

# KAZAKHSTANI TENGE: A MEAN OF PAYMENT AND SYMBOL OF STATE SOVEREIGNTY

November 15th 2018 will mark the 25th anniversary of the tenge, Kazakhstan's national currency. Dramatic developments preceded its introduction, while its quarter-century history has been filled with hardships and challenges.



In early 1990s, in the context of gaining its sovereignty, Kazakhstan started to work hard on establishing its independent legal base. The country's financial sector was one of its top priorities. At that time the government adopted new laws 'On banks and banking activities' and 'On the National Bank of the Republic of Kazakhstan'. In 1993, a State Commission introducing the national currency was established.

The same year Kazakhstan's Parliament and the Government agreed on the name of the country's new currency unit: the tenge, which was the name of medieval Turkic small coins. The 'tanga' coin was first mentioned in historic documents dated 1361. Tamerlane, historically

the assistance of Harrison & Sons (H&S), the British world-famous engraver and printer of banknotes. Later on, tenge was recognized as the UK's best export product while H&S received the Queen's award for export achievement.

It took several airplanes to deliver the newly printed tenge banknotes from London to Jambul (currently the city of Taraz), the operation was carried out in the exceptional secrecy.

Before the formal launch of tenge, President Nazarbayev addressed the nation with clarification. The country-wide currency exchange operation began November 15, 1993, and was successfully implemented by

known as Amir Timur, a Turco-Mongol conqueror and a national hero of Central Asia used the term 'tenge' for his empire's currency.

In 1993, the first series of new banknotes in denominations of 1, 3, 5, 10, 20, 50 and 100 tenge was printed with

November 20. Thus, the National Bank of Kazakhstan started to create the country's payment system from scratch and to develop programs for adopting the International Accounting Standards.

In 1995, a tenge printing factory was opened in Kazakhstan. The Kazakhstani Mint, established in Ust-Kamenogorsk in 1998, has been striking coins in gold, silver, cupro-nickel, brass-nickel, silver-tantalum and German silver.

Since 2006, Kazakhstani Mint have been striking coins in silver coupled with tantalum, since 2018 – in nickel silver. Kazakhstani Mint has patents, especially for the tantalum coins. Along with the collection coins the National Bank issues investment coins. They are manufactured from precious metals and are both an investment object and a means of payment. Lately, a demand on them has increased significantly.

Now Kazakhstani banknotes and coins are on demand among collectors; they are demonstrated at the international exhibitions and some of them are given international awards for the workmanship, design and innovative technologies. Coins from the series "Gold of nomads", "Petroglyphs of Kazakhstan", "Architectural and historical monuments", "Applied art", "Coins of old stamps", "Famous Mosques Around the World", "The

great military leaders", "Fauna and Flora of Kazakhstan" are very popular among numismatists.

Over the last quarter of a century the National Bank of Kazakhstan issued several banknote series of tenge. This was related to the necessity of better protection of the domestic currency and the desire to reflect positive changes in the country's economy.

The first generation of tenge banknotes is the "Series of portraits". The second series of tenge named "Al-Farabi". The portrait of the scientist and philosopher was depicted on each banknote from 200 to 10 000 tenge. Design of the third generation of banknotes that was related to our nature, history and architecture turned out to be very successful. Symbolic system of the "Baiterek" series represents Kazakhstani mentality, however it is simple, imaginative and expressive: an open hand, the Caspian Sea and seagulls above it, notes of the Kazakhstani anthem, the Big Almaty lake, N. Nazarbayev's signature. "Samruk", the fourth generation of banknotes, was issued recently and is in circulation with the previous series of banknotes, "Baiterek". The most famous banknote of this generation is the one worth of 20 000 tenge in rich blue and grey colors. In addition, it was recognized as the most beautiful banknote in the world.



# THROUGH THE BANKING SECTOR STABILIZATION TO THE STEADY ECONOMIC GROWTH

The National Bank of Kazakhstan is implementing a “Programme of enhancing financial sustainability of banks”, which has already allowed it to minimize systemic risks and find a solution for the sector’s long-standing challenges. Additionally, it gives an important impetus to the country’s economic development by increasing bank lending.



In 2008, when the global financial system faced a whirlwind of a severe crisis, Kazakhstan had been withstanding it for a year. The first alarm bell of the crisis in the republic rang in August 2007 when currency exchange offices couldn't cope with excessive demand for US dollars. Earlier, in 2006 the National Bank of Kazakhstan started to thoroughly monitor the country's financial stability trying to detect precursors of a crisis. One of the internal metrics, which was giving distress signals, was the volume of Kazakhstan's gross external debt. Almost half of the national debt, which totaled USD 45.4 billion, was represented by external indebtedness of all second-level banks.

When the global sub-prime crisis hit in full, there were several reasons why the resource base of Kazakhstani banks shrank. Firstly, external sources of financing became unavailable or considerably decreased their volumes of funding. Secondly, the banks had to save cash in view of the forthcoming repayment of foreign debt. At the beginning the banks managed to resist external pressures, however, without refinancing their problems started to intensify.

Then the government stepped in to stabilize a number of systemically important banks by either becoming a shareholder or placing large deposits. In 2008-09 Kazakhstan's state budget and the National Fund allocated over USD 19

billion, the equivalent of 14 percent of the country's GDP for the implementation of anti-crisis measures.

The National Bank was determined to tackle the financial stability of the banking sector. In 2015 the country switched over to the inflation targeting and floating exchange rates in order not to accumulate devaluation expectations.

Another important step was the launch of the 'Programme of enhancing financial sustainability of banks' in 2017 and the establishment of the Kazakhstani Sustainability Fund aimed at providing support to financial institutions.

The programme's first stage envisaged a prompt sanation of banks. A successful solution was found to save a system-building Kazkommertsbank. Its potential failure could have led to heavy losses and reputational risks for the whole banking system. The regulator thought that the state support provided to Kazkom was the least cost method. At that time, private deposits at the bank amounted to KZT 1.3 billion (USD 4 billion), liabilities to the state and quasi-state sector totaled KZT 2 billion, while other deposits of legal entities were estimated at KZT 300 billion.

Having considered several possible scenarios, the regulator decided not to bring Kazkom into bankruptcy but to sell it to another fundamental building block of the country's banking sector – Halyk Bank of Kazakhstan. The merger took more than a year, this process went gradually in a most sparing mode.

Commenting on this crucial decision and its implementation, Daniyar Akishev, Governor of the National Bank of Kazakhstan, noted: “We thought that a reform package would be more efficient in that situation and a better solution of the problem, rather than a shock therapy for depositors.” Today both banks work in tandem, none of the bank's depositors and clients was affected. As a result,

this will be a united bank, the largest in the region and comparable to leading Russian or Eastern European banks by assets and technological proficiency.

Additionally, five other major Kazakhstani banks have been assisted within the first stage of the programme's implementation and received state support worth KZT 653.7 billion (USD 1.9 billion).

“With the transition to the floating exchange rate in 2015, systemic liquidity risk and dollarization have decreased substantially, with unprecedented for Kazakhstan visibility and predictability of interest rate and monetary conditions. At present the liquidity of the banking sector against the background of the ongoing surplus is considered as stable, says Daniyar Akishev. – The total volume of highly liquid assets in both tenge and foreign currency as of September 1st 2018 totaled to KZT 8.5 trillion, which covers nearly 40 percent of the banks' total liabilities. Currency risk associated with dollarized liabilities remains manageable, largely because dollarization has subsided. Thus, deposit dollarization fell to 47% by the end of August 2018, while at the beginning of 2016 this number stood at 72%. The banks accumulated capital and cut down on risky assets, which led to an increase in the capital adequacy from 16.3 percent in early 2017 to 20.9 percent as of September 1st this year.”

The second phase of the stabilization programme is focused on the enhancement of the banking system as a whole. The regulator's goal is not to detect problems after they have emerged but to prevent them from occurring in the first place. Significant changes have been made to the local legislation, which will come into force on January 1st 2019.

“The regulator should have the right to detect bad loans based on its

own judgement and objective facts, emphasizes Akishev. We should have the right to demand a bank to establish reserves on the basis of our judgement of expected losses. Our vision is confirmed by international trends in accounting standards and supervision practices.”

In addition to measures mentioned above, the legislative basis of the bank resolution regime in Kazakhstan has been conceptually revised to improve its efficiency. Fundamental methods of bank resolution, which are widely used in international practice, including a mechanism of bail-in are introduced. These changes are designed to minimize government spending on resolving problem banks and reduce the risk of moral hazard.

As part of the legislative amendments National Bank's Lender of Last Resort mechanism has been improved according to the best international practice by implementing the following principles such as granting fully collateralized loans only to solvent banks at market rates. Furthermore National Bank expands the list of eligible collateral for this mechanism including non-market assets. These changes contribute to the stability of the financial system as they allow increase of market discipline and prevent solvent bank default and therefore systemic risks occurring.

The Kazakhstani programme of the banking sector stabilization is a long-term, systemic and proactive measure. Its preliminary results prove to be efficient and synergetic. These positive changes have been reflected in updated forecasts of Kazakhstan's economic growth. Recently, the Asian Development Bank has improved its forecast for Kazakhstan's GDP growth from 3.2 percent to 3.7 percent in 2018 and from 3.5 percent to 3.9 percent respectively in 2019.

