

16 February 2009

### Kazakhstan Devalues Its Currency

*In line with Baker & McKenzie's practice of keeping clients informed of important legal developments that might influence your business, we would like to draw your attention to the following recent developments in Kazakhstan.*

On 4 February 2009, the National Bank of Kazakhstan devaluated Kazakhstan's currency, the tenge, by approximately 25%. On that day, the exchange rate increased from approximately 120 tenge to slightly below 150 tenge per one US Dollar and has remained at that level since then.

On 4 February, the National Bank issued a press-release in which it stated that in the last few years the National Bank had maintained the exchange rate of tenge to US Dollar within a 117 - 123 trading band. Such measures helped ensure financial and economic stability of the country. This, however, resulted in a depletion of the country's foreign currency reserves, which decreased in January 2009 alone by US \$2.7 billion only to support such exchange rate.

Starting from 4 February 2009, the National Bank ceased to maintain the 117 - 123 trading band and, instead, set a new trading band of 150 tenge per one US Dollar plus/minus 3% (or 5 tenge).

The National Bank stated that the primary reasons for devaluation were (i) decreasing oil prices; (ii) devaluation of currencies in Kazakhstan's trading partners, e.g., 44% in Russia, 53% in Ukraine, 38% in UK, etc. and the need to support local producers' competitiveness; and (iii) the need to maintain foreign currency reserves.

In connection with the devaluation, the National Bank decreased its refinancing rate to 9.5% from 10% starting 5 February, and it announced that it will lower the minimum reserve requirements for commercial banks by 0.5% starting 3 March 2009. The lowering of the minimum reserve requirements would result in banks' receiving liquidity for up to 50 billion tenge.

The devaluation took place two days after the Government of Kazakhstan announced that it was taking steps to acquire control over two of the four largest Kazakhstani banks, BTA Bank and Alliance Bank, in an effort to rescue them (please refer to our legal alert of 4 February 2009 for details). The Chairman of the National Bank, Grigory Marchenko, reportedly stated that the decision to devalue the tenge could have been taken only after the state took steps to rescue the most important Kazakhstani banks.

On 5 February, Standard & Poor's issued a statement pointing out that the devaluation entails a number of risks: first, it adversely affects the banking sector with its high level of external debt, which involves additional contingent liabilities for the government. The devaluation primarily leads to deterioration in asset quality of banks, given the significant amount of loans in foreign currency issued by companies that do not use hedging, and to the citizens who receive income in tenge. According to S&P, the devaluation also increases the gross external debt of the financial sector by more than 6% of GDP projected for 2009. S&P stated that a second significant risk relates to potential further

#### **Baker & McKenzie – CIS, Limited**

Samal Towers, 8th Floor  
97 Zholdasbekov Street  
Samal-2, Almaty 050051  
Kazakhstan  
Tel: +7 727 250 99 45  
Fax: +7 727 258 40 00  
almaty.info@bakernet.com

**Questions regarding the above matters can be addressed to:**

**Curtis B. Masters, Partner**

+7 727 3300 500  
curtis.b.masters@bakernet.com

**Alexander Korchagin, Senior Associate**

+7 727 3300 500  
alexander.korchagin@bakernet.com

decrease of confidence in the stability of the monetary-credit system and, consequently, confidence in the banking system, which may result in the further increase of pressure on the exchange rate.

On 16 February 2009 S&P downgraded five large Kazakhstani banks (Kazkommertsbank, BTA Bank, Halyk Bank, Alliance Bank) and one mortgage company (JSC Mortgage Company BTA Ipoteka). S&P stated that one of the reasons for the downgrade was the 4 February devaluation, which resulted in further deterioration of the institutions' asset quality due to the large amount of loans in foreign currency (more than 50% in the whole banking system) issued by companies that do not use hedging, and individuals who receive income in tenge.

\* \* \* \* \*

*This LEGAL ALERT is issued to inform clients and other interested parties of time-sensitive legal developments, which may affect or otherwise be of special interest to them. The comments above do not constitute legal advice or opinion, and should not be regarded as a substitute for detailed legal advice in individual cases.*

Baker & McKenzie – CIS, Limited is a member of Baker & McKenzie International, a Swiss Verein with member law firms around the world. In accordance with the common terminology used in professional service organizations, reference to a “partner” means a person who is a partner, or equivalent, in such a law firm. Similarly, reference to an “office” means an office of any such law firm.

©2009 Baker & McKenzie  
All rights reserved.