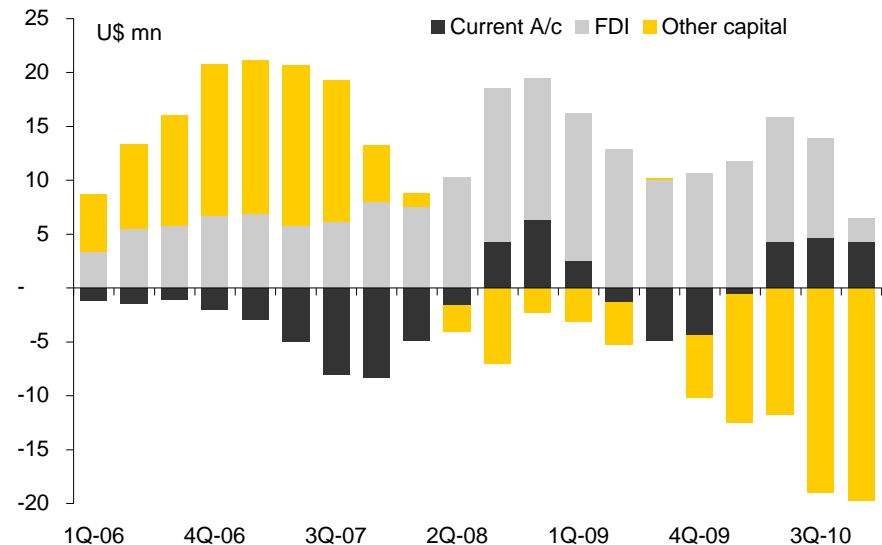
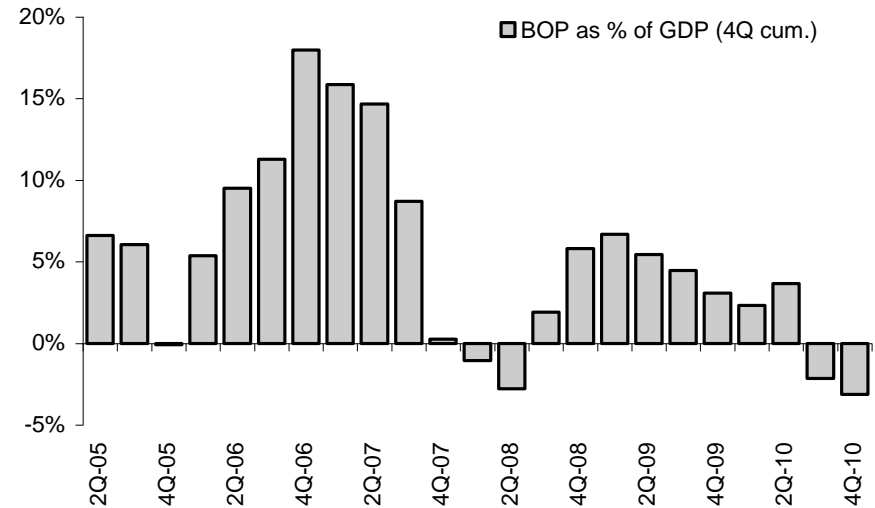


Macroeconomic outlook Kazakhstan

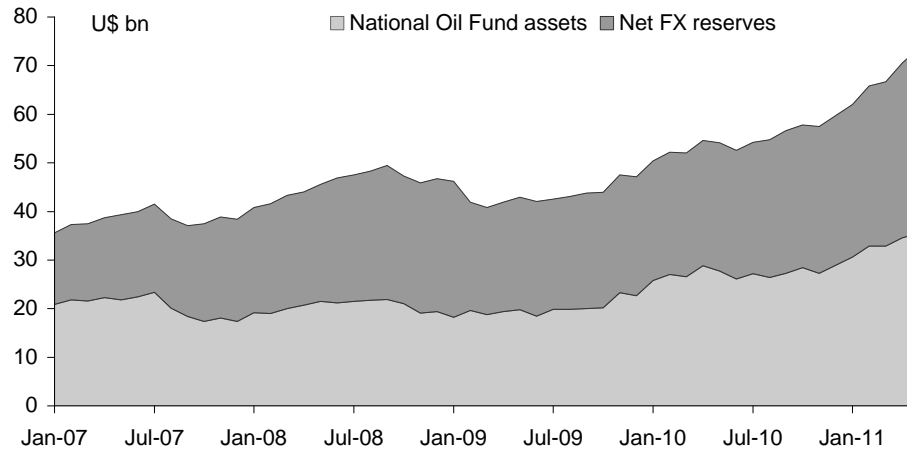
Dr Michael Ganske, CFA, Head of EM Research

Kazakhstan: oil boosts the sovereign balance sheet

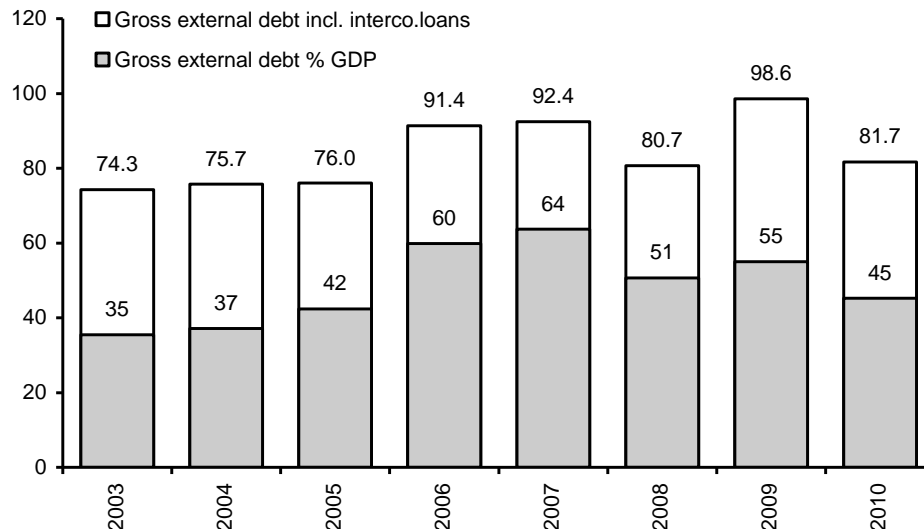
- › Kazakhstan is gaining substantial windfall revenues due to its leverage on the commodity cycle: 50% of its exports are oil-, 70% mineral and primary commodity-related, and 20% of overall output is generated in the extracting sector.
- › Its 12M trade balance is over U\$ 32bn surplus by April, which could rise to U\$ 40bn. This represents partially foreign investment income but still supports the balance of payments.
- › The restructuring of the banking sector's liabilities has been a substantial drag on overall external flows. Starting in 2011, the trade surplus will have already outweighed the financial account gap.
- › The current account surplus is likely to reach 5% of GDP vs. 3.4% in 2010, and we estimate this to be equivalent to c. U\$ 10bn foreign reserve accumulation – of which U\$ 7.5bn has been collected in January-May.



Lower debt, prudent reserving of oil assets

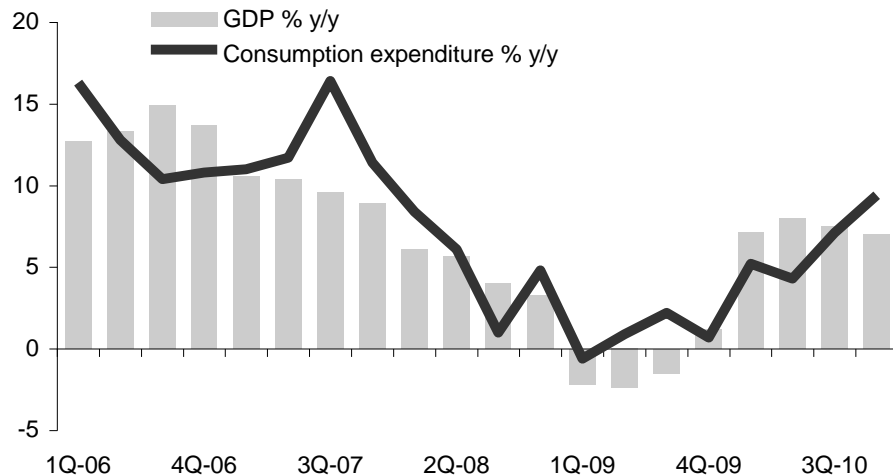


- › The banking sector's foreign liability restructuring and loan repayments are easing, while other sectors have maintained access to foreign financing.
- › Kazakhstan has reduced its gross external debt to 45% of GDP, which is still high in CIS comparison but is on a consolidating path.
- › The sovereign's net foreign asset position is close to 40% of GDP which is stronger than Russia's and second to Azerbaijan in the commodity exporting CIS.
- › As a result of stronger external and sovereign balance sheets, and favourable terms of trade; there is an underlying case for stronger KZT in real terms and against the US\$.
- › The broader economy is, however, still feeling the impact of the credit crisis and deleveraging. Policy is geared toward sustaining non-oil growth; fiscal policy is expansionary and monetary policy focuses on partial sterilisation of the oil inflow.

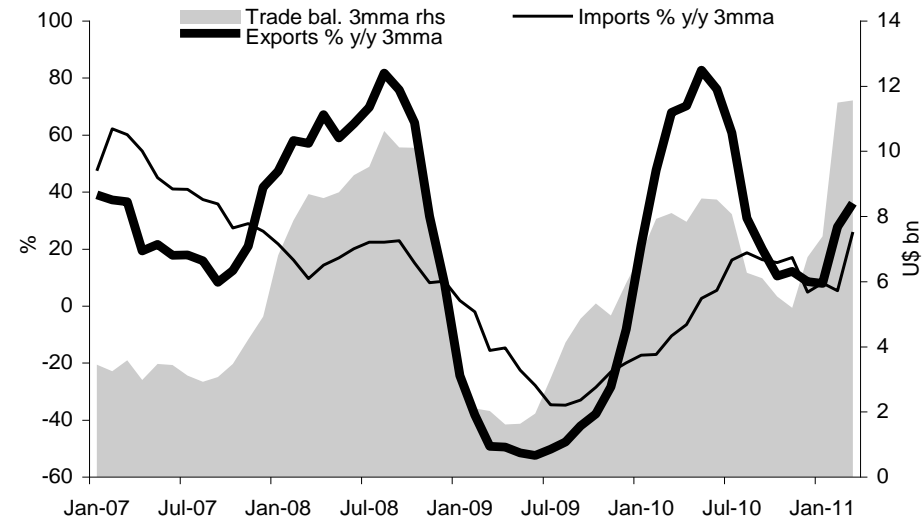


Growth accelerates on exports and government spending

GDP growth seen at 6% mid-term potential

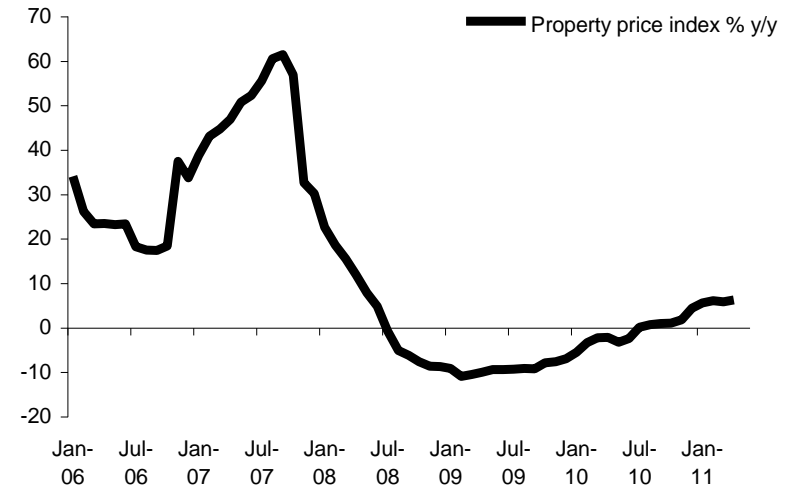
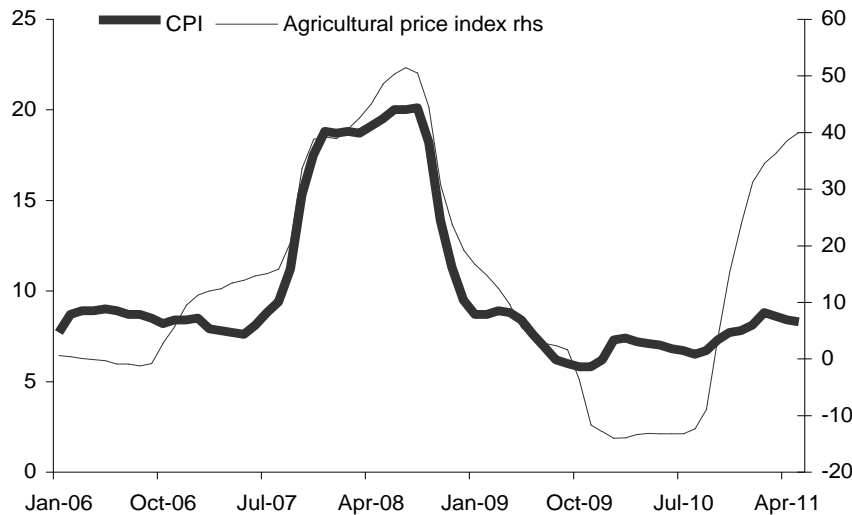
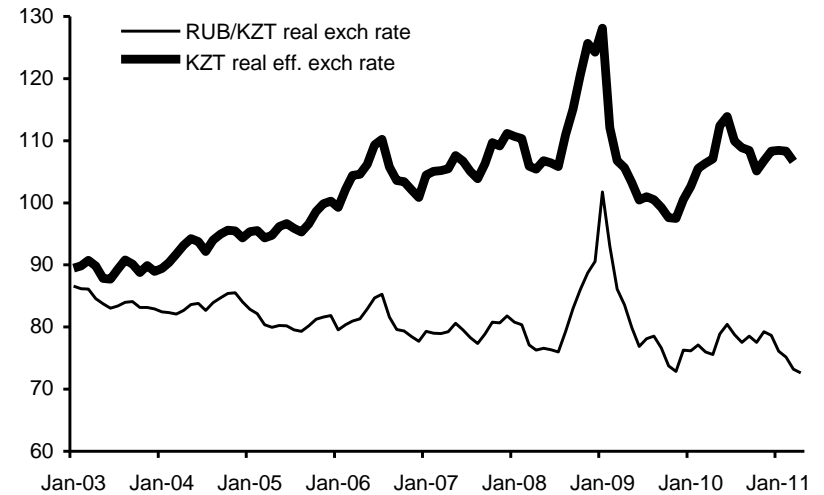
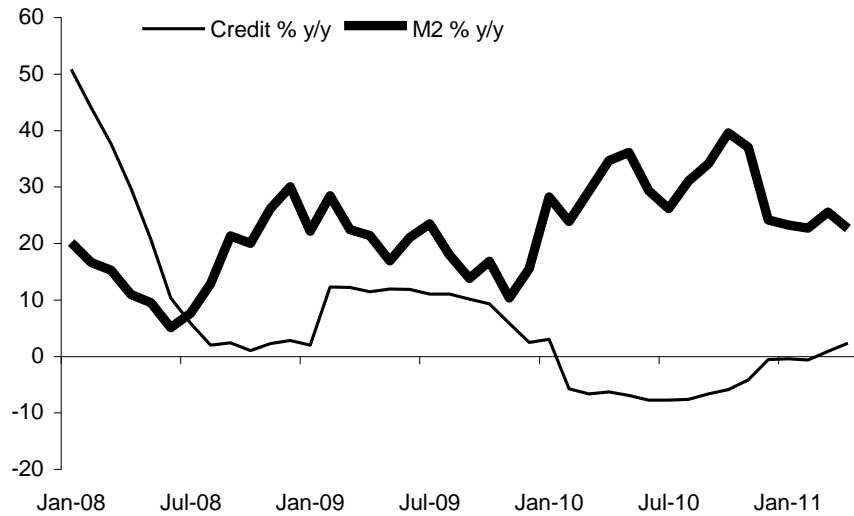


Trade surplus over 20% of GDP (annualised)



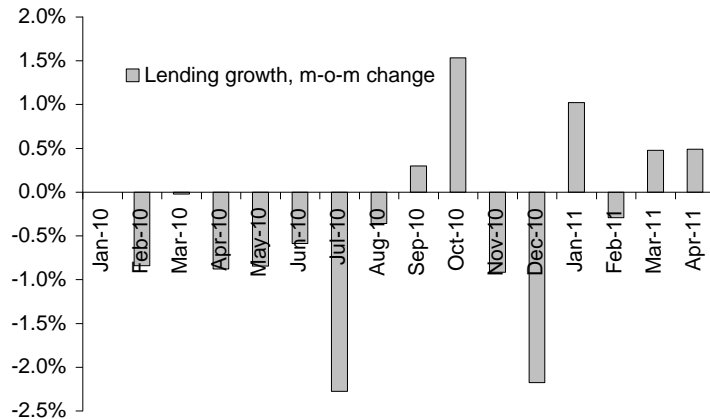
- › The economy expanded 6.6% in Q1 2011 or 7% in January-April and is projected to grow at 6% avg. annual rate in the mid-term. This reflects increased government expenditure and increased demand for mineral and energy exports.
- › The government is planning a 30% public sector wage hike in July to boost demand. The 2011 budget has been amended to reflect higher oil revenue distribution, and includes a 1.5% of GDP spending increase.
- › The overall fiscal position is stable, with a deficit target at 2.9% and underlying non-oil deficit at over 12%.
- › Although Kazakhstan is facing inflation above the Central Bank's 6%-8% target, monetary policy remains focused on the credit sector weakness. Private credit to GDP is stabilising at c. 6% below the pre-crisis level in KZT-terms, which is a substantial deleveraging from 60% of GDP to 40%.

Monetary indicators: accommodative with liquidity management

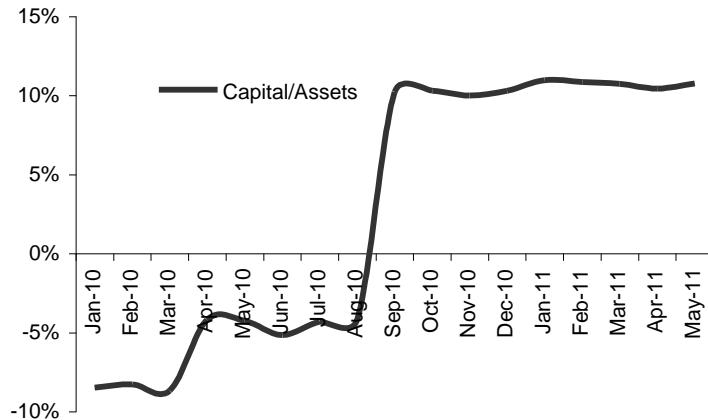


Banking sector crisis is not over yet

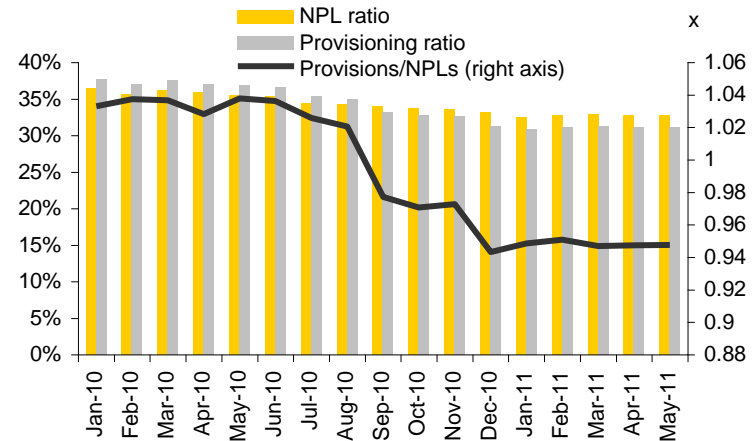
It still needs to be seen, how sustainable is the lending recovery. The banking system is knowingly overbanked



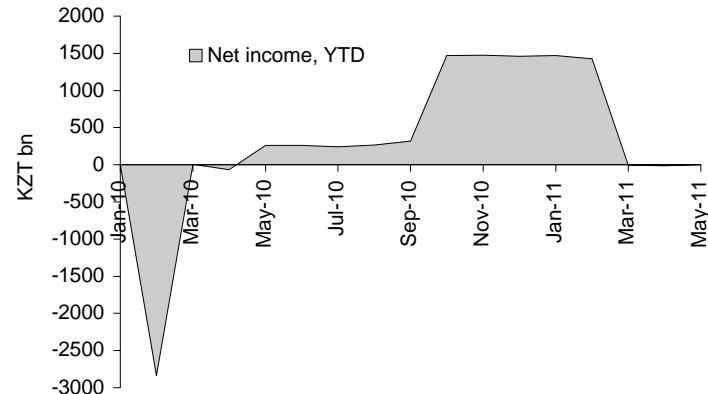
Capitalization was improved through restructuring



Loan quality is weak, provisioning insufficient



Profitability to remain under pressure in 2011



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