



QUARTERLY REPORT

KAZAKHSTAN MACRO & MARKET OVERVIEW

Q2 2024 // NATIONAL BANK OF KAZAKHSTAN

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KAZAKHSTAN'S ECONOMIC STRENGTHS SECURE "BBB" RATING FROM FITCH

On May 17, 2024, Fitch Ratings reaffirmed Kazakhstan's sovereign credit rating at "BBB" with a stable outlook.

According to Fitch, this rating is underpinned by the country's robust external and fiscal balance sheets, which have demonstrated resilience to economic shocks, and by financial flexibility supported by accumulated oil revenues. However, these strengths are counterbalanced by Kazakhstan's heavy dependence on commodities, risks from export concentration and high inflation. Fitch believes Kazakhstan faces a relatively low risk of comprehensive secondary Western sanctions.

Fitch forecasts that GDP growth will slow to 3.8% in 2024 from 5.1% in 2023, partly due to a cooling in investment, construction, and credit growth, as well as slight negative impacts from severe flooding in April in the northwest of the country. However, GDP growth is projected to accelerate to 5% in 2025, significantly above trend, driven by higher oil production. Progress on economic diversification includes the development of the middle-corridor transportation sector and new investments in renewable energy.

Fitch expects average inflation to be 8.6% in 2024 and 7.5% in 2025, exceeding the National Bank of Kazakhstan's medium-term target of 5% and the current 'BB' median of 5.9%. Fitch anticipates the policy interest rate will be cut from 14.75% to a level consistent with a real rate of around 4% next year.

S&P Global

BBB-
Stable

FitchRatings

BBB
Stable

MOODY'S
INVESTORS SERVICE

Baa2
Positive



Fitch reaffirms
Kazakhstan's
'BBB' RATING
WITH STABLE
OUTLOOK

Annual inflation in June 2024 DECREASED TO 8.4%

Annual inflation continued to decelerate in the second quarter of 2024, reaching 8.4% in June. This slowdown is occurring amid weakening global inflationary pressures, falling food producer prices, and measures implemented by the NBK and the Government. The external inflation environment is considered neutral due to restrictive policies by central banks and low growth in food prices. However, inflationary pressures persist from rising regulated utility prices under the "tariff for investment" program, sustained consumer demand, and fiscal stimulus.

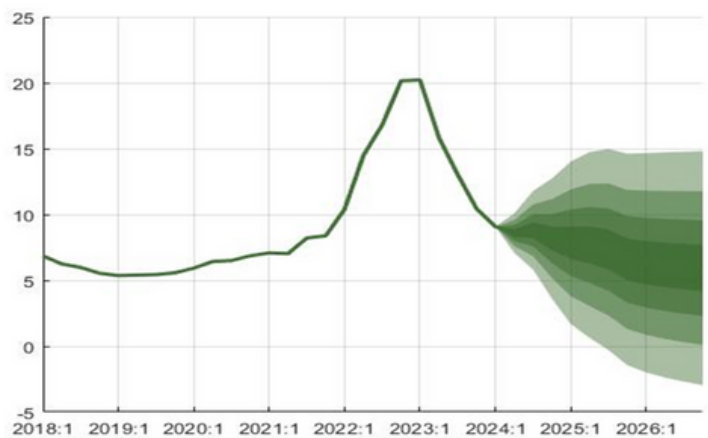
Inflation expectations among the population decreased to 13.3% by the end of the second quarter of 2024, down from 16.1% in April, when expectations had surged due to flood impacts. In its April decision, the National Bank maintained the base rate at 14.75% with careful consideration of external inflationary pressures. A further decrease in inflation allowed the base rate to be lowered to 14.5% in May. The NBK remains attentive to economic data and is committed to achieving its 5% medium-term inflation target, requiring a moderately tight monetary policy over an extended period.

The median estimate of seasonally adjusted core inflation reached 0.44% month-on-month in July 2024. Seasonally adjusted monthly inflation was 0.42%, while the 3-month moving average of the seasonally adjusted CPI stood at 0.39% in June 2024. The convergence of core and seasonally adjusted inflation toward the target from April to June was largely driven by below-target increases in food prices.

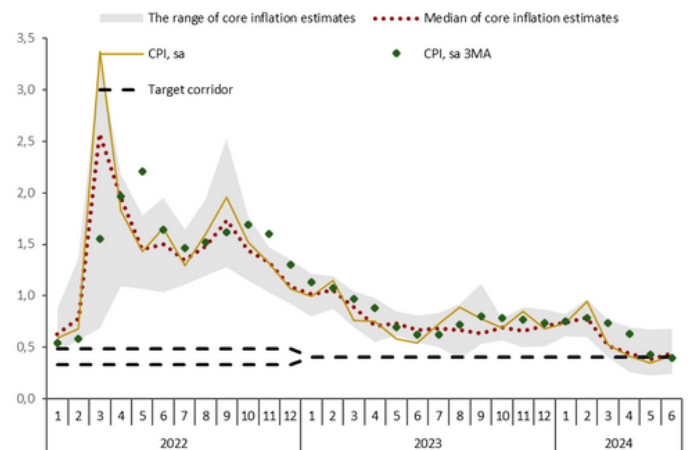
According to the NBK's May 2024 forecasts, annual inflation is expected to slow further in 2025-2026. Inflation is projected to be between 7.5-9.5% by the end of 2024, with a further decline to 5.5-7.5% in 2025 and 5-6% in 2026.

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 is forming around the inflation target



CURRENT ACCOUNT TURNAROUND: Surplus Achieved in First Half of 2024

Preliminary data shows a significant improvement in the current account balance, with a surplus of \$0.8 billion in the first half of 2024, compared to a deficit of \$5.0 billion in the same period of 2023. This shift was largely driven by a reduction in the income balance deficit and a decrease in imports across all product categories, including consumer, intermediate, and capital goods.

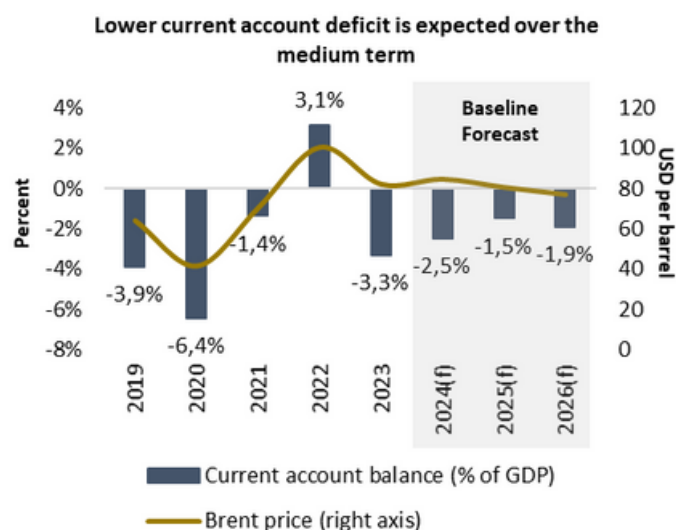
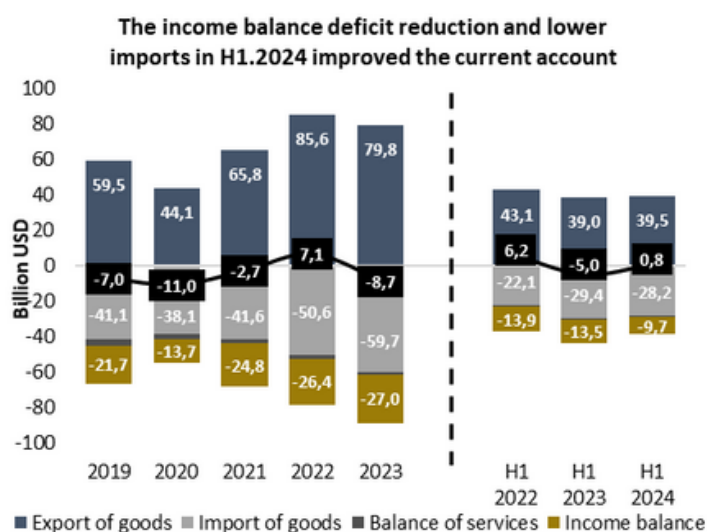
NBK's latest current account outlook in forecasting round in May has been revised from the February forecast due to slower-than-expected import growth. The medium-term current account deficit is now projected to be lower, at (-)2.5% of GDP in 2024, (-)1.5% in 2025, and (-)1.9% in 2026. This improvement is attributed to a gradual decline in oil prices and continued domestic import growth. Oil exports remain crucial, with prices expected to fall to \$77 per barrel by 2026, offset by increased production. Non-oil exports will experience a slight dip but will stabilize, supported by high uranium and metal prices.

Imports are anticipated to grow moderately due to rising demand from the population and businesses, a limited supply of locally produced alternatives, a significant share of imported components in Kazakhstan's production chains, and government programs and initiatives supporting the economy.

The income balance deficit is expected to remain high, following trends in commodity exports. Despite declining oil prices, increased production will result in substantial income payable to foreign direct investors. Accrued interest payments, which peaked in 2023, are expected to decrease as global interest rates are projected to fall starting in the third quarter of 2024.

Given the positive current account balance in the first half of 2024, a more optimistic outlook is anticipated for the upcoming August forecast.

CURRENT ACCOUNT



TENGE RATE CORRECTION

was mainly driven by sharp decrease in National Fund FX sales

FX MARKET & FX RESERVES

<i>mIn USD</i>	2022	2023	1H2024
FX Reserves	35 076	35 944	39 933
Assets in hard currencies	14 585	16 434	17 572
Gold	20 491	19 510	22 360
Share of gold, %	58%	54%	56%
USD/KZT total volume on KASE	29 704	37 047	25 195
USD/KZT rate	463	455	472
Interventions (net)	(-) 1 394	0	0
Sales from National fund	(-) 4 285	(-) 9 483	(-) 4 683

Dollarization of deposits continues to decline



The tenge depreciated by 3.8% YTD to 471.84 against the US dollar in the 1H2024. Although the first five months of the year saw a strengthening trend in the exchange rate, driven by FX sales from the National Fund and lower FX demand from local participants, June 2024 witnessed a correction. The seasonal increase in FX demand due to summer vacations and reduced FX sales from the National Fund contributed to the tenge's weakening by mid-year. In the 1H2024, the NBK conducted FX sales from the National Fund, totalling \$4.7 billion. Given that 77% of the annual planned volume has already been withdrawn from the National Fund and considering the level of the republican budget deficit, market participants expect a potential increase in transfers from the National Fund in the 2H2024.

To maintain foreign currency holdings at the targeted 30%, the pension fund purchased \$2.4 billion in foreign currency. No interventions were made during this period.

In the second half of 2024, the Government of Kazakhstan decided to allocate 467.4 billion tenge to the National Fund for purchasing shares in Kazatomprom JSC. Consequently, the NBK, as the manager of the National Fund, converted foreign currency into tenge for this transaction. To mitigate the impact of this unplanned conversion on the FX market, the NBK conducted a one-off conversion by directly selling National Fund assets to the NBK's FX reserves. To maintain market neutrality, the NBK will gradually sell the purchased FX from its reserves, averaging \$11.5 million per day starting July 2024.

As of the end of 1Q2024, the country's international reserves stand at \$101.4 billion, comprising \$39.9 billion in FX reserves and \$61.5 billion in National Fund assets. The increase in FX reserves is attributed to the upswing in gold prices.

In Q2 2024, retail deposit dollarization continued to decline, while corporate deposit dollarization neared a 16-year low. Despite a rise in foreign currency deposits due to the tenge's weakening in June, overall dollarization fell because of a 3.9% month-on-month increase in national currency deposits. Higher yields on tenge deposits compared to FX savings further support the de-dollarization trend.

In the second quarter of 2024, Kazakhstan's Ministry of Finance issued fixed-coupon government securities totaling 2.0 trillion tenge, with around 50% maturing in 5-10 years. Despite the easing of monetary policy and slowing inflation, yields on these securities increased by 150-200 basis points across the curve compared to the previous quarter. This rise is due to the need to finance the budget deficit and greater involvement of market investors in government securities auctions with maturities of five years or more.

In 2Q2024 participation from market investors in auctions for government securities increased with maturities of five years or more. As a result, market demand outstripped supply by an average of 1.8 times. The highest interest was in medium-term maturities, though demand for short-term bonds remained strong. Investor participation in government securities auctions was 57.2% in 2Q 2024, down from 65.6% in 1Q2024 and 60.8% in 2023.

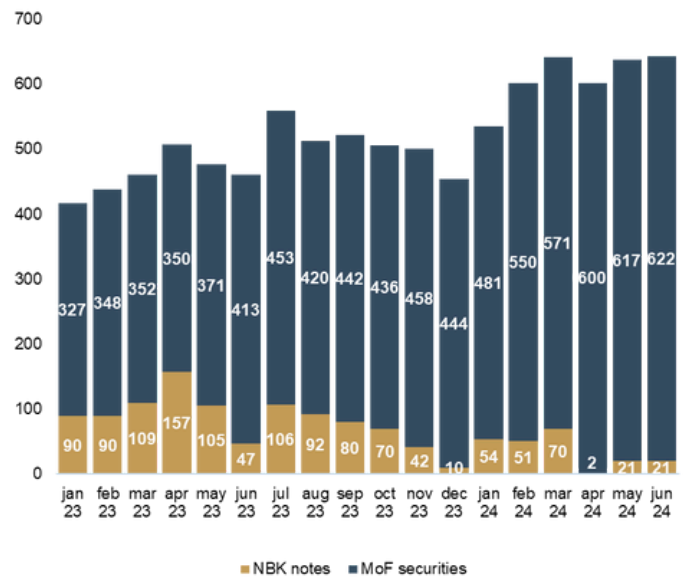
Non-residents' holdings of government securities increased by 189 billion tenge (~402 million USD) since the beginning of the year, reaching 643 billion tenge (~1.4 billion USD).

To better meet market preferences and enhance secondary market liquidity, steps have been taken to consolidate existing securities, with 12 securities now having a trading volume exceeding 1 billion USD.

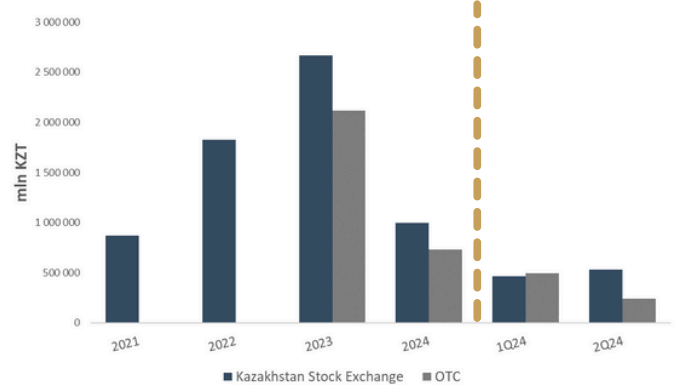
Further initiatives include ongoing efforts to establish Euroclear settlement and introduce primary dealers to streamline auctions, thereby improving efficiency in the public debt market. Additionally, the NBK is actively transferring fund assets into a competitive environment, with seven funds totaling 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

Holding of government securities by foreign investors, bn. KZT



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

Yields on government securities
INCREASED BY 150-200 BPS

INVESTOR RELATIONS

As part of its efforts to enhance the appeal of Kazakhstan's financial market and highlight the country's macroeconomic situation and initiatives, the National Bank has been actively participating in outreach events targeting 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 engaged actively with investors at the Small Talks Symposium hosted by Bank of America. In parallel, a successful investor engagement was held on J.P. Morgan's platform, while Citi Bank organized a dedicated panel discussion on Kazakhstan for top investor clients. Additionally, the NBK conducted bilateral meetings with investors on the sidelines of the Spring Meetings.

In 3Q2024 NBK will hold meetings with global investors, allowing them to ask pressing questions about monetary policy, the foreign exchange market, the balance of payments, and the development of the government securities market. Additionally, a meeting with Euroclear is planned to continue cooperation and ensure the settlement of Kazakhstan government bonds in Euroclear.

Additional sources:

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



CONTACTS

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