



MARCH 2022

# Monetary Policy REPORT



NATIONAL BANK OF KAZAKHSTAN

## CONTENTS

---

<b>PREAMBLE</b>	<b>4</b>
<b>I. PROSPECTS OF THE DEVELOPMENT OF THE MACROECONOMIC SITUATION</b>	<b>6</b>
1.1. Forecast Assumptions	6
1.2. Dynamics of the Economic Development under the Baseline Scenario	7
1.3. Risks in the Medium Term	9
<b>II. MONETARY POLICY</b>	<b>12</b>
2.1 Decisions on the Base Rate	12
2.2. Money Supply	14
2.3 Money Market	15
2.4 Foreign Exchange Market	18
2.5 Stock Market	20
2.6 Deposit Market	22
2.7 Credit Market	24
<b>III. MACROECONOMIC CONDITIONS</b>	<b>27</b>
3.1 External Sector	27
3.2 Economic Activity and Domestic Demand	28
3.3 Labor Market	35
3.4. Inflation	36
3.5 Fiscal Policy	40
<b>BASIC TERMS AND DEFINITIONS</b>	<b>43</b>
<b>LIST OF KEY ABBREVIATIONS</b>	<b>45</b>
<b>BOXES</b>	
Box 1. Outcomes of the Public Survey Regarding the National Bank's Objectives	13
Box 2. Factors of Money Supply Formation in 2020-2021	16
Box 3. Indexation of Wages. Does it Exist in Kazakhstan?	30
Box 4. Profitability of Enterprises in Kazakhstan	33



**Monetary Policy Report** is a quarterly publication of the National Bank, which contains the analysis of key macroeconomic factors affecting inflation as well as the forecast of macroeconomic parameters in the short- and medium-term horizon.

The Report is published in an electronic form on the official Internet-resource of the National Bank in the Kazakh, Russian and English languages.

The forecast and analysis of macroeconomic indicators was prepared on the basis of statistical information as at **01.03.2022**.

---

## PREAMBLE

---

Nowadays, in the midst of a geopolitical crisis, all countries worldwide, and Kazakhstan in particular, have faced unprecedented uncertainty. Global financial markets and foreign exchange markets of certain countries are turbulent. In an effort to mitigate a negative effect of realized risks on the part of external sector, on February 24, 2022 the National Bank raised the base rate to 13.5% per annum with the interest rate band of +/- 1.0 pp. Such decision was aimed at preventing a significant spread of consequences from the external shock on the country's economy, ensuring macroeconomic stability and protecting the tenge assets.

However, the degree with which the geopolitical crisis influences a further development of the global economy and Kazakhstan will largely depend on its duration and the extent of its further spread. Given the current situation, a slowdown in the global economy and in trading partner countries is expected; it will be reflected on a possible reduction in demand for Kazakhstan's export products. In turn, the growth of the Russian economy in 2022-2023 will be under pressure from the imposed economic sanctions and depreciation of the ruble exchange rate.

The factor that levels down a negative impact of the geopolitical crisis on the development of situation in Kazakhstan is the rise in prices for energy resources. For the first time since 2014, Brent world oil prices have exceeded 100 US dollars per barrel. High prices are supported by the risks of disruptions in oil supplies from Russia due to the increased geopolitical tensions. Concurrently, world oil reserves are decreasing due to high demand and weaker oil production by OPEC+ countries, where the actual production in January 2022 was again below the allowed quotas.

The economic activity in Kazakhstan will be developing under the impact of geopolitical crisis. The weakening of external demand will be offset by high prices for primary products, anticipated restructuring of trade and transport flows in favor of Kazakhstan, by the growing budget spending and also by improving epidemiological situation.

Given high energy prices and further supply chain disruptions, high global inflation may be more sustainable. In view of the expected problems with production and supply of grain from Russia and Ukraine, forecasts for the growth of world prices for grain crops have been revised upwards.

The rapidly changing external and internal economic situation, high level of uncertainty about future development of the situation and the increased likelihood of further realization of risks significantly complicate the ability of robust forecasting. In this environment, the National Bank conducted a qualitative assessment of a possible direction of key macroeconomic indicators, which shows that in 2022-2023 inflation in Kazakhstan will be higher compared to previous estimates. The main reason for higher inflation dynamics over the forecast horizon is depreciation of the tenge exchange rate, the strengthening of external inflationary pressure, primarily due to the expected acceleration of inflation in Russia as well as rising prices in global food markets. With this in mind, the risk of exceeding the target by the end of 2022 has significantly increased. Key external risks for inflation in Kazakhstan are a further deterioration of the geopolitical situation, the increasing import of external inflation due to sanctions in Russia, higher inflationary pressure in the world due to rising prices for food and energy resources.

The Monetary Policy Committee of the National Bank of the Republic of Kazakhstan made the decision to set the base rate at 13.5% per annum with the interest rate band of +/- 1.0 pp from March 9, 2022.



## I. PROSPECTS OF THE DEVELOPMENT OF THE MACROECONOMIC SITUATION

## I. PROSPECTS OF THE DEVELOPMENT OF THE MACROECONOMIC SITUATION

---

### 1.1. Forecast Assumptions

The global economy, before it could completely recover from the crisis of the COVID-19 pandemic, was placed under the pressure of geopolitical risks. It is expected that the extent to which the geopolitical crisis would influence the further development of the global economy will largely depend on its duration and scope. Current expectations boil down to the fact that the global economy this year and the next year will grow at a weaker pace than previously predicted. At the same time, deterioration of the geopolitical situation as a whole is anticipated to have a limited impact on developed economies. However, the impact on developing countries due to the high debt burden, the budget deficit, which especially increased during the pandemic, is likely to be more significant. The negative impact on emerging markets may also intensify because of the expected outflow of capital into less risky assets.

An increased inflationary background is still considered among the main risks to further development of the global economy. However, now, due to geopolitical crisis, high worldwide inflation may be more persistent. High prices of oil and other energy resources will be conducive to it. An additional contribution to inflation may also come from higher prices for wheat and corn, with Russia and Ukraine being the major producers of these crops. In addition to these risks, geopolitical crisis could exacerbate global supply chains as well as undermine consumer confidence and reduce investments. The realization of these risks over the forecast horizon may lead to weaker development of both individual countries and the global economy as a whole.

High energy prices will be keeping consumer and industrial inflation in the EU at high levels for a longer time than previously expected. Because of high prices and increased uncertainty, consumers are likely to spend less, and the propensity to save will increase. Business activity in the industry due to intensifying supply problems, including Russian metal, will also be characterized by weaker dynamics.

Impact of the geopolitical crisis on the Chinese economy as a whole is expected to be limited. The growth rate of the Chinese economy after reaching 8.1% upturn in 2021 will slow down. Restraining factors will include the growing real estate crisis in the real estate sector as well as weaker domestic consumption. In addition, the risk of more moderate economic growth is the possible imposition of “secondary” sanctions by the US or other developed countries on China due to the presence of many Chinese companies in Russia. Economic activity will be supported by higher government spending through the implementation of large infrastructure projects and an expected acceleration in local government bond issuance. In addition, the economic activity will be stimulated by softer financing conditions owing to lower interest rates.

The Russian economy, under the pressure of the growing geopolitical crisis, is expected to suffer significant losses in the short term. Virtually all sectors of the economy will show negative dynamics, especially because of high capital outflows, a significant depreciation of the exchange rate and the subsequent decline in domestic demand. At the same time, a stronger shrinking of the Russian economy will be held back by rising prices for oil, gas and other export products. Meanwhile, given the limited interaction with many countries because of sanctions, Russia is likely to look for other ways to sell products and begin to increase its export potential towards China and other countries.

**With the continuing supply chain problems and rising prices for energy, agricultural products, and increased uncertainty about how the global economy will develop, higher inflationary pressure in the country will be more sustainable than previously thought. Pressure is expected to somewhat ease once global geopolitical tensions calm down, and as major central banks take actions.**

**In the countries of Kazakhstan's trading partners, given the existing high inflation indicators and new developments, expectations about inflation for 2022-2023 are deteriorating compared to previous estimates. Hence, the external inflationary pressure on consumer prices in Kazakhstan is expected to be heightened.**

In the EU, high inflation will persist in the near term. Later, inflation will be gradually decelerating since the effect of some factors should weaken. Inflationary processes will be slowing down also in view of anticipated feebler economic activity in the EU.

In China, given the government stimulus policy, including lower tax burdens and interest rates, and an injection of additional liquidity, inflation is expected to pick up slightly from its current lows over the forecast horizon. However, despite this, inflation is supposed to remain below its target level.

Inflation in Russia, under the impact of sharp depreciation of the ruble and other pro-inflationary factors will be way above its target.

**In the environment of increased uncertainty in the world, the hawkish stance of major central banks has somewhat weakened recently.**

Previously, actions taken by the US Federal Reserve and the ECB in an effort to curb high inflation proceeded in the same vein – a smooth transition from stimulative to neutral monetary policy. With increased risks and the expectation of weaker economic growth, central bank policies may slightly diverge. The ECB's actions are expected to be more directed towards growth, the US Fed's – towards reducing inflationary pressures, and the actions of the Fed will no longer be as aggressive as previously expected.

**Further development prospects of the global oil market, despite the existing heightened uncertainty in the world, remain generally positive. According to EIA forecasts, during the forecast period, the balance of the oil market will be shifted towards faster growth in oil supply and consumption. As a result, a surplus of oil will build up in the market, which is expected to be putting pressure and thus causing some decline in oil prices.**

Compared to the previous forecasting round, the situation in the global oil market has slightly improved. Oil prices for the first time since 2014 exceeded 100 US dollars per barrel. At the same time, it should be noted that the situation in the global economy, including commodity markets, is characterized by high volatility and uncertainty regarding further development due to geopolitical tensions.

Proceeding from the existing situation, Brent oil price will be 90 US dollars per barrel under **the baseline scenario.**

## **1.2. Dynamics of the Economic Development under the Baseline Scenario**

**In the environment of geopolitical crisis, assumptions about development factors and the dynamics of GDP components have changed. As geopolitical tensions are intensifying, uncertainty regarding a further development of the global economy as a whole has increased significantly. Hence, assessments about the GDP growth have been revised downward.**

Significant deterioration of the geopolitical situation and a slowdown of the economic growth in January of this year to 1.4% have driven the revision of economic activity, which is associated with the imposition of the state of emergency across the country in January 2022. Given significant deterioration of the geopolitical situation worldwide in February 2022 and the imposition of new sanctions against Russia, uncertainty about future development increased substantially.

Meantime, the geopolitical crisis will be exerting moderate effect on the economic activity in Kazakhstan. The weakening of external demand will be offset by high prices of raw commodities, anticipated restructuring of trade and transport flows in favor of Kazakhstan, potential growth of budget spending and improving epidemiological situation.

More modest dynamics are expected compared to the previous forecasting round in relation to investment and consumer demand due to the situation around Russia and Ukraine, as well as because of the observed volatility in the foreign exchange market. Moreover, in many ways, the nature of this dynamics will be determined by the scale of final sanctions against Russia and their impact on the global economy, on commodity markets in particular. There is also considerable uncertainty about the future behavior of exports of goods due to the increased uncertainty about the growth of external demand.

In view of realization of factors that restrain the GDP growth primarily in 2022, the economic upturn is expected to come back to its potential in 2023.

**Inflation forecasts have been revised upwards compared to the previous forecasting round. The risk that inflation would be building up above the target band in 2022-2023 increased significantly.**

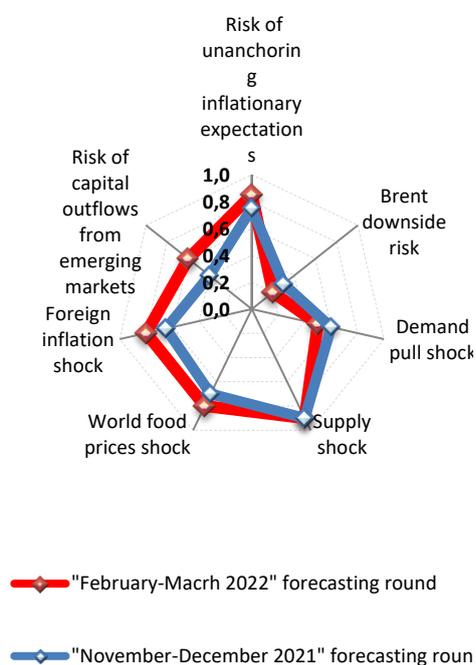
In the context of aggravating geopolitical situation and realization of some risks, inflation forecasts were revised upwards. The main reason for the higher inflation dynamics is depreciation of the tenge exchange rate that occurred in February 2022. In addition, given a high share of Russian products in imports, acceleration of inflation in Russia will exert pro-inflationary pressure on the domestic prices. To a greater extent, this will affect prices of non-food products due to the high share of imports in their consumption.

Food inflation will be building up under the impact of several factors. On the one hand, high food inflation worldwide, including the trading partner countries, is expected to persist so far, exerting negative effect on our domestic inflationary processes. On the other hand, an anti-inflation government policy will be restraining negative impact of external factors.

Strengthening pro-inflationary pressure in the context of a growth boost in prices for non-food products and food will be partly curbed by more moderate dynamics of prices for paid services. The removal of high monthly figures of 2021 from the calculation of annual inflation, the downward impact of the moratorium imposed on increasing prices for regulated utility services, gasoline and diesel fuel will be exerting a restraining effect. In addition to the direct effect, this will have an indirect disinflationary effect through curbing the increase in the cost of certain goods and services. An additional disinflationary impact will come from a more moderate dynamics of consumer demand.

In the medium term, inflation is expected to slightly decelerate. This will occur against the expiring effect from depreciation of the tenge onto the domestic prices, first of all, prices of non-food products.

**Figure 1. Risk Map Based on the Expert Judgment**



Source: NBK's calculations

### 1.3. Risks in the Medium Term

**In the context of intensifying geopolitical tensions worldwide, inflation risk profile deteriorated significantly compared to the previous forecasting round (Figure 1).**

Global geopolitical crisis triggered the change in the existing pattern of some macroeconomic indicators of Kazakhstan. Uncertainty about forecasts of these indicators increased significantly and inflation risk profile has been deteriorating to a large extent.

Thus, the risk of capital outflow from emerging markets in favor of developed countries has significantly increased. First, the growing inflationary pressure in the world forces central banks of developed countries to revise the path of future interest rates upward. Second, the imposition and expectation of new sanctions against Russia increases the risk premiums of developing countries, which may lead to depreciation of their currencies, including Kazakhstan. In this regard, the risks of inflation acceleration are significantly increasing, especially in the short term.

Apart from those, the risk of importing external inflation have gone up quite a bit. This stemmed from the escalation of the risk that inflation in Russia would accelerate in view of depreciation of the Russian ruble and failures in operation of businesses because of sanctions. A high inflationary background is also aggravating along with the growing inflation worldwide due to appreciation in the price of energy resources. A significant risk of importing the global food inflation is persisting given a spike in world prices for a broad range of foodstuffs that has been observed lately. A possible decline in crops (especially in view of unstable situation in Ukraine), a heightened demand for food because of endeavor of many countries to ensure their food safety may cause preservation or intensification of imbalances in the food markets. This factor may lead to a future surge in food prices also in Kazakhstan.

Additionally, due to the current depreciation of the tenge exchange rate and a persistently high food inflation, the risk of unanchoring inflation expectations will remain in the medium term.

Despite the moratorium on the growth in prices for fuel and lubricants and utilities until July 1, 2022, the risk of accelerating inflation from supply factors remains high. Thus, after the lifting of moratorium, a strong increase in prices for these goods and services is possible due to the need to maintain the profitability of production and finance investments. This increase may be reflected on the growth of production costs of other goods and services in Kazakhstan. In addition, a continued supply disruption due to the COVID-19 pandemic and the possible impact of sanctions against the Russian Federation could also lead to higher production costs and further acceleration of inflation.

Among internal factors, the risk of inflationary pressure on the demand side has slightly decreased. This is because of the lower path of development of Kazakhstan's economy due to the January unrest and a lower activity in withdrawing pension savings.

Among other positive risk factors, the decreasing risk of a significant drop in oil prices is worth mentioning. Thus, the gradual lifting of restrictions in view of a less pronounced impact of the COVID-19 pandemic on the global health system as well as the rise in prices for energy resources due to the limited increase in oil production from OPEC+ and supply disruptions because of sanctions against the Russian Federation make commodity prices to stay at high level.

Nonetheless, on the back of a definite deterioration in the overall risk profile of inflation and a high uncertainty about further developments worldwide, the National Bank considered several development scenarios of the situation.

Thus, under the pessimistic scenario, the scale and impact of final sanctions against Russia will be stronger than under the baseline scenario. In this case, there will be structural changes in the way of doing business in Russia, the potential economic growth of the country will noticeably decrease, and the Russian ruble will depreciate significantly. These factors will negatively affect Kazakhstan's economy due to close economic ties with Russia. Thus, there will be lower GDP growth rates, much weaker exchange rate and higher inflation figures.

In case, if developments follow the optimistic scenario, the impact of sanctions against the Russian Federation will be less pronounced. Under this scenario, GDP growth rates in Kazakhstan would be higher, the exchange rate would be stronger and inflation would be lower than under the baseline scenario.



## II. MONETARY POLICY

## II. MONETARY POLICY

### 2.1 Decisions on the Base Rate

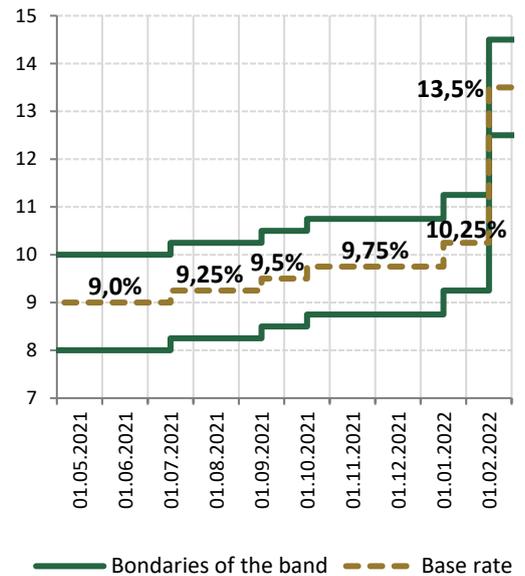
Taking into account some deceleration of inflationary processes, the decision to retain the base rate at 9.75% was made on December 6, 2021 (Figure 2). The increased uncertainty about the new coronavirus strain – omicron – and its effect on inflationary processes, external and internal demand became an important factor. The trend of accelerating inflation was persisting in the external sector. In Kazakhstan, the inflation dynamics had been influenced by acceleration of price growth for non-food products, which offset deceleration of the food component.

At the beginning of 2022, given that the annual inflation has not been decelerating steadily, the National Bank continued to pursue a disinflationary monetary policy. On January 24, 2022, the decision to increase the base rate by 50 basis points to 10.25% was made in order to reduce inflationary expectations and bring inflation into the target band of 4-6% by end-2022. In most countries of the world, the price growth keeps remaining high. The domestic economy is characterized by the existence of risks of inflation acceleration during the year. Such risks are associated with a relatively low inflation base of the first half of 2021 as well as with the expiration of the period of temporary regulation of prices for socially important foodstuffs, fuel and lubricants and utilities by mid-2022.

On February 24, 2022, as a result of realization of risks from the external sector along with considerable aggravation of the geopolitical situation, the National Bank made an unscheduled decision regarding the level of base rate in connection with the need to preserve the price stability. The base rate was raised by 325 basis points to 13.5%. This decision was also aimed at reducing inflationary expectations and devaluation pressure on the tenge exchange rate.

On March 9, 2022, the National Bank decided to retain the base rate at 13.50%. The decision to leave the base rate unchanged was driven by the fact that its existing level already reflects

Figure 2. Base Rate Band in 2021-2022, %



Source: NBK

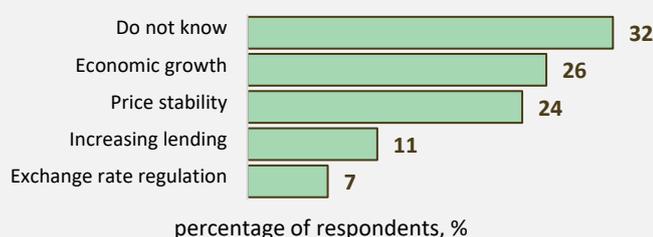
the National Bank’s reaction to the increased geopolitical risks and the risk that inflationary processes could accelerate. In doing so, there is a room for a subsequent tightening of monetary conditions in case of a further deterioration of the external and internal macroeconomic environment.

**Box 1. Outcomes of the Public Survey Regarding the National Bank’s Objectives**

In February 2022, as part of the monthly public poll on inflationary expectations, questions concerning the National Bank’s primary objective were asked.

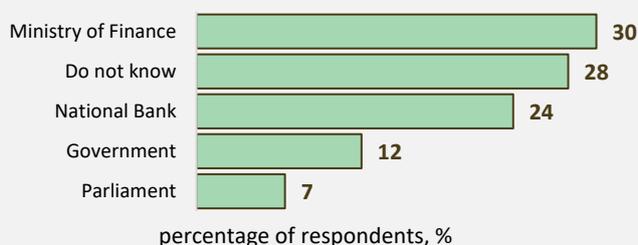
**One fourth of the interviewed know that the National Bank’s primary objective is the price stability.** Based on the poll outcomes, one third of the interviewed provided the “Do not know” response as to the National Bank’s primary objective. The majority of respondents think that the National Bank’s primary objectives are the economic growth (26%) and price stability (24%). Only 3% of the interviewed know the inflation targets in Kazakhstan for 2022 (the target band of 4-6%).

***What is the Primary Objective of the National Bank of the Republic of Kazakhstan?***



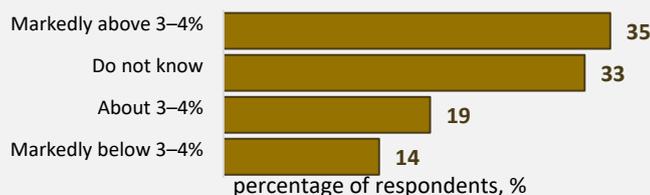
**Most interviewed do not know that the base interest rate in Kazakhstan is set by the National Bank.** The choice of the authority responsible for the base rate setting was between the Ministry of Finance (30%) and the National Bank (24%).

***What Authority Sets the Base Interest Rate in Kazakhstan?***



**19% of respondents expect that the medium-term inflation goal will be achieved.** 35% of respondents think that in 2025 the inflation rate in Kazakhstan will be markedly higher than 3-4%, that is will be above the target band. One third of respondents chose the “Do not know” option.

***The National Bank’s goal is to bring inflation down to 3–4% by 2025. In your opinion, what will be the inflation rate in 2025?***



Data source: FusionLab, February 2022 poll outcomes

## 2.2. Money Supply

Growth rates of the money supply remain high, despite some slowdown in the second half of 2021. The money multiplier has been smoothly going up due to the expanding money supply.

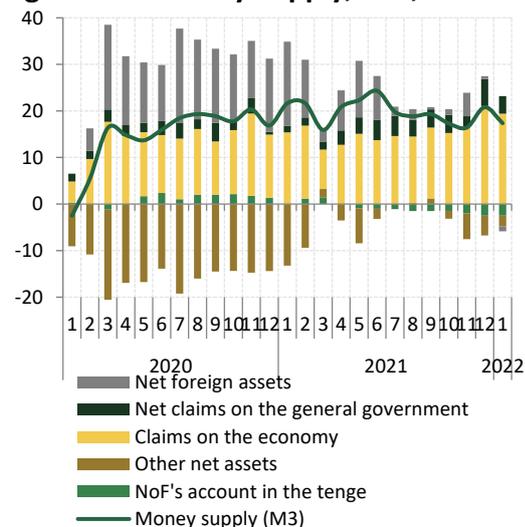
In 2021, the money supply in the economy increased nearly by 5 trillion tenge (by 20.8%) and amounted to 30 trillion tenge (Figure 1). In January 2022, the annual growth of money supply slightly decreased to 17.4% (in January 2021 – 21.6%).

Claims on the economy, largely owing to retail loans because of the increased lending activity as well as claims on the Government from the banking sector due to government securities purchases continue to make a major contribution to the growth in money supply.

However, the contribution by foreign assets decreased and was about zero in December 2021 and showed negative contribution to the dynamics of money supply in January 2022. A negative contribution by foreign assets at the beginning of 2022 resulted from the decline in the price of gold and its sale as part of the option strategies, payment of government debt, operations on Government's accounts and the National Bank's interventions.

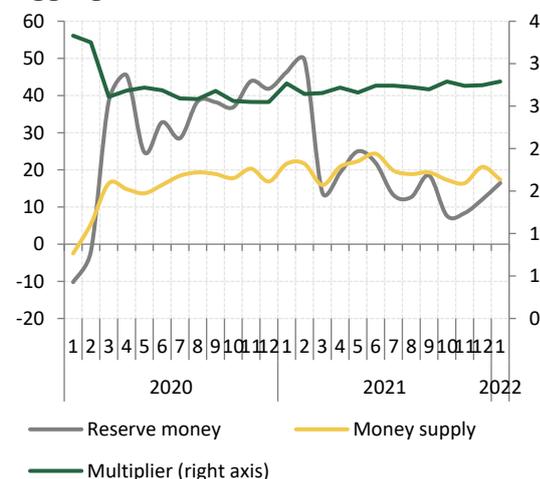
The growth in reserve money is at a lowered level after expiry of the high base effect of 2020. The money multiplier (money supply to reserve money) is smoothly going up amidst the expanding money supply (Figure 2).

Figure 3. Money Supply, YoY, %



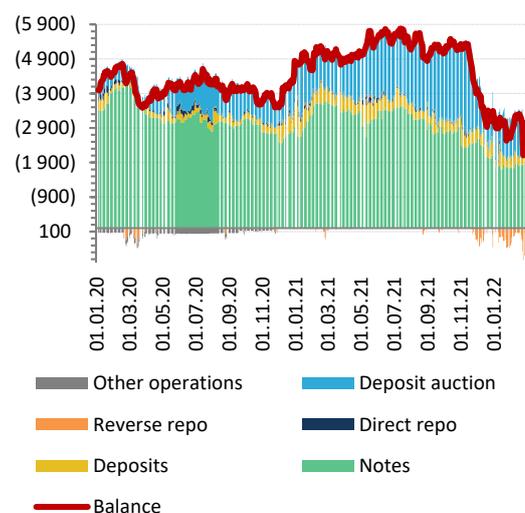
Source: NBK

Figure 4. Growth of Monetary Aggregates, YoY, %



Source: NBK

**Figure 5. Exposure on the National Bank's Operations, billion tenge**



Source: NBK

## 2.3 Money Market

Volumes of liquidity withdrawals on the NBK's operations decreased significantly. Money market rates are being set within the boundaries of the target band approaching the upper boundary in the periods of heightened demand for liquidity.

The balance on the NBK's operations reduced more than in half compared to mid-November 2021 and amounted to 2.3 trillion tenge in February 2022. This was nurtured by the termination of concessional lending program, the National Bank's operations in the foreign exchange market (foreign exchange interventions), growth in balances of the Government's accounts at the National Bank, and withdrawal of monies by the population.

In the National Bank's balance in terms of structure, reduction in the volumes of withdrawals was mainly because of lower volumes of notes and deposit auctions (Figure 5).

In the periods of increased demand for the tenge liquidity, the volume of liquidity provided by the NBK on reverse repo operations went up where average daily amounts equaled 298 billion tenge in December 2021-February 2022 (in January-November 2021 – 17.1 billion tenge).

Money market rates have grown up following the increase of the base rate on a regular session of the National Bank's Monetary Policy Committee in January and on unscheduled session in February 2022.

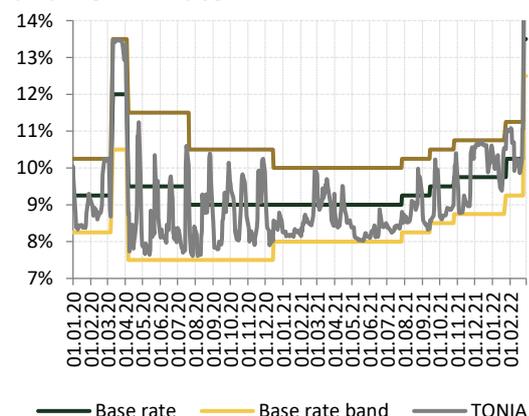
From end-November 2021, during the period of high volatility in the global financial markets as a result of a new coronavirus strain, interest rates were setting closer to the upper boundary of the band. In the first half of January 2022, money market rates were decreasing.

In February 2022, amidst escalation of the geopolitical situation because of geopolitical crisis and respective pressure on the exchange rate,

money market rates were standing about the upper boundary of the band.

Interest rates remained volatile in the reviewed period with their increase in the periods of high demand mainly at the end of reporting months. The spread between TONIA and the base rate over three months on average (December 2021-February 2022) has made up 0.48 pp (-0.46 pp in September-November 2021). The largest spread was observed in December 2021 (0.75 pp) and also in the last days of February 2022 due to a high demand for liquidity (0.9 pp on 21-28 February)(Figure 6).

**Figure 6. Interest Rate Band and TONIA Rate**

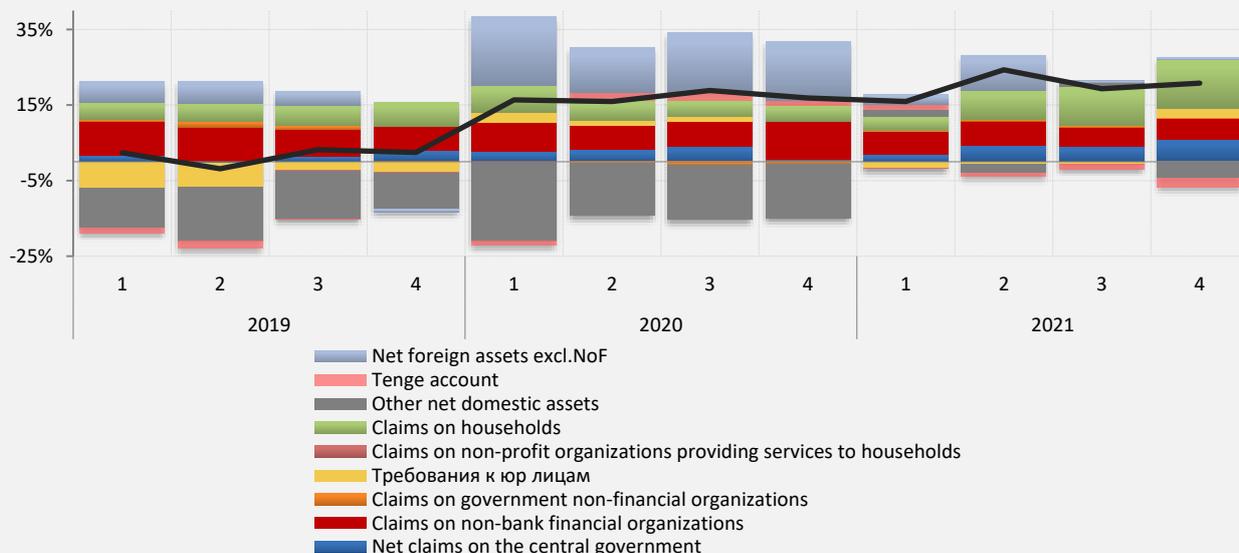


Source: NBK, KASE

**Box 2. Factors of Money Supply Formation in 2020-2021**

During two years (2020 and 2021), the money supply (M3) increased by 41.2% to 30.1 trillion tenge. The money supply was growing mainly owing to the growth in foreign assets, the increased claims on the economy and the general government (Figure 1).

**Figure 1. Dynamics and Factors of Money Supply**



Source: NBK

A major growth in the money supply occurred in 2021 – by 20.8% or by 5.2 trillion tenge, in 2020 the money supply went up by 16.9% or by 3.6 trillion tenge. A sharp increase in the money supply has been observed since the imposition of the state of emergency in March 2020, in annual terms in March 2020 the growth accounted for 16.4% (in February 2020 – by 5.4%).

The most noticeable contribution in 2020 and at the beginning of 2021 was made by **foreign assets**, where the growth was supported by an increase in the gold portfolio in connection with a price rise in 2020 as well as by the foreign exchange revaluation. In 2020, the price of gold went up by 25%<sup>1</sup> because of

<sup>1</sup> According to [www.gold.org](http://www.gold.org) the price of 1 ounce of gold in US dollars

concerns among investors about the prospects of the global economic recovery after the crisis caused by the coronavirus pandemic, the increase in the physical volume in the portfolio of gold and foreign exchange reserves as well as the effect from revaluation in connection with the exchange rate movement. Nonetheless, the contribution of foreign assets to the money supply demonstrated a downward trend during 2021 primarily because of revaluation of gold and foreign exchange reserves given the decline in the price of gold (its price decreased by 4.3% in 2021).

**Growth of claims on the economy.** Another material factor in formation of the money supply is the increase in claims of the banking sector on the economy, in particular, on the non-bank financial sector in connection with implementation of anti-crisis measures to support the anti-crisis initiatives of the Head of the State in helping the economy.

Since the beginning of 2020, overall capitalization of non-bank financial organizations (NFOs) exceeded 2 trillion tenge, where the major portion falls on 2020 (1.9 trillion tenge). During 2021, capitalization of NFOs totaled 120 billion tenge that were allocated to finance the “Nurly Zher” program. As part of the SME Concessional Lending Program, at end- 2021 banks provided about 12 thousand loans amounting to 1.1 trillion tenge to more than one and a half thousand business entities. About 1 trillion tenge was provided under the “Economy of Simple Things” Program.

Economic support programs are a forced measure that was used by most countries, including developed economies, to stimulate the business activity, support employment and develop the infrastructure during the crisis period. The key is the timely exit from support programs, in this regard, the National Bank completed 5 programs on concessional lending in 2021, and in future, a gradual withdrawal of the National Bank from economic support programs is envisaged.

Since 2021, **the advancement of retail lending** has been the main factor for the growth in money supply. In 2020, retail loans in the tenge went up by 14.1% or by 0.9 trillion tenge, in 2021 - by 43.2% or by 3.2 trillion tenge. Over two years, the share of retail lending in total loans increased by 10 pp and accounted for 58% (the share of retail loans in the tenge in all tenge-denominated loans – 65%).

In the structure of retail loans, the contribution of consumer loans advanced, in 2020-2021 they increased by 1.9 trillion tenge (by 46%), where over 90% of buildup falls on 2021. On the one hand, the expansion of consumer lending stimulates the economic growth in the country while on the other hand, it puts pro-inflationary pressure as well as the pressure on the exchange rate since the public consumption is largely secured by imports of goods thus creating the demand for foreign exchange.

An additional support to retail loans is provided by the growing mortgage lending owing to implementation of government housing programs. Over two years, the mortgage loan portfolio has grown by 85.7% or by 1.6 trillion tenge. Just like consumer loans, mortgage lending was boosting to the largest extent in 2021 – by 40.1% or by 1.0 trillion tenge, including due to the use of retirement savings.

**Fiscal channel.** Positive contribution to the growth in money supply is additionally made by the increasing claims on the Government as a result of active placement of government securities of the Ministry of Finance of the Republic of Kazakhstan. The money supply was growing due to the purchase of government bonds by banks. As a result of financing of the budget spending, resources received from the placement of government securities come to accounts of spending units and increase deposit accounts thereby causing the growth in money supply.

Bank claims on the Government nearly doubled in size over two years and amounted to 4.2 trillion tenge, where in 2020 the growth accounted for 1.1 trillion tenge (by 52.2%), and in 2021 – for 1.0 trillion tenge (by 30.8%).

Thus, a major effect on the growth in money supply in 2020-2021 was made by the increase in gold and foreign exchange reserves, by support to the economy on the part of the Government of the Republic of Kazakhstan and the National Bank as well as by the growing consumer and mortgage lending to the population.

## 2.4 Foreign Exchange Market

The situation in the foreign exchange market in December-February 2022 was developing under the impact of external and internal factors. In view of the accelerating inflation, central banks in developed countries have announced that they are curtailing asset purchases at a faster pace and that rates will soon rise. This contributed to the global appreciation of the US dollar, the growth in the yield of treasury bonds and the outflow of capital from developing countries.

In the light of protests and civil disturbances in the country in January of this year, trades in the foreign exchange market started with the accumulated high demand for and very limited supply of foreign exchange. This triggered an upsurge in the market and the necessity to conduct foreign exchange interventions of about 240 million US dollars.

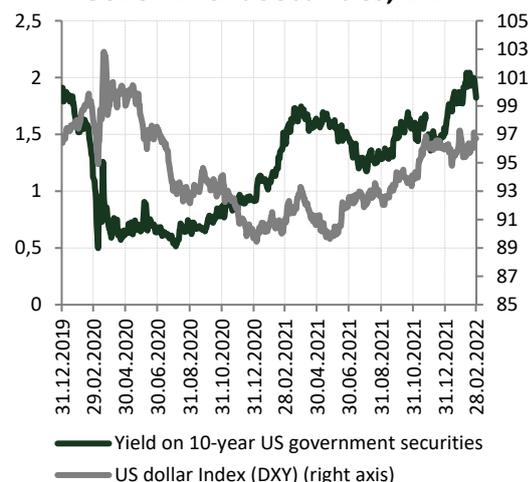
In the context of escalating geopolitical conflict, on February 24 of this year the tenge exchange rate had dramatically depreciated against the US dollar by 6.6% from 437.19 to 466.01 tenge per US dollar.

From December 2021 through February 2022, prices in the oil market went up by 43.1% for the period, having exceeded 100 US dollars per barrel for the first time since 2014; such rise in prices was caused by a heightened demand, limited supply and geopolitical developments.

Tightened rhetoric of the US Fed resulted in volatility in the financial markets and capital outflow from developing countries. Anticipations about the increase of interest rates by the US Fed amidst the growing inflation, acceleration of curtailment of incentives and the announcement about termination of asset purchase program in the first quarter of 2022 led to the growth in yields on treasury bonds from 1.46% at end-November to 1.82% at end-February of this year and appreciation of the US dollar, thus putting pressure on currencies of developing countries (Figure 7).

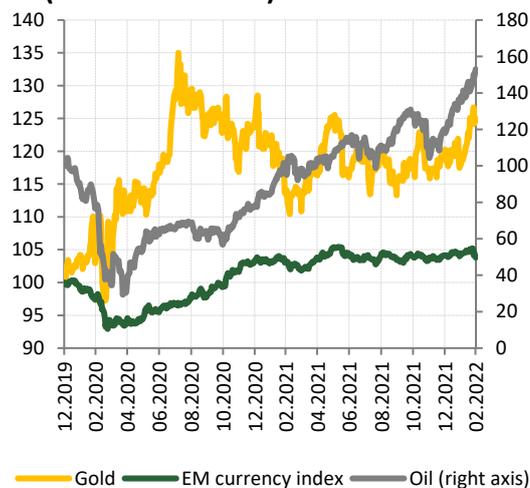
During the period of December 2021 – February 2022, gold price had been quite volatile because of uncertainty in the markets (Figure 8).

Figure 7. Yield on 10-Year US Government Securities, DXY



Source: Refinitiv

**Figure 8. Dynamics of the Emerging Market Currency Index, and of the Cost of Gold (31.12.2019=100) and Oil**



Source: Refinitiv

In December 2021, information about milder symptoms of omicron strain exerted favorable effect on oil quotes. In January, for the first time since 2014, the price of oil has exceeded 90 US dollars per barrel and made up 91.21 US dollars per barrel at January 31 of this year. In view of the fact that the demand for oil since the beginning of the year has happened to be stronger than expected, crude oil reserves in the USA decreased significantly already in the first week of January.

OPEC+ in January and February of this year maintained its position in terms of volume of increased production at 400 thousand barrels per day. However, the actual levels of oil production by the countries of the alliance lag behind the allowed level. The reasons driving the growth of quotes also include the risks of reduction in supply of oil due to geopolitical risk, as well as news of an attack on oil facilities in the UAE.

Generally, in December-February, Brent oil quotes were staying in the range of 69-101 US dollars per barrel (Figure 8).

Due to expectations of an earlier tightening of monetary policy by the central banks of developed countries, capital outflow from emerging markets continued. Thus, at end-January of this year, foreign investments into government securities of Kazakhstan decreased to 543.8 billion tenge (863 billion tenge at end-October). As a result, the share of investments in government securities of Kazakhstan by non-residents decreased from 4.26% to 4.04%.

Taking consideration of uncertainty and the January unrest in the country, on January 12-13 the National Bank conducted foreign exchange interventions for about 240 million US dollars in order to prevent destabilizing movements and risks to financial stability.

By the end of February, the situation related to geopolitical developments aggravated and increased risks for Kazakhstan's financial market. Thus, on February 24,

the tenge had sharply depreciated by 6.6% from 437.19 to 466.01 tenge per US dollar in the context of the first day of hostilities. In response to the sharply increased volatility in the domestic foreign exchange market, the National Bank conducted foreign exchange interventions totaling 274.1 million US dollars in order to prevent destabilization in the market.

The tenge was also supported by operations on conversion of the National Fund’s resources for making transfers to the budget and sales of export proceeds by the quasi-government sector entities.

Due to geopolitical crisis, despite the growing oil quotes, from December 2021 through February 2022 the tenge exchange rate had weakened significantly by 14% from 434.20 to 495 tenge per US dollar (Figure 9).

In December-February, being influenced by external and internal conditions, the tenge exchange rate was moving within the range of 426.10-495 tenge. The average daily volume of on-exchange trades in December-February amounted to 174 million US dollars (in September-November 2021 – 141 million US dollars, in December 2020-February 2021 – 120 million US dollars).

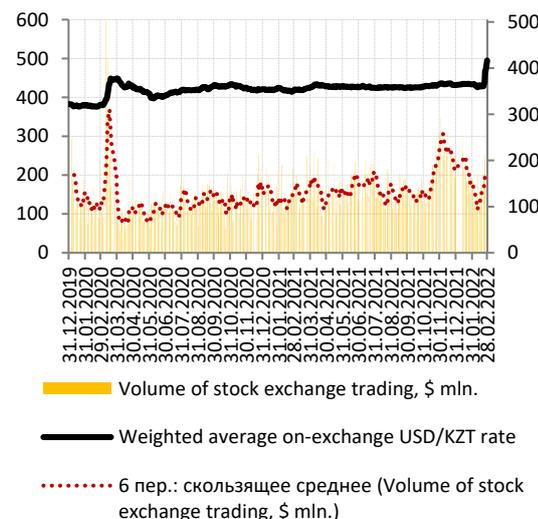
## 2.5 Stock Market

The volume of securities trading in the primary market was going down. The increase of the base rate, the decreased share of foreign investors in government securities of Kazakhstan amidst a global capital outflow to developed markets and the January unrest in Kazakhstan were conducive to the growth in yields on the Kazakh government securities.

The corporate bond market is demonstrating a gradual growth in liabilities given placements mainly by quasi-government companies, KSF, and the second-tier banks.

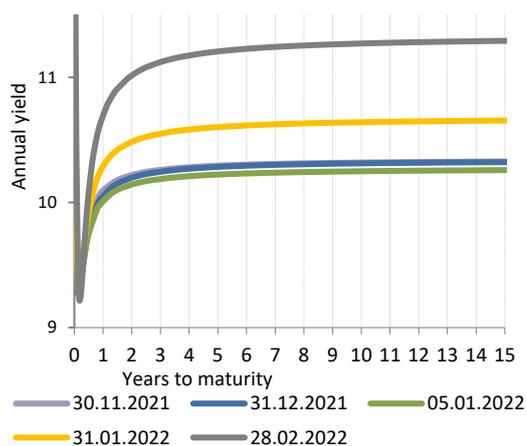
Equities market, after its growth in December 2021, in January-February 2022 demonstrated a downward trend due to the January unrest in Kazakhstan and the geopolitical crisis.

**Figure 9. Dynamics of the Tenge Exchange Rate and the Trading Volume**



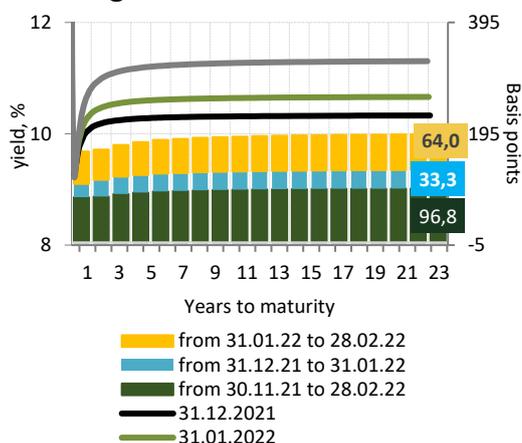
Source: KASE, NBK

**Figure 10. Change in the Risk-Free Yield Curve, %**



Source: KASE, NBK

**Figure 11. Average Yield on Securities by Maturities and their Change**



Source: KASE, NBK

In December 2021 – February 2022, issuance of the MF RK government securities in the primary market had been by 24.5% lower than planned (the actual issuance was 466.76 billion tenge, with the plan of 628 billion tenge) and by 50.89% lower versus the period of September-November 2021 (950.4 billion tenge). Issues of local executive authorities (akimats) were much smaller than in September-November 2021 and took place only in December 2021 (for 23.4 billion tenge) in order to finance activities envisaged as part of implementation of the “Employment Roadmap for 2020–2021” government program and the “Nurly Zher” government housing and utility program for 2020–2025.

The Ministry of Finance continued to issue short-term government securities with maturity from one year to 3 years: in the period from December 2021 through February 2022, MoF’s government securities worth 61.4 billion tenge with the yield from 10.30% to 10.73% per annum were issued. Mainly, medium-term and long-term government securities with the yield from 10.59% to 11.10% per annum were issued. The volume of investments into Kazakhstan’s government securities on the part of non-residents, after their increase from 413 billion tenge at the beginning of 2021 to 863 billion tenge in October 2021, in December 2021 – January 2022 decreased substantially to 543.8 billion tenge due to a global capital outflow to developed countries and because of the January unrest in Kazakhstan. These developments as well as the base rate increase on January 25 from 9.75% to 10.25% and on February 24 – to 13.5% have driven the yield on Kazakhstan’s government securities to grow from November 2021 to February 2022 by 93 basis points on average. The largest growth in yields was observed along this section of the yield curve by 96.2 basis points on average (Figure 10, 11).

The volume of placements in the primary corporate bond market in December-January was 184.2 billion tenge. The quasi-government sector, KSF, and the second-tier banks retain their leadership in terms of placement volumes. The tendency to issue medium-term and long-term liabilities is persisting among issuers.

The weighted average market rate on placed corporate bonds (excluding those bonds that were placed at a rate below the base rate level),

in December-February accounted for 12.68% (in September-November 2021 – 12.13%). The performance index on corporate bonds at end-February 2022 was 10.75% per annum, which is by 50.81 basis points higher than at end-November 2021 (Figure 12).

The KASE Index in December-February decreased by 8.7% (Figure 13). At the same time, the equities market was developing multi-directionally due to the January unrest as well as a worldwide reduction because of concerns about the global economy’s slowdown. Out of the KASE Representative List, equities of “Halyk Savings Bank Kazakhstan” JSC (-)27%, “Kazatomprom” NJSC (-)20.1% and “Kazakhtelecom” JSC (-)13.6% appeared to be under special pressure in the reviewed period.

The volume of trading in the equities market during the period from January 2021 to January 2022 amounted to 241.8 billion tenge with a record-high volume of trading in December 2021 owing to specialized trades for repurchase of common stock of “Halyk Savings Bank Kazakhstan” JSC and purchase of common stock of “KazAzot” JSC, totaling 194.3 billion tenge.

## 2.6 Deposit Market

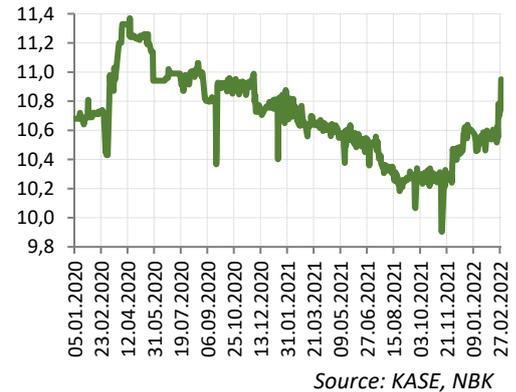
**Despite deceleration, deposit growth remains in the positive zone. Deposits in the national currency make the main contribution to the increase in deposits of residents.**

**In January 2022, the marginal rates on deposits were raised. From January of this year, maximum insured amounts by the “Kazakhstan Deposit Insurance Fund” on savings deposits in the national currency were increased.**

In January 2022, the annual deposit growth accounted for 18.2% (in December 2021 – 22.7%) (Figure 14).

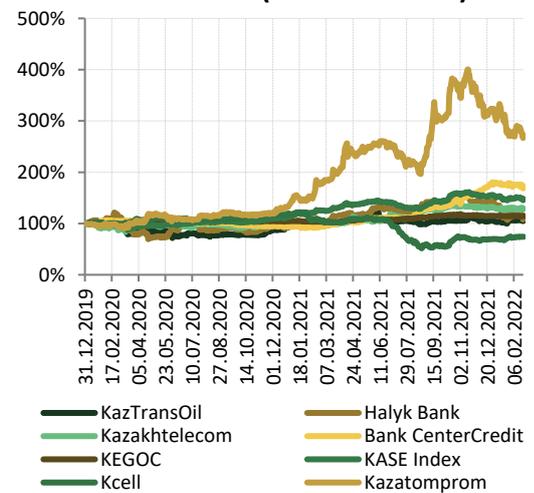
In December 2021 - January 2022, foreign currency deposits slightly increased on the background of volatility in the foreign exchange market.

**Figure 12. Yield on Corporate Bonds, %**



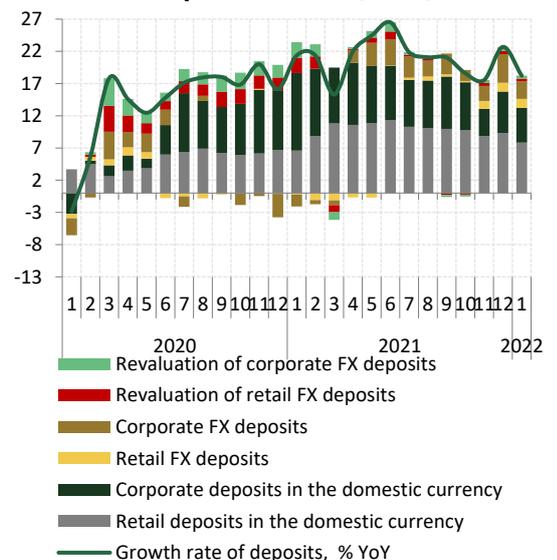
Source: KASE, NBK

**Figure 13. KASE Index (Dec.2019=100)**



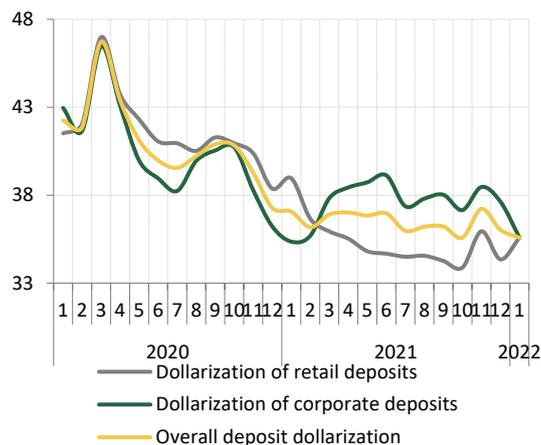
Source: KASE

**Figure 14. Contribution by Components to the Growth in Deposit Volume, YoY, %**



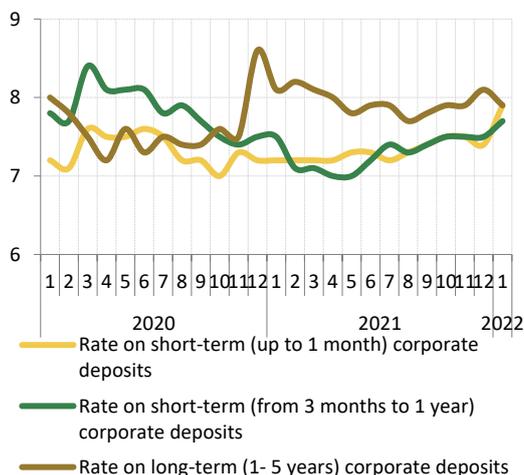
Source: NBK

**Figure 15. Deposit Dollarization, %**



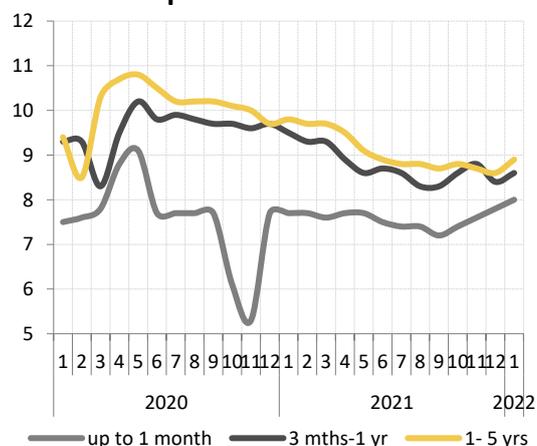
Source: NBK

**Figure 16. Interest Rates on Corporate Deposits in the Tenge, %**



Source: NBK

**Figure 17. Interest Rates on Retail Deposits**



Source: NBK

Growth rates of deposits in the national currency slowed down, accounting for 21.0% in January 2022. Deceleration of retail deposits in the tenge was also driven by the weakening of the effect of partial withdrawal of pension contributions.

Overall dollarization decreased from 36.0% in December 2021 to 35.6% in January 2022, affected by the corporate sector where dollarization went down from 37.6% in December 2021 to 35.6% at the end of January 2022. At the same time, dollarization of retail deposits has increased by 1.2 pp. to 35.6% since the beginning of the year (Figure 15).

Following the increase of the base rate, interest rate on corporate and retail deposits went up in January 2022. Thus, in the corporate sector, deposits with maturity up to one month that account for a major portion in attracted deposits (83.2% of all corporate time deposits in the tenge) increased to 7.9% in January 2022 compared to 7.4% in December 2021 (7.2% in January 2021). Deposits with maturity from 3 months to one year with the share of 13.7% also increased from 7.5% to 7.7% in January 2022 (7.5%). Interest rates on long-term deposits with maturity of 1-5 years with the share of 1.8% decreased to 7.9% in January 2022 (8.1%) (Figure 16).

Interest rates on retail sector deposits demonstrated growth. Deposits with maturity from 3 months to 1 year with the share of deposit-taking of 38.6% grew from 8.4% in December 2021 to 8.6% in January 2022 (9.5% in January 2021), deposits with maturity from 1 to 5 years with the share of 49.4% increased to 8.9% from 8.6% in December 2021 (9.8%). Short-term deposits with maturity up to 1 month with the share of 7.3% also grew to 8.0% from 7.8% in December 2021 (7.7%) (Figure 17).

Following the increase of the NBK's base rate from July 2021, the "Kazakhstan Deposit Insurance Fund" JSC raised interest rates on retail deposits. The highest rates were set on saving deposits without replenishment with maturity up to 12 months – 14.9%.

To ensure stability in the financial market and encourage attractiveness of the tenge deposits amidst the growing geopolitical risks and volatility in financial markets, the National Bank of Kazakhstan, jointly with Kazakhstan’s Government, in February of this year announced the Program for Protection of the Tenge Deposits that provides a 10% compensation (premium) on deposits of individuals in case if they retain their tenge deposits on accounts throughout the year.

## 2.7 Credit Market

**Credits to the economy continue to grow mainly owing to retail loans in the tenge. Consumer loans made a major contribution to the growth in retail loans.**

**The contribution of loans to businesses in the national currency increased from the end of 2021 due to the growing business activity. The cost of credits to the real sector is increasing subsequent to the increase of the base rate.**

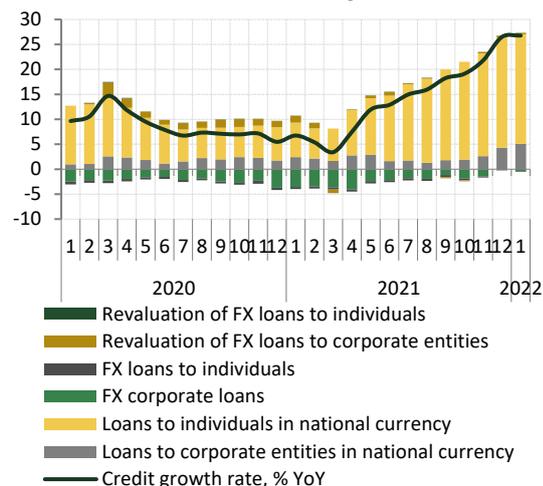
In January of this year, the bank loan portfolio went up by 26.8% in annual terms, amounting to 18.5 trillion tenge.

Loans to the retail sector in the tenge remain as the main factor for the growth in loan portfolio. Since the end of 2021, the contribution by corporate sector loans in the national currency to the total portfolio has been gradually increasing (Figure 18).

The advancement of consumer lending is still the key driver of retail lending (Figure 19). In January of this year, the annual growth in the consumer loan portfolio accelerated to 37.9% versus 36.6% in October 2021, mortgage loans went up by 39.3% while slightly decelerating compared to October 2021 (39.5%).

In January of this year, the cost of consumer loans decreased to 19.1% from 20.9% in January 2021. Expansion in the share of market mortgage programs from the second-tier banks led to the growth of the weighted average interest rate on mortgage loans from 7.1% to 8.6%.

**Figure 18. Credits to the Economy, YoY, %**



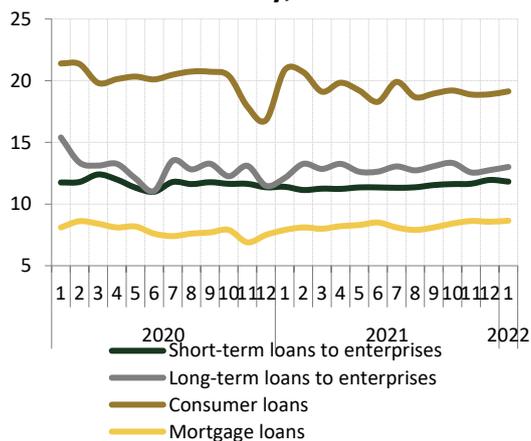
Source: NBK

**Figure 19. Contribution by Components to the Annual Growth of Retail Sector Loans, YoY, %**



Source: NBK

**Figure 20. Rates on Loans in the National Currency, %**



Source: NBK

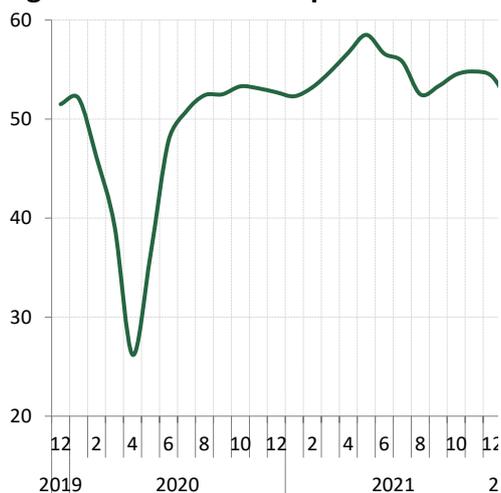
The annual growth of corporate sector loans in January of this year accounted for 10.3%. The key growth driver has been lending to small businesses. However, because of the January unrest, the annual portfolio growth has slightly decelerated to 41.1% versus 41.8% in October 2021.

Since the base rate was increased, the weighted average interest rates on loans to businesses in the tenge in the short-term segment grew from 11.6% in October 2021 to 11.8% in January of this year (11.4% in January 2021). The cost of long-term loans decreased from 13.3% to 13.0%, but it is higher than in January of the last year (12.1%) (Figure 18).

# III. MACROECONOMIC CONDITIONS



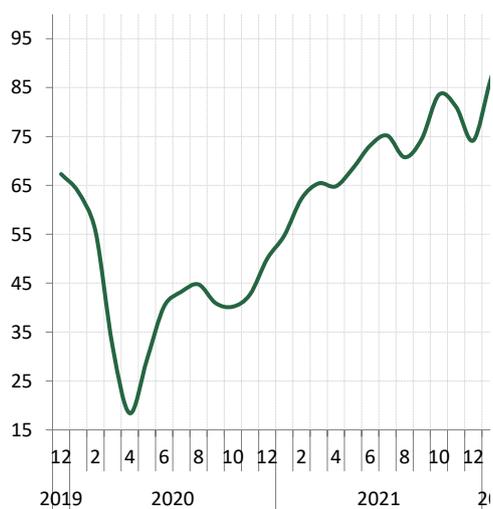
**Figure 21. Global Composite PMI**



Source: Bloomberg

\* – an index value of more than 50 means an increase in the indicator, less than 50 means a decrease, and equal to 50 means its invariance

**Figure 22. Brent Oil Price, US dollars (monthly average)**



Source: U.S. Energy Information Administration (EIA)

### III. MACROECONOMIC CONDITIONS

#### 3.1 External Sector

##### **The business activity slowed down (Figure 19).**

Global Composite PMI decelerated from 54.3 points in December 2021 to 51.4 points in January 2022. The output and the quantity of new orders decreased. Such slowdown in production is associated with reduction in the domestic and external demand as well as with a shortage of personnel because of recurrent outbreaks of coronavirus. The rise of purchase prices for primary materials slightly decelerated while ex-factory prices are still growing.

##### **Inflationary pressure worldwide remains heightened.**

Producer prices keep hitting fresh all-time highs. At the end of December 2021, producer price in the EU went up by 26.2%. In China, prices in the industry increased by 10.3%, however, due to the government measures taken such growth slightly decelerated. In the USA, prices in the industry were also decelerating being promoted by a minor decline in the energy price and some improvement of the situation with supply chains.

Consumer inflation also continues to accelerate. As before, the main contribution to the growth of consumer inflation in developed countries is made by high prices of energy carriers (despite their deceleration), and by high food prices – in developing countries.

##### **World oil prices reached their maximum for the first time since 2014.**

Brent oil prices are exceeding 100 US dollars per barrel. This is furthered by a persisting shortage of oil and concurrent growth in prices of coal and gas as well as by a simmering geopolitical conflict, which may lead to disruptions in supplies of oil worldwide (Figure 20)

### 3.2 Economic Activity and Domestic Demand

During 2021, the dynamics of household demand demonstrated more modest growth rates compared to the National Bank's expectations; this is associated with occasional outbreaks of coronavirus and subsequent restrictive measures. Nonetheless, compared to 2020, growth rates have significantly recovered and real volumes of consumer demand came back to the pre-crisis level of 2019, when a steady upward trend in the household consumption was observed.

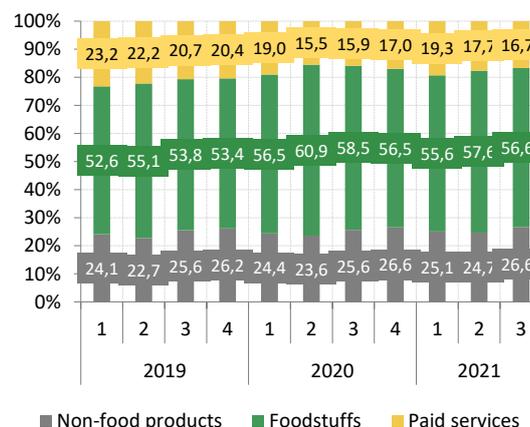
The structure of consumer spending, despite certain recovering dynamics at the end of 2020 and beginning of 2021, was exposed to fluctuations similar to those in mid-2020. However, the reasons for shifts were slightly different from those in 2020, when the people's spending for services and non-food products went down by force in the environment of unprecedented restrictive measures in the country.

During 2021, the portion of spending on foodstuffs was growing in the environment of accelerating food inflation. Occasional outbreaks of coronavirus put certain limitations on realization of the demand for services (Figure 23). Thus, in 2021, nominal spending on services decreased significantly again (Figure 25).

The upward trend in spending on food can be seen in the increased number of households that use most of their consumer spending on food. The share of such households turned out to be higher than at early 2021 (Figure 24).

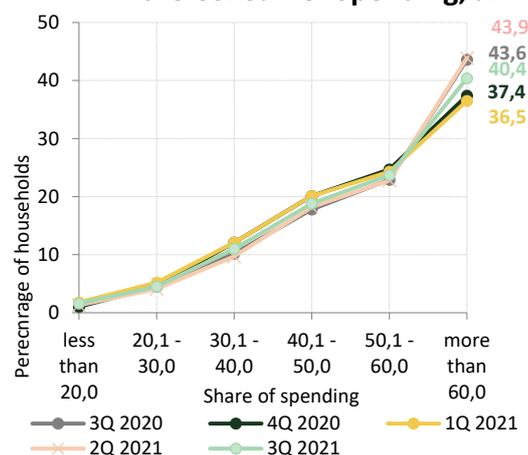
By the end of 2021, retail sales of both foodstuffs and non-food products accelerated. Retail sales of food were growing due to the decline in production and significant growth in food imports. The turnover of non-food products accelerated against the two-digit growth rates of non-food imports and

**Figure 23. Structure of Nominal Consumer Spending of Households**



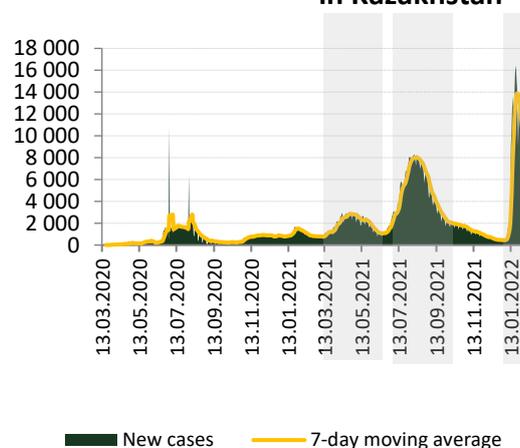
Source: BNS ASPR

**Figure 24. Percentage of Household Spending on Food in the Consumer Spending, %**



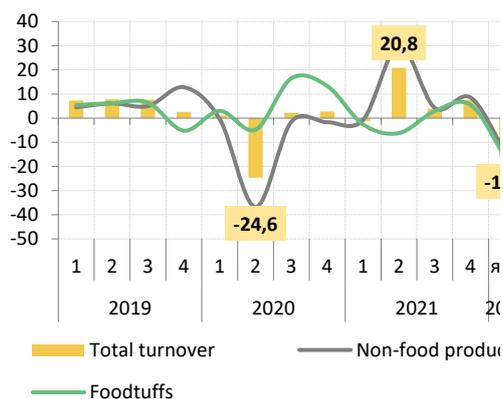
Source: BNS ASPR

**Figure 25. New COVID-19 Cases in Kazakhstan**



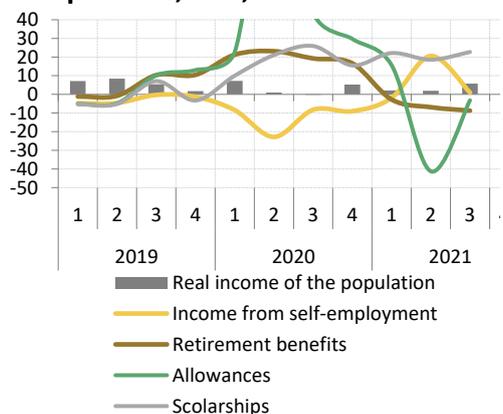
Source: ourworldindata.org, NBK's calculations

**Figure 26. Dynamics of Retail Sales, YoY, %**



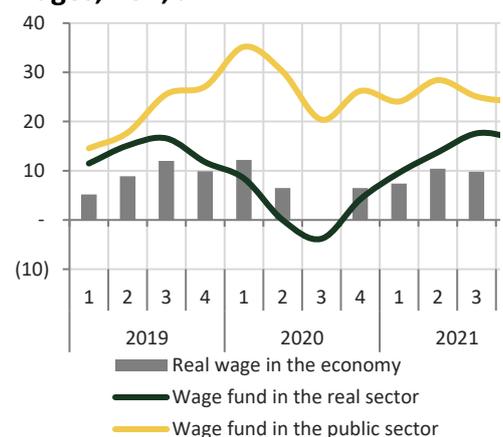
Source: BNS ASPR, NBK's calculations

**Figure 27. Dynamics of Real Income of the Population and its Components, YoY, %**



Source: BNS ASPR, NBK's calculations

**Figure 28. Payroll Fund and Real Wages, YoY, %**



Source: BNS ASPR

was supported by a high growth of consumer lending. The January unrest that took place in Kazakhstan at the beginning of 2022, exerted a significant effect on the services sphere, specifically on trade. Retail sales of both foodstuffs and non-food products declined significantly because of the state of emergency imposed across the country (Figure 26). A sizable growth of new coronavirus cases in the country acted as an additional limitation (Figure 25). The strongest decline in retail sales by 42.1% was recorded in the city of Almaty, which was quite affected during the January unrest.

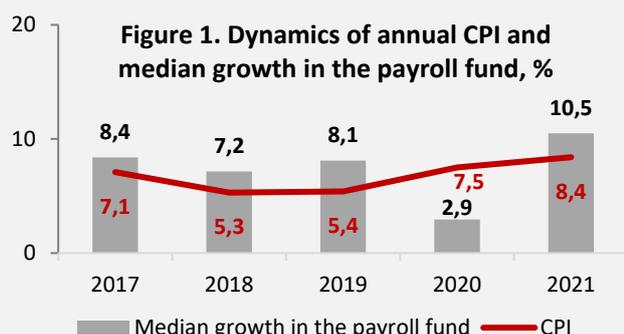
During 2021, dynamics of real income of the population supported the growing demand. A positive contribution was observed in income from hired work, self-employment and individual entrepreneurship as well as from student scholarships (Figure 27). At the same time, due to acceleration of inflationary processes in the economy, a negative contribution was made by real income from retirement benefits and allowances. However, the rates of decline in income from allowances are decelerating and a significant downturn in the second quarter of 2021 stems partly from a high statistical base of 2020, when the population was receiving payouts in connection with temporary unemployment.

In 2021, the overall dynamics of budget spending for social benefits had a more moderate nature compared to the prior years (2019-2020). The budget spending on wages to employees in the public sector retained its high growth rates, resulting in the two-digit growth rates of the payroll fund in branches of the public sector. Additionally, after a short decline in 2020, the payroll fund in the real sector also recovered its growth rates due to revival of the business activity in the economy (Figure 28). Such substantial positive dynamics of the payroll fund against a minor growth in the number of employees in the economy led to high growth rates of real wages during 2021.

### Box 3. Indexation of Wages. Does it Exist in Kazakhstan?

The Labor Code provides for the concept of “wage indexation”, which is carried out if it is provided for by a collective agreement, labor agreement and (or) acts of the employer. Thus, raising the level of wages depending on inflation is the right but not the obligation of an employer.

It is not profitable for businesses to increase their costs by indexing the wages of employees but market conditions dictate the need to revise the level of wages in order to retain qualified personnel who do not agree with the reduction in their real earnings. To assess the change in the level of wages relative to inflation, data on the payroll fund of enterprises that are regular participants in the National Bank’s monitoring of the real sector were used. The sample included 1 266 enterprises (321 large, 314 medium-sized and 631 small enterprises) that have been consistently participating in surveys over the recent 24 quarters.



Source: BNS ASPR, NBK’s calculations

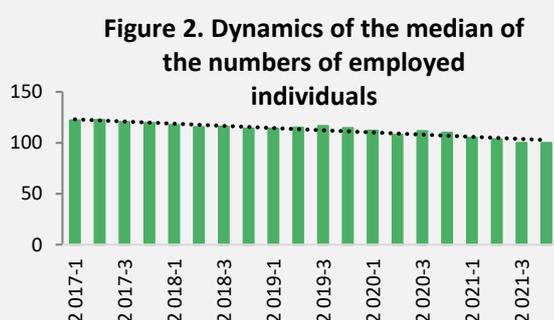
The results obtained indicate that, in general, over the past 5 years, labor costs have grown faster than inflation. The exception was 2020 (Figure 1) that turned out to be extremely difficult for the real sector due to the coronavirus infection and primary strict quarantine measures, when many enterprises were forced to take measures such as suspension of activities, reduction in the number of employees, sending people on vacation without pay, and closures. In 2020, the percentage of

enterprises where the payroll fund growth exceeded the CPI accounted for 40%, whereas in other years this indicator exceeded 50% (Table 1). In 2020, the payroll fund increased only by 2.9% on average. Thus, large business entities had a 6.3% growth, medium-sized – 5.7%, and small business entities, on the contrary, had a 0.8% reduction in the payroll fund.

Table 1. Dynamics of changes in the payroll fund

	2017	2018	2019	2020	2021
Percentage of enterprises where the growth in payroll fund exceeds CPI, %	52.8	55.1	55.8	40.0	54.2
Growth in payroll fund at large enterprises, %	9.1	10.3	10.4	6.3	14.1
Growth in payroll fund at medium-sized enterprises, %	12.2	9.6	8.9	5.7	11.0
Growth in payroll fund at small enterprises, %	5.5	4.5	6.6	-0.8	8.0

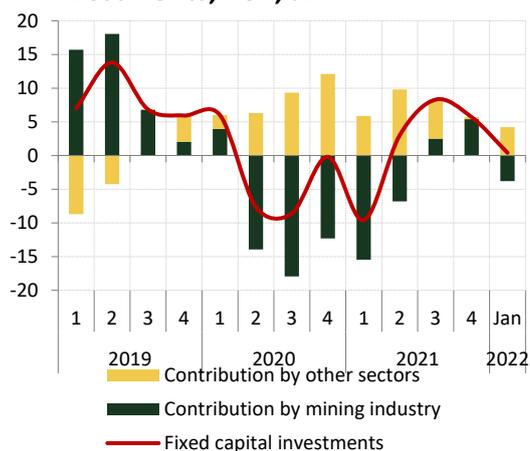
Source: data and NBK’s calculations



At the same time, the payroll fund is not related to the increase in the numbers of personnel. As can be seen from Figure 2, the number of employed individuals is decreasing every quarter; most likely, this is explained by optimization of business processes at enterprises through outsourcing and free-lancers who are not on the staff but payment of their salaries is included in the payroll fund.

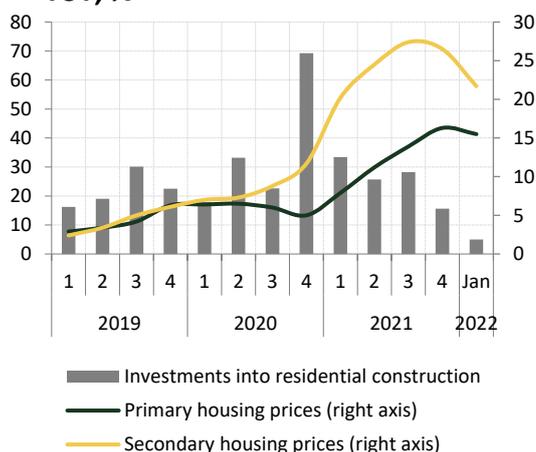
Thus, we can conclude that the growth of the payroll fund, with reduction in the number of employees, indicates the existence of facts of an increase in wages in the real sector of the economy, moreover, by an order of value exceeding the rate of inflation. The exception here is the years of crisis and small businesses, which, due to their size and fragility of business, are not able to provide the same increase in wages to their employees.

**Figure 29. Fixed Capital Investments, YoY, %**



Source: BNS ASPR

**Figure 30. Investments into Residential Construction and Prices in the Real Estate Market, YoY, %**



Source: BNS ASPR

In 2021, given the recovering business activity in the economy, the growth of profitability of enterprises and the continuation of government investment programs in the manufacturing industry, investment activity has entered the growth zone.

Although during 2021 investments in most sectors of the economy preserved a positive trend, the entry of fixed capital investments into the growth zone is more associated with recovery of investments in the mining industry (Figure 29).

In general, in recent years, the investment activity in Kazakhstan in terms of technological structure has been growing largely due to the increased construction works and major overhaul. At the same time, the less stable part of investments is investment in the renewal of fixed production assets. The unstable dynamics of investments into machinery, transport and equipment leads to the increased degree of depreciation of fixed assets in the economy. Thus, in 2021 compared to 2016, the degree of depreciation of fixed assets in the economy increased by 8.6 pp.

Moderate dynamics of growth in fixed capital investments was interrupted in January 2022 as investments in the mining industry, accommodation and catering services, communication as well as water supply and electricity supply declined. Growth in fixed capital investments in January 2022 slowed down to near-zero values.

Investments into residential construction by the end of 2021 slowed insignificantly to 15%. At the same time, in early 2022, there was some cooling in the investment activity of the population, the growth rate of investments slowed down to 5%. In the wake of investment activity, a similar trend was observed with prices in the housing market (Figure 30).

**In 2021, due to revival of the global economy and the improved situation in the commodity markets, the trade balance was also characterized by the recovering dynamics. At the end of 2021, Kazakhstan's external trade turnover amounted to 101.5 billion US dollars, which exceeds that in 2020 by 17.4%, at the same time exports increased**

to 60.3 billion US dollars (a 26.9% growth) and imports – to 41.2 billion US dollars (a 5.8% growth).

Crude oil, which accounts for more than 50% in total exports made a major contribution to their increase. Thus, exports of crude oil in value terms went up by 31.2% (Figure 31). In terms of countries, exports of oil to Italy, the Republic of Korea and Singapore are growing. However, physical supplies of oil decreased by 6.9%, including to Switzerland, India and Greece (Figure 32).

In the structure of ferrous metals, exports of flat-rolled products in kind grew by 4.6% due to the increased supplies to Russia. However, exports of iron rods decreased by 20% and exports of ferro-alloys – by 7%.

Industrial growth decelerated worldwide, thus in the sector of non-ferrous metals reduction of domestic copper production in 2021 coupled with the decreased demand for Kazakhstani copper on the part of China by 27.5% led to an overall 20.3% drop in physical exports of copper. Exports of zinc went down by 9.4%, of lead – by 22.5% and silver – by 6.1%. Exports of aluminum increased by 11.4%.

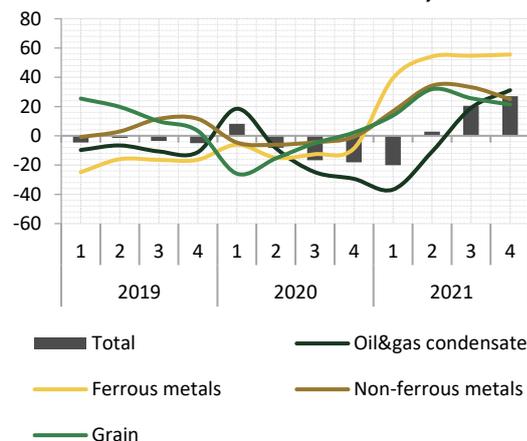
In 2021, exports of wheat in kind grew by 10.3% as a result of increased supplies to Iran. In the group of foodstuffs, meat exports increased by 32.8% due to a 2.1 times growth in supplies to Russia. At the the same time, export supplies of wheat decreased by 17.2% because of the reduced supplies to Afghanistan.

At the end of 2021, imports from China went up by 30.5% and from Russia – by 25.8%, at the same time imports from the EU countries decreased by 8.6%.

Among foodstuffs, physical volumes of imports of tea, sugar and soft beverages went up. Meantime, imports of milk, meat, vegetable oils and fats, alcohol beverages and tobacco stuff decreased.

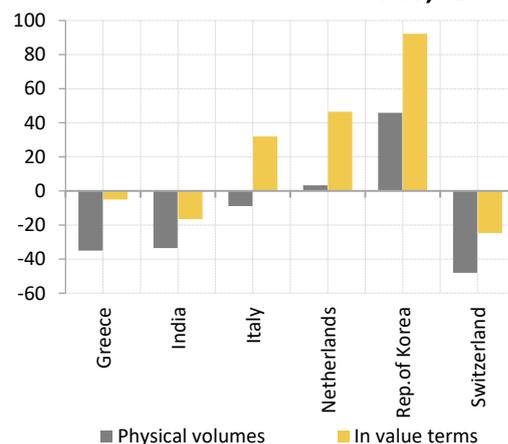
Among non-food products, imports of clothes in kind grew by 42%, including from China and Russia, and imports of cars increased by 58.6%, in particular, from Russia and Uzbekistan. Given the upturn of construction sector, imports of cement, timber panels, ceramic panels and tiles, screws, bolts, screw nuts and iron rods went up.

Figure 31. Exports by Major Commodity Groups, cumulative, YoY, %



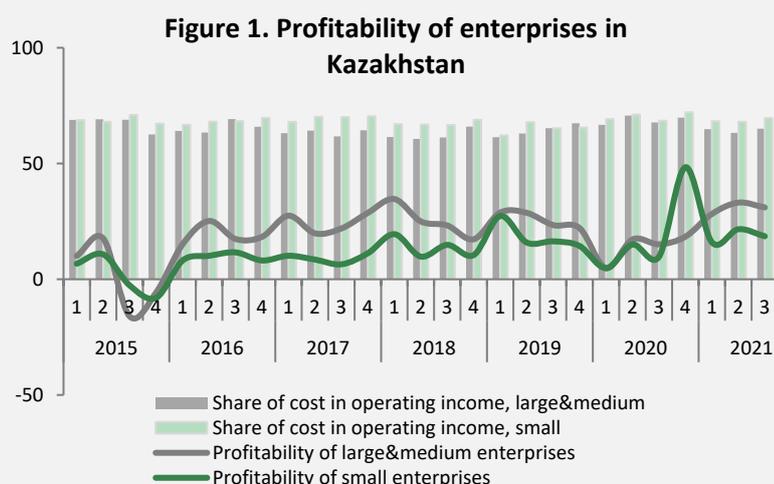
Source: NBK

Figure 32. Oil Exports on a Country-by-Country Basis in 2021, YoY, %



Source: BNS ASPR

## Box 4. Profitability of Enterprises in Kazakhstan



Source: BNS ASPR, NBK's calculations

58.3% of the total volume of output in the economy falls on large and medium-sized enterprises, and small enterprises account for the remaining part of output. Large and medium-sized enterprises are also more profitable. So, historically, large and medium-sized enterprises in Kazakhstan were always more profitable than small companies, with the exception of crisis periods (Figure 1).

In 2020, due to the reduction in production in the industries, a concurrent decrease in cost and retained earnings was observed. In such conditions, profitability of large and

medium-sized enterprises did not show decline or negative dynamics. In 2021, profitability of large and medium-sized enterprises was growing at high pace. In particular, profitability in the mining industry exceeded 60%, in the professional scientific and technical activities, after losses incurred in 2020 – it went up above 100%. As for small enterprises, by end-2020, despite negative dynamics in the business activity, profitability was increasing given the accelerating profits of enterprises and reduction of non-operating expenses. Such situation is probably related to high mobility of small firms and their ability to quickly adapt to the changing environment.

The profit structure of economic entities on a sector-by-sector basis is not homogeneous. In terms of large and medium-sized enterprises, nearly half of their profits at the end of 9 months of 2022 was in the mining industry (40%), manufacturing industry (21.6%) and transport (10%). The situation is somewhat different in relation to small companies. Taking into account a large concentration of small enterprises in the sector of trade, businesses in that very sector account for a larger portion of profits (38.3%). Further, enterprises of the mining industry (10.7%) and construction sector (12.1%) are considered the largest in this category.

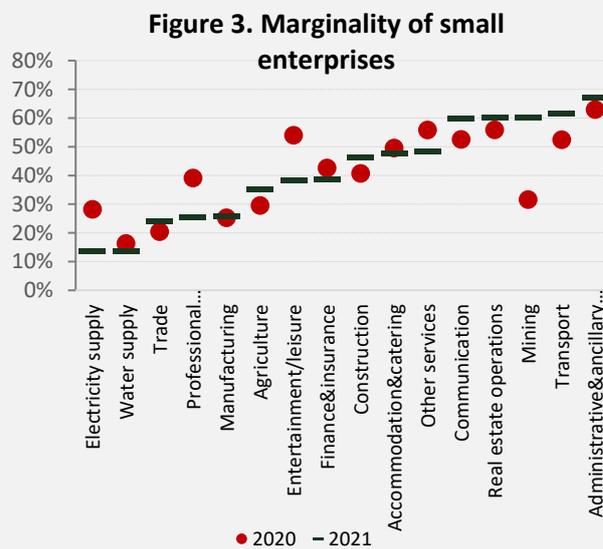
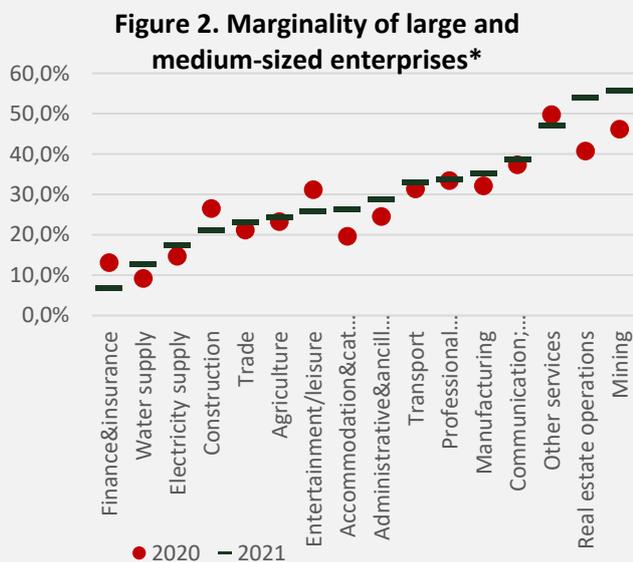
The share of prime cost in large and medium-sized enterprises of Kazakhstan since 2014 has stayed within the range from 59% to 71% (Figure 1). Periods when prime cost in gross revenue increased up to 70% were 2014-2015 and 2020. This situation was associated with a faster reduction in revenues of enterprises compared to prime cost. Reduction in revenues in 2014-2015 was observed against the outbreak of crisis in world commodity markets and a decline in the domestic production, and in 2020 - a decrease in business activity in industries because of the pandemic.

At small enterprises, the share of prime cost in revenues from sales range between 62-72%. Historically, the share of variable costs in revenues of small enterprises is higher than among large and medium-sized enterprises and accounts for more than 65%.

Based on such dynamics in the share of prime cost in company revenues, marginality of Kazakhstani large and medium-sized enterprises in 2020 was 31.3%, and in 2021 it increased to 35.6% given the recovering business activity and the increased revenues from sales. Significant marginality is observed in the mining industry and real estate operations. Marginality in the mining industry in 2021 after some decline in 2020 increased significantly (to 67%) as a result of the rise in prices in the global commodity markets. It also increased in real estate operations as a result of growth in real estate prices in 2021.

The lowest marginality in the economy is observed in electricity supply and water supply. Historically, marginality in these sectors has been volatile and is noticeably lower in the periods of administrative price regulation (to 4-8%).

Marginality of small business entities is slightly lower than that of large and medium-sized enterprises. As in the case of large and medium-sized enterprises, the lowest margins are observed in electricity and water supply. At the same time, if most of revenues in the electricity supply and steam and gas supply industry are generated by small enterprises, then most of revenues of the water supply and waste water disposal sector fall on large and medium-sized enterprises. In 2021, marginality of small enterprises in these sectors was decreasing, which is probably related to administrative reduction of prices for regulated services in the reviewed period.

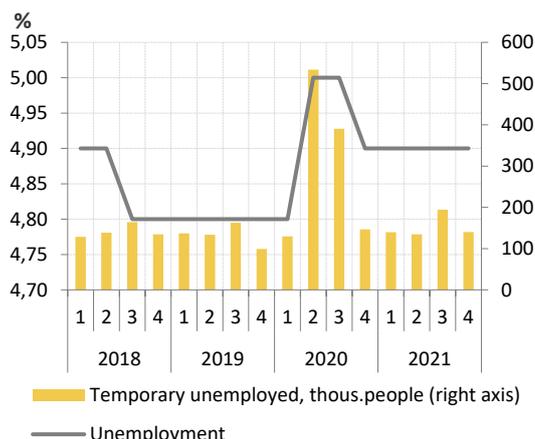


Source: BNS ASPR, NBK's calculations

\*- marginality means the ratio of margin to proceeds. Margin is the difference between gross proceeds and variable costs of an enterprise (prime cost)

In general, various factors can cause a decline in the margin of enterprises. Sometimes a firm may voluntarily reduce its margin in order to increase the competitiveness of products in the market, in other cases, its margin may be forced to fall due to rising producer prices, reduced demand and, consequently, proceeds. In 2021, Kazakhstan's producer prices accelerated significantly in the face of shocks in individual commodity markets and an increase in world prices. And a decrease in the margin was observed among large and small enterprises in other services as well as among small enterprises in professional scientific and technical activities, entertainment and recreation, accommodation and catering services. Most of these industries have been hit hard by the pandemic and the lockdowns that followed, while still showing negative dynamics. At the same time, in the vast majority of industries, marginality of enterprises in 2021 increased as profitability in some industries approached historical maximums.

**Figure 33. Unemployment Rate and Temporary Unemployed Population**



Source: BNS ASPR

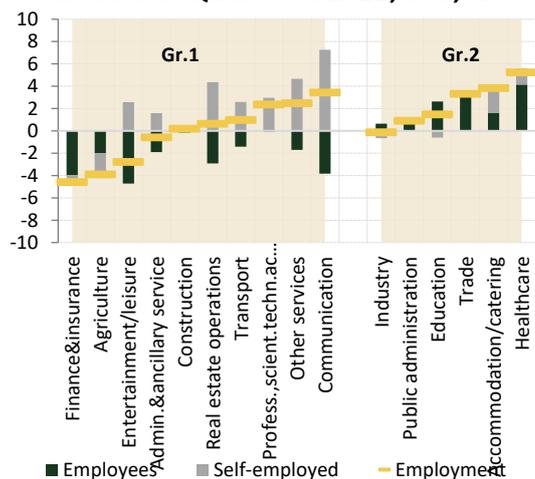
### 3.3 Labor Market

In the fourth quarter of 2021, the situation in the labor market had stabilized. The labor force increased by 0.7% in terms of quantity, where the number of the employed population increased and the number of unemployed population decreased. In these circumstances, the unemployment rate remained unchanged and accounted for 4.9% (Figure 33).

The increase in employed population in the fourth quarter of 2021 resulted from the growth in both the self-employed population and employees. At the same time, the increase in the self-employed population was faster than the growth of hired workers in the economy throughout 2021.

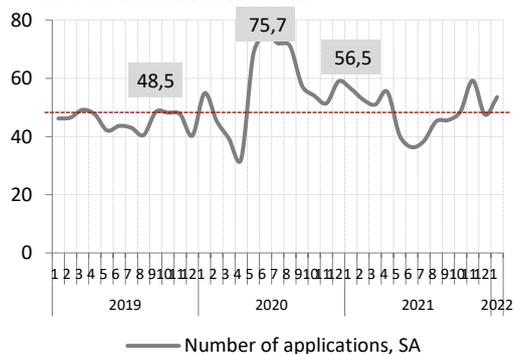
Despite the growing number of hired workers in the economy as a whole, on the sector-by-sector basis, a decline in the number of hired workers was observed in most sectors of the economy (Figure 34, Group 1). In most sectors of the economy, the self-employed population also increased. This situation may indicate a continuing trend of the overflow of hired workers into the category of self-employed population. With a decline in both the self-employed population and hired workers in agriculture, financial and insurance activities, employment has been decreasing since 2020. A decline in employment due to a reduction in the number of hired workers is observed in the administrative and ancillary services as well as in the arts, entertainment and recreation sector, whose activities are still subject to negative impact as a result of recurring restrictive and quarantine measures in the country.

**Figure 34. Contribution to Employment of the Population by Employees and the Self-Employed by Types of Economic Activities in the Fourth Quarter of 2021, YoY, %**



Source: BNS ASPR, NBK's calculations

**Figure 35. People Who Applied to the Public Employment Authorities as Job Seekers, thousand individuals**



Source: BNS ASPR

Stabilization of the situation in the labor market and the growing employment in most sectors of the economy during 2021 led to a reduction in the number of temporarily unemployed people in the country (Figure 33). Given the decrease in the temporary unemployed population, the demand of labor force for the services of employment agencies in Kazakhstan compared to 2020 decreased and returned to the levels below those which existed in 2019 (Figure 35).

Given revival of business activity in economic sectors, the situation in the labor market is stabilizing and the dynamics of labor productivity moves to the growth zone. The labor productivity was growing against an outstripping growth in gross value added in the economy compared to employment growth rates (Figure 36).

However, despite the growing labor productivity in the economy during 2021, the growth rates were not as high as the dynamics of real wages. In addition, in some sectors of the economy there is still a negative trend in the labor productivity that is associated either with the lagging behind growth in value added in the sector or with the persisting negative dynamics of the business activity.

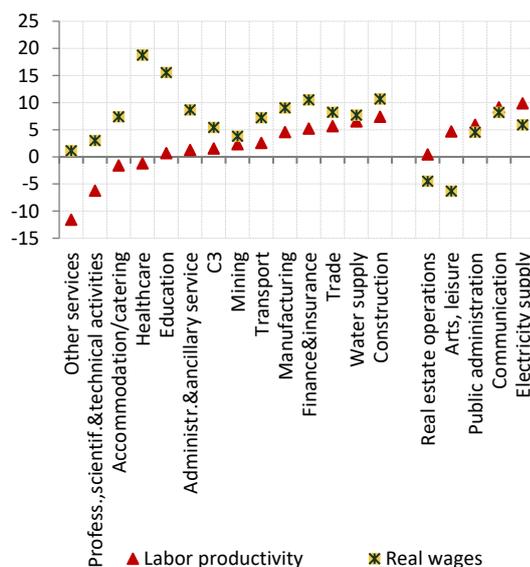
Thus, on the part of producers, pro-inflationary pressure expressed in the outstripping increase in real wages over the growth in labor productivity is persisting in most economic sectors.

### 3.4. Inflation

At the end of February 2022, the annual inflation, after its deceleration at the end of 2021, accelerated to 8.7% (Figure 37). The rise in prices of all inflation components was conducive to intensification of inflationary processes. So, annual growth rates of prices for food and non-food products accelerated to 10% and 8.6%, respectively. Over the year, the cost of paid services went up by 7.1%.

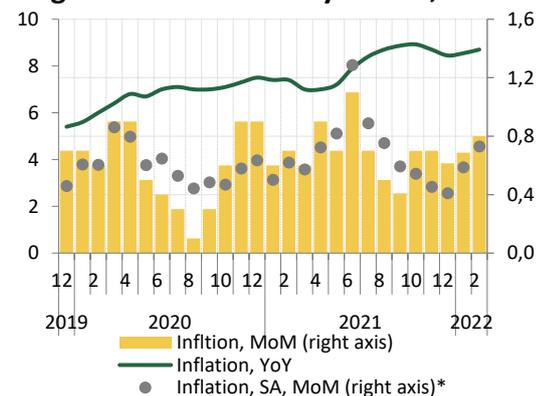
The annual growth in food prices at the end of February 2022 made up 10% (Figure 38). A sizable contribution to deceleration of annual food inflation compared to 2021 was made by disinflation of sunflower oil and sugar and also by deflation of eggs in the context of stabilizing monthly dynamics and a high base of the previous year. At the same time, the price of bread, bakery, and cereals as well as of meat and fish products continued to rise.

**Figure 36. Labor Productivity and Real Wages by Types of Economic Activities in 2021, YoY, %**



Source: BNS ASPR, NBK's calculations

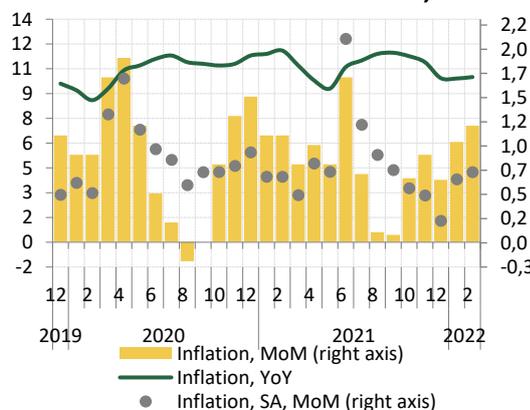
**Figure 37. Inflation Dynamics, %**



Source: BNS ASPR, NBK's calculations

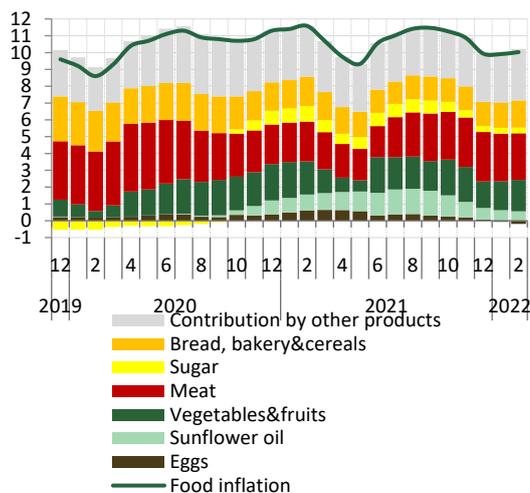
\*- Seasonal adjustment was performed by using the X-12-ARIMA method from 2011 until present

**Figure 38. Dynamics of Food Inflation, %**



Source: BNS ASPR, NBK's calculations

**Figure 39. Contribution of Particular Products to the Food Inflation, YoY, %**



Source: BNS ASPR, NBK's calculations

In February 2022, the annual price growth for bread, bakery and cereals accelerated to 9.8%. Along with that, in January 2022 producer prices went up by 23.1% in annual terms due to a high growth in prices of grain cultures – by 16.5%, YoY. This is related to persistently high world prices and a poorer domestic crop of grain and pulses (in 2021 the gross harvest of grain and pulses decreased by 18.4% compared to 2020). Hence, a further increase in consumer prices following producer prices is possible. At the same time, lower crops, especially of forage, may put pro-inflationary pressure in the markets of meat, dairy products and eggs (Figure 39).

In February 2022, the rise in prices of meat products compared to the same period of the last year accounted for 10.5%, including the appreciation of lamb meat and poultry in terms of price by 14.9% and 19.2%, respectively. The increase in prices of meat products is associated with heightened costs of cattle raising. Thus, in January 2022, prices of forage increased by 24.7% compared to the same period of the last year, and of diesel fuel – by 44.7%. Therefore, the annual rise in agricultural producer prices accounted for 9.3%, including poultry – 16.2%.

In February 2022, prices in the vegetable market continued to grow – by 19.6% YoY (cabbage – an 89.6% growth, beetroots – by 71.1%, carrots – by 26.7%, and potatoes – by 21.3%). At the same time, a disinflationary effect in the market of fruit and vegetable production is exerted by moderate growth in price of fruits by 5.1%.

In February 2021, after a long-time acceleration, the annual growth in prices of sugar decelerated to 14.7%. According to the BNS ASPR, in 2021 realization of sugar in the domestic market increased by 5.8% due to a two-fold growth of the domestic production. However, considerable growth of production is still not capable of covering the domestic demand for sugar to the full extent. Thus, 57.9% of refined white sugar still comes from import supplies.

A 4.5% decline in the production of eggs resulted in the annual deflation of consumer prices for eggs by 8.7%. The decline in consumer prices occurred against a fall in producer prices in January 2022 by 5.2% in annual terms.

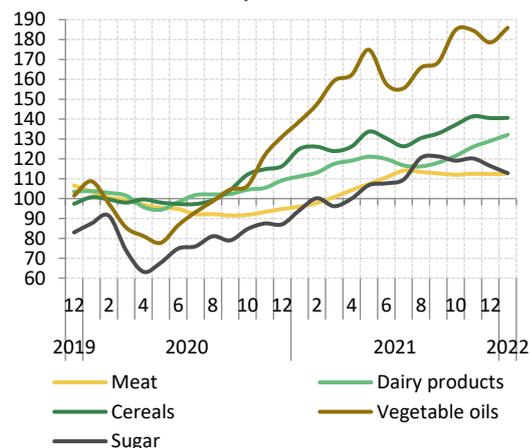
Despite a slowdown of the annual growth rates of food prices from their peaks that were observed in 2021, absolute prices stay at high levels. For example, the FAO vegetable oil price index in January 2022 made up 185.9 points, which corresponds to the historical maximum. The persistently high world prices create an additional pro-inflationary pressure via the growth in the cost of imported foodstuffs as well as the rise in prices of domestic producers in the situation when the differential between external and domestic prices is increasing (Figure 40).

The annual price growth for non-food products in February 2022 accounted for 8.6% as a result of the rise in prices for major part of non-food products, including furniture, household appliances and home utensils (Figure 41).

The contribution of solid fuel, cars, fuel and lubricants, clothes and footwear to the annual non-food inflation in February 2022, according to the National Bank's assessment, made up 5.1 pp. However, the contribution by other categories of goods to the non-food inflation in February 2022 increased to 3.5 pp. (Figure 42).

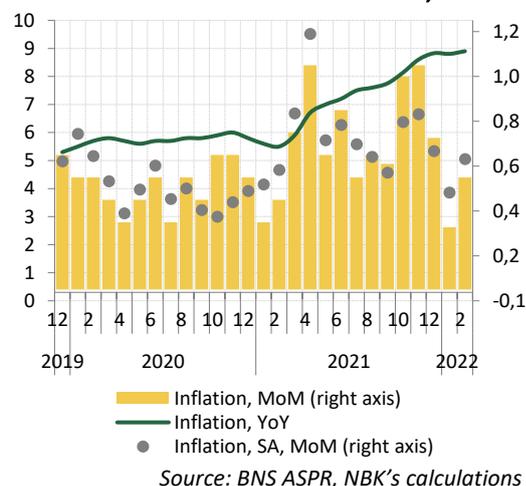
In February 2022, the cost of fuel and lubricants decreased by 0.2%, including gasoline – by 0.1%, and diesel fuel – by 0.4%. Meanwhile, the annual growth remains high. Thus, in February 2022, the annual rise in prices for fuel and lubricants made up 22.1%, where gasoline prices went up by 18.8%, and diesel fuel prices – by 44.2%. In addition, in 2021 compared to 2020, the supply of diesel fuel showed a 2.1% decline due to the 71.1% growth in exports.

**Figure 40. World Food Price Indices, 2014-2016=100**



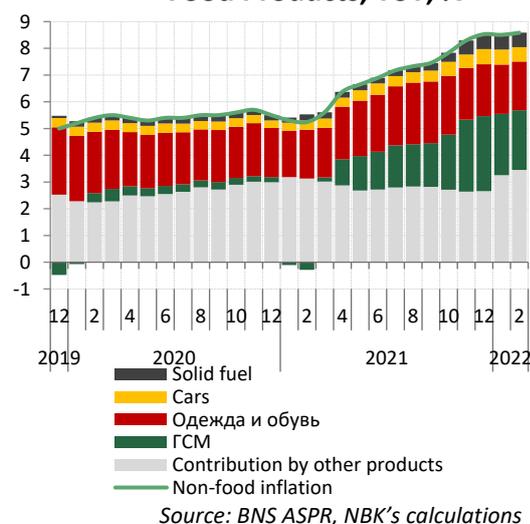
Source: UN FAO

**Figure 41. Dynamics of Non-Food Inflation, %**



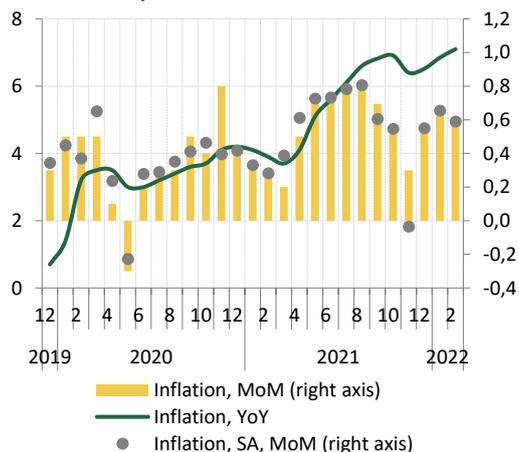
Source: BNS ASPR, NBK's calculations

**Figure 42. Contributions by Non-Food Products, YoY, %**



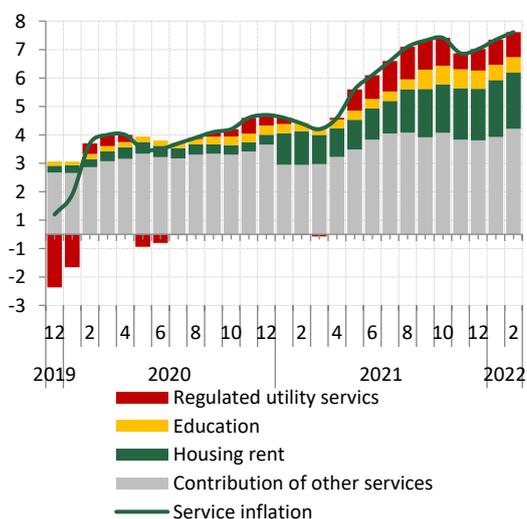
Source: BNS ASPR, NBK's calculations

**Figure 43. Dynamics of Service Inflation, %**



Source: BNS ASPR, NBK’s calculations

**Figure 44. Contributions to the Paid Services Inflation, YoY, %**



Source: BNS ASPR, NBK’s calculations

It is worth mentioning that the price restructuring in response to the observed increase in prices of fuel and lubricants will exert additional indirect pro-inflationary pressure on certain goods and services.

After a significant growth in the second half of 2021, prices of coal declined by 0.4% in February 2022. Annual price growth rates accounted for 9.3%. In January 2022, producer prices grew by 3.8%, having accelerated to 9.5% in annual terms (December 2021 – a 6.5% growth YoY) in response to the rise in prices of electricity, fuel and lubricants, increase of wages as well as a high cost of fixed assets maintenance. An additional pressure on the domestic prices is also put by persistently high world prices. During 2021, despite a 2% growth in output, realization in the domestic market decreased by 0.1% against a 7.6% increase in exports. Given a high differential between external and the domestic prices, a further price growth in Kazakhstan is very likely. Taking into consideration that a large portion of energy in Kazakhstan is generated through coal combustion, the rise in coal prices may cause the increase in electricity fees that would be exerting an additional pressure on producer prices.

The annual increase in prices of cars in February 2022 slowed down and accounted for 16.7% due to disinflation of import prices and producer prices. In December 2021, the annual growth of import prices decelerated to 10.7%, in January 2022 producer prices slowed down to 14.4%.

In February 2022, the annual growth rates of prices for paid services accelerated to 7.1% (Figure 43). Pro-inflationary pressure on the service inflation in the setting of positive demand and growing costs of service providers was exerted by the rise in prices of certain market-related services: repair of cars, services of hairdressers and hotels (Figure 44).

Given the imposed moratorium on the growth of fees for regulated utilities, specifically electricity, in February 2022 electricity tariffs remained unchanged.

Concurrently, in January 2022 prices of energy producers continued to rise. Thus, over the recent 12 months, selling prices of energy producers have gone up by 14.9%, whereas the tariffs for the population increased by 9.9% during the same period. Curbing electricity prices for the population may result in further expansion of the existing differential, thus driving a future significant instantaneous growth of end-user tariffs or a stronger wear and tear of property, plant and equipment.

In February 2022, despite an ongoing increase in real estate prices, a high growth in prices of construction materials and home renovation services as well as the existing demand, the cost of housing rent in annual terms decelerated to 20.7%.

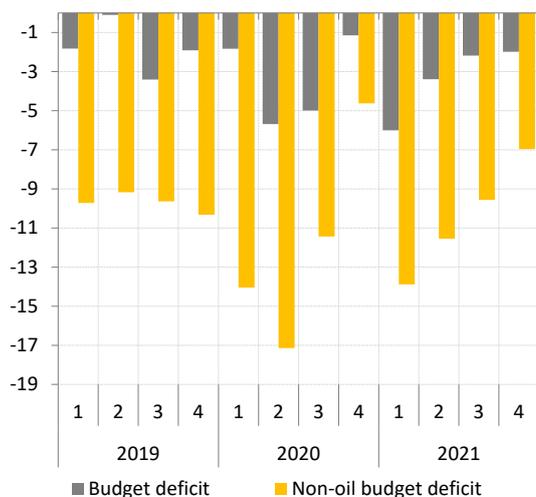
At the same time, given the imposition of moratorium on the growth of gas prices, disinflationary processes in the gas market have been observed. Thus, the annual rise in prices of gas in February 2022 slowed down to 5.4% from 12.9% in December 2021.

### **3.5 Fiscal Policy**

**At the end of 2021, both the revenue side and the expenditure side of the budget were growing. At the same time, due to a more rapid growth of expenditures, the budget deficit had been higher than in 2020.**

In 2021, the national budget showed up a deficit of 2.5 trillion tenge, having increased by 15.6% compared to 2020 (in 2021 – 3.1% of GDP). Expansion of the budget deficit, in the first instance, was driven by the outstripping growth of spending over revenues. In 2021, the receipts of official transfers to the revenue side of the budget totaled 5 145 billion tenge, where the guaranteed transfer from the NoF RK amounted to 2 670 billion tenge, earmarked transfer – to 1 830 billion tenge, and transfers from inferior government authorities – 645 billion tenge.

**Figure 45. Overall and Non-Oil Deficit of the National Budget, as % of GDP**



Source: MoF RK

During 2021, the non-oil budget deficit (budget deficit excluding transfers from the National Fund and export customs duties for crude oil), according to the National Bank's estimate, amounted to 8.0 trillion tenge (9.9% of GDP), exceeding that of 2020 by 6.8% (Figure 45).

In December 2021, the draft law on the national budget for 2022-2024 was approved. A three-year national budget plan will be aimed at implementation of the nationwide areas of focus to overcome the consequences of corona crisis. The social focus of the budget policy is expected to be preserved (in 2022, the spending on the social sphere will account for 50.8% of the total volume, and in 2024–59.8%); it will be secured by the indexation of social benefits, increase in wages to teachers and medical personnel and by construction of public amenities. As part of support to the real sector development, an allocation of resources is planned in order to go on with implementation of such government programs as the “Nurly Zhol”, “Nurly Zher”, for development of the agro-industrial complex, GPIID, and “Roadmap of Business-2025”.

During 2021, national budget revenues increased by 4.8% compared to 2020 and amounted to 12.5 trillion tenge. The main reason for the growth in revenues is the increase in tax revenues (by 26.6%) (their share in budget revenues accounted for 56.4%) due to the gradual easing of quarantine restrictions, the recovering economic activity and increasing oil prices. The largest growth in revenues across sectors of the economy is observed in wholesale and retail trade, in the manufacturing and mining industries. However, during 2021 the receipts of official transfers decreased by 4.2% (their share in budget revenues accounted for 41.1%) because of reduction in transfers from the National Fund by 5.7%.

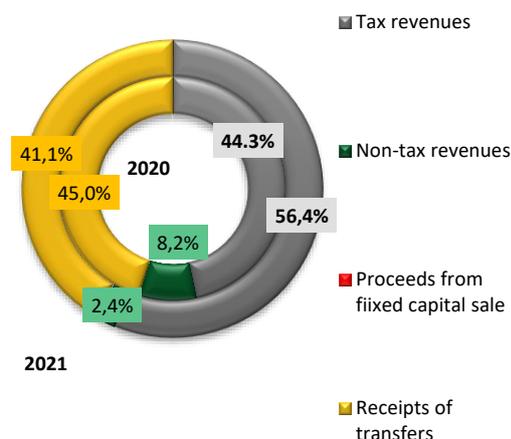
A 70.0% drop in non-tax revenues is caused by reduction in receipts of dividends on government's stake in the national ownership (NWF “Samruk-Kazyna” JSC) and

other non-tax revenues from KPO B.V. (a financial compensation of sub-contractor companies of Karachaganak Project in settlement of arbitration proceedings on objectivity index).

At the same time, revenues from administrative penalties, fines and sanctions imposed by the government authorities are growing. A 3.7 times rise in proceeds from fixed capital sale is related to the increased sales of tangible assets from the state stockpiles through an auction, whereas in 2020 the bulk of tangibles was carried to the balance sheet of other government agencies on a gratis basis; therefore, no sale of tangible assets was conducted (a sale of diesel fuel from the state stockpiles to “Petrofan” LLP and “Information and Accounting Center” JSC) (Figure 46).

In 2021, the national budget spending equaled 14.8 trillion tenge, having increased by 7.9% compared to 2020. The main contribution to the growth in the national budget spending was made by the sector of education – a 44.8% increase (the share – 9.3%), healthcare – by 25.9% (the share – 14.2%) and debt service – by 28.3% (the share – 6.6%). Alongside with that, spending on social welfare and social security went up by 0.4% (the share – 26.3%).

**Figure 46. Structure of the National Budget Revenues**



Source: MoF RK

## BASIC TERMS AND DEFINITIONS

---

**Core inflation** means the inflation, which excludes transitory erratic price changes subject to certain factors of administrative, event-related and seasonal nature. The base rate is the National Bank's key monetary policy instrument that enables to regulate nominal interbank interest rates in the money market. By setting the base rate level, the National Bank determines a target value of the targeted interbank short-term money market rate in order to achieve the goal of ensuring the price stability in the medium term.

**Gross Fixed Capital Formation** is the growth in non-financial assets, which have been used in the process of production for a long time. Gross fixed capital formation includes the following components: a) acquisition, less retirement, of new and existing fixed assets; b) costs for major improvements of tangible produced assets; c) costs for improvement of non-produced tangible assets; d) expenses in connection with the transfer of title for non-incurred costs.

**Gross Domestic Product (GDP)** is an indicator that reflects the market value of all final goods and services produced during a year in all sectors of the economy within the territory of the country for consumption, exports and saving, irrespective of the national identity of the used production factors.

**Money Supply (M3)** is determined on the basis of consolidation of balance sheet accounts of the National Bank and banks. It consists of cash in circulation and transferable and other deposits of non-bank corporate entities – residents and the population in the domestic and foreign currency.

**Dollarization of the Economy** means the situation where a foreign currency (largely – the US dollar) starts to be used for transactions within a country or in certain sectors of its economy, pushing out the domestic currency from the domestic money turnover, and acting as the means of saving, measure of value and the legal tender.

**Inflation** is an increase in the overall price level of goods and services. In Kazakhstan, inflation is measured by the consumer price index.

**Consumer Price Index** is the change in the overall price level of goods and services purchased by the population for consumption. The consumer basket of Kazakhstan used for calculation of inflation reflects the structure of household spending and contains goods and services, which represent the largest portion in the consumption of population. The CPI is calculated as the ratio of the cost of a fixed set of goods and services in current prices and its cost in the prices of the previous (base) period. The index is calculated by the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan.

**Inflation Targeting** is a monetary policy regime, which is oriented at achieving a target inflation rate.

**Reverse REPO** is the purchase of a security with the commitment to sell it after a specific period of time and at a specific price. The National Bank conducts reverse repo operations with a view to provide the tenge liquidity to banks against the pledge of securities in accordance with the National Bank's list of collateral. Open Market Operations are regular operations of the National Bank in the form of auctions for liquidity provision or withdrawal in the money market with a view to set interest rates around the base rate.

**Standing Facilities** refer to monetary policy instruments for adjustment of volumes of liquidity, which resulted from the open market operations. Standing facilities are provided as part of bilateral

arrangements where the National Bank is one party to the transaction. Such operations are conducted at the initiative of banks.

**Transferrable Deposits** refer to all deposits, which: 1) can be converted into cash at face value at any moment in time without any penalties and restrictions; 2) are freely transferable through a check, draft or endorsement orders; and 3) are widely used for making payments. Transferrable deposits represent a part of the narrow money. Other deposits primarily include savings and time deposits that only can be withdrawn on expiration of a certain period of time, or can have different restrictions which make them less convenient for use in the ordinary commercial transactions and, mainly, meet the requirements established for saving vehicles. In addition, other deposits also include non-transferable deposits and deposits denominated in foreign currency.

**Potential Output.** Reflects the level of output in the economy that can be reached subject to full utilization of inputs and full employment. It reflects the volume of production, which can be manufactured and realized without creating prerequisites for the change in the price growth rates.

**Consumer Basket** means a sample of goods and services, which characterizes the standard level and the structure of monthly (annual) consumption of an individual or a family. Such sample is used to calculate the minimum subsistence level, based on the cost of the consumer basket in current prices. The consumer basket also serves as a comparative basis for estimated and real consumption levels and also as the basis to determine the purchasing capacity of currencies.

**Interest Rate Channel of the Monetary Policy Transmission Mechanism** is the transmission mechanism channel, which describes the impact of the central bank on the economy through the interest rate regulation.

**Direct Repo** is the sale of a security with the commitment to repurchase it after a specific period of time and at a specific price. The National Bank conducts direct repos with a view to withdraw excess liquidity in the tenge.

**Free Floating Exchange Rate.** According to the IMF's current classification, under the floating exchange rate framework a central bank does not establish any pegs including operating ones for the level or the change in the exchange rate, allowing the exchange rate to be determined by the market factors. In doing so, the central bank reserves the opportunity to periodically influence the domestic foreign exchange market in order to smooth out the volatility of the domestic currency exchange rate or to prevent its dramatic movements as well as to ensure the financial system stability.

**Output Gap** is the deviation in GDP expressed as a percentage of a potential output. Expresses the difference between an actual GDP and potential GDP for a certain time interval. Serves as an indicator, which reflects the effectiveness of resources utilized in the country. If an actual output exceeds the potential one (a positive gap), other things remaining equal, the trend of acceleration in the price growth rates would be anticipated because of the overheating of the economy.

**TONIA Rate** represents a weighted average interest rate on one-day repo opening transactions made on the stock exchange with government securities in the automatic repo sector.

**Monetary Policy Transmission Mechanism** is the process, by which monetary policy instruments influence final macroeconomic indicators such as the economic growth, inflation. Narrow Reserve Money is the reserve money excluding other deposits of banks at the National Bank.

## LIST OF KEY ABBREVIATIONS

---

**bp** – basis point

**BNS ASPR** – Bureau of National Statistics of the Agency for Strategic Planning and Reforms

**GDP** – Gross domestic product

**GPIID** - Government Program for Industrial and Innovation Development

**EM** – emerging markets

**EU** – European Union

**ECB** – European Central Bank

**CPI** – consumer price index

**KASE**– Kazakhstan Stock Exchange

**KSF** – “Kazakhstan Sustainability Fund” JSC

**NBK** – National Bank of the Republic of Kazakhstan

**NoF RK** – National Fund of the Republic of Kazakhstan

**OPEC** – Organization of the Petroleum Exporting Countries

**Rosstat** – the Russian Federal State Statistics Service

**REER** – real effective exchange rate

**IMF** – International Monetary Fund

**bln** – billion

**mln** – million

**MNE** – Ministry of National Economy of the Republic of Kazakhstan

**MF RK** – Ministry of Finance of the Republic of Kazakhstan

**MED** – Ministry of Economic Development of the Russian Federation

**trln** – trillion

**thous.**– thousand

**TCO** – Tengizchevroil

**CB RF** – Central Bank of the Russian Federation

**FAO** – Food and Agriculture Organization of the United Nations

**Fed** – Federal Reserve System