the foreign exchange market well-balanced, within the framework of the Agreement on coordination of macroeconomic policy measures for 2019 between the National Bank and the Government of the Republic of Kazakhstan, measures were undertaken to increase the supply of foreign exchange in the market. To achieve this, a consistent reconversion of the National Fund's foreign currency assets was carried out; coordination of actions among companies of the quasi-government sector in the foreign exchange market was fine-tuned; the effort to develop the financial derivatives market in order to hedge foreign exchange risks and attract foreign investors was continued.

During 2019, the National Bank jointly with the Kazakhstan Stock Exchange implemented a number of initiatives intended to improve the foreign exchange market.

With a view to make a trading day longer and to increase availability of trades for the market participants, from July 1, 2019 foreign currency trading on the Kazakhstan Stock Exchange was extended from 3:30 pm to 5:00 pm Nur-Sultan time. A new regime of foreign currency trading is intended for expansion of opportunities for foreign participants when investing in the tenge.

The National Bank, as part of activities on ensuring transparency of operations in the foreign exchange market, published the monthly data on interventions. From August 2019, the factors of changes in the international reserves and drivers of foreign exchange market, foreign currency flows and the factors determining the exchange rate formation were explained in detail on a monthly basis. There were weekly publications of "Overview of currencies of certain developing economies" where the exchange rate movements of the tenge and of currencies of other countries are compared and the reasons and factors for their change are explained.

DEVELOPMENT, REGULATION AND SUPERVISION OF THE FINANCIAL SYSTEM



4.1. Systemic Risk Monitoring and Macroprudential Policy

In 2019, the National Bank continued with its effort to make the banking sector sounder and to create conditions for its sustainable development. An important stage in safeguarding financial stability and reducing the accumulated systemic risks was a legal reinforcement of the mandate of risk-based supervision on the principles of reasoned judgment and extension of the regulatory toolkit for regulation of undercapitalized banks. The adopted legislative amendments established a legal framework for the National Bank to perform an independent review of the bank asset quality jointly with an international consultant and independent audit companies. Bank loan portfolios and their lending activities were assessed in terms of not only loan quality and capital adequacy but also in relation to the quality of lending decisions. Reviews of asset quality and underwriting practices allow to assessthe real state of bank balance sheets, loan losses and capital adequacy, to identify the reasons for the low quality of the decisions and to elaborate measures for elimination of unsound practices and rehabilitation of banks, primarily at the expense of shareholders and related lenders. The introduction into the supervisory practice of the methods of asset quality review, which rely on the methodology of the European Central Bank, will improve the quality of bank supervision and accuracy of the banking risk assessments.

Credit risk is still the most significant risk for the Kazakhstani banking system. In 2019, the key credit risk metrics on the bank loan portfolio continued to decrease. So, the volume of loans with a high degree of default decreased, and the quality of credit decisions improved. Although, the issues of bank capital adequacy for covering expected losses and the ability of banks to make proper loan decisions remain paramount not only for the financial stability but also for the creation of a sound competitive environment in the real sector of the economy that was distorted in the prior years by admittedly inconsistent loan decisions.

The improving quality of the banking system loan portfolio was attained mostly with government support, including through the repurchase of problem loans. So, the credit risk level in the corporate sector remains high.

A large share of borrowers with unstable financial position suppresses the reduction of credit risk in the corporate portfolio. According to the enterprise financial statements, a significant portion of the real sector's debt to banks fall on enterprises with low or negative capital. The ability of such enterprises to service their debt is extremely low, so lending to them poses excessive risks for banks and the financial system. Encouraging credits to the real sector of the economy without a thorough selection of borrowers by lenders will increase the risks to financial stability in general. To minimize these risks, it is necessary to address shortcomings of legislation regarding the corporate bankruptcy and protection of the rights of businesses, eliminate the information asymmetry by increasing transparency, and strengthen the quality of bank underwriting and the competitiveness of the corporate sector.

Risks associated with consumer loans remained moderate. Although, greater penetration of consumer lending and the growing debt burden of households against the persistently high growth rates of retail lending require a conservative approach to the assessment of borrower creditworthiness at the level of individual banks and the measures for curbing the credit growth rates at a systemic level. At the same time, the debt burden of the population was growing because of the non-bank unsecured lending. To prevent the systemic risk in the retail portfolio, in 2019 the Government of the Republic of Kazakhstan jointly with the National Bank had written off penalties and fines on unsecured consumer loans with banks and microfinance organizations and repaid the debt of certain groups of the population. The National Bank also made changes to the regulations that increased the debt burden requirements and had extended the scope of regulation of retail lending.

During 2019, liquidity risks of the banking sector remained at low level given a significant reserve of highly liquid assets[12], which amounted to 9.6 trillion tenge at the end of 2019, having increased by 9% over the year; their share in total assets of the banking sector accounted for 35%. The structural liquidity surplus in the banking sector and the mechanism of interest rates control in implementing the monetary policy of the National Bank in the environment of inflation targeting and floating exchange rate regime provided stable and predictable conditions for funding in the money market.

Despite a stable situation with liquidity, a low robustness of funding still represents a vulnerability factor, which is characterized by a high concentration of lenders, especially from the public sector[13], and a low percentage of term funding. However, gradually such

[12] Excluding encumbered highly liquid assets.

[13] Include resources of government and quasi-government enterprises, community funds as well as pension assets accumulated in the Unified Accumulative Pension Fund.

risks are receding as prudential instruments are being rationalized and structural and institutional barriers for adequate recognition and distribution of funding risks are eliminated. The quasi-government sector share in the funding structure decreased in 2019 from 28% to 26%, and the share of 25 largest lenders went down from 42% to 40%. The share of effectively term deposits increased.

Risks associated with dollarization remain high even though the share of foreign currency deposits went down from 48.4% to 43.1% in 2019. The downward pattern of dollarization is mostly dependent on the plausibility of the macroeconomic policy -on the implementation of the floating exchange rate and the interest rate policy, and on the sustainability of the fiscal policy.

In 2019, a legislative reform[14] of the model of financial sector regulation was implemented, with the hive-out of supervisory functions from the National Bank. As a result, from January 1, 2020, the National Bank delegated its mandate for regulation and supervision of the financial market to a new independent authority – the Agency for Regulation and Development of the Financial Market. In addition to supervision and prudential regulation, the Agency was also delegated such functions as ensuring compliance with the rules for safe and fair conduct in the financial market, including protection of rights of the financial service consumers.

A new institutional structure of the financial market regulation allows the National Bank to eliminate the conflict of interest in implementing the monetary policy, and to focus on classical central bank functions such as ensuring the price stability, currency exchange regulation, development of payment systems and furtherance in safeguarding financial stability, including the functions of the lender of last resort. Apart from that, to preserve financial stability, the National Bank will continue to monitor and perform the assessment of systemic risks in the financial system and design measures for their downsizing.

Along with that, the safeguarding of financial stability requires coordination of the monetary policy, regulation, and supervision of the financial sector, the fiscal and economic policies. Therefore, the safeguarding of financial stability is possible only with efficient collaboration between the National Bank, Government of the Republic of Kazakhstan and the Agency for Regulation and Development of the Financial Market. Due to the split-up of the National Bank and the supervisory authority, from 2020 the role of the Financial Stability Council of the Republic of Kazakhstan as a governance board on the issues of financial stability and systemic risks mitigation was legally reinforced.

The law defined the list of topics that must be submitted by the government authorities to the Council for preliminary consideration: implementation of the macroprudential policy, anti-crisis measures, and resolution of insolvent banks. The Council's decisions are non-regulatory, thus providing the government authorities with the necessary support while not breaching the independence of their mandate.

Therefore, the above mentioned changes will enable coordination of actions between the Government of the Republic of Kazakhstan, National Bank, and the Agency for Regulation and Development of the Financial Market to increase efficiency and timeliness of decisions in case systemic risks intensify.

[14] The Law of the Republic of Kazakhstan of July 3, 2019 "On amendments to some legislative acts of the Republic of Kazakhstan regarding regulation and development of the financial market, microfinance activities and taxation".

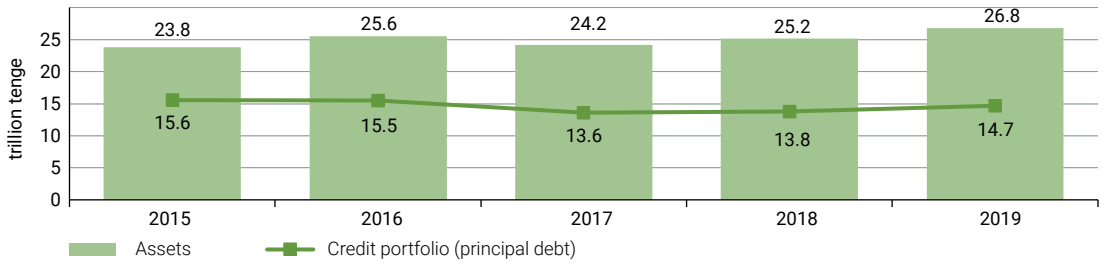
4.2. Financial Sector Development

4.2.1. Banking Sector

At the end of 2019, there were 27 banks and 7 organizations engaged in certain types of banking operations functioning in the Republic of Kazakhstan, including 3 mortgage organizations (at the beginning of 2018 – 28 banks and 7 organizations engaged in certain types of banking operations, including 3 mortgage organizations).

During 2019, assets of the banking sector went up by 1.6 trillion tenge or by 6.2% and totaled 26.8 trillion tenge (Figure 4.2.1.1). The banking sector's loan portfolio amounted to 14.7 trillion tenge, having increased by 7.1% since the beginning of 2019.

Figure 4.2.1.1. Dynamics of assets and the loan portfolio[15] of banks

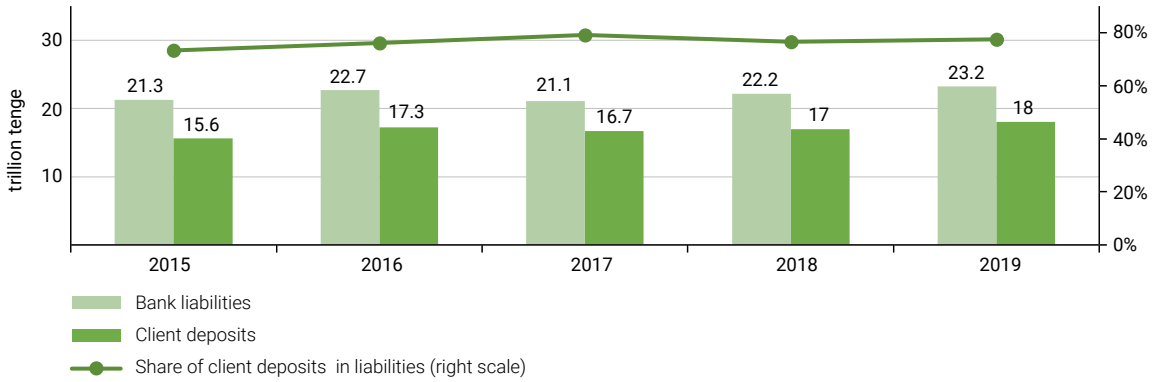


As at the end of 2019, provisions created in accordance with requirements of the international financial reporting standards for the banking sector's loan portfolio totaled 2 trillion tenge or 13.4% of the total loan portfolio.

Loans that are past due on their principal debt and/or accrued interest over 90 days amounted to 1.2 trillion tenge or 8.1% of the total loan portfolio of banks.

During 2019, bank liabilities increased by 0.9 trillion tenge or by 4.2% and amounted to 23.2 trillion tenge (Figure 4.2.1.2).

Figure 4.2.1.2. Dynamics of the banking sector's liabilities



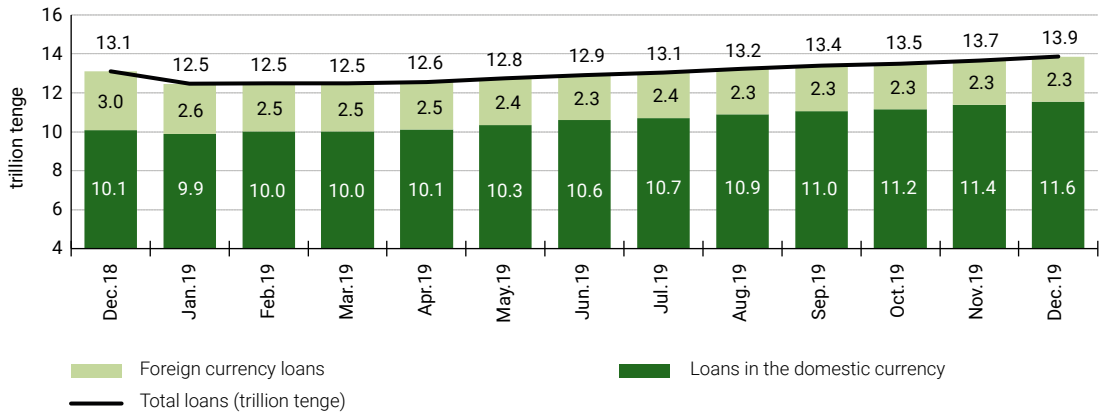
[15] The loan portfolio includes accounts from the account group 1,300 "Loans provided to other banks", 1,400 "Due from clients", 1,460 "Reverse repo operations with securities", excluding adjustment accounts (accounts 1,310, 1,311, 1,430, 1,431), discount and premium accounts (accounts 1,312, 1,313, 1,432, 1,433, 1,434, 1,435) and provisions accounts (accounts 1,319, 1,428, 1,463).

During 2019, bank credits to the economy went up by 5.9%, totaling 13.9 trillion tenge.

In 2019, long-term lending increased by 6.5% to 11.8 trillion tenge and short-term lending – by 2.7% to 2 trillion tenge. The percentage of long-term loans in the structure of bank loan portfolio accounted for 85.3% (in December 2018 – 84.8%).

During 2019, loans in the domestic currency went up by 14.5% to 11.6 trillion tenge, whereas foreign currency loans decreased by 23.1% to 2.3 trillion tenge (Figure 4.2.1.3). As a result, the relative share of loans in the tenge in the overall lending volume increased from 77.1% to 83.4%.

Figure 4.2.1.3. Bank credits to the economy



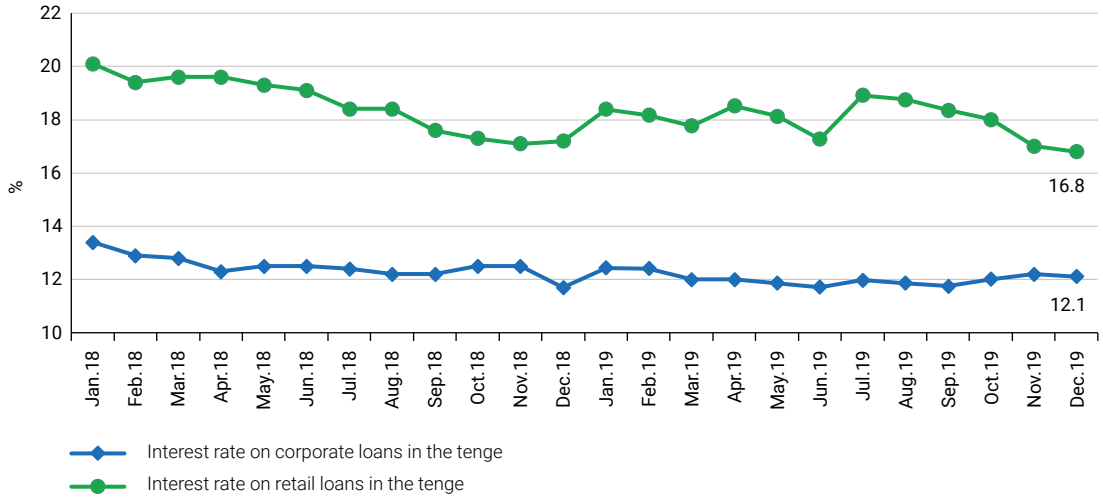
Reduction of the loan portfolio in the first quarter of 2019 was related to a write-off of a part of Tsesnabank's loan portfolio that belongs to entities from the agroindustrial sector, within the framework of bank rehabilitation measures. Largely, these loans referred to corporate loans; this caused a 7.5% decline in loans to corporate entities in 2019 that amounted to 7.2 trillion tenge at the year-end. In their composition, loans to small businesses decreased by 10.8% to 2.1 trillion tenge (15.2% of the total volume of credits to the economy).

In 2019, retail loans continued to grow. The annual growth of the retail portfolio accounted for 25.6%, reaching 6.7 trillion tenge. The relative share of retail loans went up from 40.5% to 48.0%.

In the industry-based breakdown, the largest amount of bank credits to the economy is in the industry – 13.6%, trade – 12.6%, construction – 4.9%, transport – 3.6%, and agriculture – 1.8%.

In 2019, the weighted average interest rate on credits in the domestic currency which is provided to non-bank corporate entities decreased to 12.0% from 12.4% in 2018, and on retail loans – to 18.0% from 18.5% in 2018 (Figure 4.2.1.4).

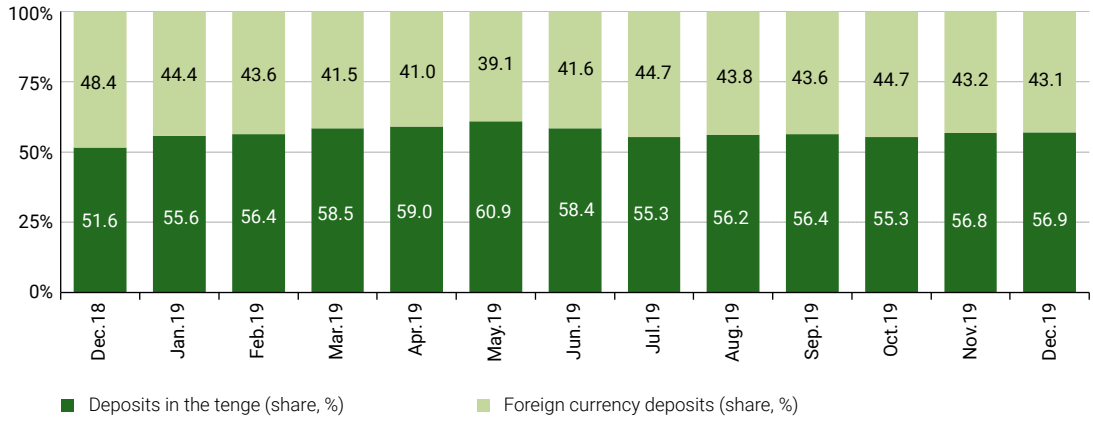
Figure 4.2.1.4. Weighted average interest rates on credits in the tenge



During 2019, deposits of residents with depository institutions increased by 2.5%, totaling 19.0 trillion tenge.

Deposits in the domestic currency have increased by 13.1% over the year to 10.8 trillion tenge, and foreign currency deposits decreased by 8.7%, amounting to 8.2 trillion tenge. As a result, deposit dollarization decreased from 48.4% in December 2018 to 43.1% at the end of 2019 (Figure 4.2.1.5).

Figure 4.2.1.5. Flow of deposits of residents

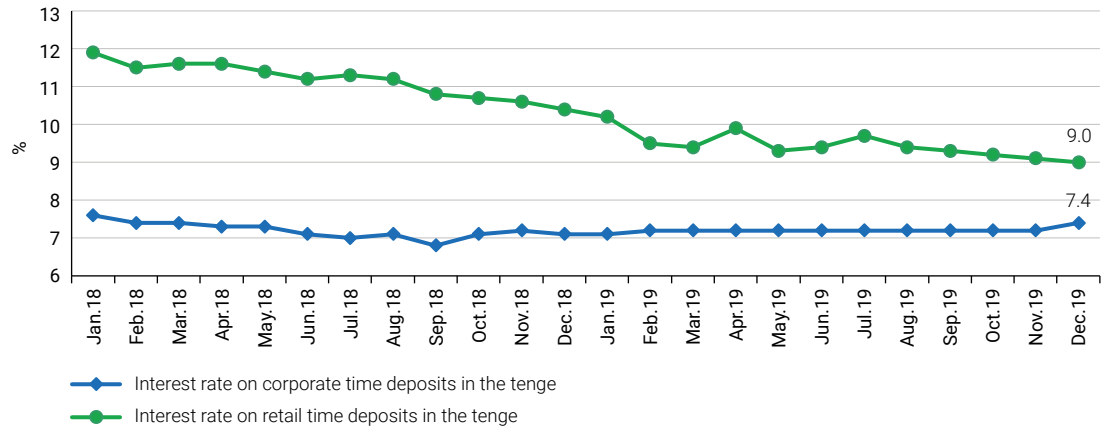


During 2019, corporate deposits decreased by 0.5% to 9.9 trillion tenge. Within their structure, deposits in the domestic currency went up by 8.4% to 5.4 trillion tenge, and foreign currency deposits went down by 9.6% to 4.4 trillion tenge. As a result, dollarization of corporate deposits accounted for 44.8% (in December 2018 – 49.3%).

Retail deposits increased by 5.9% to 9.2 trillion tenge. Deposits in the tenge expanded by 18.2% to 5.4 trillion tenge, and foreign currency deposits decreased by 7.7% to 3.8 trillion tenge. Dollarization of retail deposits made up 41.3% (in December 2018 – 47.4%).

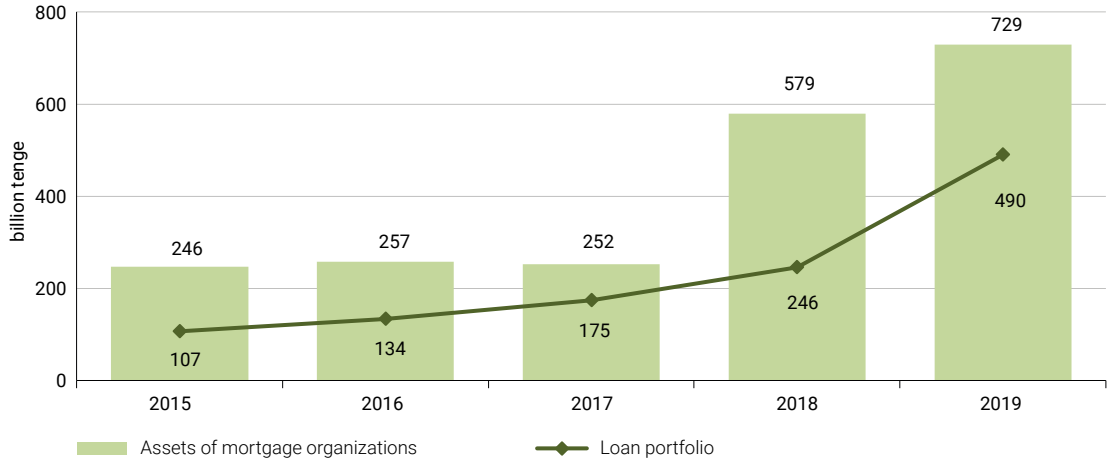
In December 2019, the weighted average interest rate on time deposits of non-bank corporate entities in the domestic currency accounted for 7.4% (in December 2018 – 7.1%), and on time deposits of individuals in the domestic currency – for 9.0% (10.4%) (Figure 4.2.1.6).

Figure 4.2.1.6. Dynamics of interest rates on time deposits in the tenge



At the end of 2019, the total amount of assets of mortgage organizations was 728.7 billion tenge, which exceeds the corresponding amount in 2018 by 149.9 billion tenge or by 25.9%. The total loan portfolio of mortgage organizations amounted to 490.0 billion tenge, which is by 243.8 billion tenge or two times larger than the corresponding indicator at the end of 2018 (Figure 4.2.1.7).

Figure 4.2.1.7. Dynamics of assets and the loan portfolio of mortgage organizations



The largest share in the total loan portfolio of mortgage organizations is represented by loans provided under the programs of "Baspana Mortgage Organization" JSC – 62.4%.

As at the end of 2019, the relative share of past due loans in the total loan portfolio of mortgage organizations accounted for 4.8%, or 23.5 billion tenge, including loans which are past due over 90 days – 1.1%, or 5.4 billion tenge.

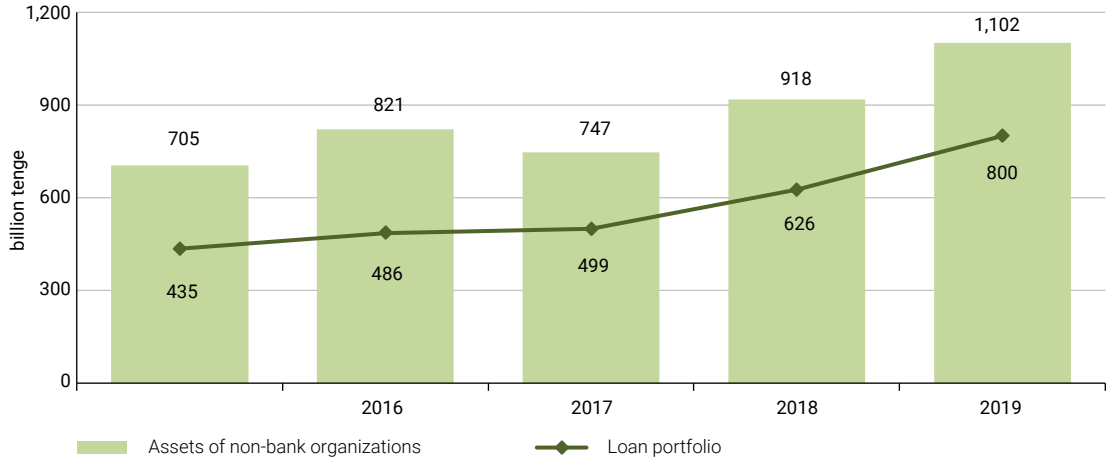
As at the end of 2019, the amount of provisions created by mortgage organizations was 6.0 billion tenge, and a relative share of created provisions in the loan portfolio accounted for 1.2%.

Other Non-Bank Organizations

As at the end of 2019, total assets of non-bank organizations[16] amounted to 1,102.1 billion tenge, having increased by 20.1% over the year.

The loan portfolio[17] of subsidiaries of the national management holding company in the sphere of agro-industrial complex totaled 799.8 billion tenge as at the end of 2019, having increased by 27.7% (Figure 4.2.1.8).

Figure 4.2.1.8. Dynamics of assets and the loan portfolio of non-bank organizations



The relative share of past due loans in the total loan portfolio of subsidiaries of the national management holding company in the sphere of agro-industrial complex at the end of 2019 was 12.3%, or 112.1 billion tenge, where the relative share of loans past due over 90 days accounted for 7.8%.

Microfinance Organizations

At the end of 2019, the number of microfinance organizations that have undergone the record registration at the National Bank was 200, with a 27% increase over the year. Most of microfinance organizations carried out their activities in the cities of Almaty (33%) and Nur-Sultan (12%).

4.2.2. Insurance Sector

At the end of 2019, the insurance sector of the Republic of Kazakhstan was represented by 28 insurance organizations, 8 of which are life insurance companies, by 13 insurance brokers and 57 actuaries.

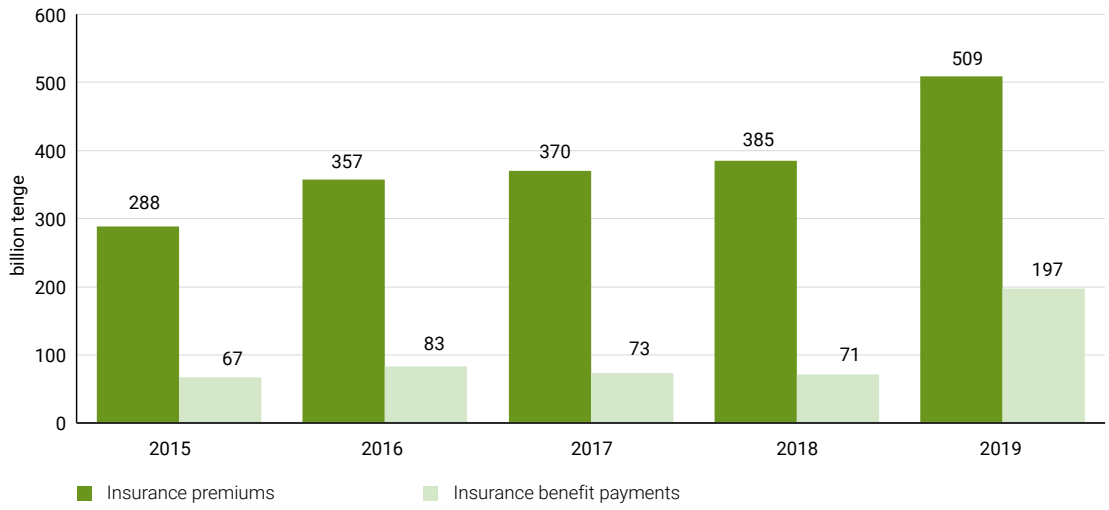
During 2019, the overall asset volume of insurance organizations grew by 15.0% and amounted to 1.2 trillion tenge at the year-end. During 2019, their total equity increased by 18.2% and made up 553.3 billion tenge. Liabilities of insurance organizations amounted to 652.8 billion tenge, which is by 12.5% larger than at end- 2018. The amount of insurance reserves equalled 570.2 billion tenge or 87.3% of total liabilities, which is by 9.8% larger than in 2018.

The total volume of insurance premiums increased by 32.1% and amounted to 508.5 billion tenge; the amount of insurance premiums under the direct insurance contracts made up 468.2 billion tenge, which is by 33.6% larger than their volume in 2018 (Figure 4.2.2.1). In the structure of insurance premiums, the major portion falls on voluntary personal insurance – 206.0 billion tenge, or 40.5% of the total volume of insurance premiums; insurance premiums worth 179.6 billion tenge or 35.3% were collected from voluntary property insurance, and 122.9 billion tenge, or 24.2% – from compulsory insurance. During 2019, the overall volume of insurance benefits paid under insurance contracts amounted to 196.9 billion tenge, having increased by 178.2% as compared to 2018.

[16] Subsidiaries of the national management holding company in the sphere of agro-industrial complex and the National Postal Operator of the Republic of Kazakhstan.
[17] Including provided financial lease, excluding reserves.

In the structure of insurance benefit payments broken down by insurance lines, voluntary property insurance accounts for 61.5%, voluntary personal insurance – for 20.6%, and compulsory insurance – 17.8%.

Figure 4.2.2.1. Dynamics of insurance premiums and insurance benefit payments



The volume of insurance premiums ceded to reinsurance made up 85.7 billion tenge, or 16.9% of total insurance premiums. In doing so, 89.5% of insurance premiums ceded to reinsurance were ceded to reinsurance to non-residents of the Republic of Kazakhstan.

3.2.3. Securities Market

At end-2019, the securities market of the Republic of Kazakhstan was represented by 39 brokers and/or dealers (19 banks and 20 non-bank organizations), 9 custodian banks, 20 investment portfolio managers, and 2 transfer agents. Also, two infrastructure organizations carry out their activities in the securities market – the Kazakhstan Stock Exchange, which is licensed to engage in organizing the trading with securities and other financial instruments and clearing activities on transactions with financial instruments in the securities market, and the "Central Securities Depository" JSC (the Central Depository) that engages in the special types of professional activities in the securities market without a license.

As at the end of 2019, aggregate financial ratios of brokers and/or dealers and investment portfolio managers as compared to 2018 grew by 43.9% in terms of assets, and by 58.9% – in terms of equity. The growth in assets is related to the increase in value of the securities portfolio. Expansion in the owners' equity was caused by the increase in the registered capital of one of professional participants in the securities market and a buildup of net profit at end-2019. Total liabilities went up by 13%. The growth in liabilties was primarily related to the increase in volume of loans taken by brokers.

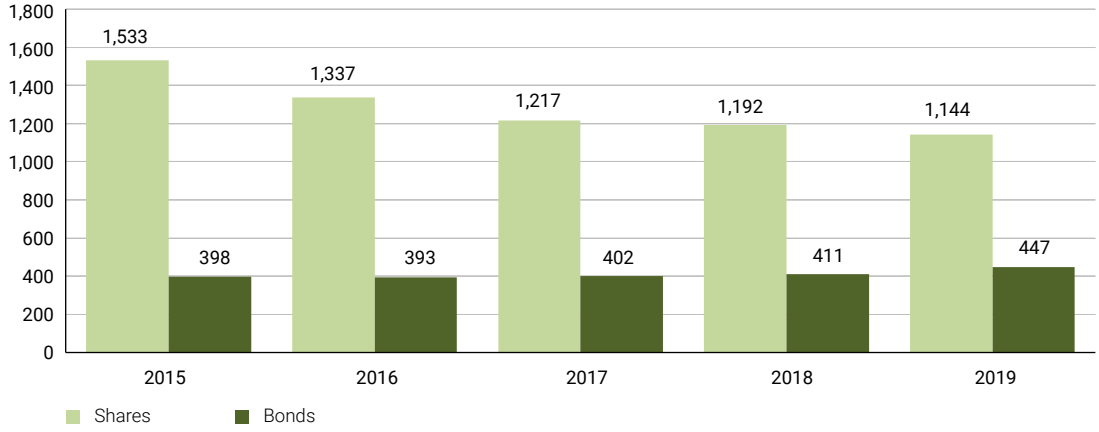
At the end of 2019, capitalization of the stock market of the Kazakhstan Stock Exchange made up 17.2 trillion tenge, having increased by 11.2% over the year. Capitalization of the bond market amounted to 12.1 trillion tenge, having increased by 12.4% in 2019.

During 2019, the transaction volume in the organized securities market increased by 8.5% and equalled 5.2 trillion tenge. The volume of transactions with corporate bonds went up by 17.6%, with government securities – by 10.8%, and the volume of transactions with shares went down by 62%.

As at the end of 2019, the volume of transactions with financial instruments in the unorganized securities market amounted to 3.5 trillion tenge, of which transactions in the international securities market made up 3.3 trillion tenge.

At end-2019, there were 1,630 issuers of non-government securities, including 1,144 joint-stock companies with effective issues of shares (Figure 4.2.3.1). A consistent reduction in the number of stock issues was occurring because of the fact that joint-stock companies were undergoing voluntary or forced liquidation procedure.

Figure 4.2.3.1. The number of effective issues of shares and bonds



During 2019, the National Bank had registered 19 issues of shares and canceled 67 issues of shares, 6 of which were canceled under suits based on resolutions of territorial specialized economic courts about forced liquidation of joint-stock companies whose registered capital is not in line with requirements of the legislation of the Republic of Kazakhstan, and 61 – on the basis of resolutions of general shareholders' meetings about reorganization or liquidation of those joint-stock companies.

At end-2019, there were 447 effective issues of bonds with the total par value of 17 trillion tenge, 256 of which were included into the official listing of the Kazakhstan Stock Exchange, including 35 bond issues from the alternative platform.

In 2019, 42 issues of non-government bonds worth 1.9 trillion tenge and 31 bond programs with an issuance volume of 1.8 trillion tenge were registered.

As at the end of 2019, 39-unit investment funds whose assets are managed by investment managers (15 – closed-end funds, 1 – open-end fund and 23 – interval funds), as well as 19 joint-stock investment funds, including 11 real estate trusts were functioning in the securities market. Total assets of investment funds amounted to 255.7 billion tenge, where assets of unit investment funds amounted to 113.3 billion tenge, assets of joint-stock investment funds – 142.3 billion tenge, including assets of real estate trusts – 136.2 billion tenge.

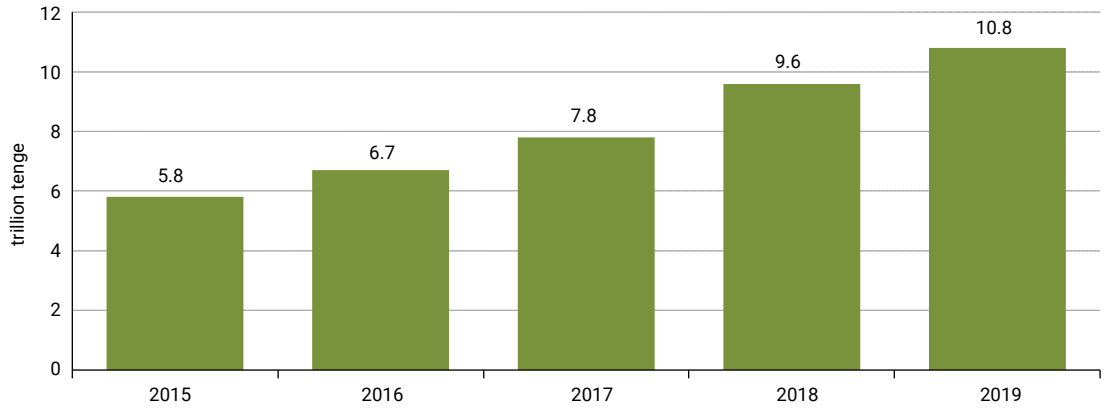
3.2.4. Pension System

At the end of 2019, the Unified Accumulative Pension Fund was the only organization engaged in the taking of mandatory pension contributions, mandatory professional contributions and voluntary pension contributions. The Government of the Republic of Kazakhstan is its sole shareholder, and the National Bank is a fiduciary manager of its shares and is engaged in management of pension assets.

At end-2019, the total volume of pension assets amounted to 10.8 trillion tenge, having increased by 1.3 trillion tenge, or by 13.1 % over the year (Figure 4.2.4.1).

The number of personal pension accounts of contributors (beneficiaries) of the Unified Accumulative Pension Fund at end-2019[18] on mandatory pension contributions was 9.9 million with a total amount of pension accumulations of 10.6 trillion tenge, on mandatory professional pension contributions – 0.5 million accounts in the amount of 246.1 billion tenge and on voluntary pension contributions – 39,900 accounts in the amount of 1.9 billion tenge.

Figure 4.2.4.1. Dynamics of the change in the total volume of pension assets of the Unified Accumulative Pension Fund



The amount of pension contributions of beneficiaries totaled 7.5 trillion tenge, having increased by 989.9 billion tenge, or by 15.2 % since the beginning of 2019.

During 2019, retirement benefit payments amounted to 210.2 billion tenge.

4.2.5. Infrastructure Organizations

Kazakhstan Interbank Settlements Center

The "Kazakhstan Interbank Settlements Center of the National Bank of the Republic of Kazakhstan" Republican State-Owned Enterprise founded on the right of economic management (Kazakhstan Interbank Settlements Center) was established with an aim to ensure stability and reliable functioning of national payment systems.

The Kazakhstan Interbank Settlements Center acts as an operating center of national payment systems that provides their technical functioning and is one of the key parties in ensuring their operation. Its key activities include effecting interbank payments, money transfers and interbank clearing; supporting operability of hardware and software systems that ensure uninterrupted functioning of payment systems; addressing issues related to ensuring security of payment systems; sale of cryptographic tools to the users, their use and storage; arrangement and support of the retail payment systems operation.

All banks, the Treasury Committee of the Ministry of Finance of the Republic of Kazakhstan, Kazakhstan Stock Exchange, Central Securities Depository and other important financial organizations are participating in the national payment systems.

In 2019, the volume of services provided by the Kazakhstan Interbank Settlements Center related to transmission of transfers went up by 7.4% as compared to 2018 from 47.2 million payments to 50.7 million payments.

[18] The number of individual pension accounts of contributors (beneficiaries) is presented excluding individual pension accounts that do not have a balance of pension accumulations as at January 1, 2019.

"Kazakhstan Deposit Insurance Fund"

The "Kazakhstan Deposit Insurance Fund" (the Insurance Fund) is an operator of the deposit insurance system and ensures the financial system stability, protection of rights and legitimate interests of depositors by paying the guaranteed reimbursement to depositors in case of a forced liquidation of its member bank. From January 1, 2020, a banking license revocation of a member bank serves as a basis for starting the guaranteed payouts.

That key functions of the Insurance Fund include: keeping the register of banks participating in the mandatory deposit insurance system; building a special reserve for making the guaranteed payouts; selecting an agent bank on a competitive basis; making a guaranteed payout; taking part in the temporary administration, liquidation commission of a member bank and the creditor's committee up to the moment when the debt on the amount of paid (payable) guaranteed payout is cleared off; participating in the purchase and assumption of a failed bank; asset investment.

At the end of 2019, the Insurance Fund's assets amounted to 849.9 billion tenge, of which 314.4 billion tenge falls on the Fund's equity. Own resources of the Guarantee Fund are invested by the National Bank based on the principle of maximum safety and minimum risk of a loss in the value of accumulated reserves.

As at the end of 2019, 25 banks were participating in the deposit insurance system, except two Islamic banks – "Islamic Bank Al-Hilal" JSC and "Islamic Bank Zaman-Bank" JSC.

All types of deposits and bank accounts of bank clients – natural persons and individual entrepreneurs that are opened with the member banks in the amount not exceeding 15 million tenge on saving deposits in the tenge, on time deposits in the tenge – 10 million tenge and on foreign currency deposits – 5 million tenge should be insured.

To make the guaranteed payouts, the Insurance Fund on the accumulative basis builds up a special reserve which is formed of: assessments of member banks; fine which is charged on member banks for their failure to perform or undue performance of obligations under the deed of accession; monies received in satisfaction of claims of the Insurance Fund in the course of bank liquidation; investment return on assets from the special reserve and own resources of the Insurance Fund.

The special reserve covers 6.6% of retail deposits thus exceeding the target level of deposit insurance – not less than 5% of the amount of all insured deposits with member banks.

In terms of quantity, 99.8% of retail deposits were covered (within the maximum insured amount) in full by the guarantee of the Insurance Fund, and in terms of volume – 4.2 trillion tenge, or 44.8% of total deposits of individuals. According to international requirements, the limit for a guaranteed payout should be set in such a way so that the coverage in terms of the quantity of accounts is not less than 90%, and in terms of the total amount of deposits – not more than 50%.

Total liabilties of the Insurance Fund on guaranteed payouts in respect of 720,257 depositors of banks under liquidation amount to 77.6 billion tenge; out of this number, as at January 1, 2020, the Insurance Fund made guaranteed payouts to 132,219 depositors of 76.3 billion tenge, or 97% of the total amount payable (Table 4.2.5.1).

Table 4.2.5.1. Liabilities of the Insurance Fund on guaranteed payouts

Name of a forcibly liquidated bank	Starting and final date of payouts	Amount of liabilities on guaranteed payouts, million tenge	Guaranteed payouts made as at January 1, 2020, million tenge	Share of the total amount payable[19]
"Delta Bank" JSC	17.05.2018–21.05.2020	201.2	93.5	46%
"Qazaq Banki" JSC	24.12.2018–24.06.2020	20.5	20.3	99%
"Bank Astana" JSC	26.01.2019–26.07.2020	37.6	37.1	99.6%

[19] The remaining unpaid amount owed to depositors of "Nauryz Bank Qazaqstan" JSC, "Valut-Transit Bank" JSC, "Eximbank Kazakhstan" JSC and "Kazinvestbank" JSC of KZT 517.2 mln largely consists of the so-called "dormant accounts" with small amounts, where depositors had not applied to the Kazakhstan Deposit Insurance Fund for the guaranteed payout in respect of such accounts.

The Insurance Fund is a member of the creditor committee of the following banks undergoing forced liquidation: "Valut-Transit Bank" JSC on claims under the 3rd order of priority for the amount guaranteed payouts, "Bank Astana" JSC and "Qazaq Banki" JSC on claims under the 2nd order of priority for the amount of guaranteed payouts (Table 4.2.5.2). The employees of the Insurance Fund are members of liquidation commissions of "Valut-Transit Bank" JSC, "DeltaBank" JSC, "Qazaq Banki" JSC and "Bank Astana" JSC.

Table 4.2.5.2. Liabilities of Banks under Liquidation to the Insurance Fund

Name of a Forcibly Liquidated Bank	Amount of Liabilities Discharged by the Liquidation Commission on Effected Guaranteed Payouts as at January 1, 2020		Total Amount of Liabilities on Effected Guaranteed Payouts
	(billion tenge)	(%)	(billion tenge)
"Bank Astana" JSC	4.5	12.05	37.6
"Valut-Transit Bank" JSC	10.3	56.23	18.3
"Delta Bank" JSC	0.201	100	0.201
"Qazaq Banki" JSC	1.3	6.24	20.5

In the context of fine-tuning the deposit insurance system, from January 1, 2020, there is a requirement that the starting date of guaranteed payouts by the Insurance Fund will be reduced to 35 business days and the interest on deposits which was accrued at the date when the banking license of a member bank was revoked will be covered by the guarantee.

The Insurance Fund determines the amount of differential rates of mandatory assessments for member banks basing on the bank's risk profile and in doing so, it uses its own risk assessment model. With a view to get objective results in monitoring a real financial position of banks, the Insurance Fund has designed a new model for assessment of financial position of member banks that became more sensitive to the change in financial standing of banks and enables to identify risks at an early stage.

The Insurance Fund is involved in the public awareness effort on an ongoing basis with an aim to increase awareness and financial literacy among the public as well as to underpin confidence in the mandatory deposit insurance system in particular and in the banking system in general. The Insurance Fund had taken all necessary measures for effective communication with depositors of banks undergoing liquidation starting from the time when their banking licenses had been revoked: it was posting updated information on its official website; launched a free call center service, communicated in messengers; published newsletters jointly with the National Bank.

State Credit Bureau

The main activities of the "State Credit Bureau" JSC (State Credit Bureau) include building the database of credit histories and providing credit reports as well as building and maintaining a common insurance database.

During 2019, an effort was made to build and maintain the insurance database to design and operate the information analytical system for statistical accounting; to build up insurance statistics, analyze and summarize the data on the insurance market; for automatic calculation of insurance premiums under compulsory insurance contracts as well as on integration with the government databases.

Agreements of information cooperation were entered into with the owners of seven government databases that are highly demanded among the financial market participants (databases of the Ministry of Justice of the Republic of Kazakhstan, Ministry of Internal Affairs of the Republic of Kazakhstan).

Preliminary work was conducted in respect of entering into agreements on delivery of information and subsequent transfer of information from credit partnerships and Lombards to the State Credit Bureau.

In 2019, the State Credit Bureau took part in the project for reducing the debt burden of individuals in the Republic of Kazakhstan. As part of the project, the State Credit Bureau was engaged in collecting information from banks and microfinance organizations concerning loans of individuals who belong to vulnerable social groups of the population and calculated the amounts

on reduction of the debt burden by each entity for submission to the "Problem Loan Fund".

In 2019, the State Credit Bureau was performing comprehensive works on all areas of its activities including technical functioning of services in uninterrupted mode, on optimization of the credit report upload speed and development of additional services apart from credit reports with a view to expand the product line.

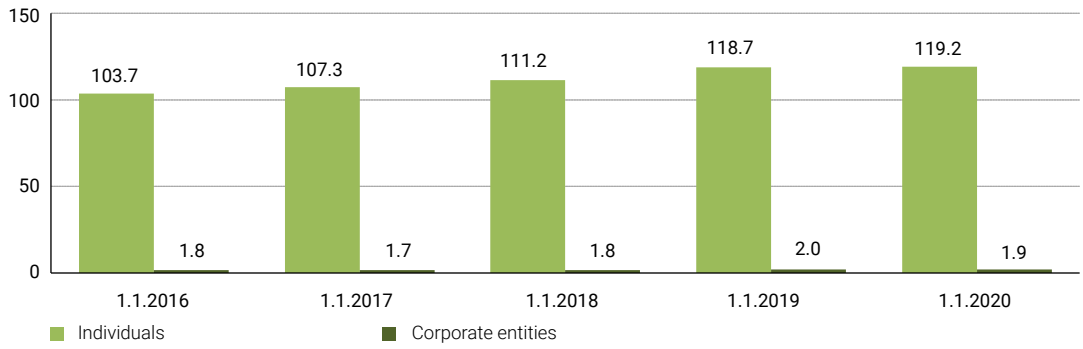
Central Depository

The Central Depository is an infrastructure organization in the securities market of Kazakhstan and is engaged in exclusive types of professional activities in the securities market, namely, depository business, and from January 1, 2019 – the activities related to maintaining the system of registers of securities holders.

In order to increase transparency of the OTC securities market and to spur the demand for financial instruments, an integrated information system of the OTC securities market had been established on the basis of the Central Depository that will allow the market participants to exchange quotations of securities and enter into transactions.

At the end of 2019, the number of opened sub-accounts of customers – depositors of securities in the accounting system of the Central Depository was 121,168, having increased by 475 sub-accounts or by 0.4% over the year (Figure 4.2.5.1).

Figure 4.2.5.1. Number of sub-accounts in the accounting system of nominal holding

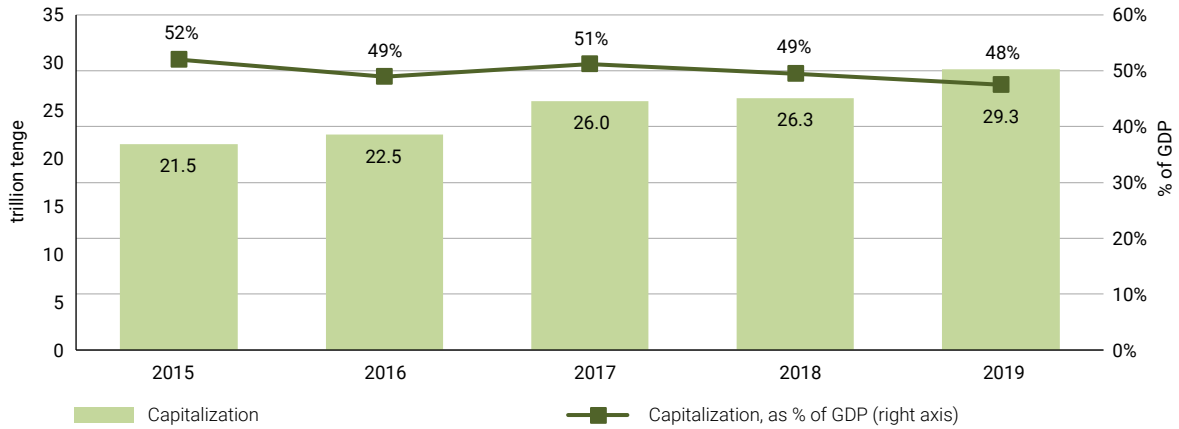


Kazakhstan Stock Exchange

As at the end of 2019, the structure of the Kazakhstan Stock Exchange's official listing was represented by 138 issues of shares of corporate issuers (21.4% of the total number of securities issuers included into the official listing), including 50 issues of shares at the alternative platform; 256 issues of bonds of corporate issuers (39.6%), including 38 issues of bonds at the alternative platform; 209 issues of government securities (32.4%); 30 issues of securities of international financial organizations (4.6%); 11 issues of securities of investment funds (1.7%) and 2 issues of derivative securities (0.3%).

Overall capitalization in the market of non-government securities included into the official listing of the Stock Exchange during 2019 increased by 11.7% and amounted to 29.3 trillion tenge (Figure 4.2.5.2).

Figure 4.2.5.2. Capitalization of the Kazakhstan Stock Exchange



In 2019, the volume of transactions with non-government securities (including the repo sector) in the organized market went up by 4.6% and amounted to 4.6 trillion tenge, including transactions worth 1 trillion tenge in the secondary securities market, 2 trillion tenge in the primary market, and 1.6 trillion tenge – in the repo sector.

In 2019, the volume of stock exchange transactions with government securities (including the repo sector) in the organized market amounted to 73 trillion tenge, having decreased by 4.1% as compared to 2017 due to a smaller volume of repo operations.

During 2019, the control was exercised over implementation of the strategic agreement between the Kazakhstan Stock Exchange and the Public Joint-Stock Company Moscow Exchange MICEX-RTS that provides for a purchase of shares of the Kazakhstan Stock Exchange by the Moscow Exchange in two stages. Based on the first stage of transaction, the Moscow Exchange owns 3.36% of the Kazakhstan Stock Exchange.

The Expert Panel, which was operating at the Kazakhstan Stock Exchange platform and was dealing with recognition of transactions with securities and other financial instruments as manipulatory, was dissolved since the National Bank was delegated the function of arranging the activities of a committee in charge of addressing such issues.

From January 1, 2019, the Expert Panel dealing with recognition of transactions with securities and other financial instruments as manipulatory started to function as part of the National Bank.

Kazakhstan Sustainability Fund

The "Kazakhstan Sustainability Fund" JSC (Sustainability Fund) was participating in implementation of government programs.

Within the framework of actions taken to rehabilitate the agroindustrial complex of the Republic of Kazakhstan, 904 billion tenge were added to the Sustainability Fund's registered capital.

With a view to implement the Program for Providing Long-Term Liquidity in the Tenge for Financing of Priority Sectors of the Economy, loans in the amount up to 400 billion tenge are provided for execution of projects in the manufacturing industry and in the service sector, projects on processing in the agroindustrial complex up to 100 billion tenge and production in the agroindustrial complex in the amount up to 100 billion tenge. The interest rate on these loans for a borrower is up to 6%. The Program's total amount is 600 billion tenge, of which 300 billion tenge should be disbursed via the Sustainability Fund. 220 billion tenge were added to the Sustainability Fund's registered capital as part of the Program.

With an aim to realize a comprehensive effort for reducing the debt burden on the population via the mechanism of remission of penalties and fines on consumer loans to individuals, 17.5 billion tenge were added to the Sustainability Fund's registered capital.

In order to comply with the terms and conditions of the Lending Program for buyers of the domestically manufactured cars, 20 billion tenge were added to the Sustainability Fund's registered capital.

With a view to further implement the Program for Increasing Financial Soundness of the Banking

Sector, in 2019 the Sustainability Fund continued to monitor how banks fulfil their plans for increasing financial soundness.

In 2019, the Sustainability Fund was monitoring compliance with the Program for Residential Mortgage Loans/Mortgage Loans Refinancing.

"Baspana" Mortgage Organization

The "Baspana" Mortgage Organization" JSC ("Baspana" Mortgage Organization) was established to implement the Residential Mortgage Lending Program, "7-20-25. New Housing Opportunities for Every Family" and to make residential mortgage loans more affordable for the people.

At end-2019, 23,948 loan applications were filed and received under the "7-20-25" Program totaling 270.3 billion tenge; 12,012 loans amounting to 138.5 billion tenge were provided; where 11,464 loans equaling 131.6 billion tenge had been repurchased.

38,638 loan applications totaling 315.5 billion tenge were accepted under the "Baspana Hit", a market mortgage product; 18,042 loans in the amount of 143.5 billion tenge were provided including 16,287 repurchased loans equaling 128.4 billion tenge.

At end-2019, the "Baspana" Mortgage Organization" JSC placed bonds in the securities market with the total par value of 248 billion tenge.

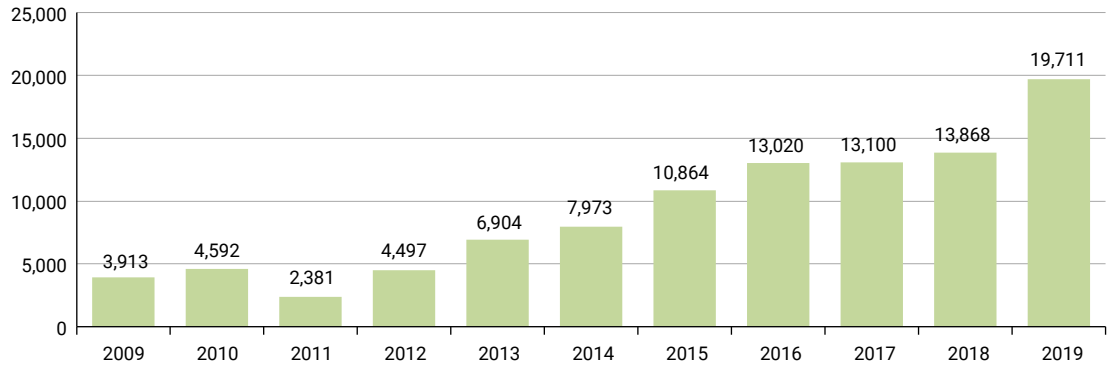
On December 25, 2019, the National Bank as a sole shareholder decided to reorganize the "Baspana" Mortgage Organization" JSC through a merger with the Sustainability Fund. The reorganization will allow making the use of assets of the "Baspana" Mortgage Organization" JSC and the Sustainability Fund more efficient with a view to develop the banking sector and to increase affordability of mortgage loans for the population.

4.3. Protecting Rights of the Financial Service Consumers

Protection of rights of the financial service consumers is one of the National Bank's key objectives in ensuring the financial system stability. Due to the need in the real and adequate protection, which increases as the consumer demand intensifies and new IT-based financial products appear in the market, the National Bank's activities were focused on ensuring a proper level of protection of rights and legitimate interests of the financial service consumers and consumers of services of microfinance organizations as well as debtors of collection agencies and on increasing financial literacy among the people.

In 2019, 19,711 communications regarding protection of rights of the financial service consumers and consumers of services of microfinance organizations as well as debtors of collection agencies were received by the National Bank for its consideration (Figure 4.3.1).

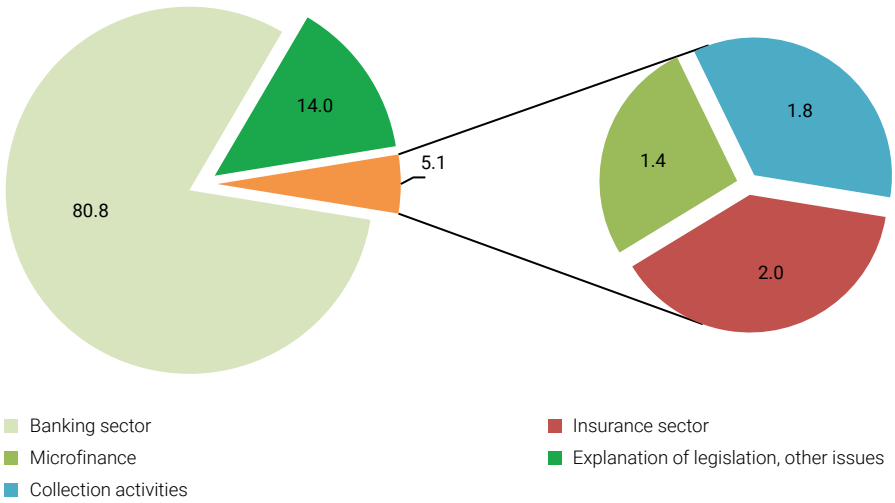
Figure 4.3.1. Communications received for consideration (quantity)



The growth of communications is connected with implementation of the Presidential Edict of Kazakhstan as dated June 26, 2019 No. 34 "On measures to reduce the debt burden on the citizens of the Republic of Kazakhstan" and consideration of communications from individuals that were received by the Virtual Chamber of the President of Kazakhstan opened with a view to improve interaction with the public and respond to inquiries from the citizens.

A significant portion of communications is in respect of the banking sector (banks and organizations engaged in certain types of banking operations) and accounts for 80.8% of the total number of communications (Figure 4.3.2).

Figure 4.3.2. Structure of communications by the financial market segments (%)



Topical issues in communications regarding the banking sector included: the abovementioned Presidential Edict of Kazakhstan as dated June 26, 2019 No. 34 "On measures to reduce the debt burden on the citizens of the Republic of Kazakhstan"; debt restructuring; debt refinancing; checking accuracy of calculation of a monthly payment, debt, fine, interest, fees, and annual effective rate of return; foreclosure without recourse (acceptance-free) on monies kept on accounts with other banks; violation of the procedure for entering into, execution and termination of a bank loan agreement; debt remission (write-off); safekeeping of collateral for a loan; checking the terms and conditions of a bank loan agreement for compliance with the laws of the Republic of Kazakhstan; failure to provide information; bank account servicing; wrongful actions of the bank staff; execution of court decisions; transfer of recourse under the contract to the third parties; explaining provisions of regulations on the banking sector; return of deposits; the procedure for collateral sale.

In the sector of insurance services, the most relevant topics presented in communications were a failure to make an insurance benefit payment; checking accuracy of calculation of insurance premiums, the insured amount; disclosure of insurance secrecy; making an insurance benefit payment not in full; refusal to make an insurance benefit payment; execution of court decisions.

Communications about actions of microfinance organizations referred to: verifying whether the calculation of the amount of monthly payment, debt, fine, interest, fees, annual effective interest rate was correct; explanations of requirements of regulations pertaining to activities of microfinance organizations; checking the terms and conditions of a loan agreement for compliance with the laws of the Republic of Kazakhstan.

Communications related to activities of collection agencies were related to such current issues as unlawful actions of the staff of collection agencies; examination of activities of collection agencies; explanation of regulations governing the activities of collection agencies.

Communications that were related to activities of the Unified Accumulative Pension Fund addressed such issues as the transfer of pension accumulations.

In 2019, based on violations of the existing laws of the Republic of Kazakhstan that were revealed as a result of the review of communications, 399 supervisory response measures were taken in respect of financial and microfinance organizations, including 58 penalties totaling 25.2 million tenge. In addition, based on the review of communications, 334 supervisory response measures were taken, including 262 in respect of banks, 10 – insurance organizations; 44 – in respect of microfinance organizations and 24 – in respect of collection agencies.

During 2019, 610 individuals were received on a personal basis by managers of a relevant business unit of the National Bank regarding provision of financial services by financial organizations; besides, 2,370 individuals that applied to the National Bank's Community Liaison Office received counseling and legal support.

As per communications from borrowers who wanted to resolve the issues of loan debt repayments including the loan refinancing under the Refinancing Program, 80 meetings of borrowers with representatives of banks and mortgage organizations were arranged on an individual basis, whereby banks provided possible terms of restructuring to their borrowers.

As part of the notification procedure, the National Bank has been studying and analyzing the terms and conditions of financial products for their compliance with legislative provisions and for absence of the terms and conditions that prejudice the consumer rights. During 2019, the National Bank received 368 notifications from financial organizations on approval of financial products, including 300 notifications from banks and 68 – from insurance organizations. Based on the review of notifications submitted by financial organizations, non-binding supervisory response measures were taken in respect of one insurance organization for non-compliance of the standard loan agreement on a financial product with the legislative requirements and in respect of two banks for non-compliance with the deadlines for submission of notification on approval of a financial product and a violation in respect of furnishing a bank borrower with information about the due amounts in case of early/partially early repayment.

In addition, in 2019,10 communications from financial and microfinance organizations with a request to explain the procedure of actions in designing new financial products were reviewed.

Program for Refinancing of Residential Mortgage Loans/Mortgage Loans

As part of the government support of mortgage borrowers, since 2015 the National Bank has been implementing the Program for Residential Mortgage Loans/Mortgage Loans Refinancing. The National Bank allocated 130 billion tenge for execution of the Program; this amount was directed to refinance those loans, which were secured by a sole residential property and had been provided by banks within the period from 2004 to 2009.

Mortgage loans are refinanced by 11 banks and 3 mortgage organizations. As at the end of 2019, banks had approved 27,800 loans totaling 172.0 billion tenge, 26,650 loans equaling 158.3 billion tenge were refinanced, and borrowers' debt on interest, fees, and fines worth 57.6 billion tenge was forgiven.

As per loans to borrowers from socially vulnerable groups of the population, the National Bank compensates for the debt on the stamp duty and the exchange rate difference on problem foreign currency loans in the amount over 20 billion tenge.

Loans are refinanced with the monies coming from repayment of loans that were refinanced earlier. Based on the revolving facility of cash disbursement, the number of refinanced loans can exceed 40 thousand by 2035.

In order to reduce the debt burden on foreign currency borrowers and to exclude dependence on the exchange rate movements, the Program provides for the refinancing of foreign currency mortgage loans of individuals that were provided before January 1, 2016, in the tenge at the National Bank's exchange rate at August 18, 2015 (188.35 tenge per US Dollar).

The exchange rate difference (156 billion tenge) is refunded with the National Bank's resources. Banks will forgive the borrower debts on interest, fees, cancellation penalty in the amount over KZT 136 billion tenge. The deadline for refinancing of foreign currency loans was extended to December 31, 2019 (the deadline for loan refinancing at the banks undergoing liquidation was postponed to December 31, 2020).

As at the end of 2019, as part of the Program for refinancing of foreign currency mortgage loans, banks approved for refinancing 8,891 applications in the amount of 79.8 billion tenge, and 7,505 loans worth 65.5 billion tenge had been refinanced.

With a view to reduce social strain among mortgage borrowers, in 2019 the National Bank on a number

of occasions sent letters to banks about suspension of the procedure of law suits on recovery of debt, eviction and sales of pledged residential property of borrowers – potential participants in the Refinancing Program – to the third parties.

The Program for Increasing Financial Literacy of the Population

In 2019, the National Bank went on with its public awareness effort aimed to increase the level of financial literacy among the population.

The national broadcasting channel "Astana" launched educational programs "MoneyTime" with an aim to increase public awareness about financial products and the functioning of the financial system in general, and the "TengemaniaNext" for teenagers-high school students. During 2019, 40 releases of each of these programs in the Kazakh and Russian languages were broadcasted.

In 2019, annexes to the nation-wide children newspapers "Ulan" and "Druzhnye Rebyata" continued to be issued where the basics of financial literacy are presented to children of elementary school (20 issues each, both in the Kazakh and Russian languages), as well as for children in the middle school and high school and the youth in the nation-wide magazine "Oila" (10 issues each, both in the Kazakh and Russian languages).

The updated web-site, www.fingramota.kz, where exclusive materials on financial literacy, financial news, infographics and video footage as well as interactive calculators were published kept functioning. During 2019, over 670 unique news and copyright materials were posted on the fingramota.kz web-site, which was visited by more than 340,000 individuals a year.

The effort on increasing financial literacy was also actively made in the social media.

In addition, in 2019 within the framework of increasing financial literacy, lectures were arranged in eight regions of Kazakhstan, demonstration lessons were conducted at schools of Almaty, and educational video clips were prepared. At these projects, the public is provided with an explanation in a straightforward manner about budgeting, analysis of income and expenses, types of financial products and their proper treatment, borrowing opportunities, saving and investment methods, types of fraud and the ways to get protected from fraudulent actions.

4.4. Regulation and Supervision

4.4.1. Currency Exchange Regulation and Currency Control

The new currency exchange legislation of the Republic of Kazakhstan, adopted in 2018 and brought into effect in 2019, preserved liberal approaches to foreign exchange operations that provide for a free conduct of foreign economic transactions.

Top-priority objectives in the currency regulation still include building up the information base on currency operations and capital flows as well as the analytical monitoring of currency operations as the basis for the decision-making regarding the economic policy.

From July 1, 2019, due to changes in the currency exchange legislation of the Republic of Kazakhstan, the regimes of registration and notification were replaced by the introduction of the record registration procedure in respect of foreign exchange operations, capital movement and accounts with foreign banks. The record registration regime keeps track of large capital movement operations which imply the inflow of capital (property, monies) to the Republic of Kazakhstan or the transfer of capital (monies, property transfer) from the Republic of Kazakhstan in the amount exceeding the equivalent of 500,000 US Dollars.

In 2019, in the course of registration of large foreign currency operations associated with capital movement, the National Bank issued 802 registration certificates. As regards notification of foreign currency operations associated with capital movement and opening of accounts at foreign banks, in 2019 the National Bank issued 228 certificates of notification. As part of the record registration of foreign exchange contracts on capital movements and notification about accounts at foreign banks, 1,071 record numbers were assigned.

Export proceeds are the main source of foreign exchange supply in the domestic foreign exchange market of Kazakhstan, therefore the currency legislation establishes the requirement to repatriate proceeds from exports of goods (works, services) and repay the advance payment for imports of goods (works, services) unused by a non-resident to the bank accounts with Kazakhstani banks. The time frame during which the repatriation should be carried out is determined by the terms and conditions of a foreign exchange contract on exports or imports.

From July 1, 2019, with a view to expand the coverage of foreign exchange operations, the record registration applies to foreign exchange contracts on exports or imports not only of goods but also of works (services) where the amount exceeds the equivalent of 50,000 US Dollars.

In 2019, record numbers had been assigned to 78,302 foreign exchange contracts on exports or imports; where the record numbers were assigned to 20,471 contracts on exports or imports that provide for delivery of works, provision of services, thus representing a 26 % expansion in coverage.

With a view to reduce the volumes of potentially doubtful operations a list of operations that have the features of capital withdrawal signswas defined: a financial loan to a non-resident under the contract which does not provide for a transfer of money to the Republic of Kazakhstan in repayment for the loan; a financial loan to a resident under the contract which does not provide for a transfer of money to an account in the Republic of Kazakhstan; an interest-free financial loan to an unaffiliated entity for the term exceeding 720 days; making an advance payment to a non-resident under exports or imports where the due date exceeds 720 days.

The right to exchange information protected by the laws with the national revenue authority has been enshrined. Since the second half of 2019, the National Bank has been sending to the national revenue authority the information about payments and/or money transfers on foreign exchange operations where amount of such operations exceeds 50 thousand US Dollars.

Throughout 2019, within the framework of adopting the foreign currency exchange legislation, an information and explanatory work had been made regarding the aspects of foreigh exchange operations in Kazakhstan, export-import currency control, monitoring of foreign exchange operations, currency exchange control as well as operations of branches and representative offices of foreign corporate entities with a resident status in accordance with the currency exchange legislation of the Republic of Kazakhstan.

In 2019, as part of the currency exchange control, the National Bank identified administrative offense in the area of currency exchange legislation, legislation on counter-acting money laundering and terrorist financing, and initiated 821 cases of administrative offense. In respect of 559 cases, sanction in the form of warnings was applied; penalties were imposed on 150 cases by the National Bank and on 76 cases by courts totaling 398 million tenge. The proceedings were terminated on 23 cases, and 13 cases of administrative offense are under consideration.

In addition, 1,069 documentary inspections were conducted during 2019, which resulted in 38 warning reports, and administrative sanctions in the form of penalties were imposed amounting to 359 million tenge.

Under the existing legislation in the field of currency exchange regulation, a license of the National Bank is only required for activities related to organization of exchange operations with foreign cash (activities of exchange offices).

In 2019, as part of licensing of activities related to exchange operations with foreign cash, 22 licenses to new authorized organizations were issued, and 55 licenses were surrendered on a voluntary basis. As at the end of 2019, 463 authorized organizations had valid licenses for organization of exchange operations with foreign cash, 2,637 exchange offices including 1,654 bank exchange offices were operating in the country; and 749 exchange offices of authorized organizations (non-banks) and 234 exchange offices of the “KazPost” JSC were functioning.

In 2019, new requirements had been set in respect of exchange operations with foreign cash regarding the higher requirements to registered capital of non-bank exchange offices, ensuring a daily availability of monies with bank accounts and/or in the cash department of the exchange office in the amount of 100 % of the minimum registered capital; recording the customer data on all operations on purchase and/or sale of foreign exchange and restrictions regarding the regime of exchange office functioning. The introduction of such amendments was neccesitated by the results of the analysis of activities carried out in order to study the information received from authorized organizations and the outcomes of their inspections. The said measures will enable to supply exchange offices with sufficient amount of cash for uninterrupted operations; to minimize risks of unjustified overshooting by the exchange offices of the selling rate of foreign exchange in the evening and night hours; to ensure transparency of operation of the financial market entities as well as to protect rights of the financial service consumers.

As part of the currency control, the National Bank revealed cases of administrative offence in the field of currency exchange legislation and legislation on counter-acting the money laundering and terrorist financing, 565 cases of administrative offence were initiated. Penalties were imposed in respect of 491 cases, of which 33 penalties were in the form of warning

reports. In respect of 458 cases, the amount of penalties imposed by the National Bank and courts was 71 million tenge. 77 restricted corrective actions were taken and 1 sanction in the form of license suspension for a definite time period was imposed in respect of authorized banks and authorized organizations for violations of currency exchange legislation of the Republic of Kazakhstan.

In 2019, the National Bank conducted 214 inspections regarding compliance with currency exchange legislation of the Republic of Kazakhstan, of which 204 entities subject to examination were identified on the basis of risk assessment. Inspections in respect of the currency control issues were conducted based on the risk-focused approach.

4.4.2. Regulation and Supervision of the Financial Sector

Banks. Regulation

In 2019, the risk-focused model of supervision was implemented in the financial market regulation with the potential of using the judgment framework.

In this connection, the rules for building the risk management and internal control function for banks had been fine-tuned. The major change included the shift from the focus on formal requirements to the principles that allow banks to build their corporate governance and processes for management of risks pertaining to their activities to the highest standards.

New requirements to the risk management systems will enable banks to implement risk management processes on their own and will relieve the board of directors from reviewing abundant and non-efficient management reports. The new requirements to corporate governance will also enhance control over the risk management process by the board of directors and will increase the role of risk management in general.

The Resolution of the National Bank's Management Board set forth the measures for recognition of the off-take contracts as hard collateral; this gave an opportunity to provide loans to borrowers/suppliers against the pledge of receivables in the form of monies that will be received in future on off-take contracts.

With a view to stabilize bank liquidity, the methodology for calculation of net stable funding ratio (NSFR) was revised, based on which current account and corporate demand deposits were recognized as operating deposits and loans of national management holding companies ("Samruk-Kazyna" and "Baiterek") and loans guaranteed by the Government of the Republic of Kazakhstan were recognized as stable funding. In parallel to the stable funding ratio, banks continue the compliance with the requirement to maintain a required level of liquidity coverage ratio (LCR) in order to reach the level recommended by the Basel III to be achieved by 2022.

The treatment for recognition of hidden losses (a positive difference between regulatory provisions and provisions under international financial reporting standards) in the bank's equity was changed; it implies a transfer of the requirement to recognize a hidden potential loss from the calculation of owners' equity to capital buffers by introducing a regulatory buffer which will be added to the existing buffers (conservation buffer and systemic buffer) and minimum capital adequacy ratios (k1, k1-2, k2). A new approach allows releasing an additional capital reserve by using it to cover potential losses recognized by banks based on the asset quality review and provides an opportunity for banks to coordinate individual plans for creating additional provisions with the regulator.

Take-outs were provided for securities guaranteed by the Government of the Republic of Kazakhstan and securities in the tenge issued by the Eurasian Development Bank. According to these changes, when capital adequacy is calculated, the market risk on securities guaranteed by the Government should be weighed at 0%. Apart from that, the said securities are recognized as highly liquid assets in the calculation of liquidity ratios and borrower concentration limit (к3) is not applicable to these securities.

Banks, bank susbsidiaries or bank holding companies are given an opportunity to purchase shares admitted to open auctions at the stock exchange operating within the "Astana" International Financial Center.

In accordance with the independent director functionality, certain affiliated entities of a bank's independent director can be excluded from the list of bank's related parties.

In execution of the Presidential Edict concerning the timely support on reducing the debt burden on the citizens of the Republic of Kazakhstan who found themselves in difficult circumstances, the Government of the Republic of Kazakhstan jointly with the National Bank redeemed the debt on unsecured consumer loans for certain categories of individuals in the amount up to 300,000 tenge at banks and microfinance organizations as well as written off penalties and fines on unsecured consumer loans accrued as at July 1, 2019 to all citizens of the Republic of Kazakhstan.

In order to increase the banking sector's sustainability to risks in the unsecured consumer lending segment, a differentiated approach to the weighing of unsecured consumer loans based on the credit risk was elaborated. From January 1, 2020, heightened requirements to bank equity are introduced in respect of unsecured consumer loans depending on the amount of borrower's debt, the loan value and official (inofficial) confirmation of earnings. This measure would discourage banks to pursue aggressive lending policy on the unsecured consumer lending.

In addition, an approach will be used which implies the assessment of personal income in the calculation of debt burden and includes a prohibition for lending to individuals whose confirmed earnings do not exceed the minimum subsistence level per a borrower and a half of the minimum subsistence level per each minor member of the borrower's family.

This would create an additional incentive for lending to only those borrowers who have sufficient resources for making monthly payments and will aim banks to lower their interest rates thus also reducing the debt burden.

Besides, in order to avoid accumulation of bad debt, an effort was made to impose a prohibition on accrual of penalties and fees on unsecured retail loans which are past due more than 90 days; this will prevent from a constant growth of the past due debt.

At the end of 2019, amendments had been made to the Law of the Republic of Kazakhstan "On Rehabilitation and Bankruptcy", which provide for limitation of the amount of payment by a secured lender on claims under the first order of priority (on salaries and wages) of three minimum monthly wages per each employee of a bankrupt but not more than 15% of the imputed value of collateral, in case if the secured lender agrees to put such collateral on the books; obtaining an appraisal of collateral by the secured lender prior to its agreement to accept the respective collateral.

Licensing

In 2019, as part of the licensing and authorization activity, 146 applications/petitions for public services were reviewed in respect of 5 public services, with positive decision being made on 131 services, including:

- *5 permissions to open/acquire a bank subsidiary/ for a significant participation of a bank and/or a bank holding company in the owners' equity of organizations were granted;*
- *5 licenses were issued (re-issued) (of which 2 licenses were issued in connection with the change in the registered office address, and 3 licenses were re-issued in connection with the change of the bank's name);*
- *5 approvals to acquire the status of a large participant of a bank/a bank holding company were given;*
- *2 permissions for voluntary reorganization of a bank/ bank holding company were issued;*
- *one license was terminated in connection with a voluntary surrender.*

126 applications for executive positions in banks and bank holding companies were considered, based on which 113 nominees were approved.

Apart from those, four permissions to acquire a subsidiary, 6 approvals to acquire the status of a large participant, and 5 approvals to acquire the status of a bank holding company were cancelled.

In 2019, the following notifications of financial organizations were processed:

- *259 notifications about opening/closure/relocation of additional premises, bank branches;*
- *5 notifications about closure/opening of bank representative offices, including non-residents;*
- *177 notifications about the change in the composition of managerial staff of banks, bank holding companies and non-bank organizations;*
- *32 amendments to constituent documents of banks and non-bank organizations were made.*

Also, in August 2019 the work had been performed to issue a permission for voluntary reorganization of the "First Heartland Jýsan Bank" JSC (formerly – "Tsesnabank" JSC) in the form of a merger of the "First Heartland Bank" JSC with the "First Heartland Jýsan Bank" JSC.

As part of international cooperation with supervisory authorities, 24 responses were received in respect of the managerial staff with experience of working in financial organizations in a foreign jurisdiction. Relevant information was provided on 6 inquiries from central banks of Tajikistan, Kyrgyz Republic and Romania.

Supervisory Activities

With a view to identify the level of existing and potential risks and problems in activities of the supervised entities, the National Bank performed the analysis of financial condition of banks on a monthly and quarterly basis.

In 2019, based on the results of supervision of banks, bank conglomerates, the National Bank applied supervisory response measures and administrative sanctions were imposed for administrative offense related to violation of prudential ratios and other norms and limits; violation

of the deadline for submission of annual financial statements; write-offs of monies without the use of payment documents and violation of the order of priority in execution of payment orders; miscalculation of regulatory capital; violation of legislative requirements concerning payments and payment systems; violation of legislative requirements on counter-acting the money laundering and terrorist financing; a failure by a bank to fulfill the Plan for reduction of the percentage of non-performing loans to the level below 10% of the loan portfolio; a bank's failure to perform duties which were taken by the bank through application of the supervisory response measures in the form of a written mandate; a repeated violation of the same prudential ratios and/or other mandatory norms and limits. Of which:

- *21 non-regulatory supervisory response measures;*
- *27 measures for improvement of financial condition and/or minimization of risks (written notice) in the form of a written notice;*
- *2 enforcement measures (requirements to large participants of banks);*
- *6 warnings as part of administrative sanction;*
- *41 sanctions in the form of penalty imposed on banks and exacted.*

The following factors significantly affecting the stability of banking operations had been identified in the course of an off-site supervision:

- *loans provided by banks to their indirectly related parties, which are characterized by non-transparency of their ultimate owners, equivocality of transactions, absence of information about the borrower creditworthiness and solvency as well as about a designated use of the loan, absence of hard collateral or existence of a common collateral among several borrowers, untypical financing structure;*
- *a low level of provisioning for a loan debt of certain borrowers;*
- *overestimated value of collateral used in the calculation of provisions;*
- *a heavy reliance of funding sources of banks on resources of quasi-government entities;*
- *a high level of accrued but not received interest;*
- *risks of liquidity ratio violations.*

Based on communications received from individuals and corporate entities and the government authorities, the National Bank conducted documentary examinations on the following issues:

- *overshooting of maximum recommended interest rates under the terms and conditions of deposit products based on information of the "Kazakhstan Deposit Insurance Fund" JSC;*
- *compliance by banks with the legislation of the Republic of Kazakhstan on counter-acting the money laundering and terrorist financing;*
- *compliance by a bank with the procedure for appraisal of accepted collateral;*
- *non-compliance with the Law of the Republic of Kazakhstan On Rehabilitation and Bankruptcy;*
- *compliance by banks with the legislation of the Republic of Kazakhstan when providing financial services to corporate entities and individuals.*

In 2019, two examinations of activities of banks based on the assessment of the degree of risk were conducted and 2 unscheduled examinations of banks conducted on the basis of communication from the National Security Committee of the Republic of Kazakhstan, in connection with a client's complaint regarding the bank's adherence to the existing legislation on payments and payment systems and regarding the bank's compliance with requirement of the legislation on counter-acting money laundering and terrorist financing.

Besides, based on 15 resolutions of law enforcement agencies and government authorities, the National Bank's employees were engaged as specialists in order to provide opinion on the following matters: identifying whether a loan was made in compliance with the laws and regulations; adherence to the banking legislation; fraudulent actions in the course of loan disbursements; grand embezzlements; defrauding the legal title to property and other (the duration of such engagement is one month or more).

Based on the results of examinations conducted in 2019 in respect of supervised entities 6[20], supervisory response measures were applied in the form of written mandates regarding violations of the banking legislation of the Republic of Kazakhstan; a failure to create a sufficient level of additional provisions (reserves) for assets and contingent liabilities in accordance with international financial reporting standards; preparation of financial statements not in line with international financial reporting standards; submission of unreliable financial statements, data and information; inadequate organization and assessment of the risk management and internal control system; incorrect recording of monies with off-balance sheet accounts and other; and 96 administrative sanctions in the form of administrative penalty for violation of legislation on counter-acting money laudering and terrorist financing; untimely reporting of data to the credit bureau; a bank's failure to perform its duty on specifying the interest rate on a reliable, annual, effective and comparable basis in the agreement entered into with a client.

[20] Including written mandates applied in respect of the "Shinkhan Bank Kazakhstan" JSC, "Tengri Bank" JSC, "Capital Bank Kazakhstan" JSC and the "Fund for Financial Support of Agricultural Sector" that started to undergo examination in 2018.

The overall amount of administrative penalties imposed on banks in the reporting period based on the results of examinations equalled to 30.2 million tenge, including 11.9 million tenge on 18 administrative cases handed over to courts for their consideration.

Bank Asset Quality Reviews

In 2019, the National Bank, with a view to perform an independent bank asset quality review, carried out the following activities.

In order to ensure transparency and independency of its assessment, a decision was made to perform such review jointly with hired international consultant and auditors; the independent international management consulting firm Oliver Wyman Limited (consultant) and six independent audit companies (KPMG, Deloitte, PWC, EY, Grant Thornton, BDO) (auditors) have been selected.

Jointly with the consultant, a list of banks participating in the review that consists of 14 largest banks accounting for 87% of assets of the banking sector was defined and published. The main selection criteria were the absolute size of assets and the share of loan portfolio in assets.

Jointly with the consultant, a review manual was elaborated and published based on the European Central Bank's methodology of 2014–2018; the methodology guarantees observance of common international quality standards and lends credibility to the program results on the part of international community. In doing so, the European Central Bank's methodology was adjusted taking account of specifics of the legislation and business processes of banks in the Republic of Kazakhstan.

In August-December 2019, the National Bank together with the consultant and auditors conducted examinations of 14 banks. Such examination implied the assessment of accuracy in reporting the asset value on the bank balance sheets as at April 1, 2019 and in accordance with the manual it consists of 9 blocks of assignments with concurrent control of the quality of review. Key blocks in this effort included the review of accounting processes, policies and practices, analysis of credit files, appraisal of collateral and real property, analysis of collective reservation; however, all blocks are interdependent and could not be implemented without this or another block of assignments.

The organization structure of the review consisted of three lines of defense: the first line – the auditors; the second line – the National Bank's inspectors; and the third line – the central office in charge of the review program management consisting of the consultant's staff and the National Bank's staff. The central office in charge of the review program management was ensuring the consistency and equal conditions for all banks through a regular monitoring and control of quality of banks participating in the review and auditors, maintaining daily contacts with all parties to the program and providing all parties with explanations on more than 1,500 questions concerning interpretation of the review manual. As a whole, participants of the program included: one consulting firm, 6 audit firms, 14 banks, over 70 appraising companies. The total number of participants exceeded 600 experts.

With a view to give credibility to the review, on December 30, 2019, the National Bank jointly with the consultant conducted a press briefing, where the results of review at the systemic level and further steps were presented; also, the press release concerning completion of the review and the final report at the systemic level were published. All outcomes of the review were divided into two categories: an outcome from the conservative point of view of the regulator regarding the existing accounting practice and the outcome from the point of view of completeness of risk coverage from a prudential perspective. The outcomes of review will not necessarily lead to the effect on capital or reflect on the bank financial statements. First, the review methodology contains a certain degree of conservatism expressed in the prudential approach to interpretation by the regulator of how provisions of accounting standards are applied. Second, the review program asseses the result at the reporting date (April 1, 2019), after which bank loan portfolios could have undergone changes.

Rehabilitation of Financial Organizations

In 2019, the National Bank continued to monitor how banks were fulfilling their action plans within the framework of the Program for Increasing Financial Soundness of the Banking Sector of the Republic of Kazakhstan launched in 2017.

In accordance with the Program, five banks ("Eurasian Bank" JSC, "ATF Bank" JSC, "Tsesnabank" JSC, "Bank CenterCredit" JSC, "Bank RBK" JSC) were allocated resources totaling 653.7 billion tenge.

With a view to reduce the troubled debt, the participating banks after their accession to the Program created additional loan provisions totaling 767 billion tenge. After discharging their obligations on provisioning in the volumes sufficient to cover losses, the "Bank RBK" JSC and "Tsesnabank" JSC (in 2018 and in 2019, respectively) exited the Program ahead of schedule.

As at January 1, 2020, 959 billion tenge of troubled loans were written off the bank balance sheets owing to the created provisions, where 769 billion tenge – loans included into the action plans.

Banks are also taking measures to improve the asset quality and recover debt of problem borrowers included into the Action Plan. Arrangements were made on loans totaling 1.3 trillion tenge including the restructuring/ refinancing of borrower debt of 747 billion tenge, taking additional collateral worth 251 billion tenge, repaying loans of 210 billion tenge, and selling loans in the amount of 8 billion tenge.

Volumes of new loans (excluding restructuring) provided by banks during 2018–2019 amounted to 2.9 trillion tenge. Among these, loans made for new projects and new borrowers – corporate entities – equalled 1.4 trillion tenge. Disbursement of new loans to individuals amounted to 1.5 trillion tenge.

The National Bank performs an off-site monitoring of new large loans provided by banks for their compliance with action plans.

Microfinance Organizations. Regulation and Supervisory Activities

With a view to solve the problems of unrestrained growth of consumer lending in the non-regulated sector, to prevent violation of rights and interests of borrowers on the part of non-regulated lenders, the regulation of business of credit partnerships, Lombards and other entities functioning in the lending market was legally enforced. By July 1, 2020, lending entities must undergo the record registration with the competent authority in order to go on with their lending business. Entities that violated this requirement should be subject to forced liquidation from July 1, 2020.

From the time of record registration, organizations engaged in microfinance business must comply with requirements to marginal annual effective interest rate of 56%, requirements to the microloan contract, prohibition for charging any fees, and requirements to submit information to the credit bureau.

In order to limit the debt burden of consumers, a debt burden ratio is introduced – microcredit organizations will be obliged to assess a borrower's ability to service a loan, take into account his/her social status and correlate earnings generated by a borrower with payments on microloans. In doing so, it is prohibited to provide microloans to individuals whose earnings are below the minimum subsistence level.

As a control and supervisory measure, a differentiated system of regulation is introduced in respect of organizations which engage in microfinance activities; this implies different requirements depending on risks pertinent to a specific type of activities.

In terms of regulatory requirements, requirements to minimum registered capital and owners' equity are increased for organizations which engage in microfinance business as well as compliance with requirements of the Law of the Republic of Kazakhstan "On Counter-Acting Money Laundering and Terrorist Financing".

In addition, organizations which engage in microfinance activities will be obliged to maintain their accounting records and to prepare financial statements in line with requirements of the National Bank's regulations as well as to notify the competent authority about approval of services related to microlending within 10 business days from their approval.

The said measures will allow increasing transparency of the lending market, eliminating the existing imbalances in regulation of various segments and, above all, ensure that rights and interests of individuals are protected.

New requirements to the methodology for calculation of prudential ratios for organizations which engage in microfinance activities were introduced. So, from January 1, 2020, requirements are introduced to the minimum registered capital and owners' equity for microfinance organizations, Lombards and credit partnerships with their gradual increase till 2022. In addition, a requirement to comply with the leverage ratio is introduced in respect of Lombards and credit partnerships similarly to microfinance organizations.

In 2019, changes were made to the legislation with regard to delegation of the competence to the National Bank of filing lawsuits for forced reorganization or liquidation of microfinance organizations and microcredit organizations in cases when they fail to comply with the requirements of the Law "On Microfinance Activities".

As at the end of 2019, based on the risk assessment, comprehensive examinations of 30 microfinance organizations were conducted; this accounts for 15% of the total number of operating microfinance organizations.

Insurance Market Participants. Regulation

Legislative changes adopted in 2019 were aimed to increase availability, quality and to reduce the cost of insurance services for the population and businesses,

to create efficient regulatory environment and protect rights of the insurance service consumers, specifically:

- *introducing the on-line insurance and entrenching legitimacy of an insurance policy in an electronic form thus enabling to enter into insurance contracts via Internet-resources of insurance organizations;*
- *carrying over the factor of asset deficiency based on their classification by quality and liquidity for covering the total amount of insurance reserves to the Requirements to internal regulations of the risk management and internal control system for insurance (reinsurance) organizations;*
- *excluding the application of the factor on reducing the liquid assets ratio to insurance (reinsurance) organizations which are engaged in life insurance and increasing the required level of liquid assets ratio for determining the factor in connection with expansion of investment opportunities of insurance (reinsurance) organizations as well as inclusion of current account balances into the calculation of highly liquid assets;*
- *adding a new factor for insurance (reinsurance) organizations which are engaged in life insurance on deficiency of highly liquid assets for covering insurance reserves over short-term intervals;*
- *excluding the right not to receive a written confirmation from a reinsurer about its assumption of risk for reinsurance (acceptance) within the first six months;*
- *increasing requirements to an actuary's substantiation on calculation of insurance reserves;*
- *setting the requirements about equivalence of parameters in computation of insurance reserves of a reinsurant and reinsurer-resident of the Republic of Kazakhstan under the class of compulsory accident insurance of workers in the course of their performance of employment (official) duties;*
- *extending the list of securities, lowering the threshold rating for banks on accounting for the deposit amounts, the amount of fixed assets (not more than 5% of highly liquid assets) and reverse repo operations in the amount of 100% are recognized as highly liquid assets with a view to expand investment opportunities of insurance (reinsurance) organizations and eliminate barriers set forth in the existing legislation with regard to a possibility of purchases by insurance (reinsurance) organizations of securities traded on the stock exchange which is functioning within the territory of the "Astana" International Financial Center;*
- *including the amount of balances with deposits at affiliated banks and securities of affiliated corporate entities into the composition of assets of an insurance (reinsurance) organization in terms of quality and liquidity and highly liquid assets of an insurance (reinsurance) organization; in doing so, the credit risk is regulated by asset diversification ratios;*
- *enforcing the requirement about minimum capital adequacy ratio of an insurance broker depending on the type of intermediation activities (on direct insurance and reinsurance);*
- *enhancing control and supervision of the insurance market participants in the insurance market by introducing risk-focused supervision of the insurance market participants in the Republic of Kazakhstan. The main objective of the risk-focused supervision is to identify and prevent risks and deficiencies in the operation of the insurance market participants for the purposes of early intervention, taking of timely supervisory actions to ensure their financial soundness and to prevent the buildup of risks in their operations. The risk-focused approach is based on the proportionality principle that implies the accounting for the size, significance, nature, scale and complexity of operations of insurance (reinsurance) organizations, their categorization in accordance with significance in the financial market, determination of frequency, depth and intensity of control and supervision.*

Licensing

In 2019, as part of the licensing and authorization activities, the National Bank considered 69 applications/petitions, of which 64 applications for services received positive feedback, including:

- *6 individuals were given an approval for acquiring the status of a large participant of an insurance (reinsurance) organization;*
- *2 corporate entities were given an approval for acquiring the status of an insurance holding company of an insurance (reinsurance) organization;*
- *2 corporate entities were given an authorization to establish a subsidiary of an insurance (reinsurance) organization;*
- *2 authorizations were issued to establish an insurance (reinsurance) organization;*
- *one actuarial license was issued;*
- *two initial licenses for engaging in the insurance (reinsurance) business were issued;*
- *7 licenses for engaging in the insurance (reinsurance) business were re-issued, of which: in connection with a voluntary surrender of the reinsurance license – 2, in connection with the change in the organization's name – 3, in connection with exclusion of insurance classes – 2; and 17 insurance broker licenses, including in connection with exclusion/inclusion of types of brokerage business – 14, in connection with the change in location – 2, and in connection with the change in the name of insurance broker – 1;*
- *25 licenses on additional insurance classes were issued.*

As a result of consideration of 123 applications about approval of nominees for executive positions in insurance (reinsurance) organizations, insurance holding companies, insurance brokers and the "Insurance Indemnity Guarantee Fund" JSC, 100 nominees were approved.

Supervisory Activities

In 2019, six examinations were conducted on the basis of assessments of risks in the activities of the insurance market participants (one examination was carried over from 2018), including 4 examinations of operations of insurance organizations, 1 examination of operations of insurance brokers and 1 examination of the "Insurance Indemnity Guarantee Fund" JSC. The key issues covered in the course of examinations were: the procedure for entering into and execution of compulsory and voluntary insurance contracts; accuracy of prudential ratio calculations; activities of insurance agents; reinsurance business; assessing effectiveness of the risk management system; investment activities; accuracy of insurance reserve calculations; credibility and reliability of accounting records.

As part of the off-site supervision, the following aspects were analyzed: the financial condition of insurance organizations, insurance brokers and the "Insurance Indemnity Guarantee Fund" JSC; movement of assets and liabilities of insurance organizations, quantitative and qualitative risk assessment in insurance organizations in order to determine the level of risk-focused supervisory consideration; the procedure of calculation of prudential ratios was checked for compliance with legislative requirements; existence of factors causing deterioration in the financial condition of insurance organizations and insurance groups as part of the early response measures; correct record-keeping in the financial and regulatory reports; adequacy of created provisions of insurance organizations; actuarial opinions; and exposure of the Insurance Indemnity Guarantee Fund's activities to investment and operational risks. In addition, control was exercised over action plans submitted by an insurance group, insurance organizations and insurance brokers and the "Insurance Indemnity Guarantee Fund" JSC, including actions taken to eliminate violations identified based on inspections.

In 2019, as part of the supervisory response in respect of the insurance market participants, 72 supervisory response measures were taken in relation to:

- *insurance organizations – 11 written mandates, 1 written warning were sent, 1 written agreement was concluded, 49 non-binding supervisory response measures including 1 large participant of an insurance organization;*
- *insurance brokers – 1 written mandate (based on the inspection conducted in 2018), 4 non-binding supervisory response measures;*
- *the "Insurance Indemnity Guarantee Fund" JSC – 1 written mandate, 4 non-binding supervisory response measures.*
- *During 2019, 141 protocols of administrative offense were prepared, with the total amount of administrative penalties imposed on the insurance market entities of 28.3 million tenge.*

Based on supervisory activities, in 2019 as part of the supervisory response, measures of forced termination of license for engaging in the insurance (re-insurance) business were taken in respect of the insurance market participants under the general insurance line – two 2 insurance organizations and license of one insurance organization was terminated under the general insurance line in connection with a voluntary surrender of the license. In 2019, licenses of two insurance brokers were terminated due to voluntary surrender of their licenses.

In 2019, the National Bank's representatives were appointed to 13 insurance organizations; they were checking whether insurance reserves were created in an adequate fashion, prudential ratios and insurance receivables were calculated correctly and examined other aspects of operations.

Securities Market Entities. Regulation

Legislative changes adopted in 2019 are aimed at further development and liberalization of the securities market and provide for:

- *extending the list of financial instruments eligible for purchase within the frames of marginal transactions including authorization to enter into transactions with foreign currency;*
- *broadening the powers of a broker and/or dealer in the foreign exchange market by granting a right to arrange non-cash foreign currency operations;*
- *liberalizing the procedures set out in respect of the purchase of 30% or more of voting shares of a joint-stock company in the secondary market;*
- *optimizing the registration process of the securities issuance and transition to an electronic format in provision of public services on the state registration of an issuance of non-government securities (shares, bonds) and on the competent authority's approval of report on placement of shares;*
- *excluding the methodology for calculation of the value of shares when they are repurchased by a joint-stock company in the unorganized market from the list of documents provided by the joint-stock company to the competent authority for the purpose*

of the state registration of an issue of authorized shares.

As part of activities devoted to the financial market development, measures to fine-tune prudential regulation were designed, and investment opportunities of the securities market entities were expanded owing to the increased list of financial instruments within liquid assets. In order to increase investment opportunities, a unified extended list was prepared with the financial instruments that are included into calculation of liquid (highly liquid) assets of insurance (reinsurance) organizations and professional participants in the securities market, also due to the inclusion of securities which are in the listing of the "Astana" International Financial Center, as well as the size of their volume which is taken into account depending on the credit rating and/or a listing category of securities.

Requirements to risk management systems of professional participants in the securities market have been optimized:

- *requirements about calculation of risk coverage ratios and per-client exposures by a dealer and/or broker in case of a full pre-funding and/or deposit of securities required to fulfill the client order;*
- *the procedure for calculation of values of risk coverage ratio was made more precise (excluding a double deduction of securities which represent the subject of operations);*
- *the procedure for algorithmic trading was determined (set forth);*
- *the procedure for calculation of stress testing and formalization of its results (independently in internal regulations) was defined;*
- *frequency of examinations of business units, branches and representative offices by the internal audit function (independently in accordance with the approved plan of examinations) was optimized;*
- *the content and the forms of document storage was determined.*

Licensing

In 2019, 3 three licenses for operations in the securities market were surrended on a voluntary basis, 2 of which were licenses for investment portfolio management and one – for the broker/dealer business in the securities market. These licenses had been surrendered in connection with a voluntary reorganization and the amendments made into a legislative act of the Republic of Kazakhstan.

In 2019, as part of the licensing and authorization activities, the National Bank considered 12 applications/petitions in respect of public services, where a positive feedback was received in respect of 10 public services, including:

2 approvals were given to a corporate entity to acquire the status of a large participant of an investment portfolio manager (1 – to a corporate entity, and 1 – to a natural person);

5 licenses for activities in the securities market were re-issued (2 – in connection with the change in the name and address, 2 – connection with the change in the address, and 1 – connection with the change in the name) and one license for organization of exchange operations with foreign currency, except for organization of exchange operations with foreign cash (in connection with the change in the name and address);

one license was issued for organization of exchange operations with foreign currency, except for organization of exchange operations with foreign cash;

one license was issued to an insurance organization for investment portfolio management without the right to take voluntary pension contributions.

Based on consideration of 64 petitions about approval of nominees for executive positions of professional participants in the securities market 61 nominees were approved.

Supervisory Activities

In 2019, based on assessment of risks in activities of the securities market entities, 5 inspections of professional participants in the securities market were conducted, including 3 brokers/dealers who combine their business with that of an investment portfolio manager, 1 broker/dealer and 1 infrastructure organization.

The main topics of examination were: to check compliance with the requirements of legislation which governs the procedure for engaging in the professional activities in the securities market, with the legislation on accounting and financial reporting, laws on counteracting the money laundering and terrorist financing.

As a result of examinations conducted in 2019 in respect of the securities market entities, 5 supervisory response measures were taken, 84 protocols of administrative offence formalized, and 77 administrative protocols were submitted to courts for their consideration. The total amount of administrative penalties imposed under these protocols upon the securities market entities in 2019 including by courts equaled 27.4 million tenge.

Based on the off-site supervision and monitoring in respect of professional participants in the securities market, in 2019 twenty-one supervisory response measures were taken, as well as 6 protocols of administrative offence were formalized with the imposition of penalties totaling 1.8 million tenge.

In 2019, as part of the early response measures, 6 action pans for increasing financial soundness of professional participants in the securities market were reviewed, of which 5 plans were approved.

The main violations that entailed the application of supervisory response measures and other enforcement actions in relation to professional participants in the securities market were the facts when incomplete (unreliable) reports were provided to the competent authority, the procedure for calculation of a prudential ratio was breached and there were breaches in the book-keeping.

In 2019, within the frame of monitoring of securities issuers, the work had been performed to exercise control over information disclosure by issuers through publication on the internet resource of the financial statement repository.

Alongside with that, the analysis of reports from the bondholders' representatives was performed for the presence of information in the report of the bondholders' representative, which may entail violation of bondholder rights. Twenty reports from the bondholders' representatives on 18 issuers were analyzed.

In 2019, based on the results of monitoring process of securities issuers, the National Bank applied 198 restricted remedial actions, prepared 33 protocols of administrative offense, and imposed administrative penalties of 2.8 million tenge.

Tha major violations that entailed the application of restricted remedial actions and sanctions in respect of securities issuers included violation of the procedure and time frames for disclosure of information to investors by issuers, violation of the procedure and terms and conditions of securities placements, and a failure on the part of issuers to discharge obligations imposed on them through the application of restricted remedial actions.

Based on filings from the Unified Accumulative Pension Fund, 16 examinations were conducted in respect of defaulted issuers to check whether the resources attracted as a result of the bond placement were used as designated; to verify the reliability of data included by an issuer into the prospectus, the completeness and reliability of information which the issuer must have provided to the government authorities and securities holders. The results of examinations were communicated to the authorities in charge of pre-trial investigation.

Accumulative Pension System. Supervisory Activities

In performing off-site supervision of the Unified Accumulative Pension Fund, in 2019 examination of compliance with the laws of the Republic of Kazakhstan was conducted as well as control over completeness and timeliness of information submission to the National Bank, control over compliance of internal regulations with requirements of the pension legislation was exercised, the composition of the executive body, management body and managerial staff was monitored for their compliance with the laws of the Republic of Kazakhstan.

A priority area in the field of control and supervision of the Unified Accumulative Pension Fund was the enhancement of the risk management and internal control system.

In 2019, based on the results of off-site supervision of the Unified Accumulative Pension Fund, no restricted remedial actions and sanctions were applied.

In 2019, the National Bank approved the appointment (election) of seven executives of the Unified Accumulative Pension Fund for senior positions. There were no denials for approval.

4.4.3. Liquidation of the Financial Market Entities

As at the end of 2019, six banks and two insurance organizations were undergoing the liquidation process.

In 2019, in the process of liquidation of the "Kompetenz Insurance Company" JSC, a temporary administration was appointed with the delegation of powers of all management bodies; the liquidation of "Nauryz Bank Kazakhstan" JSC was registered; the process of forced liquidation of the "Premier Insurance" JSC was finalized, the liquidation report and liquidation balance sheet were approved; the liquidation commission was appointed, in order to make settlements with creditors and complete the proceedings in respect of the "Salem Insurance Company" JSC.

In 2019, the following arrangements were made in controlling over the work of temporary administration and liquidation commissions of insurance organizations undergoing liquidation:

control over registration of the forced liquidation of the "Premier Insurance" JSC followed up by making a record of its liquidation in the National Register of business identification numbers as well as removal from the list of corporate entities;

control over activities of the temporary administration of the "Kompetenz Insurance Company" JSC and liquidation commission of the "Salem Insurance Company" JSC in respect of compliance with the requirements of laws of the Republic of Kazakhstan in the process of their functioning including the review/ /authorization/approvals of their progress reports, the interim liquidation balance sheet, the register of creditor requirements, estimates of liquidation expenses and other information regarding the activities of temporary administration and liquidation commission.

The information concerning settlements with creditors of financial organizations that are undergoing liquidations is presented in Table 4.4.3.1.

Table 4.4.3.1

№	Financial Organizations under Liquidation	Percentage of Payouts to Creditors as at January 1, 2020
Banking sector		
1.	**"Valut-Transit Bank" JSC**	56.23% – claims of creditors under the third order of priority (claims of the "Kazakhstan Deposit Insurance Fund" JSC in respect of the amount of payout made (payable) on insured deposits)
2.	**"Kazinvestbank" JSC**	100% – claims of creditors under the second order of priority (claims in respect of labor remuneration and compensations to persons who worked based on the employment contracts, in respect of arrears on social deductions to the State Social Insurance Fund, on payment of child support payouts and mandatory pension contributions withheld from salary as well as the fees on the copyright agreements); 100% – claims of creditors under the third order of priority (claims of the "Kazakhstan Deposit Insurance Fund" JSC in respect of the amount of payout made (payable) on insured deposits); 100% – claims of creditors under the fifth order of priority (claims of non-for-profit organizations engaged solely in the charity activities, organizations of World War II veterans and persons with equal status; Voluntary Society of Invalids of the Republic of Kazakhstan, Kazakhstan Association of the Blind, Kazakhstan Association of the Deaf and production organizations which are owned by these associations and were established at their expense; other organizations of disabled persons in respect of their monies held with bank accounts and placed as deposits); 100% – claims of creditors under the seventh order of priority (debt on taxes, levies and other mandatory payments to the budget as well as on repayment of loans provided from the national budget); 3.19% – claims of creditors under the eighth order of priority (claims of other creditors in accordance with the laws of the Republic of Kazakhstan)

3.	**"Delta Bank" JSC**	100% – claims of creditors under the first order of priority (claims of individuals to whom the bank is liable for the damage caused to their lives or health, by capitalization of respective regular payments); 100% – claims of creditors under the second order of priority (claims in respect of labor remuneration and compensations to persons who worked based on the employment contracts, in respect of arrears on social deductions to the State Social Insurance Fund, on payment of child support payouts and mandatory pension contributions withheld from salary as well as the fees on the copyright agreements); 100% – claims of creditors under the third order of priority (claims of the "Kazakhstan Deposit Insurance Fund" JSC in respect of the amount of payout made (payable) on insured deposits); 7.26% – claims of creditors under the sixth order of priority (claims of corporate entities on liabilities secured with the pledge of property of a bank undergoing a forced liquidation)
4.	**"Qazaq Banki" JSC**	6.24% – claims of creditors under the second order of priority (claims of the "Kazakhstan Deposit Insurance Fund" JSC in respect of the amount of payout made (payable) on insured deposits)
5.	**"Bank Astana" JSC**	100% – claims of creditors under the first order of priority (claims in respect of labor remuneration and compensations to persons who worked based on the employment contracts, in respect of arrears on social deductions to the State Social Insurance Fund, on payment of child support payouts and mandatory pension contributions withheld from salary as well as the fees on the copyright agreements); 12.05% – claims of creditors under the second order of priority (claims of the "Kazakhstan Deposit Insurance Fund" JSC in respect of the amount of payout made (payable) on insured deposits)
6.	**"Eximbank Kazakhstan" JSC**	100% – claims of creditors under the first order of priority (claims in respect of labor remuneration and compensations to persons who worked based on the employment contracts, in respect of arrears on social deductions to the State Social Insurance Fund, on payment of child support payouts and mandatory pension contributions withheld from salary as well as the fees on the copyright agreements); 100% – claims of creditors under the second order of priority (claims of the "Kazakhstan Deposit Insurance Fund" JSC in respect of the amount of payout made (payable) on insured deposits); 100% – claims of creditors under the fourth order of priority (claims on deposits of individuals who are not related to bank undergoing a forced liquidation, including interest-free demand deposits placed at the bank undergoing a forced liquidation and money transfers as well as claims on deposits made with pension assets, on deposits of insurance organizations made with the monies attracted under the life insurance line); 2.2% – claims of creditors under the sixth order of priority (claims on deposits of corporate entities which are not related to bank undergoing a forced liquidation)
Insurance sector		
1	**"Salem Insurance Company" JSC**	On October 1, 2019, the interim liquidation balance sheet and the register of creditor claims were approved. Given that the liquidation estate was insufficient, settlements with creditors were not affected
2	**"Kompetenz Insurance Company" JSC**	Management by the temporary administration

4.5. Information Security

In addressing the focal points of regulation and supervision of the financial sector as regards the cyber security, the Strategy for Cyber Security of the Financial Sector for 2018–2022 was approved. Regulations aimed to build up the system of information security risk management at banks and to observe safety in providing online microloans had been approved.

With a view to ensure efficient information exchange on attacks and threats to information security, the National Bank instructed banks on how to react to incidents: 11 newsletters and 117 warnings about threats to information security were prepared and disseminated.

In 2019, 8 inspections of the financial market entities were conducted. Three opinions were prepared regarding compliance of the hardware and software of the securities market entities with requirements and the laws on information security.

The Board for financial stability and development of the financial market of the Republic of Kazakhstan considered the National Bank's authority to block unlawful resources in the Internet. The powers to stop the access to unlawful resources in the Internet including the information posted on such resources was enshrined in the legislation and approved.

4.6. Payment Systems

4.6.1. Payment Systems

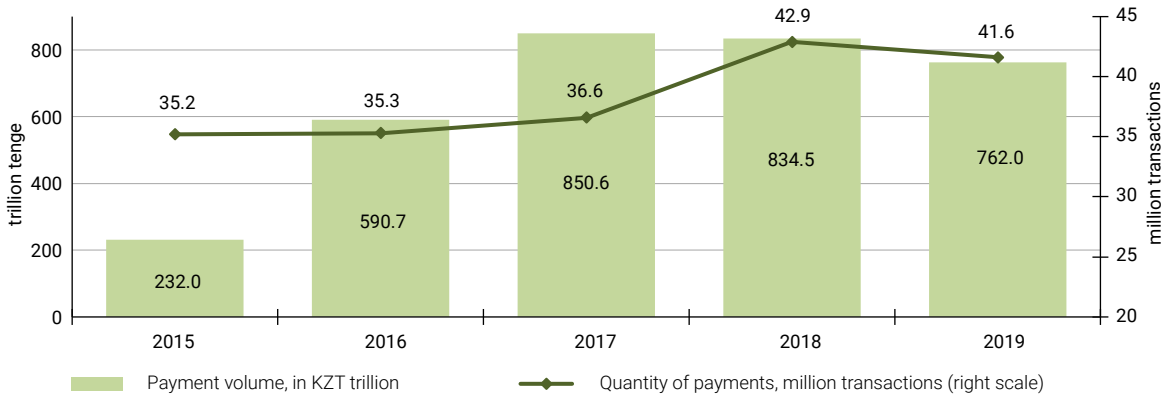
Seventeen payment systems have been included into the payment system register; among those, the Interbank System of Money Transfers and the Interbank Clearing System belong to the National Bank. The National Bank's payment systems are oriented at payments in the domestic currency within the territory of the Republic of Kazakhstan and process 97.4% of the total volume of non-cash payments in the country. Private payments systems are also functioning in the market and are represented by payment card systems and international money transfer systems.

The level of uninterrupted operation of payment systems, the system productivity and volumes of payments processed by the systems are indicators of efficient functioning of payment systems.

Operability coefficients of the National Bank's payment systems speak for a high level of their uninterrupted operation and in 2019 they made up 99.99% on the Interbank System of Money Transfers and 99.99% on the Interbank Clearing System, on average.

The volumes of payments processed through the National Bank's payment systems in 2019 equalled 41.6 million transactions totaling 762.1 trillion tenge (Figure 4.6.1.1). During 2019, the quantity of payments in the payment systems decreased by 3.1%, or by 1.3 million transactions and the amount of payments went down by 8.7%, or by 72.5 trillion tenge; this was related to reduction in the volume of payments of the National Bank and non-bank organizations, by 48% and 88%, respectively. On average, 169.3 thousand. transactions equaling 3.1 trillion tenge were processed through the payment systems on a daily basis.

Figure 4.6.1.1. Dynamics of payment flows in the National Bank's payment systems



At the end of 2019, 39 financial organizations were participating in the Interbank System of Money Transfers, including all infrastructure entities of the financial market. In 2019, 14.5 million payments totaling 755.0 trillion tenge had been processed in the system. As compared to 2018, the volume of payments decreased by 8.8%, or by 73.2 trillion tenge, and the number of electronic payment messages processed in the system went down by 13.4%, or by 2.3 million transactions.

An average amount of one payment in the Interbank System of Money Transfers in 2019 was 52.0 million tenge and it increased by 5.0%, or by 2.6 million tenge as compared to 2018. The largest share in terms of quantity of payments was among payments of up to 3 million tenge (83.8%), and the bulk of payments in terms of volume – payments above 1 billion tenge (the share of 87.7%).

The system mainly processed payments on securities operations of Kazakhstani residents (53.3% of the total volume of payments), interbank operations with short-term deposits (29.6%) and on operations with foreign exchange and precious metals (6.5%). In 2019, the volume of payments for goods and services accounted for 5.1% of the total volume of payments processed in the system.

At end-2019, 27 financial organizations were participating in the Interbank Clearing System. In 2019, 27.1 million electronic payment messages totaling 7.1 trillion tenge were processed through the system. As compared to 2018, the quantity of payment messages in the clearing system went up by 3.5%, or by 920.2 thousand documents, and the amount of payments increased by 10.2%, or by 660.1 billion tenge.

In 2019, an average amount of one payment in the Interbank Clearing System was 262,100 tenge, having increased by 6.1%, or by 16,000 tenge as compared to 2018. The major share in terms of the quantity of transactions in the Interbank Clearing System fell on payments in the amount of up to 500,000 tenge (90.5%), the largest share in terms of the amount of payments – on electronic payment messages with the amount over 1 million tenge (82.0%).

The major volume of payments in the clearing system fell on payments of economic entities on settlements for goods and intangible assets (their share in the total volume of payments in the system accounted for 27.8%), for provided services (26.1%), and payments to and payouts from the budget (15.8%).

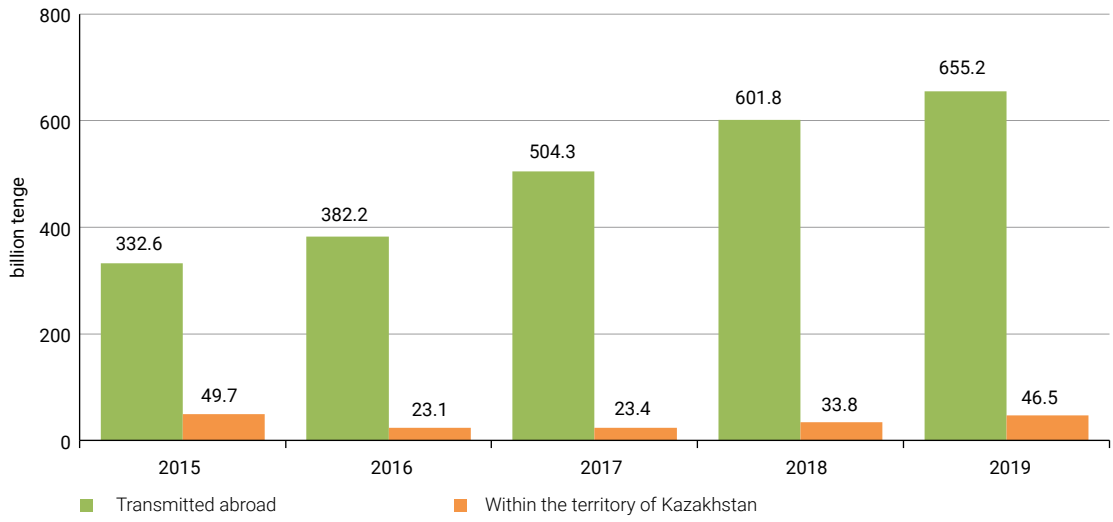
International Remittances

Services of express money transfers are available to the population of Kazakhstan through remittance systems. During 2019, 2.9 million transactions totaling 701.7 billion tenge were processed (transmitted); as compared to 2018, the amount of transfers increased by 4.0%.

The population of the country mostly uses the international remittances to make transfers across the border of the Republic of Kazakhstan. In 2019, the share of payments and money transfers transmitted abroad accounted for 93.4% of the total amount of transactions made through the international remittance systems. Transfers from Kazakhstan via international remittances significantly exceed the receipts to the country from abroad: the volume of money transmitted abroad amounted to 655.2 billion tenge, whereas the volume of money transfers from abroad amounted to 344.6 billion tenge. The average amount of one transfer transmitted from the country was 249,100 tenge, and of the transfer to the country – 208,600 tenge.

Remittances across Kazakhstan with the use of international remittance systems amounted to 46.5 billion tenge (an average amount of one transfer – 170,200 tenge). As compared to 2018, the increase in the volume of transfers across Kazakhstan accounted for 37.4% (Figure 4.6.1.2).

Figure 4.6.1.2. Dynamics of the change in volumes of money transmitted via remittance systems

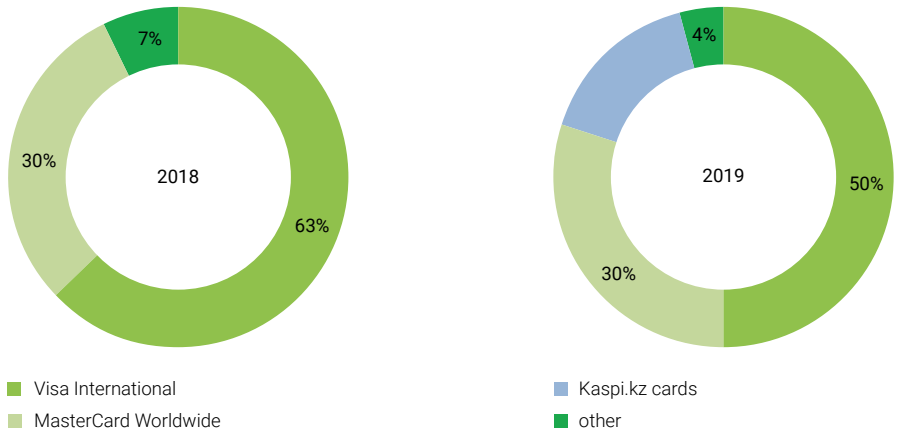


4.6.2. Payment Services Market

Payment services are provided by banks, organizations engaged in certain types of banking operations and non-bank payment organizations.

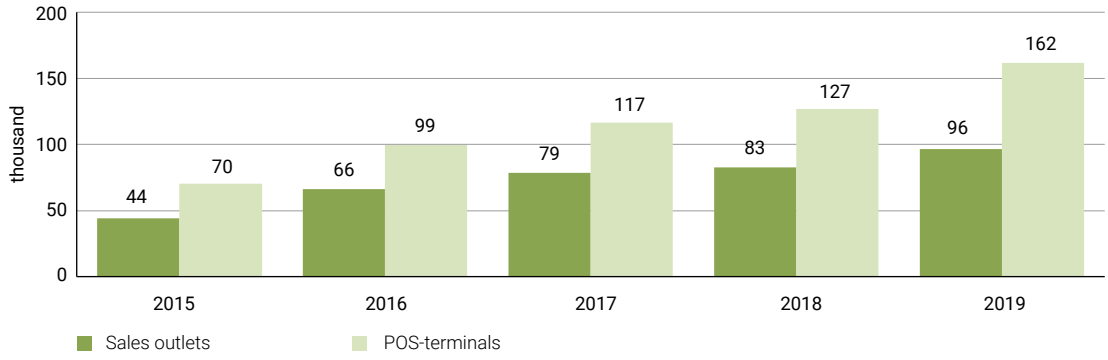
At end-2019, 32.0 million payment cards were circulating in the country (a 37% growth versus the previous year), of which – 25.5 million debit cards, 5.3 million credit cards, 0.7 million debit cards with a credit limit, and 0.5 million pre-paid cards. In Kazakhstan, 22 banks and the "KazPost" JSC are issuing payment cards; 84.3% cards in circulation are the cards of international payment systems: Visa International, Mastercard, American Express International, UnionPay International, Diners Club International (Figure 4.6.2.1).

Figure 4.6.2.1. Share of payment cards of international payment systems in the total volume of cards in circulation



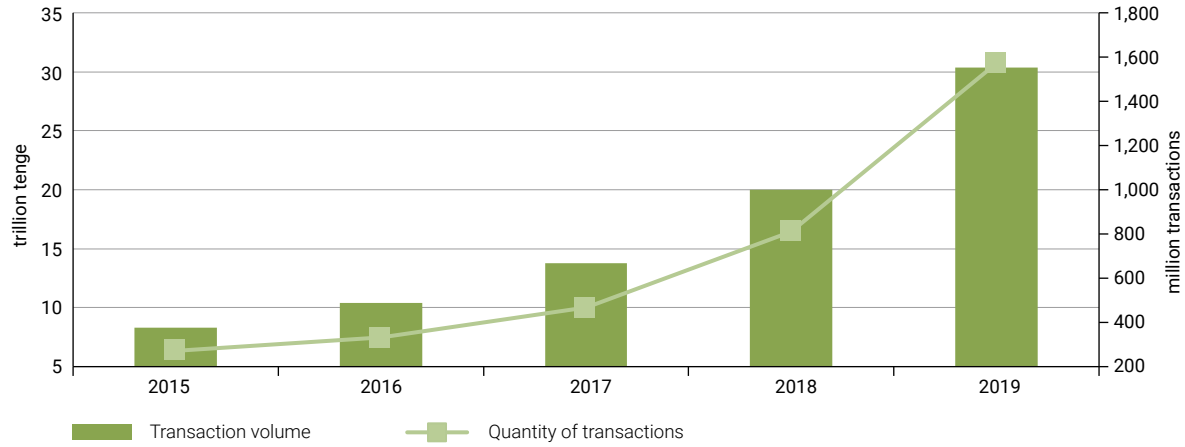
As the quantity of payment cards is increasing, the network of banking devices for payments and money transfers is expanding. As at the end of 2019, the number of ATMs operated within the territory of the Republic of Kazakhstan was 11,315, of which 40.4% are supporting the Cash-in function; 96,428 sales outlets were accepting payment cards for payments (a 16.8% growth as compared to 2018); in 134,484 sales outlets (a growth of 22.1%) 161,690 POS-terminals have been installed (Figure 4.6.2.2).

Figure 4.6.2.2. POS-terminals at sales outlets



During 2019, 1.6 billion transactions were conducted with the use of Kazakhstani payment cards (a 94.0% growth as compared to 2018) in the amount of 30.4 trillion tenge (a 52.1% growth) (Figure 4.6.2.3).

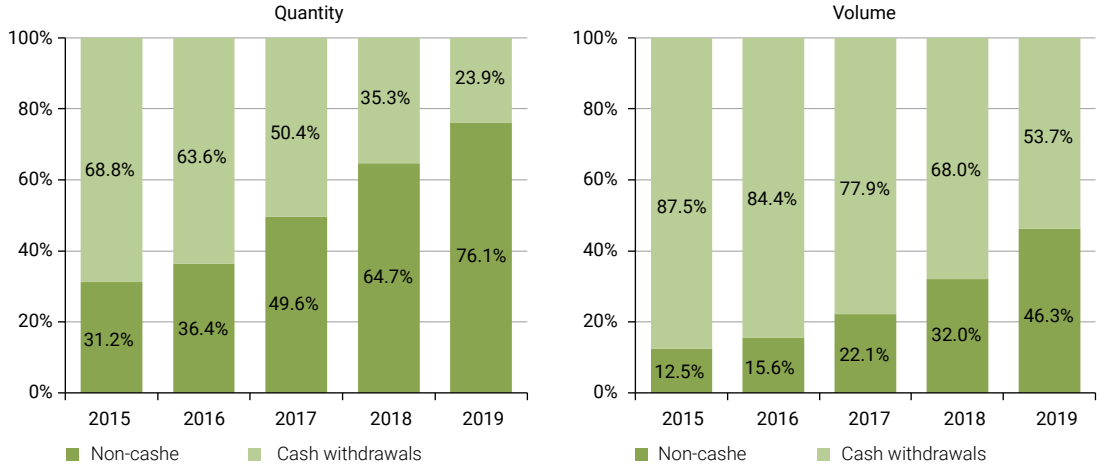
Figure 4.6.2.3. Quantity and the volume of operations with the use of payment cards of Kazakhstani issuers



The number of cash withdrawals with the use of Kazakhstani payment cards was 375.8 million transactions amounting to 16.3 trillion tenge (a 31.2% growth in terms of quantity and a 20.2% increase in terms of the amount).

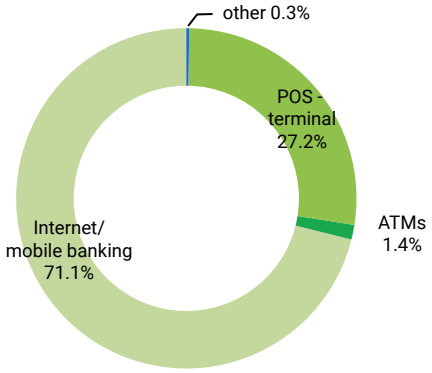
Non-cash transactions account for the major portion of operations with the use of payment cards. As at the end of 2019, each three out of four transactions with payment cards were conducted by direct credit (Figure 4.6.2.4). Having said that, in September 2019 a monthly turnover of non-cash operations exceeded cash withdrawals.

Figure 4.6.2.4. Share of operations in the total quantity, by type of operations, %



The total quantity and the volume of non-cash payments and money transfers made during 2019 with the use of Kazakhstani payment cards increased more than two-fold and amounted to 1.2 trillion transactions of 14.1 trillion tenge.

Figure 4.6.7. Volume of non-cash operations, by the means of making a payment, %



As digitization of services is expanding, the population's interest in making online payments and money transfers is increasing. As at the end of 2019, 19.7 million users were registered at the banking internet/mobile services, and 36 % of users on average were making use of banking online services on a regular basis. The main portion of non-cash payments was made online: 629.2 million transactions totaling 10.0 trillion tenge, which accounts for 52.6 % of the overall quantity of non-cash payments and transfers, and 71.1 % – of the volume. Therefore, every second non-cash transaction was conducted via the banking Internet/mobile services.

At end-2019, payments with the use of electronic money in Kazakhstan were made via 24 Kazakhstani systems. Ten banks and the "KazPost" JSC engage in the electronic money issuance; during 2019, electronic money in the amount of 572.8 billion tenge were issued.

The total volume of operations with electronic money of Kazakhstani issuers in 2019 amounted to 174.9 million transactions equaling 580.2 billion tenge, with a 29.5% increase in terms of the quantity of operations as compared to 2018.

In 2019, electronic money transfers in favor of corporate entities and individual entrepreneurs amounted to 156.5 million transactions of 504.8 billion tenge, electronic money transfers in favor of natural persons – 18.4 million transactions equaling 75.4 billion tenge.

As at end-2019, the National Bank registered 60 payment organizations which are entitled to provide certain types of payment services to clients (payments via payment terminals, electronic money distribution and processing of operations with their use, processing of operations with the use of payment cards via the Internet and mobile applications). During 2019, the volume of transactions made by clients via the services of payment organizations was 463.2 million operations in the amount of 2 trillion tenge.

7

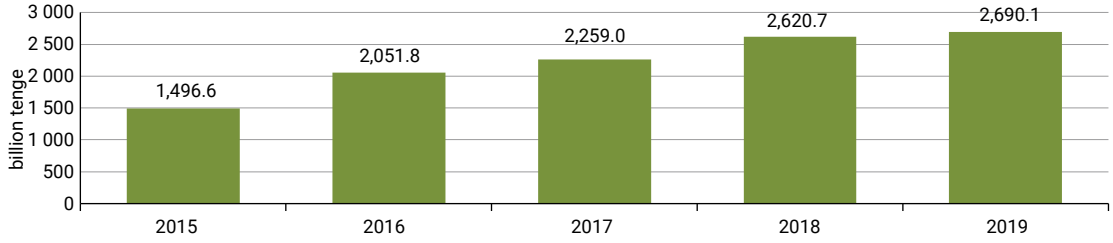
CASH CIRCULATION AND HANDLING MINTED BARS OF REFINED GOLD

5.1. Issuing Operations

At end-2019, the amount of cash in circulation was 2.7 trillion tenge, which is by 69.4 billion tenge, or by 2.6% larger than at end-2018. The increase of cash in circulation was caused by the overrun of the issuance volume versus withdrawal of cash from circulation.

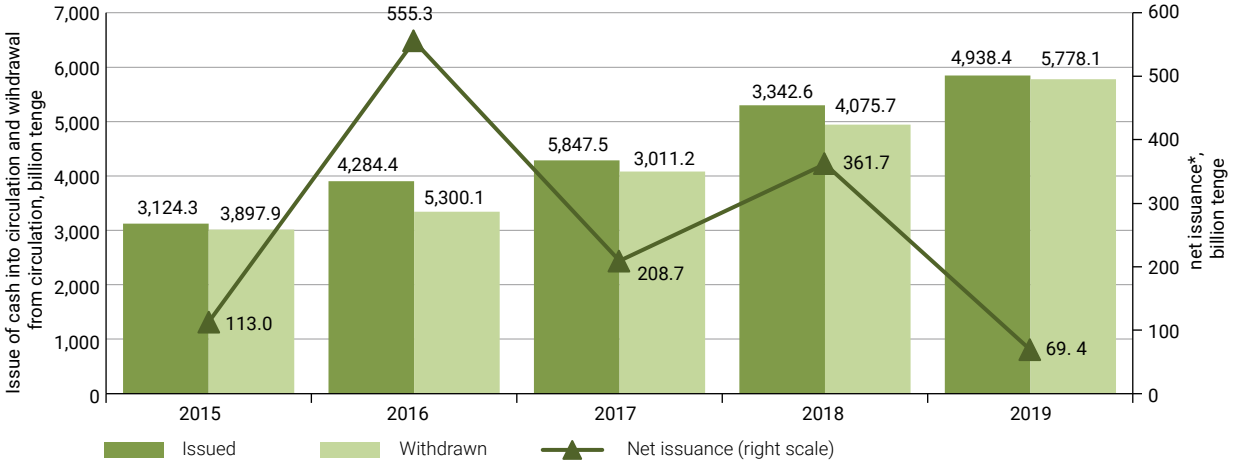
The dynamics of the last 5 years show a stable growth of the amount of the domestic cash in circulation (Figure 5.1.1).

Figure 5.1.1. Cash in circulation



In total, 5.8 trillion tenge of cash was issued into circulation from the National Bank's reserve funds in 2019, which is by 547.4 billion tenge or by 10.3% greater than in 2018. The volume of cash withdrawn from circulation increased versus that of 2018 by 839.7 billion tenge or by 17.0% and amounted to 5.8 trillion tenge. The excess of cash issued into circulation over its withdrawal amounted to 69.4 billion tenge (Figure 5.1.2).

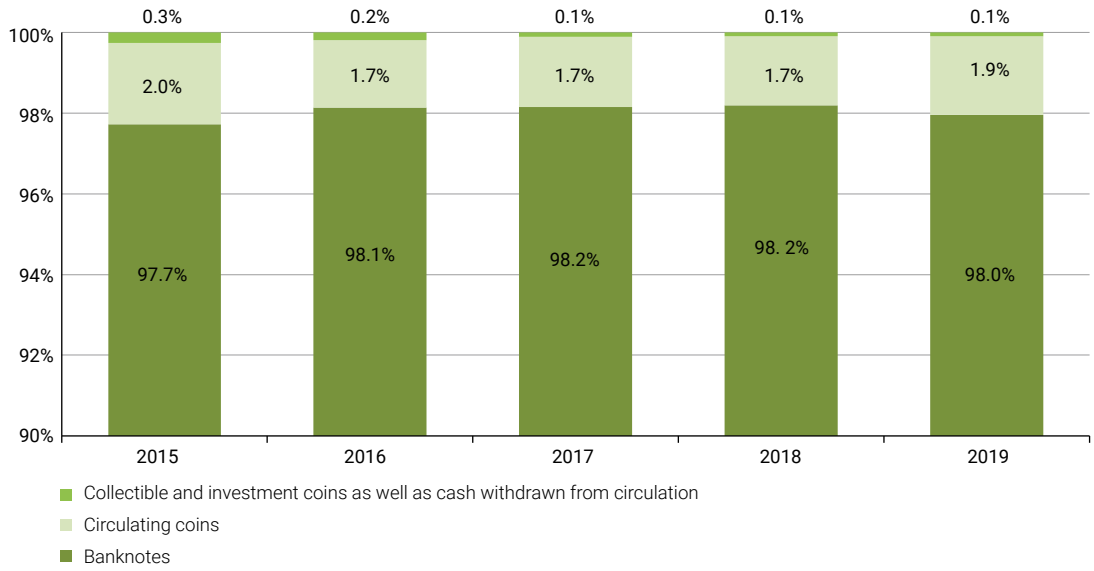
Figure 5.1.2. Issue of cash into circulation and its withdrawal from circulation



(*) – difference between issue and withdrawal of cash from circulation

Banknotes of the domestic currency account for the largest portion of cash in circulation. At end-2019, banknotes in circulation amounted to 2.6 trillion tenge or 98% of the total amount of cash in circulation. The amount of circulating coins was 52.3 billion tenge or 2% of the total amount of cash in circulation (Figure 5.1.3).

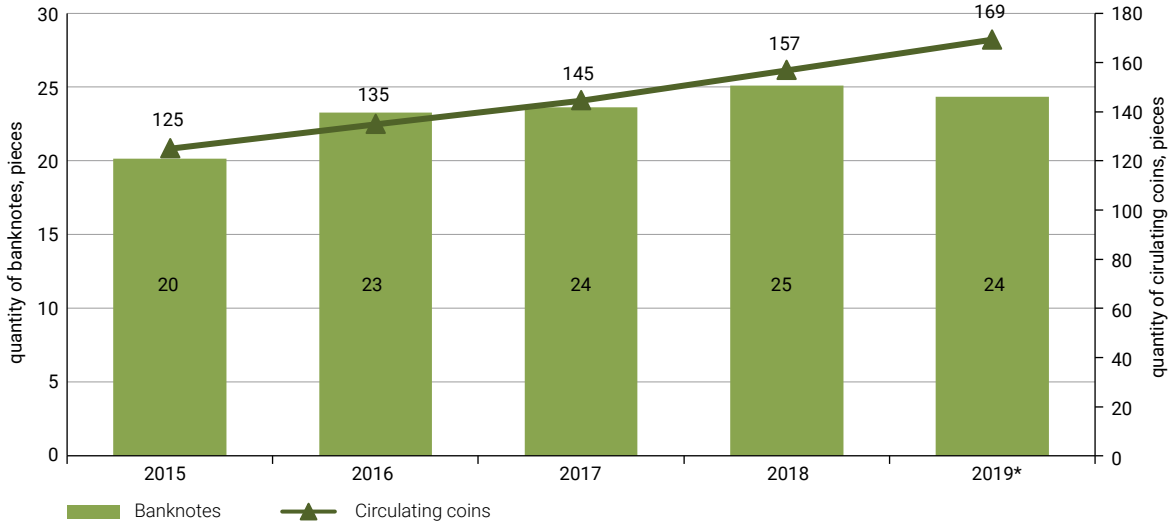
Figure 5.1.3. Share of banknotes and coins in circulation



Despite the growing total amount of cash in circulation, the quantity of banknotes per capital demonstrates a stable level. The average quantity of banknotes per capita in the last five years was 23 banknotes. One of the reasons for a stable level in the quantity of banknotes per capita is the introduction of the 20,000-tenge denomination banknote in 2015. At end-2019, the estimated quantity of banknotes per capita was 24 banknotes.

The quantity of circulating coins per capita in Kazakhstan is steadily increasing. On average, over the last five years, the annual growth rate of circulating coins per capita accounted for 7%. At end-2019, the estimated quantity of circulating coins per one citizen of Kazakhstan was 169 pieces of coins (Figure 5.1.4). One of the key factors for the growth in the quantity of circulating coins per capita in Kazakhstan had been a low rate of collection to cash departments of the National Bank's branches. If in 2015, the ratio between the quantity of circulating coins withdrawn from circulation and their issuance was 80%, in 2019 this ratio made up 8% only.

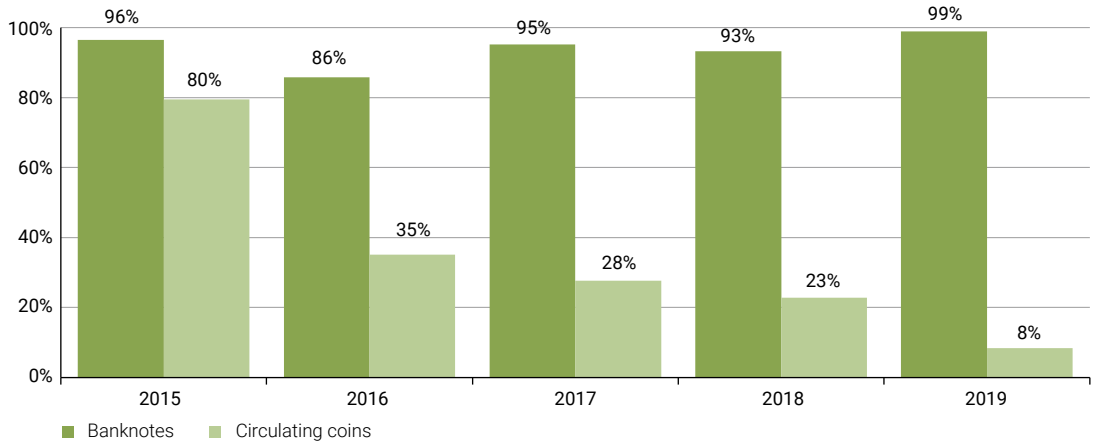
Figure 5.1.4. Quantity of banknotes and circulating coins per capita



(*) – the estimated quantity of banknotes and circulating coins per capita

Over the last five years, the average rate of collection of banknotes to cash departments of the National Bank's branches has been 94% (Figure 5.1.5).

Figure 5.1.5. Ratio of the withdrawn amount to the issuance, %



One of the reasons for the increase in issuance volumes of cash in circulation is the growth in the average nominal income per capita in 2019.

In 2019 as compared to 2018, banks disbursed more cash for paying salaries and wages, retirement benefits and social allowances – by 63.8%, and to support ATMs – by 40.2%.

Table 5.1.1. Cash circulation in banks[21]

Cash Flows through Cash Desks of Banks	In 2019 (billion tenge)	In 2018 (billion tenge)	Change	
			billion tenge	%
Receipts to bank cash desks	**30,671.4**	**28,865.7**	**1,805.7**	**6.3**
from sale of goods, services and works by corporate entities	6,236.3	5,694.7	541.6	9.5
to deposit accounts of individuals	9,446.0	8,827.4	618.5	7.0
from foreign exchange sales	4,769.4	4,073.3	696.1	17.1
from individuals on one-time transfers	279.9	279.5	0.5	0.2
loan repayments from individuals and corporate entities	462.3	399.2	63.1	15.8
other receipts	9,477.5	9,591.6	–114.1	–1.2
Withdrawals from bank cash desks	**31,998.4**	**30,682.6**	**1,315.8**	**4.3**
payments for goods, services and works by corporate entities	2,759.8	2,416.0	343.8	14.2
from deposit accounts of individuals	6,976.6	6,613.7	362.9	5.5

[21] According to the data in the Cash Turnovers Report of banks and organizations engaged in certain types of banking operations.

Cash Flows through Cash Desks of Banks	In 2019 (billion tenge)	In 2018 (billion tenge)	Change	
			billion tenge	%
for foreign exchange purchases	1,388.4	1,280.7	107.8	8.4
for one-time transfer	87.0	96.7	–9.7	–10.1
for payments of wages, retirement benefits and allowances	1,486.5	907.4	579.1	63.8
to support ATMs	16,965.4	12,097.1	4,868.3	40.2
loans to individuals and corporate entities	511.2	547.5	–36.4	–6.6
other withdrawals	1,823.6	6,723.6	–4,900.0	–72.9

The increase in volumes of cash withdrawals from circulation is related to the growth of the receipts section of the bank cash turnovers. During 2019, the receipts of cash to bank cash desks from the sale of foreign exchange exceeded the same indicator of 2018 by 17.1%. In 2019 as compared to 2018, a 15.8% growth on receipts of cash to bank cash desks from loan repayments, and a 9.5% increase from sales of goods, services and delivery of works was observed.

5.2. Banknotes and Coins

With a view to ensure a proper quality of cash and effective cash circulation in the Republic of Kazakhstan, the National Bank made a decision to issue circulating coins with a nominal value of 200 tenge.

At end-2019, the initial issuance volume of circulating coins with a nominal value of 200 tenge was 24% of the total amount of circulating coins.

In 2019, the National Bank issued the following collectible coins into circulation:

1) from gold of the proof standard:
- *"Eýrazialyq ekonomikalyq odaq. 5 jyl" with the face value of 500 tenge and 5,000 tenge;*
- *"The Year of Mouse" with the face value of 500 tenge;*

2) from silver of the proof standard with the face value of 500 tenge:
- *"Eýrazialyq ekonomikalyq odaq. 5 jyl";*
- *"The Year of Mouse";*
- *"Úki";*
- *"Quraq kórpe";*
- *"Á.Qasteev "Búrkitshi";*

3) from copper-nickel alloy of the "brilliant uncirculated" standard, with a weight of 11.17 grams and the face value of 100 tenge:
- *"Úki";*
- *"Kóbelek. Lasiommata maera";*
- *"I. Jansúgirov. 125 jyl";*
- *"S. Seifýllin. 125 jyl";*
- *"B. Mailin. 125 jyl";*
- *"T. Rysqulov. 125 jyl";*

4) from copper-nickel alloy of the proof-like standard, with a weight of 15 grams, and the face value of 200 tenge:
- *"Úki";*
- *"Kóbelek. Lasiommata maera".*

The sale of collectible coins of the 2019 issue made from gold was 100%, from silver – 95%, and from non-precious metals – 98%.

Forensic Analysis of Banknotes and Coins

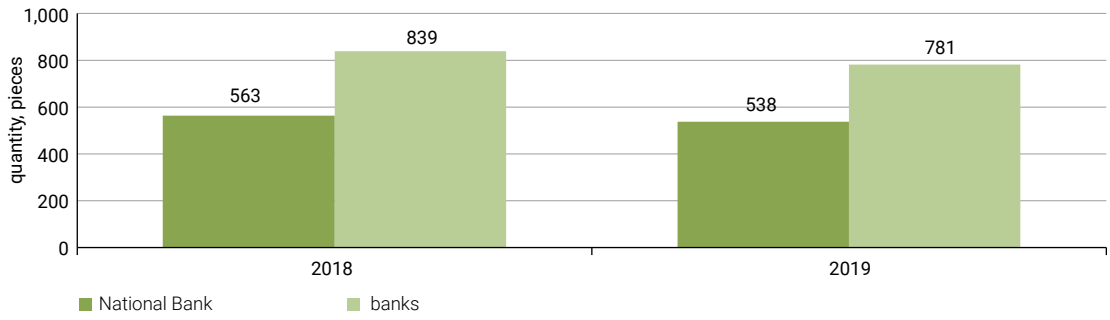
During 2019, the National Bank conducted forensic analysis of 4,661 suspicious currency notes in the amount of 23.9 million tenge (4,655 banknotes and 6 coins) (Table 5.2.1).

Table 5.2.1. Forensic analysis of suspicious currency notes

Forensic analysis of suspicious currency notes	2018		2019	
	quantity, pieces	amount, tenge	quantity, pieces	amount, tenge
Recognized as counterfeit	563	2,647,100	538	2,513,600
Recognized as invalid	665	3,424,820	856	1,377,400
Recognized as having production defect	18	289,000	7	96,000
Recognized as valid and exchangeable	1,976	13,855,720	3,260	19,942,800
Total:	**3,222**	**20,16,640**	**4,661**	**23,929,800**

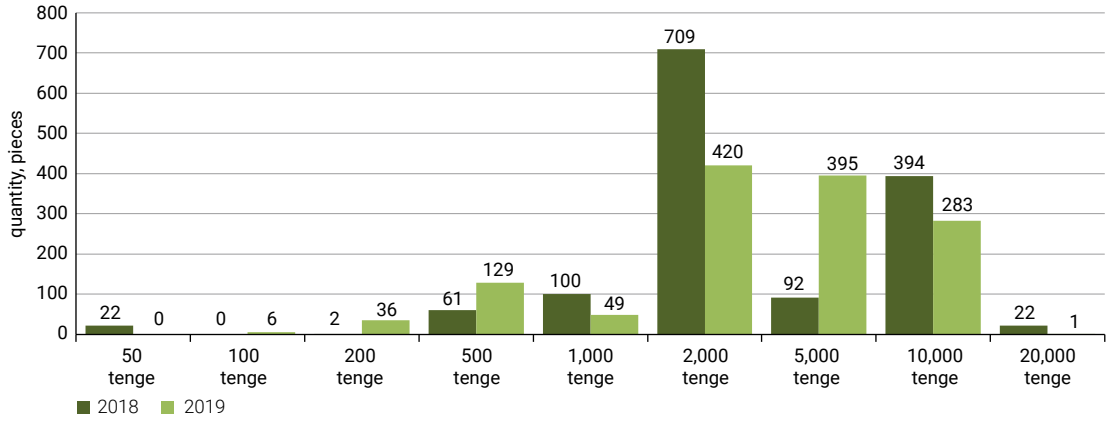
The National Bank and banks had detected 1,319 counterfeit currency notes in the amount of 5.8 million tenge (1,313 banknotes and 6 coins) (Figure 5.2.1). In 2019, the quantity of counterfeit currency notes decreased by 6% as compared to 2018. In 2018, 1,402 counterfeit currency notes amounting to 6.4 million tenge had been detected (1,380 banknote and 22 coins). The analysis of the quantity of counterfeit currency notes by denomination and years of issuance showed that in 2019 the banknotes with the following face value were forged most times: 2,000 tenge – 420 notes (32% of the total quantity of detected forged notes), 5,000 tenge – 395 notes (30%), 10,000 tenge – 283 notes (22%).

Figure 5.2.1. Counterfeit currency notes detected during 2018–2019



During 2019, the largest quantity of counterfeit banknotes was detected in the city of Almaty – 937 notes or 71% of the total quantity of detected forged notes. In other regions, there were 382 counterfiet banknotes or 29% of the total quantity of detected forged notes. As at end-2019, there were approximately three forged banknotes per one million of authentic banknotes in circulation. This number is considered as a low level of counterfeiting as compared to other countries.

Figure 5.2.2. Counterfeit currency notes by denomination



5.3. Minted Bars from Refined Gold

The program on purchase and sale of minted bars from refined gold for the population was launched by the National Bank in 2017. Gold bars are realized via banks and the organizations authorized to conduct operations with foreign cash (exchange offices).

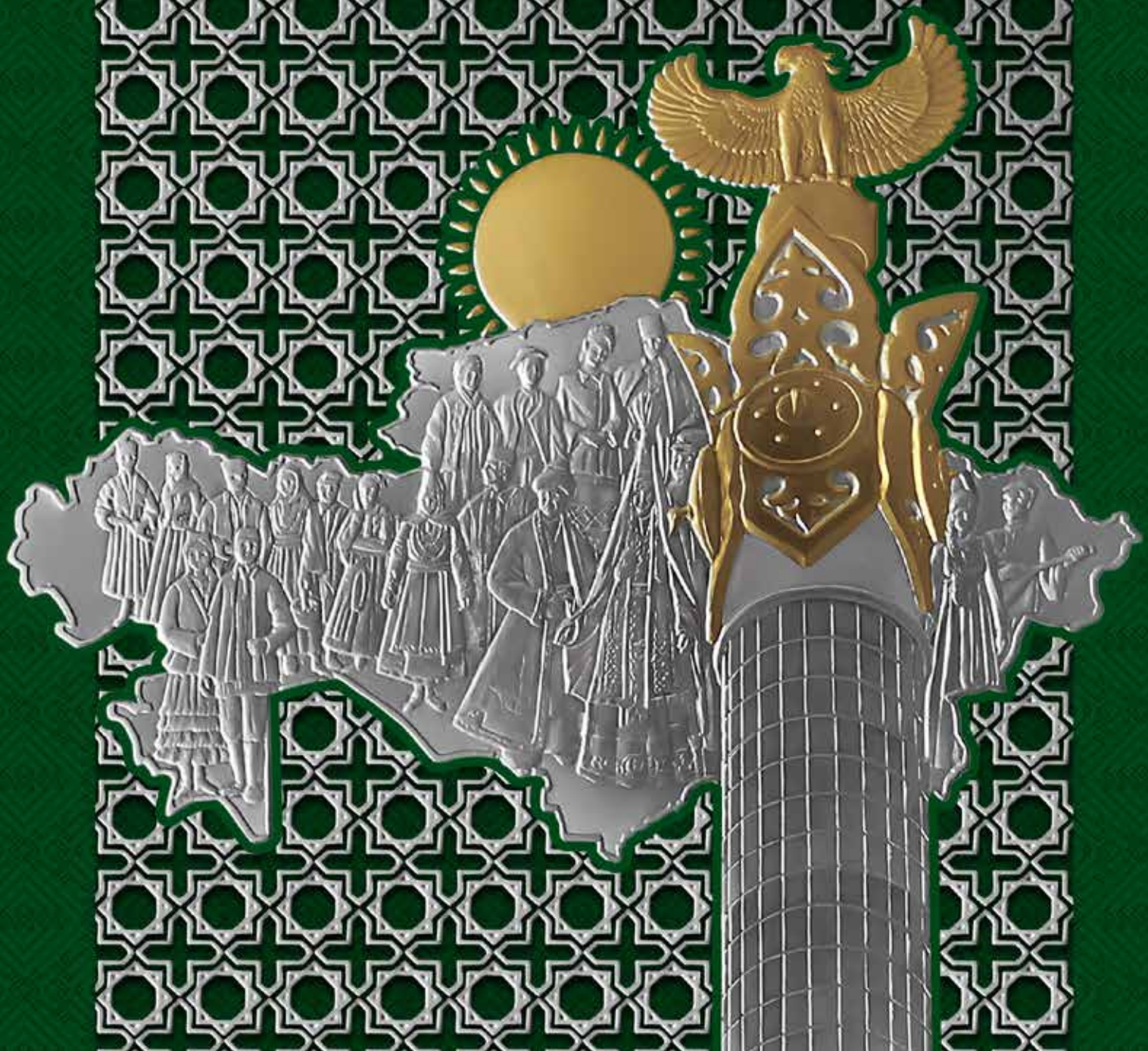
During 2019, three banks participating in the program sold 8,002 minted bars of refined gold with a total weight of 328,750 grams.

84 minted bars with a total weight of 2,600 grams were accepted for repurchase. A relatively small volume of repurchased minted bars can be explained by the fact that generally minted bars, just as many investment instruments, have a long-term savings perspective.

At present, minted bars of refined gold are sold at 56 exchange offices through which 7,730 minted bars of refined gold with a total weight of 140,570 grams were sold to the population in 2019.

In 2019, a minted bar with a weight of 5 gramms accounts for the largest percentage of bars sold (32%), and the largest share in terms of the total weight sold has a 100 gram minted bar (58%). From the start of the program, the following cities are leading in terms of minted bar purchases by the population: Almaty (47%), Atyrau (22%), and Nur-Sultan (12%).

ASSET MANAGEMENT



6.1. Management of the National Bank's Gold and Foreign Exchange Assets

Gold and foreign exchange reserves of the National Bank are created for ensuring the internal and external stability of the domestic currency out of the National Bank's assets, which have high liquidity in the international markets. At the end of 2019, gross gold and foreign exchange reserves of the National Bank amounted to 29.0 billion US Dollars, which is by 2 billion US Dollars, or 6.4% less than in 2018.

The main factor for the increase in gold and foreign exchange reserves in 2019 was in the gold portfolio due to the rise in the price of gold and a net purchase of gold in the domestic market within the framework of the government's priority right to buy refined gold from domestic producers in order to replenish assets denominated in precious metals. The price of gold in 2019 went up by 18.8%. The volume of a net purchase of gold in 2019 made up 1.2 million troy ounces (35.9 tons). The decline in gold and foreign exchange reserves was brought about by reduction in foreign currency volumes held by banks.

The National Bank manages gold and foreign exchange assets in accordance with the Investment Strategy for Management of the National Bank's Gold and Foreign Exchange Assets. (Figure 6.1.1, Table 6.1.1).

Figure 6.1.1. Structure of gold and foreign exchange assets of the National Bank

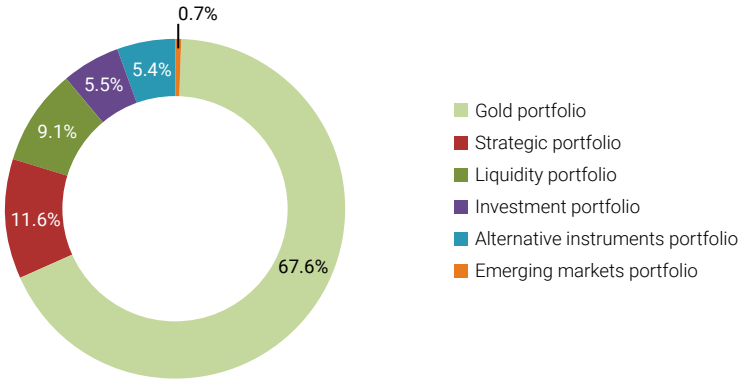


Table 6.1.1. Market value of portfolios at the end of 2019

Portfolio	Market value, billion US Dollars
Investment portfolio	1.55
Strategic portfolio	3.3
Gold portfolio	18.9
Emerging markets portfolio	0.208
Liquidity portfolio	2.5
Alternative instruments portfolio	1.5

Purposes of the investment portfolio are to ensure asset integrity and to increase their profitability in the near and medium term. Assets in the portfolio are invested in the bond markets of developed countries and have the following structure: in the US Dollars – 52%, in Euro – 15%, British pounds – 10%, Australian Dollars – 8%, and in Japanese Yen, Canadian Dollars and South Korean Won – 5% each.

In 2019, the return on the investment portfolio expressed in terms of the currency basket was 2.28%, and the return on the benchmark portfolio was 2.06%.

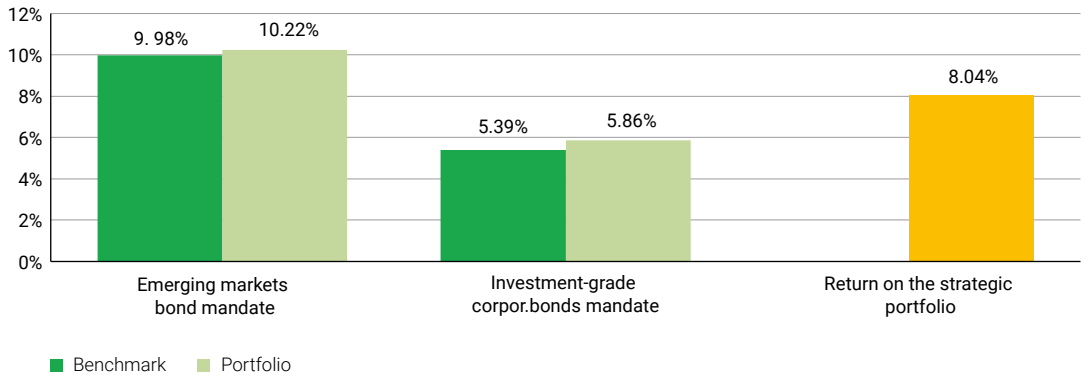
As a result, the positive excess return made up 21.0 basis points.

The return on the investment portfolio expressed in the US Dollars accounted for 2.58% while the return on the benchmark portfolio was 2.37%. The excess return in the US Dollars made up 21 basis points.

The purposes of the strategic portfolio are to ensure return on assets in the medium- and long-term and to diversify gold and foreign currency assets.

The return on the strategic portfolio in 2019 made up 8.04% (Figure 6.1.2).

Figure 6.1.2. Returns on the strategic portfolio mandates



Funds in the emerging markets portfolio have been invested into assets denominated in the Chinese Yuan. In 2019, return on the portfolio in the Chinese Yuan was 3.48%.

The liquidity portfolio of gold and foreign currency assets is held for conducting money market operations for the purpose of monetary policy implementation, for maintaining a high level of liquidity as well as for servicing the government's external debt. In 2019, the return on the liquidity portfolio was 0.31%.

The alternative instruments portfolio[22] is held for diversification of gold and foreign currency assets and for the increase in their return in the long term. Assets in this portfolio may be invested into such areas as private capital hedge funds, funds of funds, real estate, infrastructure and equities. In 2019, the return on the alternative instruments portfolio made up 7.07%.

The gold portfolio consists of the internal gold and external gold. Assets in this portfolio are also placed on deposits with maturity up to one year. Assets in gold are managed with a view to ensure integrity and to have a cushion against a possibility that attractiveness of foreign currency assets in the international financial markets would go down. Because of a rise in the world prices of gold, in 2018 the return on the gold portfolio in the US Dollars was 18.84%. The return on the gold portfolio placed with deposits accounted for 0.05% in the troy ounce, and in the US Dollars – for 18.90%.

6.2. Management of the National (Oil) Fund's Assets

The main objectives of investment operations conducted in the course of management of the National Fund's assets include ensuring their integrity, maintaining a sufficient liquidity level and ensuring their long-term profitability along with the appropriate risk level. In ensuring a long-term profitability of the National Fund's assets, short-term fluctuations in returns are allowed for.

Based on the National Fund's main goal and functions, its structure is made up of the stabilization portfolio and savings portfolio. The main purposes are to maintain a sufficient liquidity level, to save and preserve the resources from the sale of non-renewable sources of energy for future generations.

[22] The alternative instruments portfolio is managed by the "National Investment Corporation of the National Bank of Kazakhstan" JSC.

The total market value of the National Fund's portfolio at the end of 2019 was 65.5 billion US Dollars, including foreign currency portfolio – 61.8 billion US Dollars.

The National Fund's assets include Kazakhstani financial instruments; decisions about their purchase were made earlier by the National Fund's Executive Board. The fair value of the bond issued by the "Samruk-Kazyna" National Welfare Fund" JSC, "KazAgro" National Management Holding Company" JSC and "Baiterek" National Management Holding Company" JSC was 705.1 billion tenge.

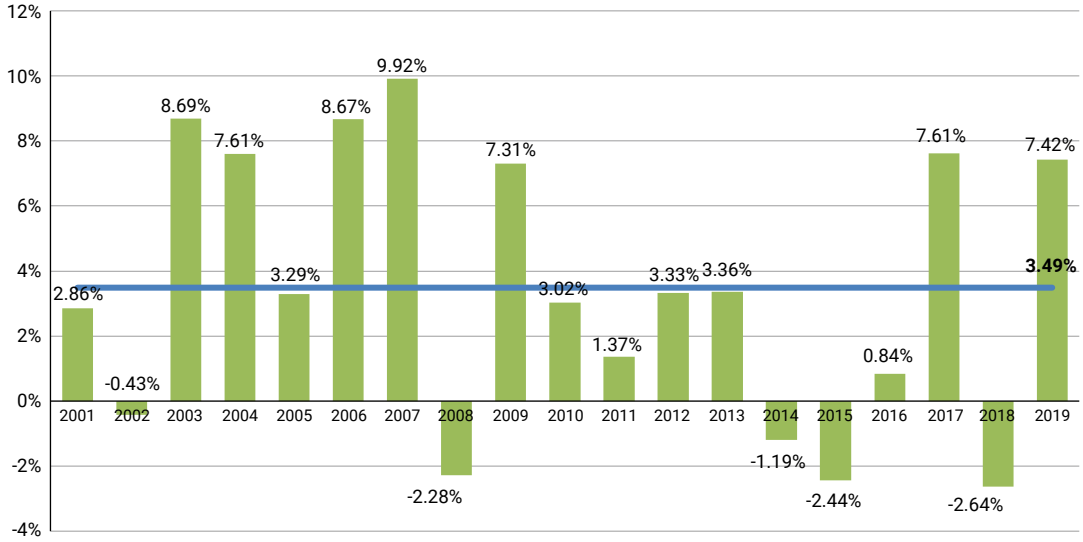
Market values of the stabilization and savings portfolios within the foreign currency portfolio of the National Fund equalled 8.9 billion US Dollars (14.4%) and 52.85 billion US Dollars (85.6%), respectively.

The returns are calculated in the National Fund's base currency – US Dollars.

Return of the National Fund since its inception until December 31, 2019 made up 89.13%, in annual terms – 3.49% (Figure 6.2.1). The return on the National Fund's portfolio in 2019 accounted for 7.42%.

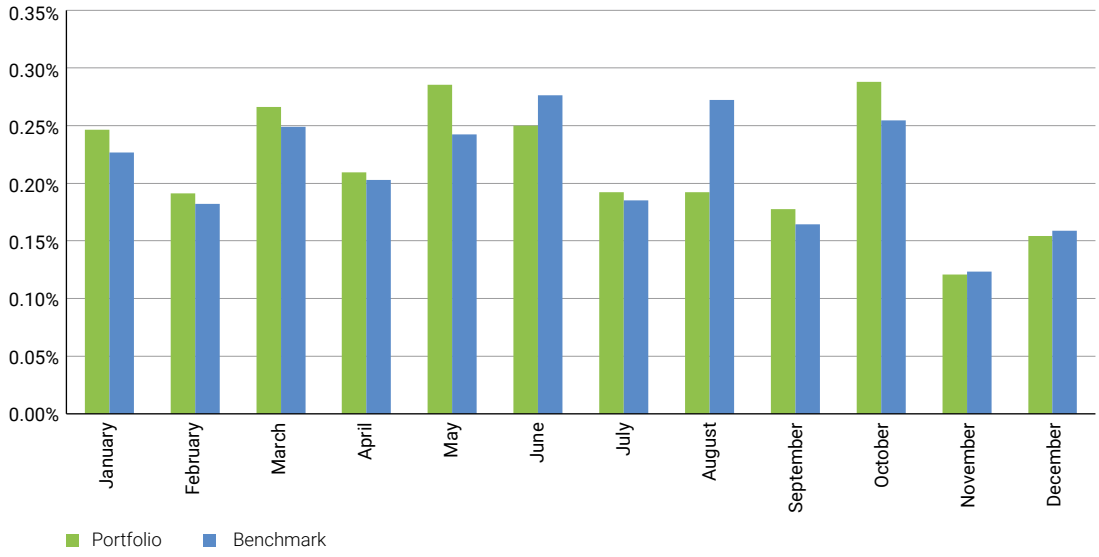
The major portion of the National Fund's assets is managed directly by the National Bank's investment team; services of external managers are also used which add value to internal competencies, diversify the portfolio and expand the available investment opportunities.

Figure 6.2.1. Return on the National Fund's portfolio, in the US Dollars



In 2019, assets in the stabilization portfolio under the National Bank's own management were invested in the money market instruments and fixed income securities, mainly securities of the US Treasury. In 2019, the return on the stabilization portfolio was 2.60%; during the same period, the return on the benchmark portfolio (Merrill Lynch 6-month US Treasury Bill Index) accounted for 2.57%. Thus, in 2018 excess returns of 0.04% were generated as a result of asset management of the stabilization portfolio (Figure 5.2.2).

Figure 6.2.2. Return on the stabilization portfolio in 2019



The total return on the savings portfolio in 2019 was 8.26%. Assets in the National Fund's savings portfolio for the Global Bond Mandate are managed both by the National Bank itself and by external managers. The return from management of the sub-portfolio of developed market bonds in 2019 made up 3.13%. The return on the benchmark portfolio in this sub-portfolio was 3.11%. Thus, management of this type of mandate resulted in excess returns of 0.02%.

Assets in the savings portfolio for the Global Equities Mandate were managed by five external managers. In 2019, the return from the asset management for this type of mandate was 27.60%, whereas the return on the benchmark portfolio made up 28.45%.

During 2019, assets in the savings portfolio for the Global Tactical Asset Allocation mandate were managed by one external manager. In 2019, the return from management of assets in the savings portfolio for this type of mandate was 8.56%, and the return on the benchmark portfolio – 7.91%.

6.3. Management of Pension Assets of the Unified Accumulative Pension Fund

At the end of 2019, the total amount of pension assets of the Unified Accumulative Pension Fund under fiduciary management of the National Bank made up 10.8 trillion tenge, or 99.9% of all pension accumulations, having increased by 15.1% over 2019 (Table 6.3.1).

Таблица 6.3.1. Структура инвестиционного портфеля пенсионных активов Единого накопительного пенсионного фонда, находящихся в доверительном управлении Национального Банка

Item	Current value as at 1 January 2019, billion tenge	Share as at 1 January 2019, %	Current value as at 1 January 2020, billion tenge	Share as at 1 January 2020, %	Change over the period, %
Government securities of the Republic of Kazakhstan	4,058.0	43.3	4,368.0	40.5	7.6
Securities of issuers of the Republic of Kazakhstan	2,985.2	31.8	3,212.5	29.7	7.6
Securities of foreign issuers	1,659.0	17.7	1,898.4	17.6	14.4
Deposits with banks of the Republic of Kazakhstan	277.7	3.0	254.9	2.4	–8.2
Deposits with foreign banks	343.2	3.7	328.4	3.0	–4.3
Cash on investment accounts	126.7	1.4	510.7	4.7	303.1
External managers	82.8	0.9	211.9	2.0	155.9
Other assets	15.2	0.2	13.5	0.1	–11.2
Total	**9,378.0**[23]	**100.0**	**10,798.3**	**100.0%**	**15.1**

Pension assets are invested based on the market conditions into various financial instruments of both Kazakhstani and foreign issuers. In the local market, pension assets are invested in line with the investment areas approved by the Council for the National Fund Management of the Republic of Kazakhstan. The total volume of investments in the domestic financial market amounted to 1.3 trillion tenge (Table 6.3.2).

[23] Including liabilities due on effected transactions in the amount of 169.7 billion tenge.

Table 6.3.2. Investments based on investment areas approved by the Council for the National Fund Management of the Republic of Kazakhstan for 2019

Investments	Volume, billion tenge
Government securities of the Republic of Kazakhstan issued by the Ministry of Finance of the Republic of Kazakhstan	584.1
Foreign currency	36.9
Bonds of international financial organizations and entities from the quasi-government sector of the Republic of Kazakhstan	556.6
Bonds of banks of the Republic of Kazakhstan and the "Agrarian Credit Corporation" JSC under the "Economy of Simple Things" Program	86.7
Total	**1,264.3**

Pension assets denominated in foreign currency are being invested in accordance with the earmarked strategic allocation set out by the Investment Declaration of the Unified Accumulative Pension Fund. The target capital structure of the foreign currency portfolio includes 30.0% of government securities of developed countries and Eurobonds of the Republic of Kazakhstan, 70.0% of investment assets 30.0% of which are represented by equities of companies from developed countries, 40.0% – bonds of developed markets and 30.0% – corporate bonds of investment grade issuers.

In 2019, in the effort to diversify and increase the returns on pension assets, the process of a phase-by-phase transfer of a part of the foreign currency portfolio to foreign asset managers for index investing into equities of companies from developed countries and corporate investment-grade bonds was initiated. An overall volume of transferred assets was 300.0 million US Dollars, including 100.0 million US Dollars under the Global equities mandate and 200 million US Dollars under the Investment-grade corporate bonds mandate.

At the end of 2019, the accrued investment returns on assets of the Unified Accumulative Pension Fund amounted to 699.7 billion tenge. Net investment return distributed to contributors' accounts of the Unified Accumulative Pension Fund totaled 641.8 billion tenge. The volume of pension contributions made up 991.2 billion tenge. The major portion of investment return was in interest income on financial instruments (95.0%).

The returns on pension assets distributed in 2019 to accounts of contributors (beneficiaries) of the Unified Accumulative Pension Fund accounted for 6.6% against the inflation rate of 5.4%. In real terms (excluding inflation), the return made up 1.2%.

APPENDIX

Figure 1.2.1. Organizational Chart of the National Bank

Governor of the National Bank of the Republic of Kazakhstan		
Deputy Governors of the National Bank of the Republic of Kazakhstan		
Business Units of the Head Office of the National Bank of the Republic of Kazakhstan		
Secretariat Department of the National Bank's Governor	Monetary Policy Department	Department of the Financial Market Statistics
Balance of Payments Department	Monetary Operations Department	Bank Regulation Department
Department of Insurance Market and Actuarial Computations	Department of Development of Non-Bank Financial Organizations	Securities Market Department
Financial Stability Department	Department of Methodology and Regulation of Financial Organizations	Payment Systems Department
Department of Cash Circulation	Department of Protection of Rights of the Financial Service Consumers	Legal Department
Accounting Department	International Cooperation Department	Coordination Department (city of Nur-Sultan)
Internal Audit Department	External Communications Department – Press Office of the National Bank	Risk Department
Information Technology Department	Human Capital Development Department	Department of Workflow and Control
Planning and Budget Department	Operational Accounting Department	Division of Information Threats and Cyber Protection
Administration Division	Security Division	Division for Protection of State Secrets
Branches of the National Bank of the Republic of Kazakhstan		
17 regional branches		Center of Cash Operations and Safekeeping of Valuables (a branch)
Organizations of the National Bank of the Republic of Kazakhstan		
"Kazakhstan Center of Interbank Settlements of the NBRK" RSOE	"Kazakhstan Mint of the NBRK" RSOE	"Banknote Factory of the NBRK" RSOE

Appendix 1 to Section 2.5

Table 2.5.1. Balance of Payments of the Republic of Kazakhstan: Analytical Presentation

(million US Dollars)

	2018	2019	2019			
			I quarter	II quarter	III quarter	IV quarter
Current account	**–223.4**	**–6,497.6**	**–124.6**	**–1,617.5**	**–2,882.9**	**–1,872,6**
Trade balance	25,579.2	19,117.9	6,182.3	5,126.0	3,283.5	4,526.1
Exports f.o.b.	59,826.3	57,822.0	13,352.9	15,305.4	14,428.6	14,735.1
Imports f.o.b.	34,247.1	38,704.1	7,170.6	10,179.4	11,145.1	10,209.0
Services	–4,659.5	–3,654.9	–893.8	–921.4	–744.0	–1,095.7
Exports	7,319.9	7,773.6	1,645.1	1,885.4	2,292.4	1,950.7
Imports	11,979.4	11,428.5	2,538.8	2,806.8	3,036.4	3,046.4
Balance on primary income	–22,061.3	–22,289.7	–5,521.1	–5,896.4	–5,530.5	–5,341.7
Compensation of employees balance	–1,583.9	–1,599.4	–368.4	–387.4	–413.1	–430.6
Investment returns	–20,612.4	–20,822.1	–5,185.8	–5,541.9	–5,150.2	–4,944.3
Income receivable	2,481.8	2,377.5	497.1	674.4	559.5	646.4
Income on direct investments	653.0	653.5	59.5	211.0	138.7	244.3
Income on portfolio investments	1,217.5	1,277.3	311.0	347.7	312.4	306.3
Income on other investments	611.4	446.7	126.6	115.8	108.4	95.9
including interest on reserves and assets of the National Fund	1,311.8	1,171.8	309.9	321.2	280.1	260.6
Income payable	23,094.2	23,199.6	5,682.9	6,216.3	5,709.8	5,590.7
Income on direct investments	20,438.1	20,793.1	5,066.1	5,574.8	5,114.6	5,037.5
Income on portfolio investments	1,181.8	991.5	248.8	303.8	220.4	218.5
Income on other investments	1,474.3	1,415.1	367.9	337.7	374.7	334.7
Other primary income (net)	135.0	131.9	33.1	32.8	32.8	33.1
Balance on secondary income	918.2	329.1	108.0	74.3	108.1	38.6
Capital account balance	203.4	127.2	37.4	–0.3	39.4	50.6
Financial account (excluding reserve assets of the National Bank)	**2,582.7**	**1,567.8**	**3,551.2**	**–11.8**	**–1,233.5**	**–738.1**
Direct investments	–4,857.8	–5,710.0	–3,047.5	–901.0	–313.5	–1,448.1
Net acquisition of financial assets	–4,643.8	–2,122.1	–594.5	–2,214.2	773.0	–86.4
Net incurred liabilities	213.9	3,587.9	2,452.9	–1,313.2	108.,5	1,361.7

Portfolio investments	2,632.9	6,208.5	3,286.0	921.8	–1,028.5	3,029.1
Net acquisition of financial assets	–997.7	5,975.0	2,631.4	450.8	31.0	2,861.7
Government of the Republic of Kazakhstan and the National Bank	–854.3	3,019.5	861.8	78.1	–694.4	2,774.0
Banks	–91.9	748.8	110.7	66.5	48.4	523.3
Other sectors	–51.4	2,206.7	1,658,9	306.2	677.1	–435.5
Net incurred liabilities	–3,630.6	–233.5	–654.6	–471.0	1,059.5	–167.4
Government of the Republic of Kazakhstan and the National Bank	–73.5	1,270.8	260.8	–80.2	1,005.6	84.6
Banks	–164.5	–96.9	–191.9	–61.7	–108.4	265.1
Other sectors	–3,392.5	–1,407.5	–723.6	–329.2	162.3	–517.0
Financial derivatives (net)	109.4	–81.3	–38.6	–12.5	–1.6	–28.6
Other investments	4,698.1	1,150.6	3,351.2	–20.1	110.0	–2,290.4
Other equity participation instruments (net)	33.7	19.5	27.6	2.1	–0.5	–9.8
Medium- and long-term debt instruments	2,437.6	–343.6	626.7	63.1	–31.7	–1,001.8
Net acquisition of financial assets	–4.6	53.1	–203.2	105.9	151.8	–1.5
Government of the Republic of Kazakhstan and the National Bank	–14.0	–4.4	0.2	–1.6	–1.4	–1.6
Banks	–44.2	119.1	–1.5	–10.7	117.2	14.1
Other sectors	53.6	–61.7	–202.0	118.2	36.1	–14.0
Net incurred liabilities	–2,442.2	396.7	–829.9	42.8	183.5	1,000.3
Government of the Republic of Kazakhstan and the National Bank	–284.7	–717.8	–342.5	–34.7	–303.6	–37.0
Banks	–645.7	–512.1	–470.5	–76.6	–151.0	186.0
Other sectors	–1,511.8	1,626.5	–16.9	154.1	638.1	851.3
Short-term debt instruments	2,226.8	1,474.8	2,696.9	–85.4	142.2	–1,278.9
Net acquisition of financial assets	3,493.9	2,416.8	2,765.7	287.4	303.1	–939.3
Net incurred liabilities	1,267.1	942.1	68.8	372.8	160.9	339.6
Errors and omissions	1,076.4	1,339.1	–828.9	702.6	1,335.9	129.5
Overall balance	1,526.2	6,599.1	4,467.2	903.4	274.1	954.4
Financing	–1,526.2	–6,599.1	–4,467.2	–903.4	–274.1	–954.4
Reserve assets of the National Bank	–1,526.2	–6,599.1	–4,467.2	–903.4	–274.1	–954.4
IMF credits	0.0	0.0	0.0	0.0	0.0	0.0
Exclusive financing	0.0	0.0	0.0	0.0	0.0	.

Appendix 2 to Section 2.5

Table 2.5.2. External Debt: Standard Presentation

(million US Dollars)

	As at 1 January 2018	As at 1 January 2019	As at 1 April 2019	As at 1 July 2019	As at 1 October 2019	As at 1 January 2020
External debt	**167,217.9**	**158,824.8**	**157,544.2**	**157,723.7**	**157,600.1**	**156,802.1**
Short-term	7,489.2	8,150.5	8,259.8	8,347.5	8,244.9	8,767.8
Long-term	159,728.8	150,674.3	149,284.4	149,376.1	149,355.2	148,034.3
General Government	**12,067.5**	**11,554.8**	**11,488.8**	**11,912.4**	**12,798.1**	**12,389.3**
Short-term	19.3	17.9	17.8	17.4	15.6	14.9
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities[1]	0.0	0.0	0.0	0.0	0.0	0.0
Credits and loans	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	19.3	17.9	17.8	17.4	15.6	14.9
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	12,048.2	11,536.9	11,471.0	11,895.0	12,782.5	12,374.4
Special Drawing Rights	0.0	0.0	0.0	0.0	0.0	0.0
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities[1]	4,799.7	4,554.3	4,832.9	5,273.8	6,471.4	6,105.1
Credits and loans	7,248.5	6,982.6	6,638.1	6,621.2	6,311.1	6,269.3
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities[2]	0.0	0.0	0.0	0.0	0.0	0.0
Central Bank	**926.3**	**770.4**	**938.8**	**759.4**	**634.0**	**891.1**
Short-term	421.8	286.2	455.6	275.5	159.1	409.7
Cash and deposits	10.6	6.9	5.5	4.1	4.7	3.9
Debt securities[1]	408.1	275.3	445.8	267.3	150.6	401.6
Credits and loans	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	3.1	4.0	4.3	4.1	3.8	4.2
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0

Long-term	504.6	484.2	483.2	483.9	474.9	481.4
Special drawing rights	493.6	483.2	482.2	482.9	474.0	480.4
Cash and deposits	10.0	0.0	0.0	0.0	0.0	0.0
Debt securities[1]	0.0	0.0	0.0	0.0	0.0	0.0
Credits and loans	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities[2]	1.0	1.0	1.0	1.0	1.0	1.0
Banks	**6,501.9**	**5,752.0**	**5,239.9**	**5,104.0**	**4,581.6**	**4,809.5**
Short-term	701.6	997.1	1,208.1	1,188.1	934.9	1,097.7
Cash and deposits	505.4	704.2	687.8	938.1	687.2	863.6
Debt securities[1]	0.0	0.0	0.0	0.0	0.0	0.0
Credits and loans	116.7	132.1	101.8	26.0	33.7	95.5
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	79.5	160.8	418.5	224.0	214.1	138.6
Long-term	5,800.3	4,755.0	4,031.8	3,916.0	3,646,6	3,711.8
Cash and deposits	193.4	306.1	246.8	209.7	224.3	237.4
Debt securities[1]	2,780.8	2,441.9	2,154.8	2,112.1	2,001.9	1,875.9
Credits and loans	2,826.1	2,006.9	1,630.2	1,594.2	1,420.4	1,598.5
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities[2]	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors[3]	**43,614.4**	**39,684,0**	**39,121,3**	**39,757,2**	**41,085,6**	**41,338,5**
Short-term	6,346/6	6,849.3	6,578.3	6,866.5	7,135.3	7,245.5
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities[1]	0.0	0.0	0.0	0.0	0.0	0.0
Credits and loans	588.1	616.3	636.0	544.3	508.4	468.5
Trade credits and advances	5,649.2	6,124.2	5,890.2	6,267.9	6,585.6	6,740.0
Other liabilities	109.2	108.7	52.1	54.4	41.2	36.9
Long-term	37,267.8	32,834.8	32,543.0	32,890.7	33,950.3	34,093.0
Cash and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities[1]	12,926.3	10,097.8	9,860.0	10,114.0	10,639.3	9,766.4

Credits and loans	22,258.5	20,714.4	20,622.3	20,729.8	21,278.4	22,374.3
Trade credits and advances	1,623.5	1,831.8	1,855.6	1,829.0	1,818.4	1,741.5
Other liabilities[2]	459.5	190.7	205.1	218.0	214.2	211.0
Other financial organizations	2,809.7	2,210.0	1,371.8	1,344.7	1,230.5	1,410.7
Short-term	70.0	64.6	48.7	157.9	63.3	49.6
Long-term	2,739.7	2,145.4	1,323.1	1,186.8	1,167.3	1,361.1
Non-financial organizations, households and non-commercial organizations providing services to households	40,804.6	37,474.0	37,749.5	38,412.5	39,855.1	39,927.9
Short-term	6,276.5	6,784.7	6,529.6	6,708.6	7,072.0	7,195.9
Long-term	34,528.1	30,689.3	31,219.9	31,703.9	32,783.0	32,732.0
Direct investments: Intercompany debt	**104,107.9**	**101,063.6**	**100,755.4**	**100,190.6**	**98,500.8**	**97,373.7**
Liabilities of Kazakhstani direct investment companies to foreign direct investors	80,163.4	79,782.6	79,783.3	80,715.7	80,319.0	79,179.3
Liabilities of Kazakhstani direct investors to foreign direct investment companies (reverse investment)	6,687.7	6,651.2	6,933.5	6,846.6	6,878.2	7,045.3
Liabilities of Kazakhstani enterprises to foreign sister enterprises	17,256.8	14,629.8	14,038.6	12,628.3	11,303.6	11,149.0

[1] Debt securities are recorded at market value (if available).
[2] Includes insurance and pension schemes and standard guarantee programs as well as other long-term liabilities from the structure of an international investment position.
[3] Other sectors do not include intercompany debt, which goes as a separate item in the external debt structure.

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Table 2.5.3. External Debt of the Republic of Kazakhstan: Absolute and Relative Parameters

Item	2018	I quarter 2019	II quarter 2019	III quarter 2019	IV quarter 2019	2019
Absolute Parameters (million US Dollars)						
1. External debt (estimate at end-period)	158,824.8	157,544.2	157,723.7	157,600.1	156,802.1	156,802.1
including intercompany debt	101,063.6	100,755.4	100,190.6	98,500.8	97,373.7	97,373.7
2. External debt, excluding intercompany debt (estimate at end-period)	57,761.2	56,788.8	57,533.1	59,099.3	59,428.4	59,428.4
3. Payments for long-term external debt extinction and servicing (including intercompany debt)	49,976.7	8,987.8	8,622.4	9,601.5	9,434.9	36,646.5
4. Payments for long-term external debt extinction and servicing (excluding intercompany debt)	24,166.5	5,298.5	5,381.6	5,958.4	5,121.1	21,759.6
Relative Parameters						
1. External debt per capita (US Dollars, excluding intercompany debt)[1]	3,101.9	3,078.5	3,109.2	3,183.3	3,189.6	3,189.6
2. External debt to GDP (%, including intercompany debt)	88.6	86.6	87.1	86.8	84.8	87.4
3. External debt to GDP (%, excluding intercompany debt)	32.2	31.2	31.8	32.5	32.1	33.1
4. External debt to exports of goods and services for the year (%, including intercompany debt)	236.7	235.6	233.8	235.9	239.0	239.0
5. External debt to exports of goods and services for the year (%, excluding intercompany debt)	86.1	84.9	85.3	88.4	90.6	90.6
6. Payments for long-term external debt extinction and servicing to exports of goods and services for the period (%, including intercompany debt)	74.5	59.9	50.2	57.4	56.5	55.9
7. Payments for long-term external debt extinction and servicing to exports of goods and services for the period (%, excluding intercompany debt)	36.0	35.3	31.3	35.6	30.7	33.2

8. Interest payments to exports of goods and services for the period (%)	10.9	12.4	10.7	10.0	9.7	10.7
9. National Bank's international reserves to short-term external debt (%)	379.5	327.4	338.2	349.3	330.3	330.3
Memo Items:						
Population (thous. individuals)[1]	18,621.4	18,447.0	18,504.4	18,565.7	18,632.2	18,632.2
GDP (bln.), for the period[2]	61,819.5	13,180.9	14,727.8	16,389.3	24,341.6	68,639.5
GDP for 12 months (USD bln.)[3]	179.3	181.9	181.0	181.6	184.9	179.3
Exports of goods and non-factor services for the period	67,109.9	14,998.0	17,190.8	16,721.0	16,685.8	65,595.6
Exports of goods and non-factor services for 12 months	67,109.9	66,859.0	67,474.8	66,816.9	65,595.6	65,595.6

[1] Data of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan.
[2] Updated information of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan for 2019 published on February 14, 2020.
[3] GDP in US Dollars for the calendar year – data of the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan. GDP in the US Dollars for 12 months for calculation of relative parameters for the quarter is derived as the amount of quarterly GDP numbers in the US Dollars calculated at respective average exchange rate for the quarter.

List of Used Abbreviations

JSC	a joint-stock company
bank	a second-tier bank
GDP	gross domestic product
EAEU	the Eurasian Economic Union
Unified Accumulative Pension Fund	the “Unified Accumulative Pension Fund” JSC
Kazakhstan Stock Exchange	the “Kazakhstan Stock Exchange” JSC
IMF	the International Monetary Fund
mln	million
bln	billion
CIS	the Commonwealth of Independent States
trln	trillion
thous.	thousand

Consolidated financial statements of the National Bank of the Republic of Kazakhstan for 2019