

Fitch: confirmation of Kazakhstan's sovereign rating at the BBB level with a stable outlook

Assan Kurmanbekov — March 26, 2019

On March 22, the agency affirmed the credit ratings of Kazakhstan at BBB, the outlook «Stable». The economic growth forecast for Kazakhstan is slightly increased to 3.4% in 2019 from 3.3% in the previous rating action.

According to Fitch, the country's ranking position reflects strong state and external balance sheets, which are supported by significant government savings and substantial net foreign assets of the state (the state's net foreign assets accounted for 43.8% of GDP at the end of 2018). On the other hand, high dependence on the commodity sector is taken into account (oil revenues account for 43% and 63% of fiscal revenues and revenues from export of goods), weak banking sector (although the official non-performing loans indicator was 8% at the end of 2018, it probably not fully reflecting problem loans) and World Bank indicators for management quality, as well as higher inflation compared to comparable issuers with BBB ratings.

Fitch expects the budget deficit to increase to 1.8% of GDP in 2019 and 1.9% in 2020 from 1.4% in 2018 as the government applies a less stringent fiscal policy against the background of the new social program worth T1.3 trillion for three years. The revised budget for 2019 includes an increase in transfers of up to T3 trillion from T2.6 trillion in 2018, in comparison with the originally predicted decline. According to Fitch's forecasts, the assets of the NFRK will recover to \$58 billion (34% of GDP) in 2019 amid a positive balance from the fund, although the planned increase in the outflow of funds to the budget will impede a more rapid recovery of assets.

The agency expects a slight decrease in oil production due to repairs at the country's largest oil field to result in a slowdown in 2019 growth to 3.4%, but an increase in wages and growth in consumer lending, as well as substantial investments in the energy and mining sectors domestic demand. In addition, the expansion of activities at the Tengiz oil field to a certain extent will provide a strong stimulus for growth in the medium term.

After a small surplus, estimated at 0.5% of GDP, the agency believes that the current account will become negative again due to increased imports amid rising consumer spending and significant investments, but it will be financed by continuing inflows of net foreign direct investment.

Our opinion

In our opinion, the news is neutral, as the ratings and the forecast for them are confirmed at the same level. The consolidation of the positive macroeconomic situation in the country led to the preservation of a positive assessment of the rating agency at a stable level. Thus, the confirmation of the rating in the current situation does not affect the price of the country's sovereign debt.

We share Fitch's opinion on the positive outlook for the development of Kazakhstan's economy, which, in general, reflects another confirmation of Kazakhstan's rating at BBB with a stable outlook.

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