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# Kazakhstan Bond Market Prospects

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# First – the good news



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- **Kazakhstan is a big and significant economy in the regions.**
  - Capital surpluses in a capital starved region
  - Largest stock market in the region
  - Growth remains robust
  - Early recognition of the need for pensions

# Now – the bad news ?



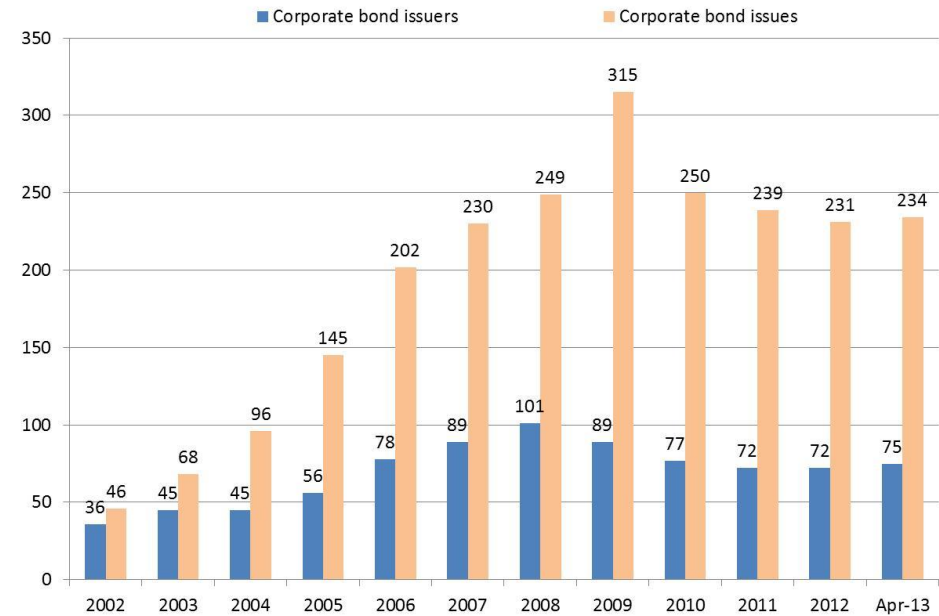
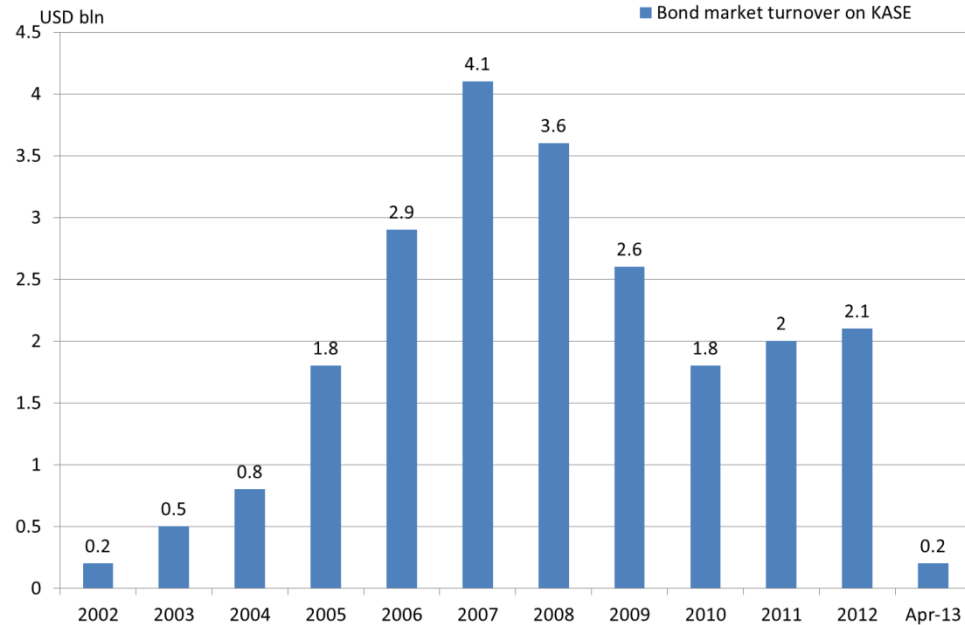
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- **Resources may not be as “sexy” in a recovering world**
  - Spotlight on AUD depreciation
  - Japanese QE policies having “unexpected consequences” as excess savings repatriated to shore up JGB losses
  - Pension industry nationalization has serious consequences

## Kazakhstan's capital markets have not lived up to the potential of its economy:

- *Low liquidity* (Most local institutional investors hold securities until maturity, and that there are only a few international investors)
- *The scarcity of quality issuances*; Financial sector names with little from the non-financial sectors.
- *A limited investor base*; as pension funds are major investor group in Kazakhstan, changes in regulation will have substantial impact on the domestic capital market.
- *Legal aspects*: Entry barriers for international investors; Over-regulation of securities markets as well as the actors in them.

# Bond market overview



There are few successful economies without vibrant domestic capital markets

# Pension funds



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Total pension assets as of 1 Jan 2013 USD 21.2bn

## Overview

• There are currently 10 pension funds and 12 asset management companies operating in Kazakhstan. The Big-4 pension funds, which jointly account for 75.0% of the total investment portfolio under management in Kazakhstan, are:

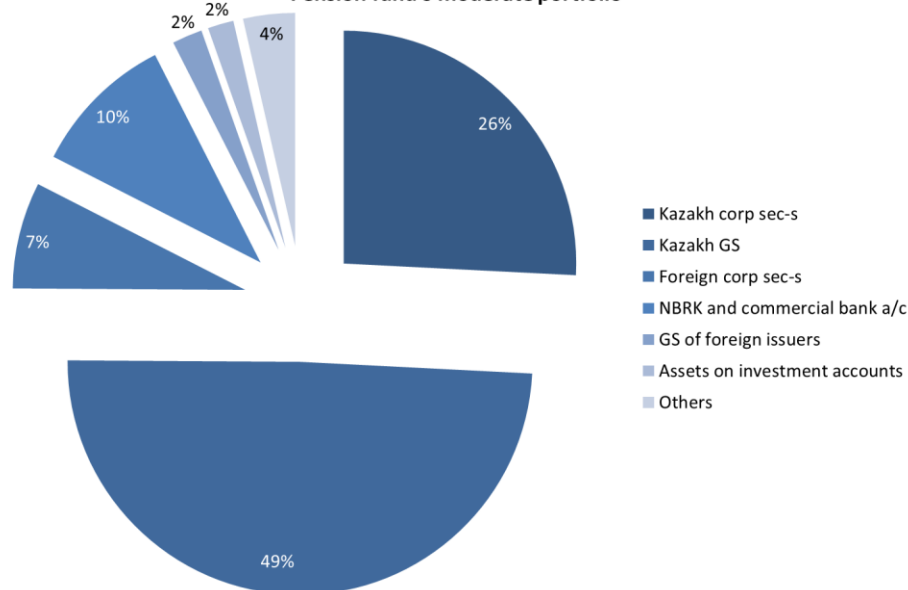
- Halyk Bank PF, GNPF, Ular-Umit PF, and Grantum PF

• As of 1 January 2013, cumulative assets of the pension funds in Kazakhstan were valued at KZT3,188bn or **USD21.2bn**, of which the Moderate portfolio was valued at KZT3,148bn or **USD20.9bn** and the Conservative portfolio at KZT40bn or **USD0.3bn**

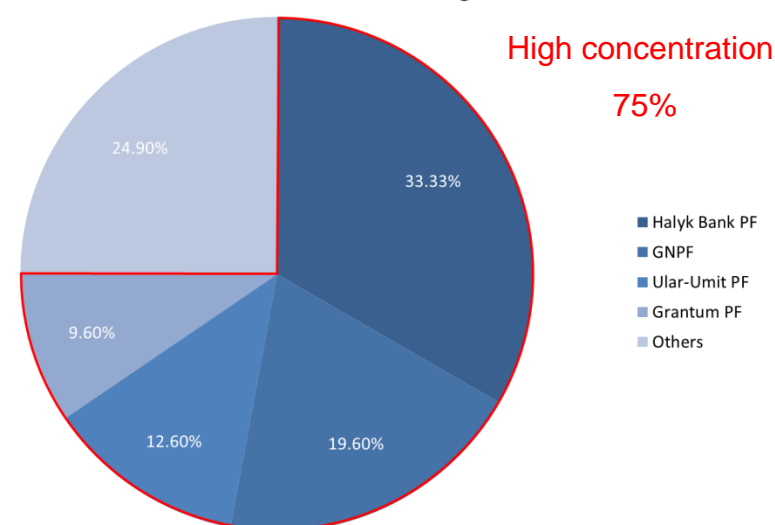
• A significant portion of Moderate and Conservative portfolios is invested in domestic government securities (c.49.3% and 66.5%, respectively)

• 20.3% and 3.4% of Moderate and Conservative portfolios, respectively, are invested in domestic corporate bonds

Pension fund's moderate portfolio



Market share based on TA under management



# Pension system reform overview



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## Expected

- All privately owned pension funds are to be consolidated into a unified state-owned pension fund effective July 1, 2013
- The unified pension fund will have a diversified investment portfolio under management, based on a conservative and/or moderate risk approach, with key focus industries for investment being the real sector of the Kazakhstan economy – to further facilitate industrialisation of the country and promote entrepreneurship in Kazakhstan on a wider scale

## Prevailing

- Currently private funds have a restricted investment mandate:
  - **Government securities**
  - **Shares and debt instruments of companies that are at least 50%-owned by the government and/or nationalised companies (NC KMG, KazAtomProm etc.)** Shares should be listed on the KASE under the first category; debt instruments – rated not lower than “B-” from S&P or a similar rating from other international rating agencies (i.e. Moody’s and Fitch)
  - **Debt securities issued by the National Bank, NWF Samruk-Kazyna or Kazakhstan-owned commercial banks with a rating not lower than “B-” from S&P or a similar rating from other international rating agencies**
  - **Deposits with Kazakhstan commercial banks with a long-term credit rating not lower than “BB-” from S&P or a similar rating from other international rating agencies**
  - **Gold contracts traded on organised financial markets**

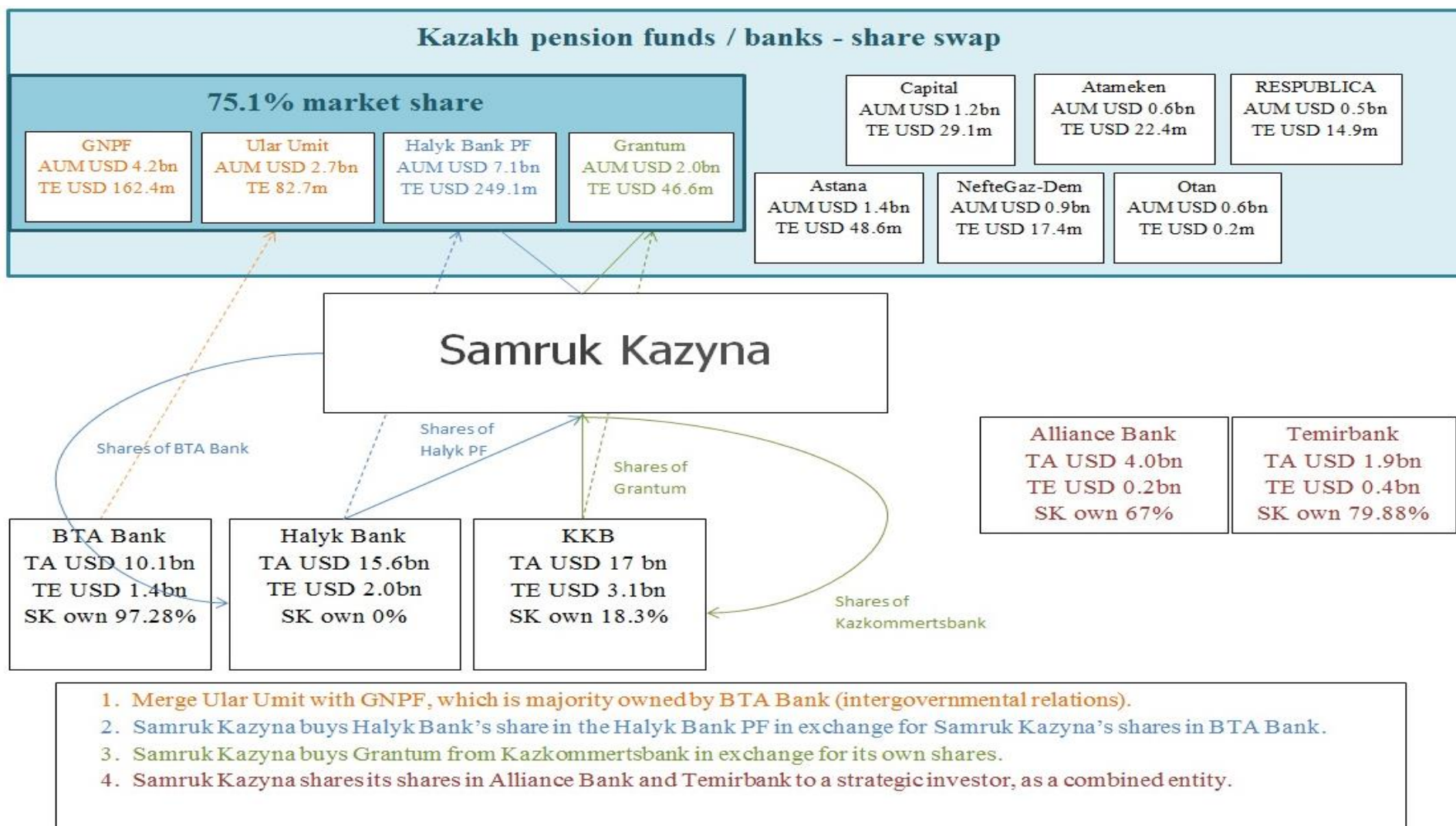
## Impact on capital markets

- The unified pension system will result in reduced market liquidity and restrict Kazakhstan issuers’ ability to raise financing on the local market at a competitive and cost-efficient basis

# Pension Reform – a retrograde step?



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## Conclusions

- Domestic capital markets capacity is reduce - almost no medium-long term investors in the private sector
- Investment decision making now concentrated at the regulator or is controlled by them
- Limited private sector investment flows devolve back to banks creating maturity mismatches
- Trading and liquidity almost non-existent creating opaque pricing of domestic assets
- KZT issuance to mitigates currency risk restricted – not an issue for exporters
- Issuers likely to access Euromarket in preference to domestic market
- High credit spread margins and high compliance costs
- Clear regulatory environment
- Currency risk – KZT denominated bonds will remain a niche market with limited frontier investment interest.

# A Driving Force for Promoting Open Market Economies



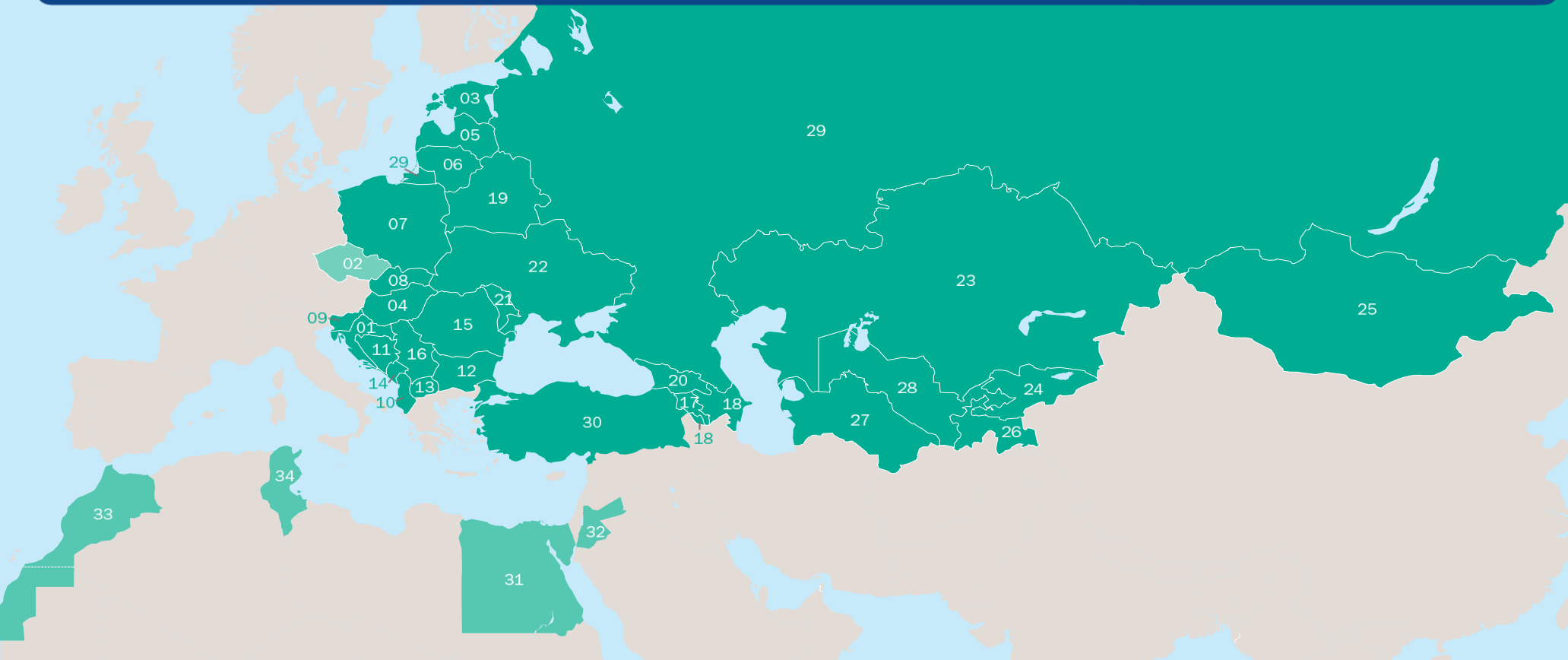
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- **Founded in 1991** and headquartered in London
- EBRD has **20 years of investment experience** across central Europe, Russia, CIS, Western Balkans and central Asia
- **AAA-rated** International Financial Institution
- Promotes transition to market economies in **29 countries** from central Europe to central Asia
- **Owned by 63 countries** (incl. USA, Japan, Russia, France, Germany, UK) and two inter-governmental institutions (EU & EIB)
- The **largest single investor** in Central and Eastern Europe and the Commonwealth of Independent States
- More than **300 Banking Staff** in a Network of **33 Offices** in 29 Countries
- **Capital of EUR 35.5 billion** (EUR 8.23 billion undrawn) and total assets of EUR 47 billion

# Where we operate – May 2013



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## Countries of prospective EBRD operations

### Southern and eastern Mediterranean

- 31 Egypt
- 32 Jordan
- 33 Morocco
- 34 Tunisia

In 2011 the EBRD launched donor-funded activities in the southern and eastern Mediterranean (SEMED) region, in support of the countries which are undergoing important political and economic reforms.

## EBRD countries of operations

### Central Europe and the Baltic states

- 01 Croatia
- 02 Czech Republic\*
- 03 Estonia
- 04 Hungary
- 05 Latvia
- 06 Lithuania
- 07 Poland
- 08 Slovak Republic
- 09 Slovenia

### South-eastern Europe

- 10 Albania
- 11 Bosnia and Herzegovina
- 12 Bulgaria
- 13 FYR Macedonia
- 14 Romania
- 15 Montenegro
- 16 Serbia

### Eastern Europe and the Caucasus

- 17 Armenia
- 18 Azerbaijan
- 19 Belarus
- 20 Georgia
- 21 Moldova
- 22 Ukraine

### Central Asia

- 23 Kazakhstan
- 24 Kyrgyz Republic
- 25 Mongolia
- 26 Tajikistan
- 27 Turkmenistan
- 28 Uzbekistan

- 29 Russia
- 30 Turkey

\*as of the end of 2007, the EBRD no longer makes investments in the Czech Republic.