

BUFF/22/8

March 30, 2022

Statement by the Staff Representative on the Republic of Kazakhstan
Executive Board Meeting
April 4, 2022

This staff statement provides an update on recent developments and information that has become available since the staff report was issued. This information does not alter the thrust of the staff appraisal.

1. Exchange rate pressures. As noted in the staff report, the tenge depreciated by almost 20 percent against the US dollar in the days following the Russian invasion of Ukraine, including because of residents switching from tenge- to US dollar-denominated deposits. In response, the authorities took measures to curb exchange rate volatility, including a policy rate increase of 325 basis points, foreign exchange interventions (about US\$745 million between February 24-March 11, compared with US\$490 million in all of 2021), and incentives to maintain tenge-denominated deposits. In addition, a presidential decree issued on March 14 prohibited the export of foreign currency in amounts exceeding US\$10,000, and of physical gold above 100 grams. As of March 29, the tenge had recouped some of its losses, with the depreciation since February 24 reduced to less than 10 percent relative to the US dollar. Staff is assessing whether the measures adopted under the decree—which aim to avoid a spiral of inflation, additional exchange rate pressures, deposit dollarization, and potential financial stability risks—constitute Capital Flow Management Measures (CFM).

2. Banking system. Bank liquidity pressures were observed in late February, including in local subsidiaries of Russian banks, and as deposits were shifted into US dollar. In line with the above, the situation has stabilized in March. The subsidiaries of Russian banks subject to international sanctions are funded mainly through local deposits, their assets consist largely of domestic tenge loans, and they recently received liquidity support from parent banks to meet their domestic obligations. More broadly, foreign currency lending in the economy is limited (about 12 percent of total lending) and extended mainly to naturally hedged borrowers. The domestic banking system's direct exposure to Russia is also small (1.3 percent of total assets). Finally, the latest available data suggest that credit growth accelerated further in February, to 31 percent (yoy), confirming the importance of increased supervisory focus on consumer lending—an area in which staff has actively engaged with Kazakhstan's financial regulatory agency in recent days.

3. Oil exports. In mid-March, a storm damaged two of the three single point moorings (SPM) of the Caspian Pipeline Consortium (CPC) at Novorossiysk (Russia), on the Black Sea. Kazakhstan transported about 80 percent of its oil exports through this pipeline in 2021. Available information indicates that repairing the damaged SPMs may take three to four weeks. Since the

pipeline normally operates with only two SPMs, it can retain at least 50 percent capacity while repairs take place. Like the authorities, staff's preliminary assessment is that a 50 percent loss of oil export capacity for a few weeks would not materially affect the baseline external and fiscal projections in the staff report, including because oil prices are currently above underlying assumptions. Yet, the interruption of the CPC pipeline has increased risks to the outlook, especially considering that options for re-routing oil exports are limited in the short term. Staff will continue to monitor the situation closely, in particular as far as the expected duration of the repairs is concerned.