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Credit rating agency S&P affirmed the sovereign rating of Kazakhstan

March, 5 2022

On March 4, 2022 the credit rating agency S&P affirmed the sovereign credit rating of the Republic of Kazakhstan at "**BBB-**", with a "**Stable**" Outlook. A strong fiscal position, significant external reserves, favorable situation in the oil market are credit rating supporting factors.

S&P noted that the geopolitical situation did not affect the change in Kazakhstan's credit performance despite close political, financial and economic ties with Russia. The secondary effects of economic sanctions on Russia will be manageable and will not affect Kazakhstan's access to its key export markets.

As before, the country's **strong fiscal position** with a low level of government debt and significant liquid assets remain the key factor in maintaining the credit rating. The S&P analysts believe that implementation of the fiscal rule, which limits the volume of transfers from the National Fund to the budget and increase in oil production will allow Kazakhstan to maintain a strong fiscal position. Kazakhstan's **external reserves** also remain significant, while gross external financing needs are relatively low.

GDP growth in 2022 is projected by S&P **at the level of 3.6%**. The agency noted that inflation averaged 8% in 2021, which is above the 4–6% corridor set by the National Bank, reflecting the ongoing expansionary fiscal policy and higher prices for imported goods. S&P expects inflation to slow to 5% by 2025. The agency highlighted that to maintain price stability in the face of uncertainty, the National Bank raised the base rate to 13.5%.

Analysts positively assessed the increase in efficiency, independence and transparency of the National Bank. In S&P's analysts view, implementation of the National Bank's plans to withdraw from economic support programs in 2023, joint efforts with the Ministry of Finance to build a yield curve in order to increase liquidity in the domestic secondary market strengthen the transmission channel of monetary policy. In addition, the analysts emphasized that separation of the functions of financial regulation from the competence of the National Bank made it possible to improve the activities of the National Bank to ensure macroeconomic stability.

The S&P analysts also note that the floating exchange rate regime has helped the economy adjust to external pressure. According to S&P, the tenge is expected to strengthen in the second half of 2022, which has fallen by almost 15% due to current events.

According to S&P, the dynamics of the credit rating will depend on further improvement of governance, the policy of state institutions, the effectiveness of monetary policy and health of the banking sector.

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