

# Flash Comment

December 12, 2007

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## Kazakhstan:

### More troubles for the banks – risk of spill-over

Yesterday the rating agency Standard & Poor's changed its outlook on eight Kazakhstan banks to "Negative" from "Stable". The eight banks are: Kazkommertsbank JSC (KKB), Bank TuranAlem, Halyk Savings Bank of Kazakhstan, Alliance Bank JSC, Temirbank JSC, BTA Ipoteka Mortgage Co., JSC Nurbank, and JSC Eurasian Bank. The change of outlook for the banks is bad news for Kazakh markets and there is a risk of a spill-over effect on CIS/CEE markets.

S&P cites "The rating actions reflect Standard & Poor's concerns over the increasing pressure on asset quality and liquidity that Kazakh banks are subject to as the current market turmoil stretches on" as a key reason for the change of outlook. According to official data, the real estate market has cooled down significantly in Kazakhstan since the early summer, driven by liquidity shortage.

Rapid growth of Kazakh banks, which have become heavily addicted to foreign funding, has fuelled the real estate boom in the Central Asian state where a growing share of transactions are carried out through mortgages. Foreign borrowings exceed 50% of Kazakh banks' liabilities. Kazakh President Nursultan Nazarbayev said earlier today that the state will prevent any local bank from collapsing (Source: Reuters). We do not doubt this, as the public finances and FX reserves look healthy, but the president mentioning the word 'collapse' raises some concerns.

In reality this reflects the 'standard problem' in many CIS/CEE economies: on the one hand asset prices have come under pressure – mostly property prices – and on the other hand the banks' funding costs (and the funding costs for the wider economy) have risen dramatically since the 'outbreak' of the global credit crunch.

Hence, the problems are not unique for Kazakhstan. As we have mentioned again and again a number of CEE/CIS countries risk a 'boom-bust' scenario and financial distress. This is especially the case for the countries with the most leveraged financial sectors and households and the countries with the largest external imbalances. The countries most at risk are the Baltic countries, Bulgaria and Romania and in the wider EMEA-area Iceland should be mentioned as well.

Given the fact that the problems in the Kazakh economy and financial sector are not unique we would expect some 'psychological contagion' from the Kazakh markets – again the Baltics, Bulgaria, Romania and Iceland should be mentioned as 'top candidates'.

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