



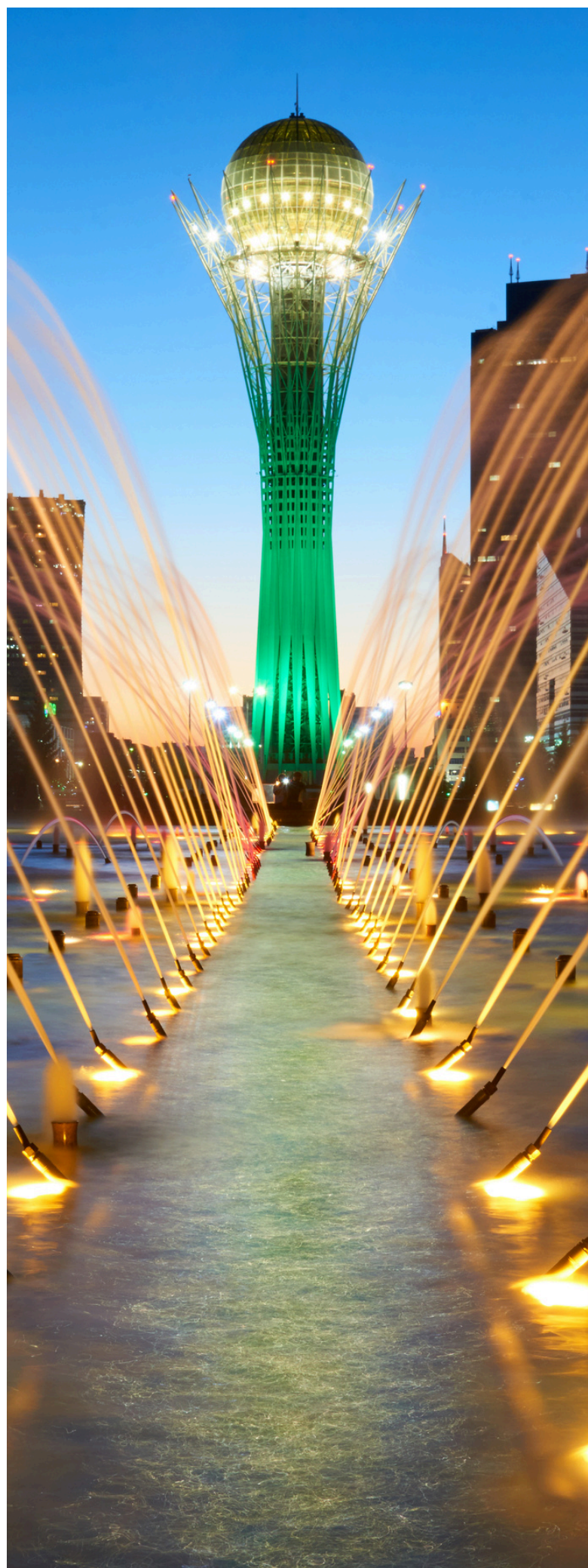
QUARTERLY REPORT

KAZAKHSTAN MACRO & MARKET OVERVIEW

Q1 2024 // NATIONAL BANK OF KAZAKHSTAN

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ONWARD WITH CONFIDENCE: S&P AFFIRMED KAZAKHSTAN'S 'BBB-/A-3' RATINGS

On March 1, 2024, S&P affirmed its 'BBB-' rating with a stable outlook on Kazakhstan's sovereign credit ratings. The stable outlook reflects S&P's view that risks from weaker growth and relatively high external financing needs are mitigated by planned governance and economic reforms, as well as strong asset buffers.

According to S&P, Kazakhstan's GDP growth is expected to average 3.6% annually over 2024-2027. The ongoing expansion of the Tengiz oil field is projected to significantly boost oil production to 103.0 million tons per year by 2025, up from 85.9 million in 2021. Notably, the government's balance sheet remains resilient, supported by National Fund's liquid assets totaling approximately \$59 billion, equivalent to 22% of GDP in 2023, with expectations to rise to \$77 billion by 2027.

Inflationary pressure persists, although it is gradually declining, with an expected average inflation rate of 8% in 2024, down from nearly 15% in 2023, and projected to further decrease to the National Bank of Kazakhstan's (NBK's) 5% target by 2026. Additionally, the banking sector's recovery is evident with credit costs forecasted to remain subdued at 1.3%-1.5% of average loan books in 2024, well below historical averages.

S&P notes, that an upside scenario exists wherein Kazakhstan's credit rating could rise with sustained reforms driving non-oil growth, political stability, and reduced geopolitical risks. This would hinge on improved monetary policy effectiveness, including a stronger monetary transmission mechanism, low inflation, and ongoing commitment to exchange rate flexibility.

Kazakhstan's
'BBB-/A-3'
RATINGS
AFFIRMED

S&P Global

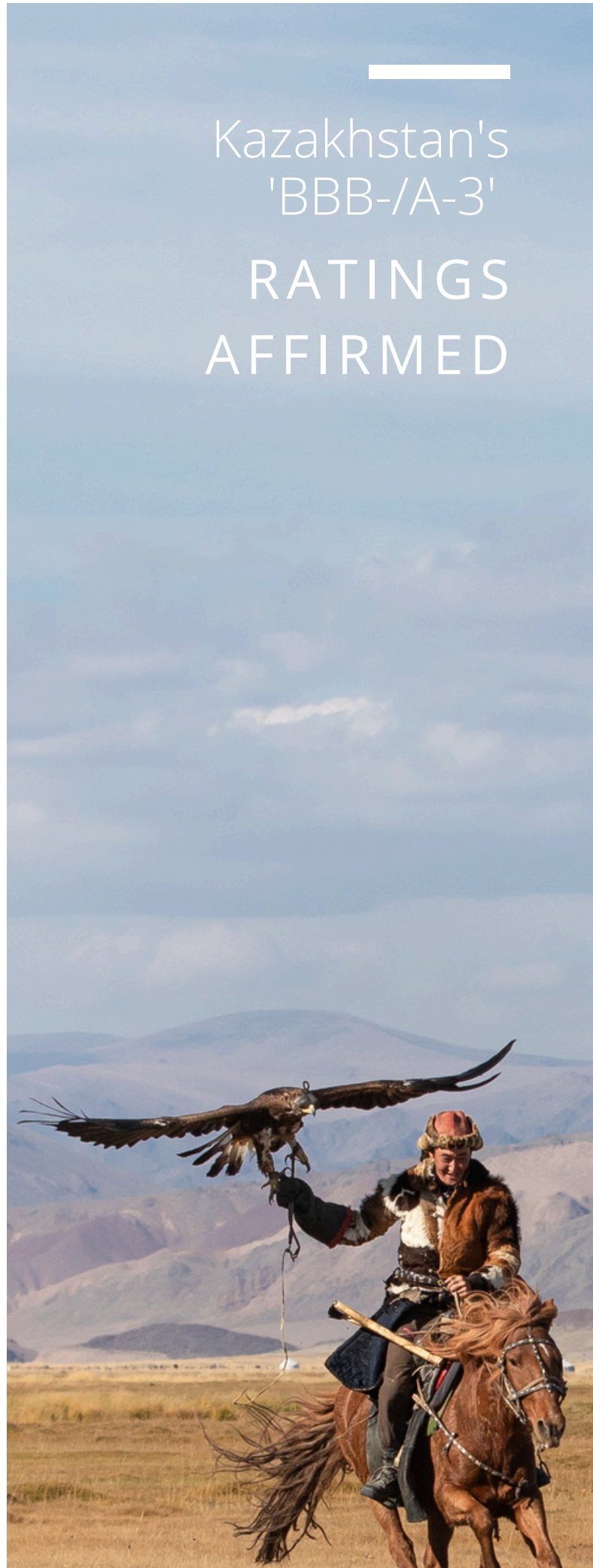
BBB-
Stable

FitchRatings

BBB
Stable

MOODY'S
INVESTORS SERVICE

Baa2
Positive



NBK will maintain MODERATELY TIGHT MONETARY POLICY to achieve 5% inflation target

Annual inflation continued to slow down in 1Q 2024, amounting to 9.1% in March 2024. Timely monetary policy measures implemented by the NBK and the Government and the alleviation of last year's high base effect contributed to the slowdown in inflation. The external inflationary background continues to develop neutrally, with a downward trend observed in grain prices on world markets. Although inflation expectations have decreased slightly, they remain at a fairly high level.

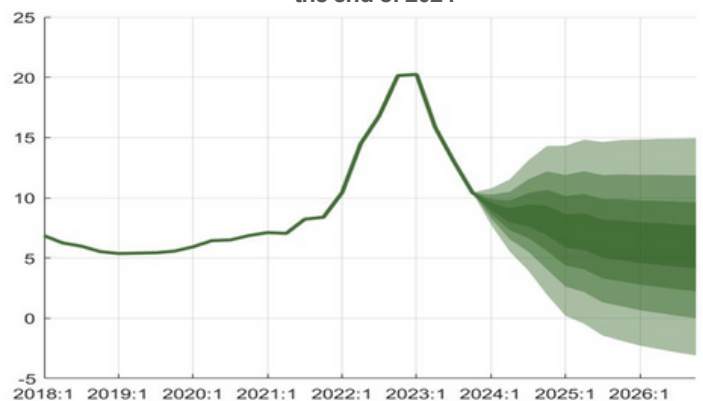
In response to the deceleration of inflationary trends, the NBK implemented two rate cuts (50 b.p. each) during 1Q2024, bringing the rate to 14.75% by the end of the quarter. The NBK remains steadfast in its commitment to achieving the 5% inflation target in the medium term, which necessitates maintaining a moderately tight monetary policy over an extended period. In the current environment, opportunities for further monetary policy easing are limited.

The median estimate of seasonally adjusted core inflation, calculated by various methods, slowed down to 0.51% month-on-month, which may indicate a slowdown in price growth in the stable part of inflation. Seasonally adjusted inflation slowed to 0.52%, while the 3-month moving average of seasonally adjusted CPI accounted for 0.73% in March 2024. However, these patterns exhibit a one-time slowdown so far, and more data are needed to prove the stable downward trend.

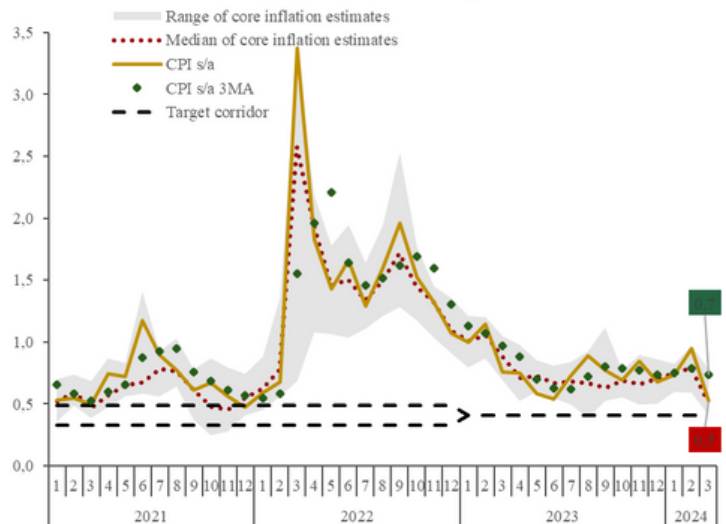
According to the NBK's forecasts as of February 2024, annual inflation is expected to slow down further in 2025-2026. The prerequisites and path of forecast dynamics have not undergone significant changes. Thus, annual inflation is expected to be in the range of 7.5-9.5% by the end of 2024, slowing further to 5.5-7.5% in 2025 and 5.0-6.0% in 2026.

INFLATION

Annual inflation is expected to be in the range of 7.5-9.5% by the end of 2024



The median estimate of seasonally adjusted core inflation slowed down to 0.51% m/m



CURRENT ACCOUNT DEFICIT

decreased from \$1.6 billion in the 1Q2023 to \$0.9 billion in the 1Q2024

According to the preliminary results, the deficit of the current account of the balance of payments decreased from \$1.6 billion in the 1Q2023 to \$0.9 billion in the 1Q2024. Narrowing of the deficit was mainly driven by 6.9% decrease in imports across all product categories – consumer, intermediate and capital goods.

The NBK’s latest current account outlook from the forecasting round in February was revised compared with the previous estimates primarily due to the change in projected path of the oil prices. However, expectations on a negative current account balance in the medium-term remain intact. Expected deficit values will be the result of a gradual projected decline in oil prices and moderate growth in imports of goods.

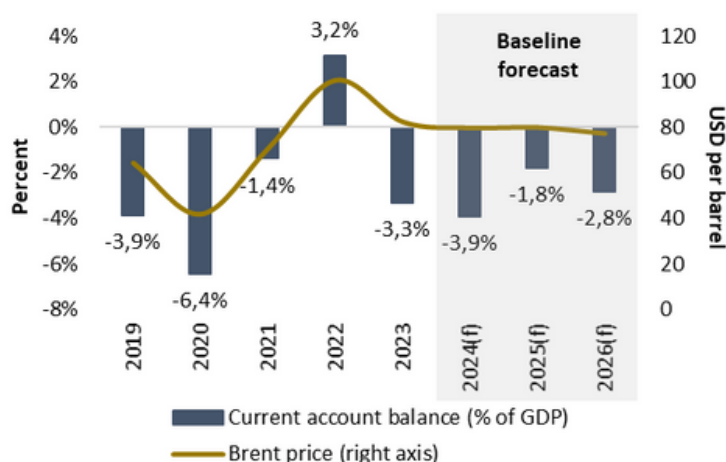
Exports will be predetermined mainly by the oil component. The gradual decline in oil prices to US\$77 per barrel in 2026 will be offset by an increase in oil production. Moderate growth in non-oil exports will be supported by the expected rise in uranium prices and slight growth in supplies of metals and metal ores.

Imports are projected to grow slightly during 2024-2026. High levels of imports will be driven by growing demand of households and businesses for foreign goods because of the limited supply of locally produced alternatives, significant share of imported intermediate goods in production chains and the implementation of state programs for industrial and infrastructural development.

The deficit of the income balance will remain at high levels and will continue to follow the dynamics of commodity exports. Despite the projected downward oil price trajectory, income payable to foreign direct investors will be significant due to projected growth in metals exports, as well as increase in oil production. Accrued interest payable, which reached an all-time high in 2023, will begin to decrease due to the expected reduction in global interest rates from the second half of 2024.

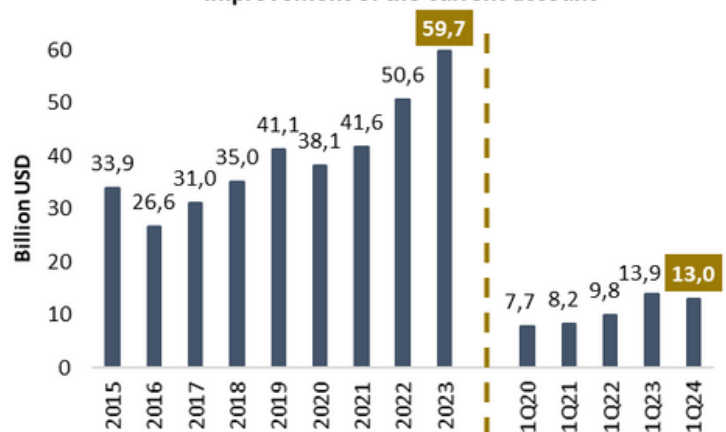
CURRENT ACCOUNT

Moderate current account deficit is expected over the medium term



*Figures on NGDP for 2023 are not yet available. Thus, “Current account/NGDP” ratio is an estimate of the NBK.

Decrease in imports in 1Q 2024 led to an improvement of the current account



FX RESERVES INCREASED to 37.8 bn USD

FX MARKET & FX RESERVES

| <i>mln USD</i> | 2022 | 2023 | 1Q2024 |
|--|-----------|-----------|-----------|
| FX Reserves | 35 076 | 35 965 | 37 847 |
| Assets in hard currencies | 14 585 | 16 455 | 15 806 |
| Gold | 20 491 | 19 510 | 22 041 |
| Share of gold,% | 58% | 54% | 58% |
| USD/KZT total volume on KASE | 29 704 | 37 047 | 11 380 |
| USD/KZT rate | 463 | 455 | 447 |
| Interventions (net) | (-) 1 394 | 0 | 0 |
| Mandatory FX sales by quasi-sovereign companies | 5 055 | 2 125 | 0 |
| Sales from National fund | (-) 4 285 | (-) 9 483 | (-) 2 407 |

Dollarization of deposits continues to decline



In 1Q2024, the tenge exchange rate appreciated by 1.7% YTD to 446.77 tenge per US dollar.

In the first quarter of 2024, the NBK executed sales from the National Fund, fulfilling transfers to the republican budget within the pre-announced volumes, amounting to a total of \$2.4 billion in sales for the quarter.

The cumulative transfer volume from January to April has reached almost 2 trillion tenge, surpassing 55% of the annual projected volume. Given the challenging circumstances posed by flooding in multiple regions, some market participants expect an increase in transfers amount from the National Fund.

Simultaneously, the pension fund, in order to maintain foreign currency holdings at the targeted level of 30%, purchased foreign currency amounting to \$1.1 billion during the same period.

No interventions have been undertaken since the beginning of the year.

As of the end of 1Q2024, the country's international reserves stand at \$98.6 billion, comprising \$37.8 billion in FX reserves and \$60.7 billion in National Fund assets. The increase in FX reserves is attributed to the upswing in gold prices.

In March 2024, the dollarization of retail deposits in Kazakhstan sustained a downward trajectory despite recent reductions in the base rate. This trend was facilitated by the competitive yield offered on deposits denominated in the national currency, which effectively mitigates inflationary pressures. Conversely, the dollarization of corporate deposits experienced an increase of 50 basis points during the first quarter of 2024. This uptick can be attributed to the outflow of tenge deposits, particularly influenced by the tax period dynamics.

In the 1Q2024, the Ministry of Finance of Kazakhstan issued fixed-coupon government securities amounting to 2 trillion tenge. This included the issuance of a 9-month bond worth 400 billion tenge. The issuance was evenly distributed across various maturities: 654 billion tenge in short-term securities with maturities up to 5 years (excluding the 9-month bond), 654 billion tenge in medium-term securities with maturities of 5-10 years, and 298 billion tenge in long-term securities with maturities exceeding 10 years.

As indications of slowing inflation emerged alongside the continued easing of monetary policy, yields on government securities with maturities up to 5 years declined by 150-200 basis points compared to the fourth quarter of 2023. Yields on medium-term securities decreased by 30-100 basis points, while yields on long-term securities saw a slight increase, leading to a flattening of the long end of the yield curve.

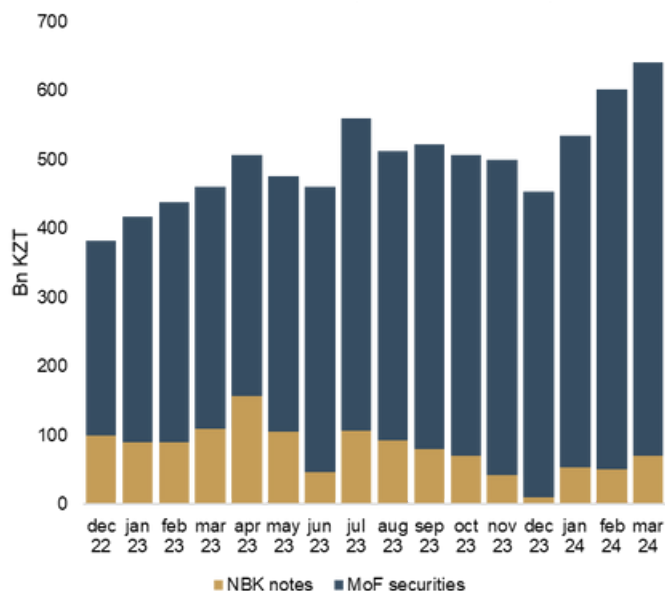
Holdings of government securities by non-residents increased by 127 billion tenge (approximately 280 million USD) since the beginning of the year.

To better cater to market preferences and bolster secondary market liquidity, steps have been taken to consolidate existing securities. Currently, there are 11 securities with a trading volume exceeding 1 billion USD.

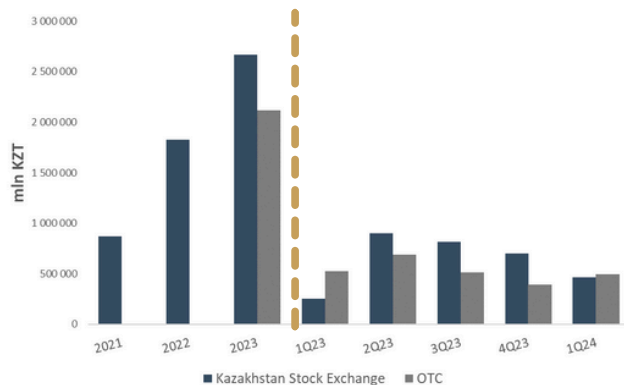
Further initiatives include ongoing efforts to establish Euroclear settlement and introduce primary dealers to streamline auctions, thereby enhancing efficiency in the public debt market. Additionally, the National Bank of Kazakhstan is actively transferring fund assets into a competitive environment, with seven funds totaling 461 billion tenge already transferred by the end of 2023, and plans to transfer three more funds (~3.6 trillion tenge) in 2024-2025.

GOVERNMENT SECURITIES MARKET OVERVIEW

Holdings of government securities by foreign investors has increased YTD by 127 bn KZT (~280 mln USD)



Secondary market liquidity* on Kazakhstan Stock Exchange



*Data on secondary market includes only tenge denominated securities of National Bank and Ministry of Finance. OTC data is available since 2023

Holdings of government securities by non-residents
INCREASED BY 280 MLN USD

INVESTOR RELATIONS

As part of NBK's workstream to promote the attractiveness of Kazakhstan's financial market and shed light on country's macroeconomic situation and initiatives, the National Bank has been continuing to engage into outreach events geared towards a global audience of investors, including sovereign, quasi-sovereign, and private sector entities.

During the IMF and World Bank Group Spring Meetings in Washington D.C., the National Bank actively interacted with investors at the Small Talks Symposium organized by the Bank of America. Concurrently, another successful engagement with investors took place on J.P. Morgan's platform. Citi Bank delivered a panel discussion exclusively focused on Kazakhstan to top investor clients. Apart from these series of sessions, the NBK also held bilateral meetings with investors on the margins of the same Spring Meetings.

The ongoing efforts aim to enhance the investment appeal of Kazakhstan's financial market, primarily through a comprehensive review of the legal framework. Amendments are being proposed to liberalize the conditions and requirements for entering the financial market. Moreover, the National Bank and the Agency for Regulation and Development of Financial Market have initiated consultations with public authorities and financial institutions from China, South Korea, and the UAE. These discussions are focused on improving bilateral financial and banking cooperation with each of these markets. The objective is to attract reputable credit and investment institutions to Kazakhstan's financial sector, thereby fostering greater competition in the banking sector and expanding lending opportunities for the local economy.

These initiatives underscore NBK's commitment to promoting international collaboration and driving the growth of Kazakhstan's financial industry.

Additional sources:

- [Recent Publications and Press releases](#)
- [Monetary Policy Report](#)



CONTACTS

For more information, please feel free to contact:

- Nurlan Sailaubekuly - investor relations (Nurlans@nationalbank.kz)
- Batur Vakhidov - FX Market, FX reserves, government bonds, primary dealers, infrastructure (Vakhidov.b@nationalbank.kz)
- Nurzhan Nurgazin - government bonds and transfer of funds (Nurgazin@nationalbank.kz)
- Rustem Orazalin - inflation, dollarization (Orazalin.RZ@nationalbank.kz)
- Azat Uskenbayev - current account (Azat.Uskenbayev@nationalbank.kz)
- Aliya Ryskeldiyeva - general queries (aliya.ryskeldiyeva@nationalbank.kz)

