

Kazakhstan Saves on Interest Cost and Improves its Debt-Service Repayments

The World Bank Treasury customized an IBRD loan for Kazakhstan that saved the client on interest rate costs and bypassed the peak periods in its other debt obligations.

The Government of Kazakhstan (i) saved approximately 18 percent on the interest rate cost of the IBRD Development Policy Financing (DPF) by selecting the below eightyear average repayment maturity (ARM) category; customized the loan's (ii) repayment schedule to accommodate the redemption of two Eurobonds maturing in the medium-term; and (iii) created short term fiscal space with a 2.5-year grace period to mitigate the adverse economic effects of the COVID-19 crisis.

Background

When the COVID-19 pandemic hit Kazakhstan in 2020, the authorities responded decisively to contain the outbreak by introducing mobility and activity restrictions. Combined with the drop in oil prices and the global economic contraction, these measures imposed a heavy toll on Kazakhstan's economy, with real GDP contracting by 2.5 percent.

The authorities implemented a sizeable fiscal package to prevent a sharper economic downturn. As a result, by the end of 2020, the budget deficit widened to 7.1 percent of GDP, requiring the government to tap into more resources from the National Fund (NFRK) and seek financing from the domestic and international capital markets as well as multilateral institutions to finance the deficit. Kazakh authorities also took important steps to advance the economic transition to be more competitive and environmentally sustainable.



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To support Kazakhstan, the World Bank approved a EUR 346 (USD 400) million DPF to boost a private sector-led and sustainable economic recovery (DPF-P174367). The project objective was to provide short-term fiscal relief and support policy and institutional changes aimed at creating a more vibrant private sector, a more accountable public sector, and laying the foundations for a more sustainable economic transition.

Given the widening of the country's budget deficit and the significant redemption of two Eurobonds in the years 2025 and 2027, Kazakhstan needed to reduce its borrowing costs and smooth out its debt repayment profile to avoid refinancing risk. The World Bank Treasury designed a financial solution that helped Kazakhstan meet both.

Financial Objectives

- Achieve maximum cost savings for Kazakhstan
- Smooth out the peaks in Kazakhstan's debt repayment profile in the medium-term
- Create short-term fiscal space



Financial Solution and Outcomes

Keeping the cost savings to a maximum

Reviewing their existing debt profile and the need to reduce the overall cost of the loan, the Treasury and the Kazakhstan authorities reviewed different amortization profiles. Selecting the 7.9-year average repayment maturity enabled the Government of Kazakhstan to remain below the eight-year ARM category of the IBRD Flexible Loan. This category provides the maximum pricing advantage and doesn't carry a maturity premium.

For perspective, if Kazakhstan had chosen a longer repayment maturity, the loan pricing would fall into the next pricing category (8 to 10-year ARM). By staying below the 8-year ARM, Kazakhstan saved about 18 percent in additional interest rate costs over the life of the loan.

Reducing costs was in line with Kazakhstan's longstanding discipline of keeping debt service levels low. A significant constraint for the authorities, as this loan aimed at budget support and was not linked to future revenue inflows.

Smoothing out the peaks in medium-term debt-service repayments

The customized repayment schedule allowed Kazakhstan to adjust its amortization profile to meet debt management needs (see Figure 1).

- The 2.5-year grace period pushed the principal loan repayments to create the muchneeded fiscal space to mitigate the immediate effects of the COVID-19 crisis.
- The customized loan principal repayment schedule bypassed the most acute debt rollover cycle (2025, 2027), when the two Eurobonds are due to mature.

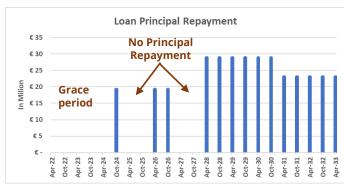


Figure 1. Illustration of the repayment schedule as defined in the loan agreement of the DPF project P174367. Source: World Bank.

World Bank Treasury's Role

The World Bank Treasury team worked with the Kazakhstan government to:

- Analyze the client's overall debt profile to understand the government's most acute debt rollover cycles.
- Provide a decision-making tool to help the government to run different repayment scenarios that meet Kazakhstan's debt management constraints and objectives.
- Customized the loan terms, i.e. grace period, repayment period, and amortization profile, to reduce the overall refinancing risk of the debt portfolio.
- Advised the World Bank project team throughout the loan negotiation cycle to enable timely delivery to the World Bank Board.

Summary of Financial Terms	
Approval Date	December 09, 2021
Amount	EUR 346 million (USD eq.400 million)
Term	11.5 years
Grace period	2.5 years
Repayment	Customized