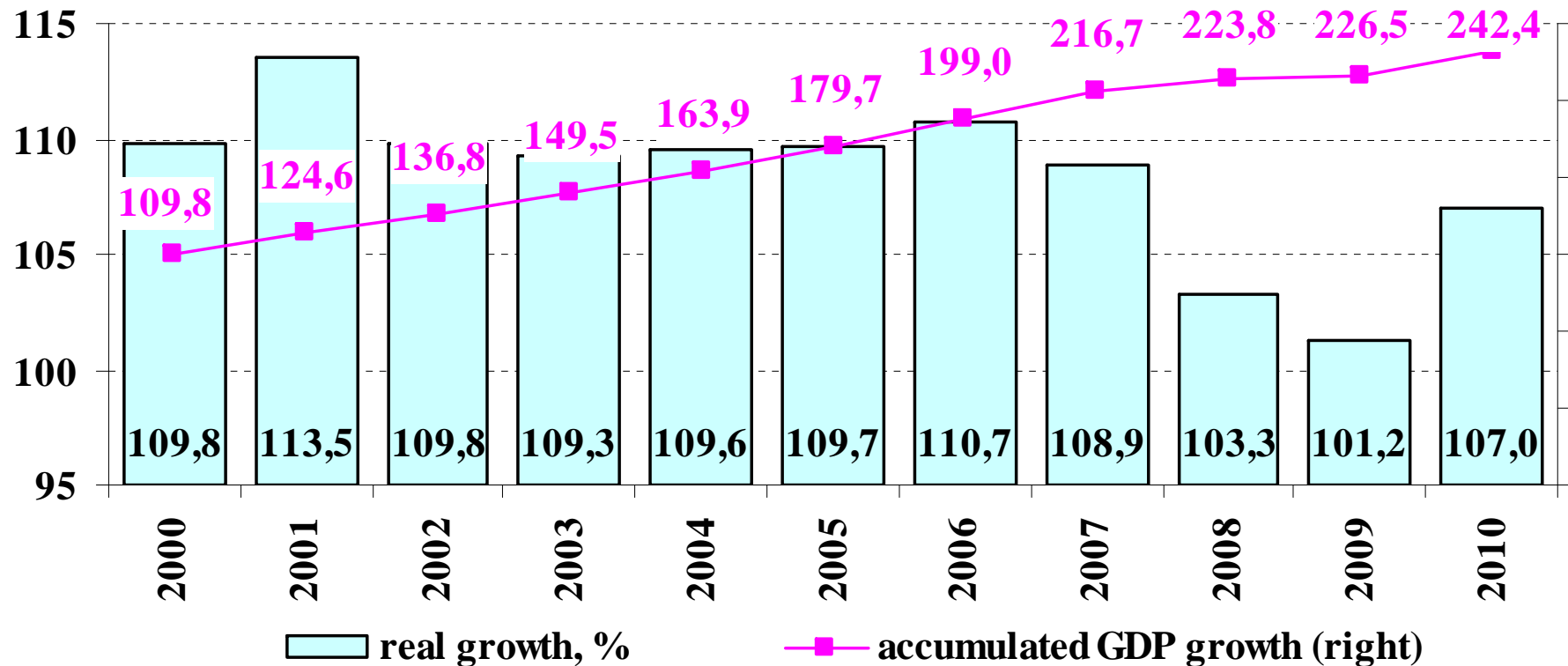


The impact of the financial crisis and main directions of financial sector development in post-crisis period

National Bank of Kazakhstan

GDP, real growth, %



According to the data for 2010 we can say that the phase of crisis is already passed.

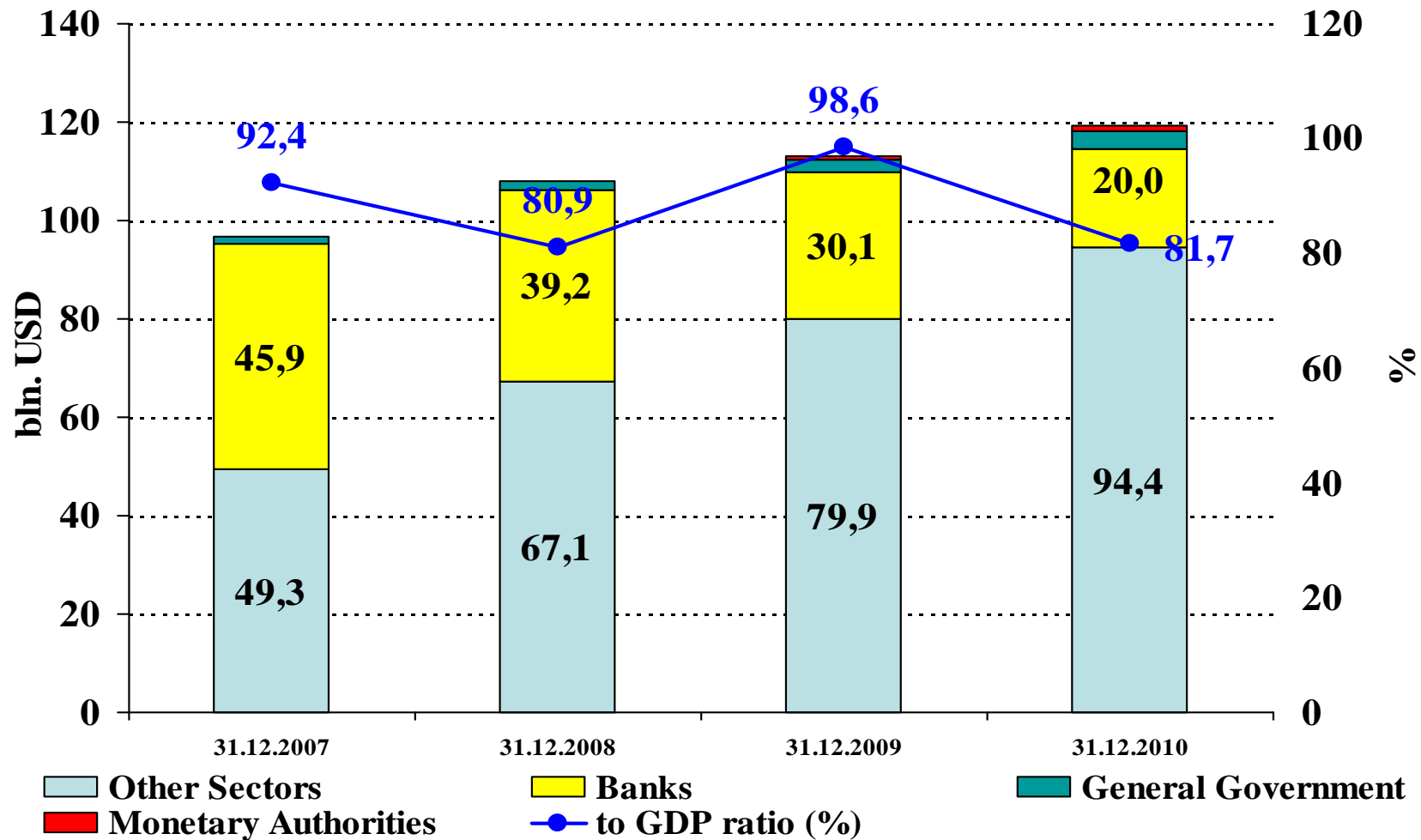
The crisis evolution in Kazakhstan

- relatively high sovereign credit rating and ratings of domestic enterprises made for the increase in resources availability on the global capital markets
- favorable macroeconomic environment, high demand for credits in Kazakhstan promoted external borrowings by domestic banks
- rapid development of some sectors of Kazakhstani economy, which led to the emergence of “price bubbles”
- as conditions in international financial markets tightened in August 2007, local banks found it more difficult to raise external financing
- with oil and commodity prices falling sharply and global financial markets freezing up, the economy has been hit hard
- the lending activity of Kazakhstani banks shrank in 2008
- the development of the sectors dependent on the banking loans has almost stopped. As a result, Kazakhstan’s economy was slowing after years of exceptionally strong growth

The Reasons

- undervaluation of risks by financial institutions
- the pro-cyclicality of the financial system development with the features of high growth rates of lending, leverage and assets prices
- significant amount of payments on external liabilities of domestic banks (at present the problem of the foreign debt of banking sector is solved by its restructuring)

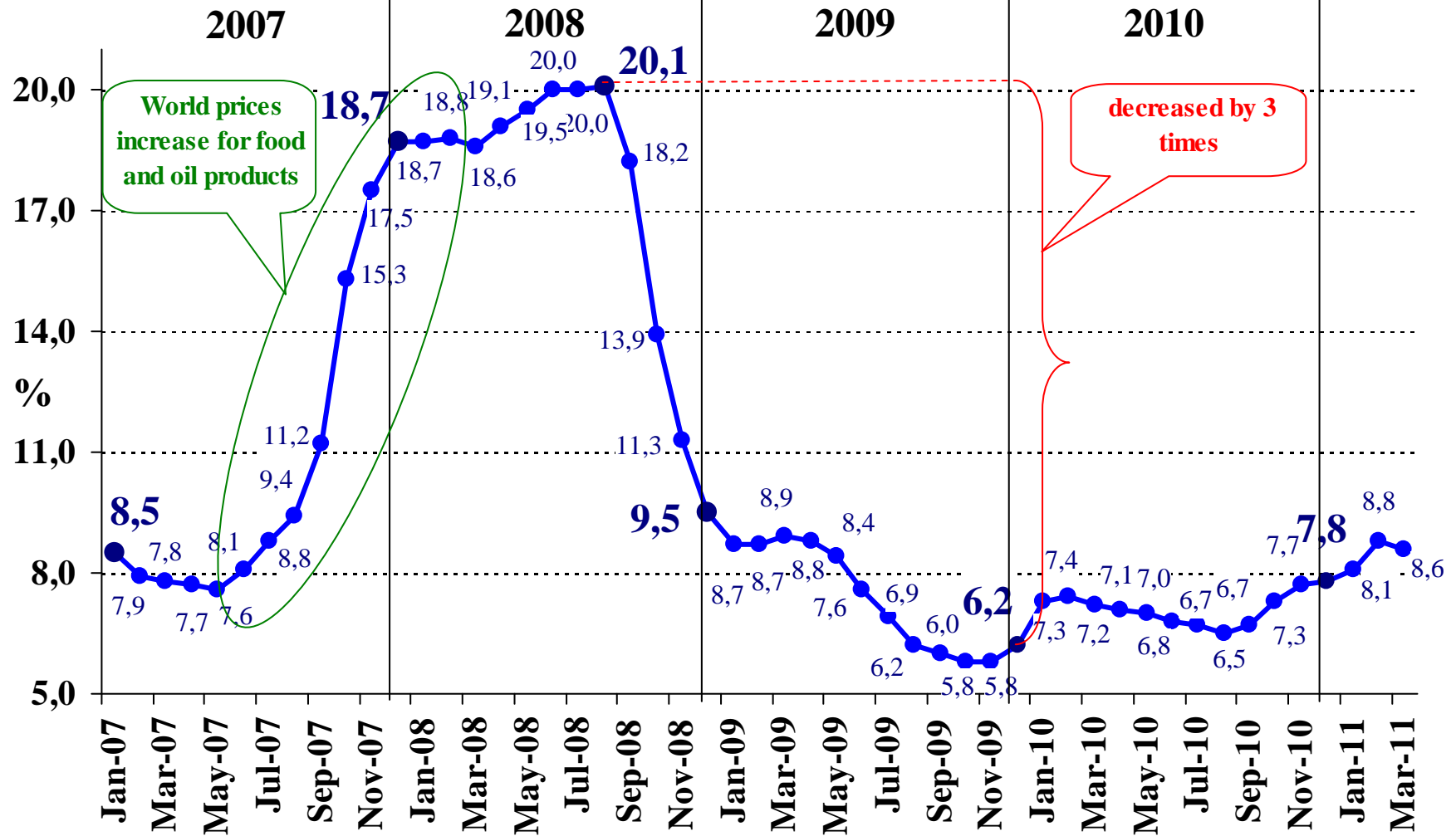
Gross external debt of Kazakhstan*



Measures to stimulate economic growth

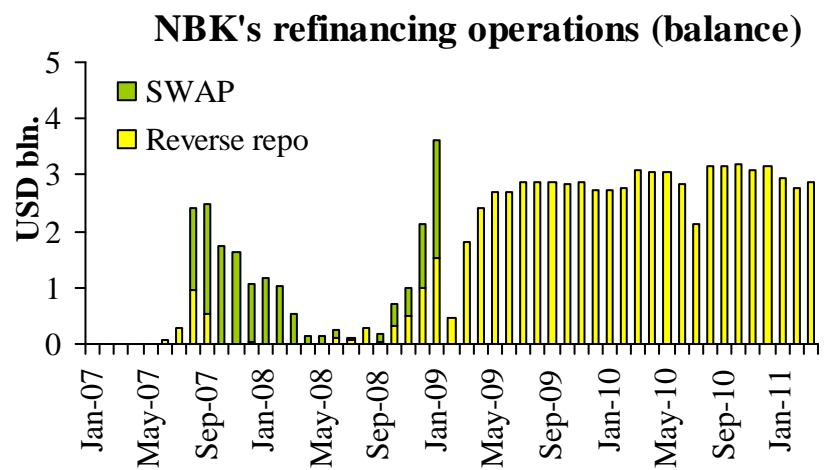
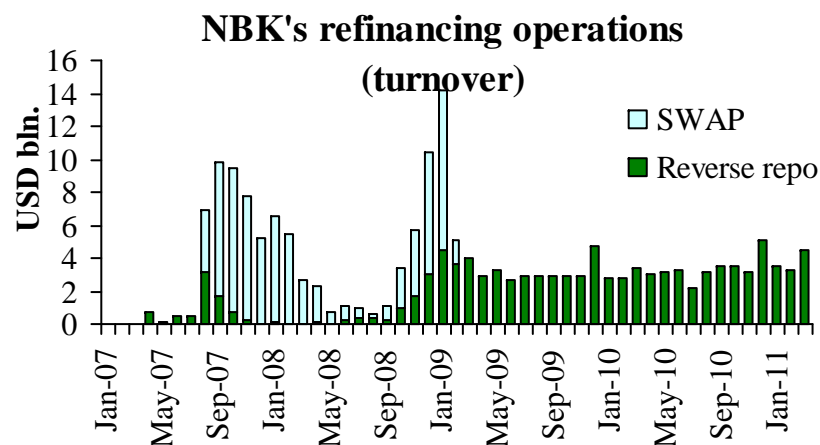
- 1. A Joint (the Government, the National Bank, the Financial Supervisory Agency) Two-Year Action Plan for stabilizing of the economy and financial system:**
Funding (USD 10bln.) has come from the National Oil Fund
 - ✓ provision of public support to the top four banks
 - ✓ steps to aid the completion of unfinished residential construction projects and spur housing demand
 - ✓ financial assistance to the SME and agricultural sectors
 - ✓ increased public investment in the industrial sector
- 2. A new Tax Code was adopted (on January 1, 2009):**
 - ✓ corporate income tax has been reduced to 20%
 - ✓ mineral Extraction Tax replaces the royalties on oil production
 - ✓ the VAT was reduced from 13% to 12%
- 3. The Government, in cooperation with the local authorities, will provide employment for workers temporarily unemployed**
- 4. The National Bank of Kazakhstan:**
 - ✓ low interest rates (refinancing rate)
 - ✓ provision of refinancing loans to banks to ensure adequate short-term liquidity
 - ✓ low deposit rates to discourage banks from holding funds and push lenders to credit the real sector

Annual Inflation in 2007-2011

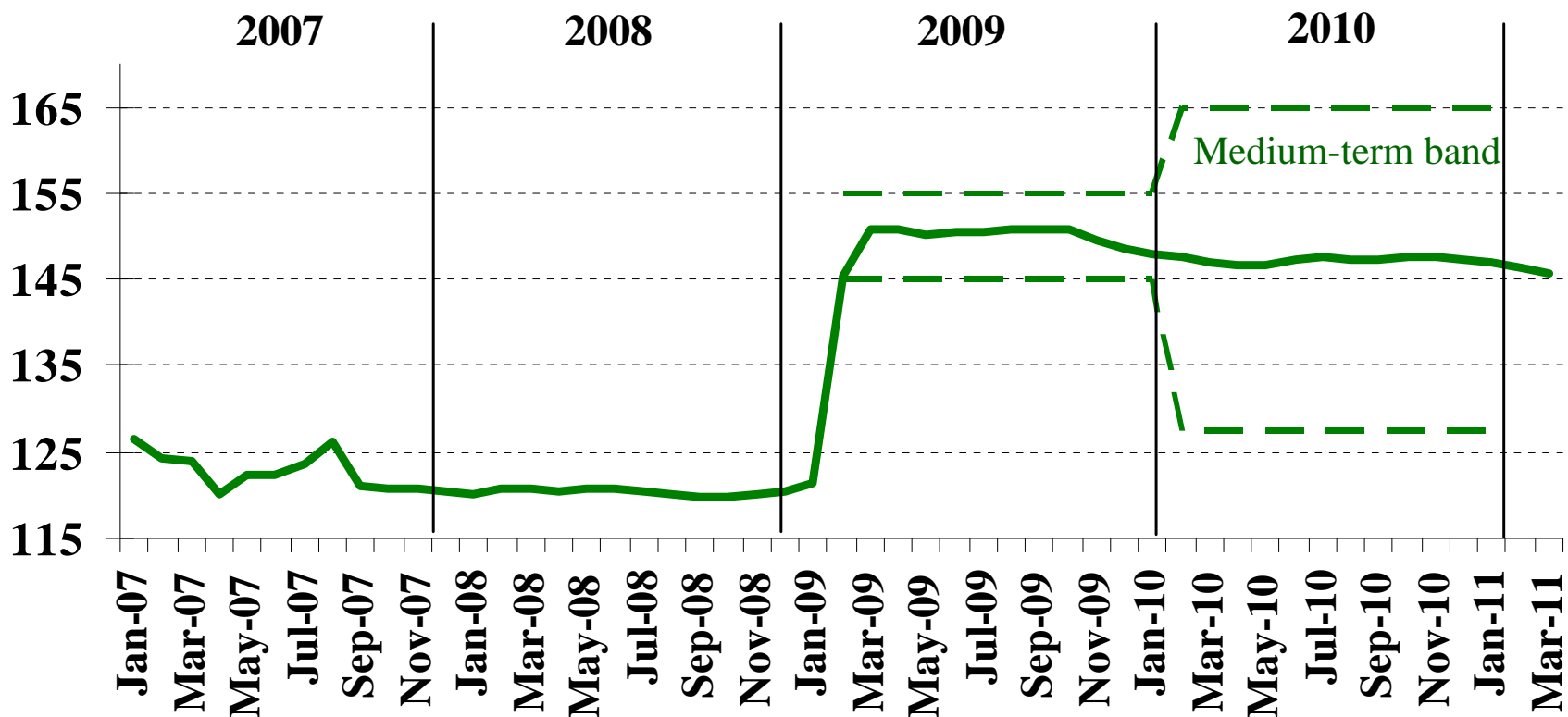


Financial Stability Measures

- ✓ the policy interest rate has been gradually cut from 11% to 7% (its lowest level ever)
- ✓ in March 2011 policy interest rate was increased to 7.5%
- ✓ since 2007, to ensure adequate short-term liquidity, the NBK provides refinancing loans to banks
- ✓ the list of instruments accepted as collateral was expanded
- ✓ the reserve requirements were reduced to the minimum level ever (1.5% for domestic liabilities and 2.5% for other liabilities), however banks still hold excessive reserves
- ✓ in November 2009 reserve requirements for banks under debt restructuring process were set at 0% for all liabilities

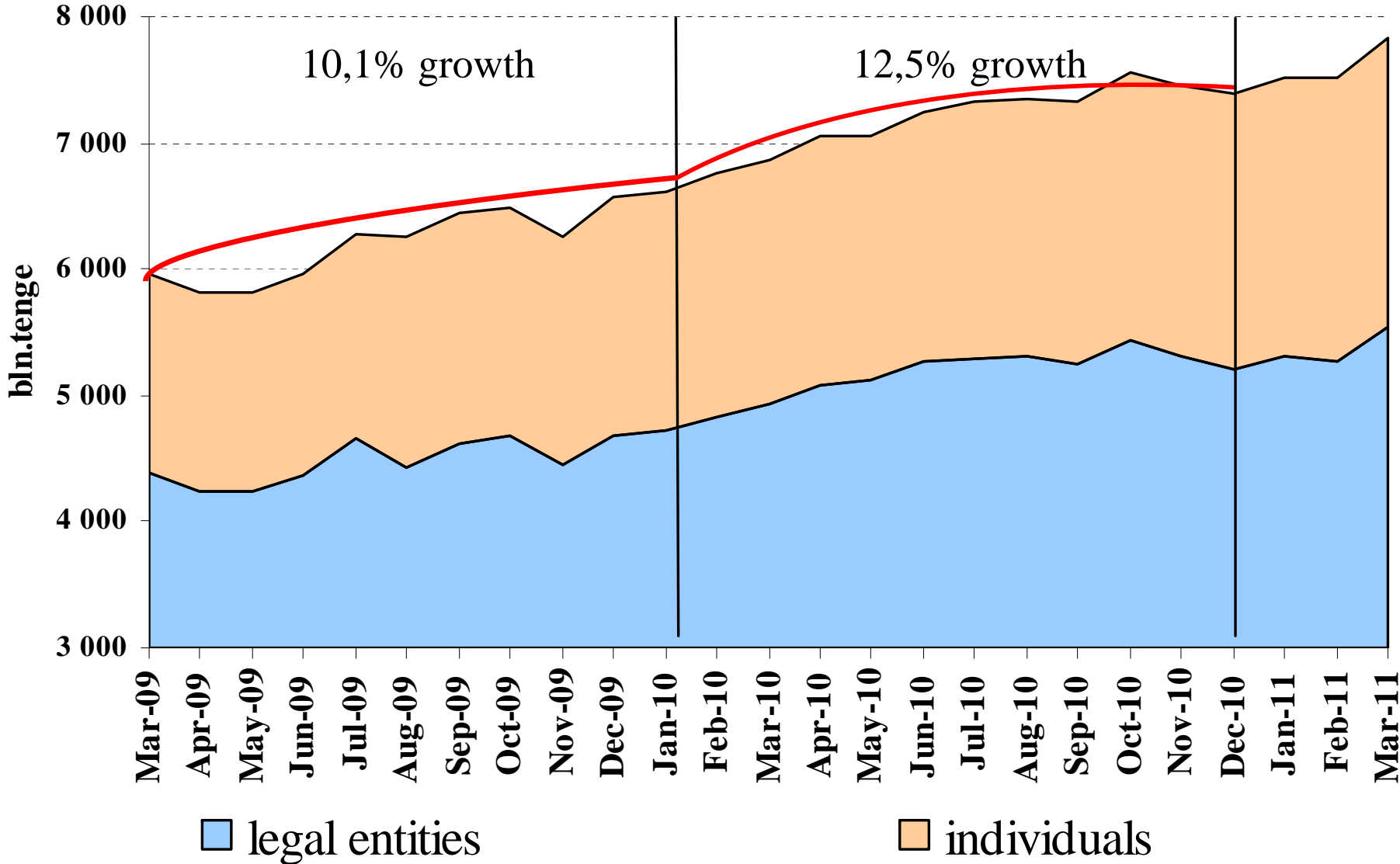


Exchange Rate of Tenge to USD

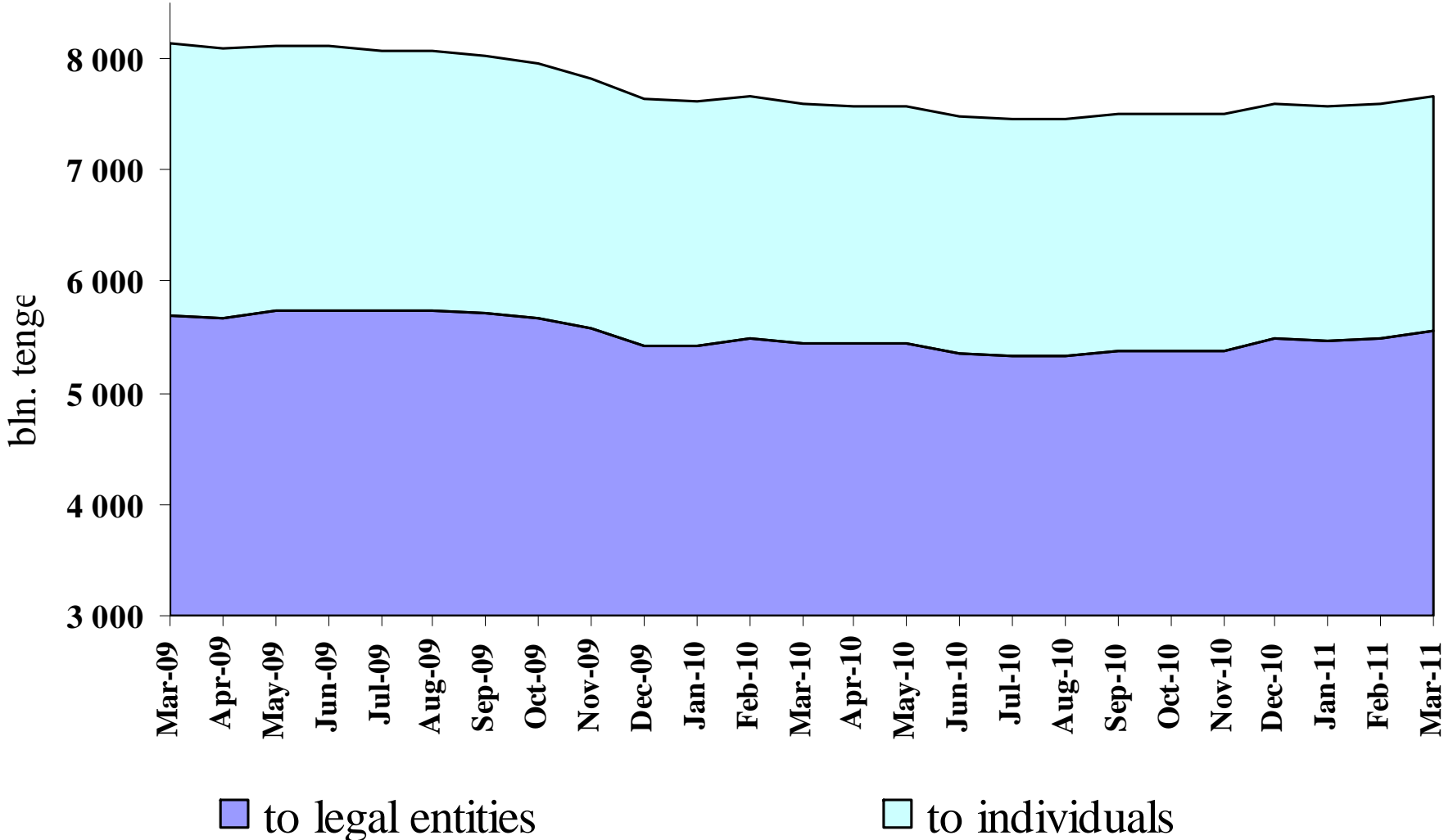


From February 28, 2011 the National Bank switched to managed floating exchange rate regime

Deposits of Residents



Banks Credits to Economy



Islamic financing

- In February 2009 a Law of the Republic of Kazakhstan on issues of organization and operating of Islamic banks and organization of Islamic financing (the Law) was adopted. The Law covers issues of operating of Islamic banks, Islamic investment funds, and issuance of Islamic securities in Kazakhstan.
- Development of a legal base for Islamic finance in Kazakhstan is accompanied with coming of new players. A first Islamic brokerage company and an Islamic consulting firm started their operations.

Islamic financing

- The Law specifies following types of Islamic securities: shares and common stock of Islamic investment funds, Islamic lease certificates, and Islamic participation certificates. Islamic lease certificates are issued to finance purchase of real estate, ground areas, etc.
- The Governments of Kazakhstan and the UAE have signed an agreement to launch Al Hilal Bank in Kazakhstan. In March, 2010 the first Islamic bank was opened in Kazakhstan.
- At present the legislative field for the action in the republic of Islamic insurance (takaful) companies is developed.

The main purposes of financial sector development in post-crisis period

- providing the financial sector's stability
- creating conditions to prevent effect of instability factors and negative events which were detected during the current financial crisis
- stimulation of investment activity in the post-crisis period
- restoration of trust and confidence in the financial sector by both investors and consumers of financial services

The main goals

1. financial resources mobilization in the post-crisis period
2. consolidation of the financial sector supervision and regulation system
3. strengthening of the mechanisms of rights protection for investors and consumers of financial services
4. regulation of the systemic risks

The financial resources mobilization

- attracting of institutional investors' funds by elaboration of public private partnership as a main mechanism. It will make possible to implement and develop the potential of private initiative and preserve the function of the state in socially significant sectors of the economy
- development of the instruments of Islamic financing

Consolidation of financial sector supervision and regulation system

- implementation of the counter-cyclicity principle in regulation through tightening (for financial leverage, owner's capital, reserves and liquidity, and reserve requirements) in the periods of economic growth and softening in the periods of recession
- the gradual increase of minimum size of a capital, especially for banks
- strengthening of regulation of the complex financial instruments up to prohibition of separate operations
- strengthening of the risk control of «systemically important» financial institutions, considering their impact on the other financial organizations, markets and instruments
- elaboration of the procedure of shock transformation charts and tools for analysis of regulatory effect

Strengthening of the mechanisms of rights protection for investors and consumers of financial services

- making more stringent the responsibility of officials of joint-stock companies, and assigning direct responsibility area to every independent member of the board of directors and management of the corresponding committees, accountable to the board of directors
- establishment of «black lists» of financial organizations, their officials, issuers, shareholders whose activity resulted in the bankruptcy of financial institutions
- the quality of corporate governance and rising transparency in the activities of financial organizations will be improved
- the bonus system of the management of financial organizations will be improved
- the term «affiliated persons» will be expanded

Regulation of systemic risks

- implementation of the system of macroprudential regulation:
 - early detection of risks on the base of financial stability indicators
 - differentiated approaches in regulation of institutions depending on their significance and their «systemically important» character
- strengthening of the role of the National Bank, as a central body, responsible for providing of financial stability and performing of macroprudential regulation in:
 - determination of the main sectoral principles and approaches of the prudential regulation;
 - development of anti-crisis management and losses minimization measures in a case of systemic risks realization.

Expected results

- attraction of financial resources to realization of the goals for the forced industrial-and-innovation development of the country
- creating conditions for sustainable development of the financial sector and confidence-building measures
- further development of all the segments of the financial sector taking into account the world experience
- gradual exit of the state from financial organizations capital