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ACRA SFSI KZ measures financial stability of the country and assesses its vulnerability to specific risks by aggregating information regarding maturities and currency profile of assets and liabilities of economic agents (financial companies, non-financial companies, population and state)

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Higher share of short-term borrowings has not increased financial instability in Kazakhstan

Structural Financial Stress Index for Kazakhstan

As at end-2017, Structural Financial Stress Index for Kazakhstan (ACRA SFSI KZ) continued sliding and now stands at 8% of its maximum registered level (Figure 1). Absence of trigger events and a more significant decline of the FX imbalance amid increasing liquidity imbalance strengthened financial stability.

Generally, as the base rate came down, inflation eased from 7.5% in June 2017 to 6.5% in February 2018, and the tenge FX rate remained relatively stable, market interest rates demonstrated a corresponding decline: KazPrime-3M reached its two-year minimum, and TONIA is also at its minimum level for the same period. Low interest rates drive borrowing demand in the national currency across the entire economy.

The liquidity imbalance has increased since July 2017, which comes from the rise in short-term borrowings by medium-size and large non-financial companies totaling 1.417 trillion tenge amid the decline of the base rate from 12% in January 2017 to 10.25% as at end of Q3. The growth of total borrowings was partially driven by the increase in bank loans of 590 billion tenge.

Deposit institutions have increased the amount of new deposits by 832 billion tenge, or by 4.7%, and FX interventions by the National Bank of Kazakhstan totaled close to USD 140 mln, or around 46 billion tenge. As a result, the increase in short-term borrowings attributable to rate cuts resulted in liquidity imbalance, as liquidity gains were limited due to surplus liquidity withdrawals by the regulator.

Currency imbalances have reached their minimum level in late 2017 by virtue of a substantial inflow of foreign currency liquidity and gains in foreign currency assets, while foreign currency liabilities saw a slower increase. Foreign currency-denominated debt liabilities of the financial sector have increased by 240 billion tenge, while foreign currency-denominated interest expenses declined by 214 billion tenge quarter-on-quarter. In terms of assets, foreign currency-denominated debt assets demonstrated the highest gains of 766 billion tenge in Q3. These figures indicate a sufficient inflow of foreign assets on the back of a moderate growth of commodity prices.

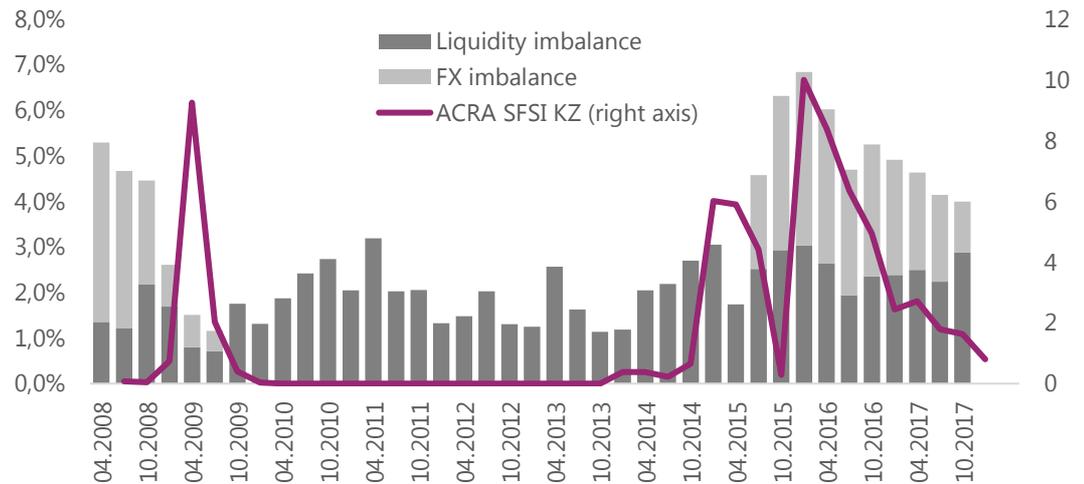
One of the potential risks that Kazakhstan's financial system may face stems from the ongoing decline of real income of the population and lower revenues in the non-financial sector. The real disposable income of the population declined by 0.5% in Q3 2017 year-on-year. Declining incomes raise the likelihood of a higher share of overdue loans forcing financial institutions to follow a less balanced policy in terms of interest and FX risks they take.

For more details on the methodology used to calculate ACRA SFSI KZ please see [Structural Financial Stress Index \(ACRA SFSI\) Calculation Methodology](#).

Trigger is an event that may lead to a change in expectations regarding periods when incoming and outgoing flows arise, or in the amount thereof.

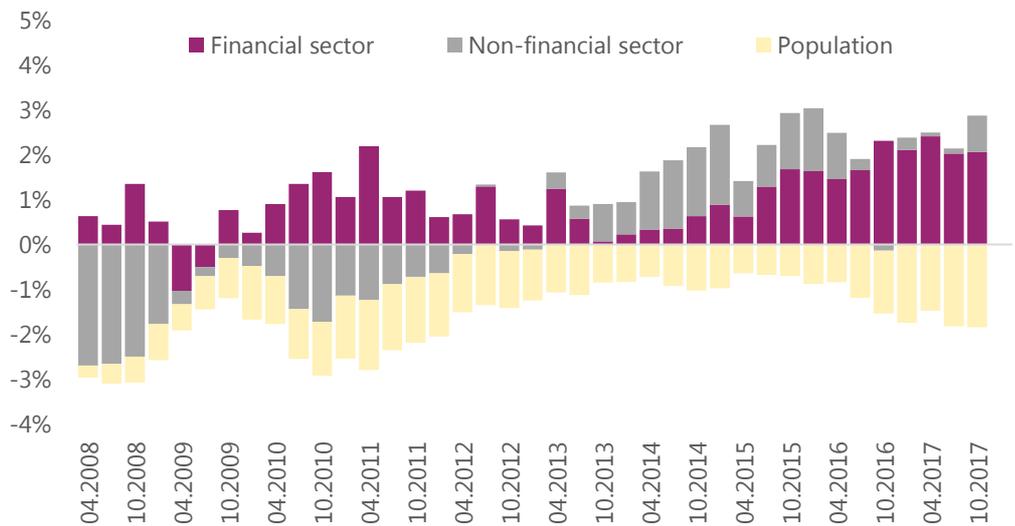
Imbalance represents a skewness in the profile of expected cash inflows and outflows in terms of maturities or currency in a specific sector.

Figure 1. Structural Financial Stress Index for Kazakhstan is declining



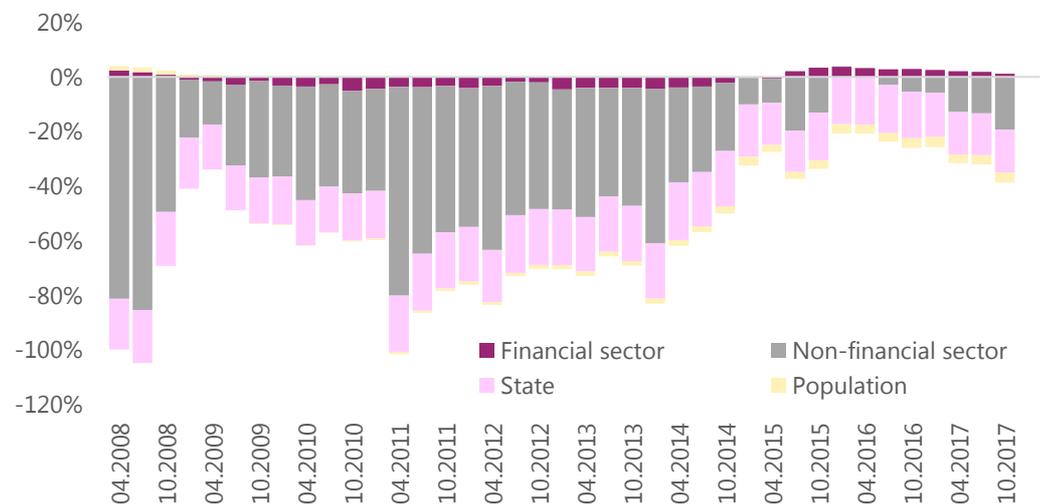
Source: ACRA estimates

Figure 2. Liquidity imbalances by sectors (positive values correspond to a liquidity deficit)



Source: ACRA estimates

Figure 3. FX imbalances by sectors (positive values correspond to potentially uncovered share of foreign currency liabilities)



Source: ACRA estimates

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