

# Executive Summary



Kazakhstan's economy is expected to gradually moderate in 2016 after experiencing a slowdown in 2015 caused largely by the sharp drop in oil prices. GDP growth is estimated at 2.4% in 2016, up from 1.5% in 2015. However, external demand is expected to remain weak, as Kazakhstan faces lower levels of demand from its two major trade partners and sources of investments: China and Russia. No longer pegged to the U.S. dollar from 2015, the tenge's devaluation has also put pressure on exchange rates and is likely to affect private consumption and credit growth in the long run.

Kazakhstan remains politically stable and its government has plans to strengthen public and market institutions. The country has made remarkable progress in creating jobs, reducing poverty, and sharing prosperity based on job creation and higher wages. The availability of more jobs has also led to upward social mobility and the rise of the middle class.

The country is still emerging with a stable and prosperous economic outlook. It has large international investments in its oil and gas sectors, and economic diversification plans are underway.

## FOCUS ON ISLAMIC FINANCE

Kazakhstan passed its first laws for Islamic banking in 2009, thereby becoming the first country in the CIS to facilitate the development of Islamic finance. This development is still in its infancy, and is expected to grow progressively in the next few years; the government is increasingly committed to creating a supportive ecosystem for Islamic finance in Kazakhstan.

The Kazakh government wants to foster ongoing economic diversification and attract more foreign investments into non-oil sectors, and Islamic finance is seen as one key avenue to finance important projects aimed at improving transport infrastructure, developing a future ICT infrastructure, and strengthening public and market institutions.

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## CHANGING LANDSCAPE FOR ISLAMIC FINANCE

There is currently only one Islamic bank in Kazakhstan – Abu Dhabi’s Al Hilal Bank, established in 2010, offers both corporate and retail services.

From this one Islamic bank, the industry is set to grow as Kazakhstan now has the legal framework for Islamic banking, sukuk, takaful, and ijarah (leasing).

Nonetheless, it is imperative to note that the legal framework introduced in 2009 for Islamic banking did not permit the conversion of conventional banks into Islamic ones, nor did it allow conventional banks to offer Islamic banking products. New amendments have been introduced and were only approved in November 2015. The amendment provisions to facilitate the conversion of conventional banks into Shari’ah-compliant ones. With this, Islamic banking is

### KEY INSIGHTS

01

#### Recent Developments



- Expected economic recovery in 2016
- GDP growth of 2.4% in 2016 and 4.8% in 2017
- Establish Astana International Financial Centre (AIFC) as a regional Islamic finance hub
- Assessment to establish a National Shariah Supervisory Committee (non-governmental)
- Islamic Finance Training Center in RFCA Academy
- Association of Islamic Finance Development (ADIF) established in 2009

02

#### New Islamic Finance Laws



- Conversion of conventional banks to Islamic ones by early 2016
- Takaful firms to segregate assets owned by policy holders
- Ijarah companies to operate without licenses from the central bank
- Reduce working capital from 10 billion tenge to 5 billion

03

#### Islamic Banking



- One Islamic bank: Al Hilal Bank
- Interest from new Islamic Banks: Al Baraka and Maybank Islamic
- New Islamic bank expected in late 2016 or early 2017
- Survey of large untapped Islamic banking retail consumers’ demand
- Islamic banking share to reach 5% by 2020
- Microfinance can be successful in reaching rural areas and providing access to finance

expected to grow progressively in the next few years as competition is likely to increase when more products are introduced.

These developments are driven by presidential and governmental reforms to create an enabling environment for Islamic finance, which will make the country’s financial markets more competitive and attractive to Shariah-compliant investment capital from major Islamic financial markets. In

2012, Kazakhstan’s government introduced a 41-point plan – “Road Map for Development of Islamic Finance by 2020.” The plan aims to mobilize support by public and private institutions for Islamic finance in terms of legislative improvements, market education, Islamic financial infrastructure, development of the public sector, Islamic financial services, science and education, and investor relations.

## 04

### Islamic Capital Markets

- Kazakhstan set to debut sovereign sukuk in early 2016
- Corporate sukuk is expected to attract more Shariah-compliant capital

## 05

### Takaful

- Low insurance penetration presents opportunities for takaful
- Young and growing middle class with rising incomes present an opportunity for family takaful

## 06

### Challenges

- Lack of understanding is the biggest hurdle to Islamic banking growth in Kazakhstan
- More technical and capacity building is required for Islamic finance
- Awareness remains a challenge to be tackled through increasing Islamic finance activities and education programs