



NATIONAL BANK OF KAZAKHSTAN

ҚАЗАҚСТАН
ҰЛТТЫҚ БАНКІ



НАЦИОНАЛЬНЫЙ
БАНК КАЗАХСТАНА

**ANNUAL REPORT
OF THE NATIONAL BANK**

2023



NATIONAL BANK OF KAZAKHSTAN

Annual report of the National Bank

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ANNUAL PERFORMANCE REVIEW



The global economy showed subdued growth in 2023. According to the IMF estimates, growth slowed to 3.2% from 3.5% in 2022, reflecting tight central bank monetary policies, restrictive financial conditions and feeble global trade growth.

Nevertheless, in 2023 Kazakhstan managed to improve its macroeconomic balance. The maximum economic growth over the last 10 years was 5.1%. Inflation declined by more than half and amounted to 9.8% at the end of the year owing to the monetary policy pursued and anti-inflationary measures of the Government.

The emerging stabilization of inflationary processes enabled to begin a cycle of gradual reduction of the base rate. From August 2023, the rate has been lowered by 100 basis points from 16.75% to 15.75% in December 2023.

On July 5, 2023, the National Bank decided to update the previously announced inflation target, replacing interval values with a point-based level and setting the inflation target for the medium term – to keep annual inflation near 5%.

In 2023, the tenge exchange rate was formed in conditions of volatility in the external sector and internal factors. During 2023, the National Bank adhered to the free-floating exchange rate regime and did not conduct foreign exchange interventions.

At the end of 2023, the tenge exchange rate strengthened by 1.7% – to 454.69 tenge per the US dollar due to the ongoing attractiveness of tenge assets, the inflow of funds from foreign investors to the government securities market, the sale of foreign exchange proceeds by quasi-public sector entities and operations to convert assets of the National Fund.

On November 15, 2023, the 11th Congress of financiers of Kazakhstan was held, dedicated to the 30th anniversary of the national currency of the Republic of Kazakhstan – the tenge.

The current account at the end of 2023 was in deficit and amounted to 8.7 bln US dollars. The transition of a positive current account balance to a negative zone is associated with reduction in the trade balance. Exports of goods decreased by 6.7% to 79.9 bln US dollars, primarily due to a decrease in exports of oil and gas condensate (lag-adjusted) by 6.8%, or by 3.1 bln US dollars. Growth in imports of goods by 17.9% – to 59.7 bln US dollars due to an increase in the import of consumer goods by 18.3% – to 19.6 bln US dollars, where imports of food products went up by 0.9% to 4.4 bln US dollars and imports of non-food products – by 24.5% to 15.2 bln US dollars.

The National Bank's gold and foreign exchange reserves at the end of 2023 amounted to 36.0 bln US dollars, having increased by 0.9 bln US dollars, or by 2.53% compared to the final figure for 2022, due to the buildup of the foreign exchange portion of assets.

As of the end of 2023, assets of the National Fund increased by 7.7% or 4.3 bln US dollars – to 60 bln US dollars thanks to the systematic work carried out in recent years to ensure transition to a balanced allocation of assets.

The total volume of pension assets of the Unified Accumulative Pension Fund under the National Bank's fiduciary management at the end of 2023 amounted to 17.8 trln tenge, an increase of 21.8%

over the year. The accrued investment return in 2023 amounted to 1.6 trln tenge.

Payments made in 2023 through the National Bank payment systems amounted to 73.7 mln transactions worth 980.3 trillion tenge, having increased compared to 2022 by 12.5% (by 8.2 mln transactions) and by 24.5% (by 193.0 trillion tenge), respectively. In 2023, together with the financial market participants, the National Bank proceeded with an effort to scale the services of the IPCS and IPS with an expansion of the number of participants.

On November 15, 2023, the 11th Congress of financiers of Kazakhstan was held, dedicated to the 30th anniversary of the national currency of the Republic of Kazakhstan – the tenge. During the Congress, current economic issues were discussed. A presentation of the results of implementation of the «Digital Tenge» project was also held and a new series of banknotes of the national currency, based on elements of the «Saka Style,» was presented. The banknotes of the new series reflect the history and heritage of the country from the unique culture of nomads to modern Kazakhstan. The first banknote of the new series with a face value of 5,000 tenge was issued into circulation on December 25, 2023.

Together with the financial market participants, the Open API platform was launched in the pilot

THE NATIONAL BANK'S GOALS AND OBJECTIVES

The first banknote of the new series with a face value of 5,000 tenge was issued into circulation on December 25, 2023.

mode on November 1, 2023. In order to ensure prompt exchange of data between banks and government stakeholders to effectively combat fraud, the creation of an Anti-Fraud Center was initiated; the first phase of the pilot project was launched in November 2023 with the participation of 11 banks.

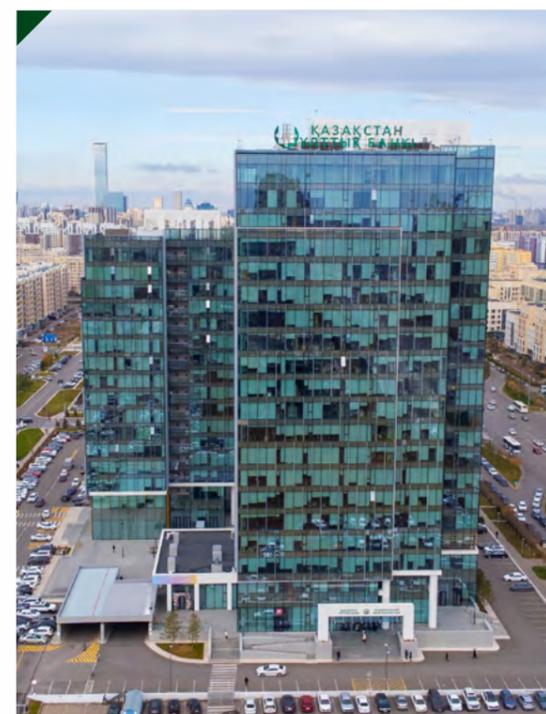
With an aim to increase the efficiency of export-import currency control and prevent the illegal outflow of capital from the country, legislative work was carried out to recognize the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan as a currency control authority and hand over the function of monitoring compliance with the requirement for currency repatriation to that authority.

In 2023, in order to expand the range of published statistical data and improve the quality of analytical data, statistical information posted on the official Internet resource of the National Bank was supplemented with a block of analytical tables on credits to the economy by the banking sector (including the «Development Bank of Kazakhstan» JSC) and by the publication of informa-

tion on loans in a broad definition (full coverage of credit institutions) on a monthly basis.

The NBK proceeded with an effort to develop technological platforms for collecting and processing data from the financial market entities: a number of activities were carried out in optimizing methodological requirements; the list of reports transmitted by the National Bank to the «Smart Data Ukimet» portal of the state information and analytical system was expanded, and the work to generate machine-readable open data was started.

In 2023, the National Bank, jointly with the scientific community, held the 3rd International Scientific and Practical Conference on the topic: «Strategic issues of the monetary policy. Challenges of the new economic reality.» The conference presented the results of research on setting and achieving inflation targets, discussed issues of long-term monetary policy strategy, global trends and their impact on inflation processes in Kazakhstan, the interaction of monetary, fiscal and macroprudential policies.



NATIONAL BANK IS THE CENTRAL BANK OF THE REPUBLIC OF KAZAKHSTAN AND REPRESENTS THE UPPER (FIRST TIER) OF THE COUNTRY'S BANKING SYSTEM.



The National Bank's goal is to ensure price stability in the Republic of Kazakhstan.



In broad terms, its mission is to improve the well-being of the population of Kazakhstan by ensuring low inflation and macroeconomic stability.

To achieve its goal, the National Bank undertakes the development and implementation of the government monetary policy, the functioning of payment systems, engages in currency regulation and control, helps ensure the financial system stability and carries out statistical activities in the field of monetary statistics, financial market statistics and external sector statistics. In addition, within its competence, the Bank carries out government regulation, control and supervision of the financial market, financial organizations and other entities and in the field of financial legislation of the Republic of Kazakhstan.

1 Macroeconomic Conditions for Development in 2023

1.1 Global Economy

According to the IMF estimates, the global economic growth in 2023 slowed to 3.2% from 3.5% in 2022. The slowdown in economic growth occurred amid tight monetary policies pursued by central banks, restrictive financial conditions and feeble global trade growth.

Deceleration in the economic growth was observed in advanced economies, namely the EU countries. The lowest growth rates were seen in Germany, the UK and Italy as a result of the energy crisis. The US economy was more resilient than other countries, growing at 2.1% due to stronger domestic demand, robust investment activity and government spending. Economic activity in emerging markets was divergent. Economic growth rates accelerated in China and Russia in 2023.

Over the past year, inflation has slowed significantly in many countries. Thus, in the USA, in December 2023 inflation slowed down to 3.3% from 6.3% in December 2022, in the EU over the same period – from 10.4% to 3.4%. China experienced deflation in the fourth quarter of 2023.

Meanwhile, global inflation pressures remained elevated. Core and headline inflation was still above the target, with core inflation decelerating at a slower pace compared to headline inflation.

Central banks generally maintained tight monetary policies. During the first half of 2023, central banks of developed countries actively raised their policy interest rates. In 2023, the US Federal Reserve raised the rate by 100 bp in total – to 5.50% per annum, the ECB – by 200 bp to 4.50% per annum, and the Bank of England – by 175 bp to 5.25%. In the second half of 2023, given the slowing inflation, central banks of developed countries suspended the cycle of rate hikes, while maintaining tough rhetoric. In turn, central banks of developing countries, such as Hungary, Brazil, Peru, Chile, Czech Republic, Colombia, Argentina, by the end of 2023 began to gradually move to a monetary easing cycle.

The influence of the external sector on the Kazakh economy during 2023 was neutral. Brent oil prices have been above 80 US dollars per barrel for most of the year. There was a weakening of external inflationary pressure on consumer prices in Kazakhstan against the backdrop of slowing inflation in the EU and China, as well as a decline in world food prices. At the same time, by the end of 2023, inflationary pressure from Russia increased due to acceleration of consumer price growth in Russia from 2.3% in April to 7.4% in December 2023.

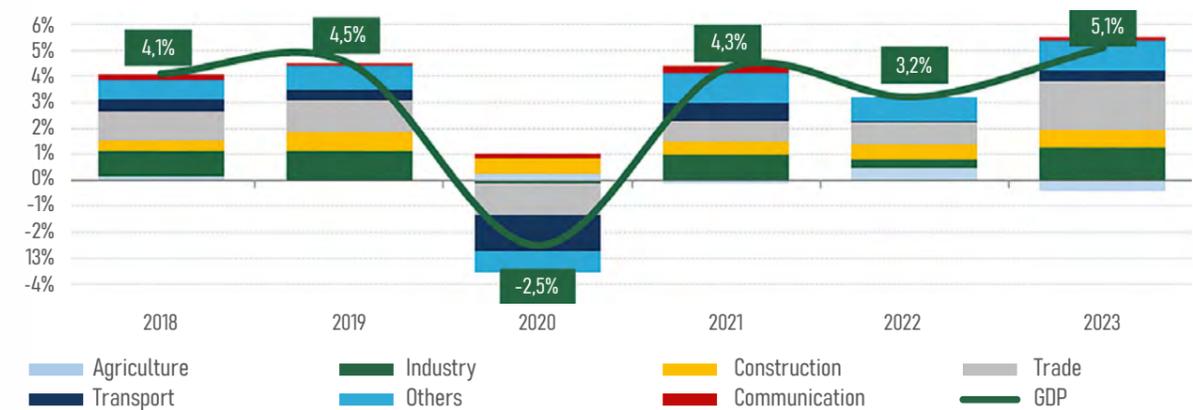
1.2 Domestic Trends: Real Sector of the Economy

According to current data from the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, Kazakhstan's GDP in 2023 grew by 5.1% in real terms (Figure 1.2.1). Economic growth was driven by positive dynamics in key sectors of the economy, with the exception of agricultural sector. A 7.7% decline in agricultural production in 2023 was

caused by lower grain harvests because of poor weather conditions in the main grain-growing regions of the country. At the same time, there has been a significant increase in the volume of construction work. In the services sector, high growth rates were observed in the trade, transport and communication sectors.

Contribution of economic sectors to the real GDP growth as % of the corresponding period of the preceding year

Figure 1.2.1



Source: ASPR BNS

Public sector industries showed moderate growth rates. In 2023, industrial production increased by 4.2% due to both the growth of the mining and manufacturing industries. The growth in production in the mining industry was driven by increased production of crude oil and gas condensate. At the same time, the decrease in the production of metal ores, in particular iron ore, had a negative impact on the industry.

Growth in the structure of the manufacturing industry in 2023 is ensured by the positive contribution of increased production of mechanical engineering products, food products, coke and petroleum products, beverages, and light industry. However, in 2023 there was a decline in production in the metallurgical industry as a result

of reduced production of primary precious metals and non-ferrous metals.

At the end of 2023, trade volumes increased by 11.3% owing to increased sale volumes in wholesale and retail trade. The growth of wholesale trade turnover is associated with an increase in sales of non-food products. In turn, the increase in consumer lending contributed to the growth of retail turnover of non-food products.

In the context of growing mineral resource production, as well as positive dynamics in trade, the growth of transport and warehousing services in 2023 amounted to 6.9% in annual terms. The main contribution to the growth of the industry was made by the increase in freight turnover of railway and road transport. At the same time,

in conditions of increased demand, the volume of passenger traffic, in particular air transport, increased.

The construction sector advanced by 13.3%, which was mainly due to the construction of industrial facilities. In addition, the growth in the volume of construction works was caused by construction of roads and railways, the laying of main pipelines and the resumption of construction work at Astana LRT facilities.

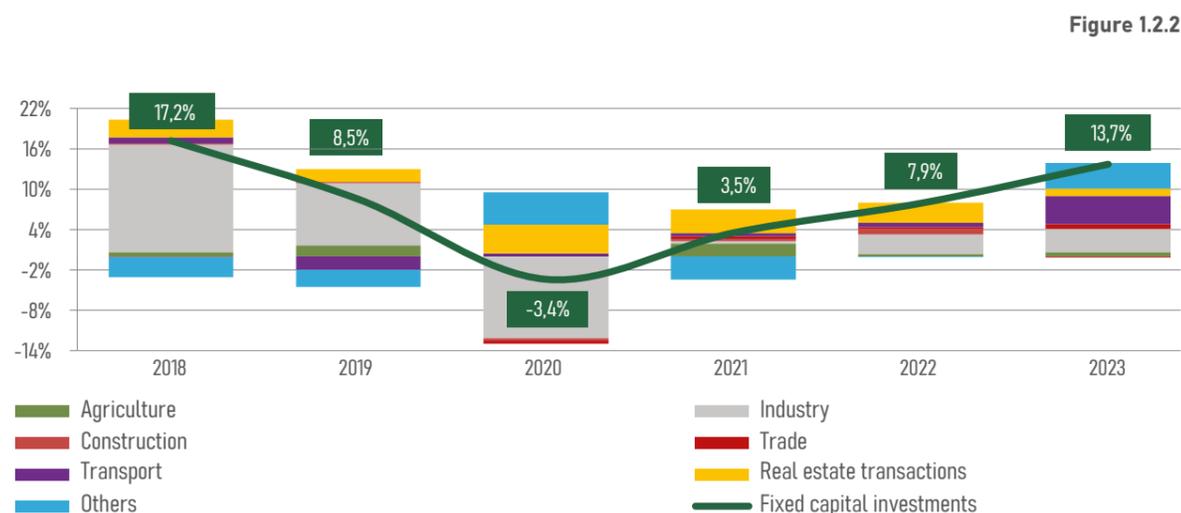
The volume of communication services grew by 7.1% against the increase in Internet services

and data transmission services over telecommunication networks.

The dynamics of domestic demand in 2023 showed high growth rates compared to the previous year in the context of recovering real wages and high growth rates of consumer lending.

Gross capital formation continued to grow; within its structure, positive dynamics are observed in fixed capital formation as a result of increased investments in the mining industry, electricity supply, trade, communication, transport and other sectors of the economy (Figure 1.2.2).

Dynamics of fixed capital investments by sectors, as % of the corresponding period of the preceding year



Source: ASPR BNS

High rates of consumer and investment demand contributed to acceleration of import growth in 2023. At the end of 2023, imports went up by 14.7% in annual terms. High growth rates of imports are observed both among consumer goods and among intermediate goods and means of production.

Along with the growth in household spending, gross capital formation and imports, government consumption expanded due to increased spending on goods and services. Exports at the end of 2023 increased by 1.9% in annual terms amid increase in oil and gas condensate exports. At the same time, exports of non-ferrous and ferrous metals declined.

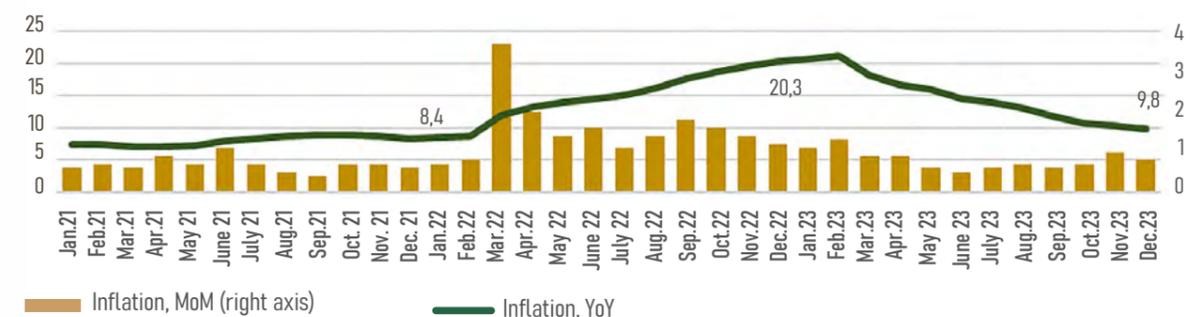
1.3 Inflation

According to the Bureau of National Statistics with the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, annual inflation

in Kazakhstan at end-2023 was 9.8% (in 2022 – 20.3%) (Figure 1.3.1).

Inflation dynamics, %

Figure 1.3.1



Source: ASPR BNS

The slowdown in inflation occurred as a result of the monetary policy pursued by the National Bank and measures to reduce inflation by the Government against lower world food prices (meat, dairy products and cereals) and weakening global inflationary pressure. The moderate growth in prices was also facilitated by the slowdown in annual growth rates of prices of domestic producers in various industries.

The main factor behind the slowdown in price growth was the restoration of logistics supply chains, as well as a decline in prices for imported goods in the context of appreciation of the tenge, especially against the Russian ruble. It is worth mentioning that in April 2023, the maximum retail prices for some of petroleum products (gasoline RON-80, RON-92, RON-93, diesel fuel) were raised. Meantime, in January 2023, RON-95 gasoline was excluded from the list of petroleum products subject to government regulation. These changes led to a 13.9% rise in prices for fuel and lubricants and acceleration of non-food inflation.

The structure of inflation shows a slowdown in all major components. The main contribution to inflation continued to be made by rising prices for food products. However, such contribution decreased significantly with an increase in the contribution of non-food products and services given a gradual increase in tariffs for regulated utilities and rising prices for fuel and lubricants.

The growth in prices for paid services rendered to the population in 2023 also slowed down from 15% in February to 12.4% in December. As part of the «Tariff in Exchange for Investment» program, implemented since July 2023, tariffs for regulated utility services were raised. The accumulated increase in prices for utility services in 2023 amounted to 20.1%, and its contribution to inflation was 1.15 percentage points. Increasing regulated prices will restrain the rapid return of inflation to its target level.

Food inflation slowed from 26.2% in February 2023 to 8.5% in December 2023. This was caused by both a decline in world food prices and in producer prices in agriculture. In the structure of food products, a slowdown in the growth of prices for bakery products and cereal, meat and dairy products was observed during the year. However, due to the poor wheat harvest in 2023, flour prices increased from October 2023.

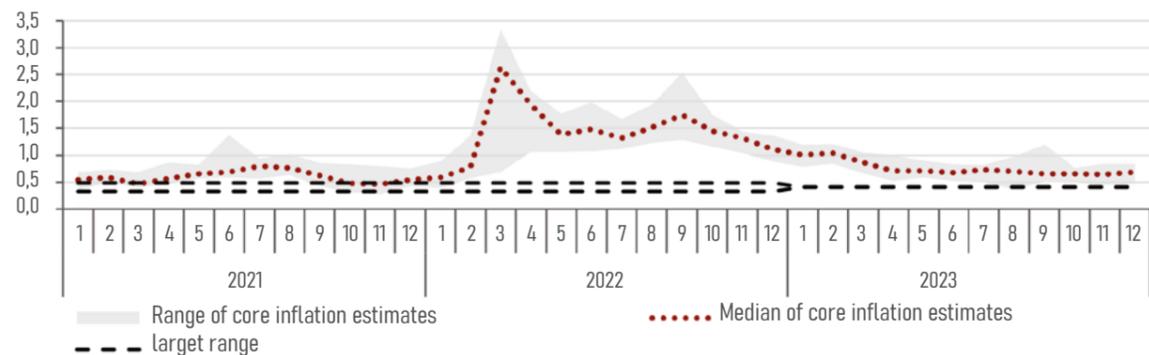
Along with consumer inflation, the path of core inflation, which reflects persistent inflationary pressures in the economy, showed a slowdown during 2023 (Figure 1.3.2). However, median estimates of seasonally adjusted core inflation were

still above the target, reflecting sustained price increases for a wide range of goods and services. Pro-inflationary pressure from robust domestic

demand and high and unstable inflation expectations is persisting.

Core inflation and seasonally adjusted inflation¹, %, MoM

Figure 1.3.2



Source: NBK's calculations based on the data from the ASPR BNS RK

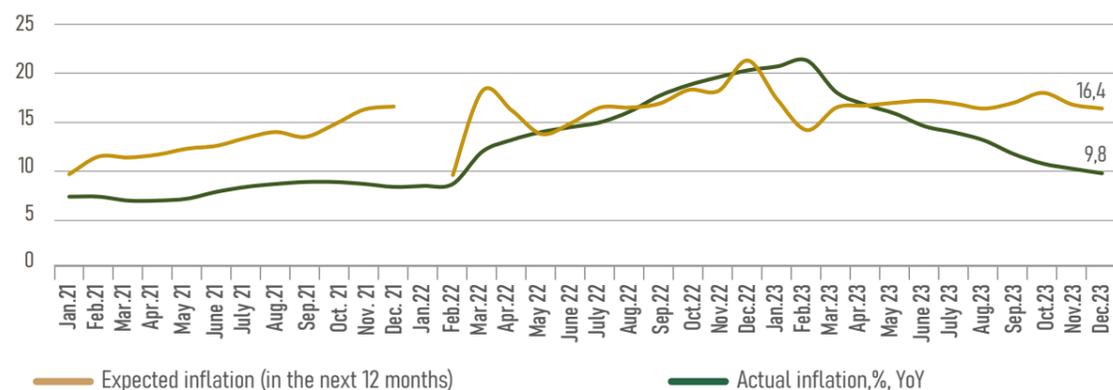
Despite the slowdown in annual inflation, inflation expectations of the population remained elevated (Figure 1.3.3). Estimates of expected inflation over a 1-year horizon in December 2023 were 16.4%, down from 21.3% in December 2022.

to changes in prices for individual goods and services. In particular, during 2023, inflation expectations of the population accelerated as a result of growing prices for fuel and lubricants, utility services and communication, and certain types of food products.

Inflation expectations of the population are characterized by high volatility and susceptibility

Inflation expectations of the population

Figure 1.3.3



Source: Surveys by the Fusion Lab LLP, ASPR BNS RK

¹ Estimates of core and seasonally adjusted inflation are based on the methodology described in the study by Orlov K., Yerzhan I. «Features of seasonal adjustment of the consumer price index for Kazakhstan», 2019, as well as in the study by Orlov K., Seidakhmetov A. «Various Core Inflation Estimates for Kazakhstan», 2023.

1.4 Fiscal Policy

State budget revenues increased by 23.1%. Tax revenues accounted for more than 75% of the state budget revenues, and transfers – for 16% (Figure 1.4.1).

In 2023, budget rules came into effect. Despite the fact that budget rules aimed at limiting the growth rate of spending were not applied when updating the budget, the share of transfers in the structure of state budget revenues decreased significantly to 16% (21% taking into account the acquisition by the National Fund of shares of the JSC NC «KazMunayGas») compared to the average ratio of 26% over the prior five years on average.

In 2023, total transfers from the National Fund went down by 12.7% – from 4.6 trln tenge in 2022 to 4 trln tenge in 2023. Despite a reduction in the share of transfers from the National Fund, the level of non-oil budget deficit remains high. Thus, due to the ongoing increased fiscal stimulation through the active attraction of funds from the National Fund, the level of non-oil deficit of the state budget in relation to GDP amounted to 7.0%, and taking into account dividends from the sale of shares of the JSC NC «KazMunayGas»Rfzto the National Fund – to 8.1%.

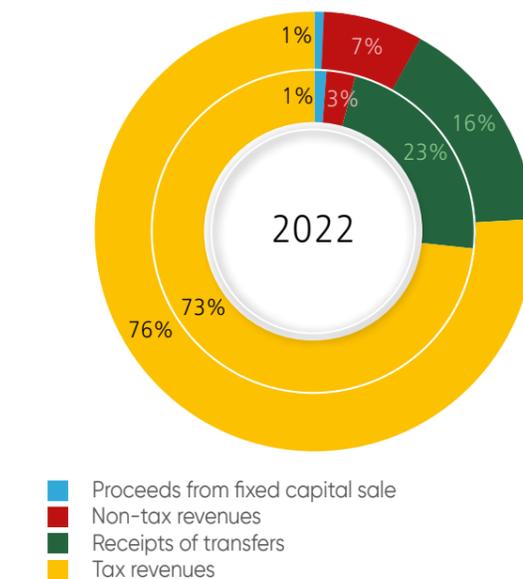
The dependence of the budget on the National Fund assets puts pressure on net financial assets of the Government (assets of the National Fund minus government debt), which in 2023 amounted to 3.5% of GDP (in 2022 – 4.6% of GDP), thus reducing the fiscal space and, accordingly, the ability to respond to future macroeconomic shocks. Compliance with both components

of the fiscal rule should contribute to the preservation of the National Fund assets and increase macro-fiscal sustainability.

Compared to 2022, tax revenues to the country's budget increased by 27.4%. In the tax structure, all major revenues are growing at double-digit rates. The value-added tax (30%), corporate income tax (26.7%) and personal income tax (10.5%) made up the largest share in the structure of tax revenues, and the share of other taxes was 32.8%.

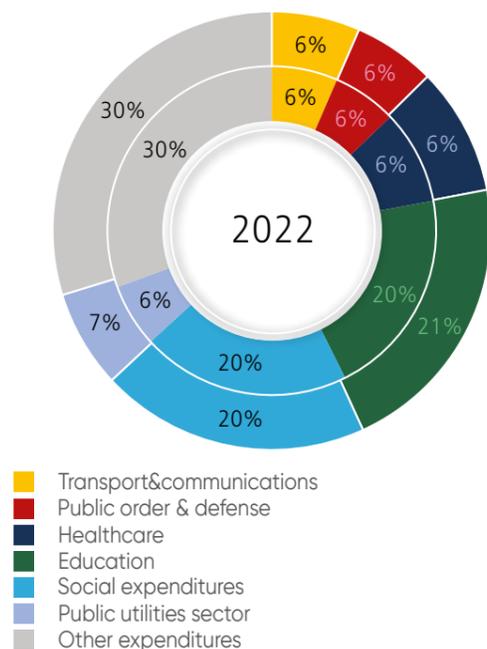
Structure of state budget revenues, as % of total revenues

Figure 1.4.1



Structure of the state budget spending, as % of total expenditures

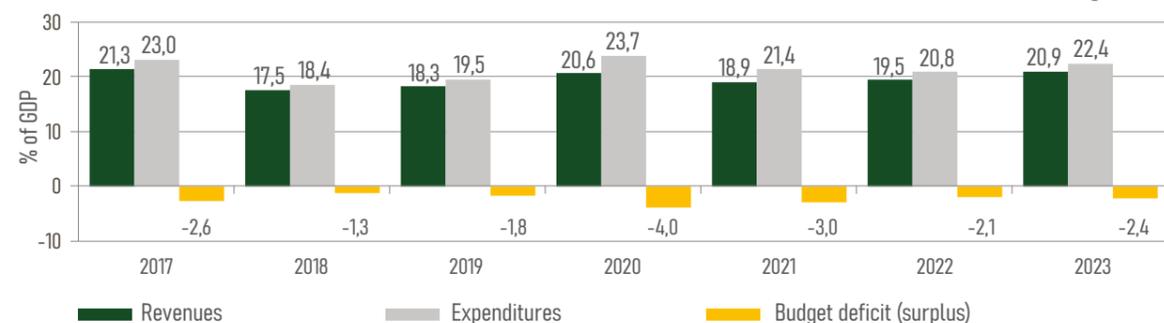
Figure 1.4.2



State budget spending in 2023 compared to 2022 increased by 24.3%. As part of expenses, all items, except for defense and industry expenses, grew at an impressive pace. The largest contribution to growth was observed in such items as education, utility services, social welfare and social security (Figure 1.4.2).

State budget execution

Figure 1.4.3



2 Under the government finance statistics methodology

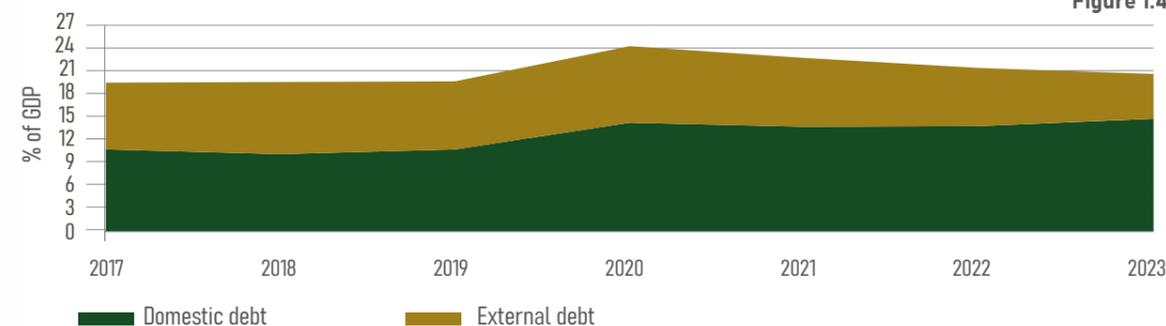
The state budget deficit at the end of 2023 amounted to 2.8 trln tenge, or 2.3% of GDP (non-oil budget deficit amounted to 8.5 trln tenge, or 7.0% of GDP) (Figure 1.4.3).

In 2023, revenues to the National Fund (excluding investment income) decreased by 29.2% compared to 2022. This is due to a reduction in direct tax revenues from oil sector enterprises by 28.8% (excluding taxes paid to the local budget), which was caused by a decline in world oil prices. The reduction occurred mainly because of decrease in revenues from corporate income tax and the Republic of Kazakhstan's share in the product sharing under concluded contracts. In addition, revenues from rent taxes on exported crude oil and mineral extraction taxes declined. Revenues from the management of the National Fund moved into the profit zone by 2.5 trln tenge in 2023 (loss of 863 bln tenge in 2022).

At end-2023, government external debt equaled 7.1 trln tenge (15.6² bln US dollars), or 5.9% of GDP, having decreased by 9.7% compared to 2022 (Figure 1.4.4). The major portion in the total external debt of the Government was comprised of Eurobonds as well as foreign loans of the International Bank for Reconstruction and Development (20.9%) and the Asian Development Bank. The Government's domestic debt increased by 25.9% due to the growth of long-term treasuries and amounted to 17.8 trln tenge, or 15.0% of GDP at end-2023.

Government debt of the Republic of Kazakhstan

Figure 1.4.4



1.5 Balance of Payments and External Debt

At the end of 2023, the current account deficit amounted to 8.7 bln US dollars; in 2022, the current account surplus amounted to 7.1 bln US dollars (Appendix 1 to section 1.5, table 1.5.1). The transaction of a positive current account balance to a negative zone is associated with decrease in the trade balance.

The trade balance surplus amounted to 20.2 bln US dollars, decreasing by 42.4% (from 35.0 bln US dollars compared to the same period of the last year). The reduction in the surplus is associated with an increase in imports of goods against a decline in exports.

Exports of goods according to the balance of payments decreased by 6.7% from 85.6 bln US dollars in 2022 to 79.9 bln US dollars in 2023. The decline in exports was due to reduction in exports of oil and gas condensate (lag-adjusted) by 6.8% or by 3.1 bln US dollars, ferrous metals – by 22% or by 1.2 bln US dollars, non-ferrous metals – by 11.1% or 0.7 bln US dollars, as well as grain – by 1.7% or 37.3 mln US dollars.

Imports of goods according to the balance of payments increased by 17.9% – from 50.6 bln US dollars in 2022 to 59.7 bln US dollars in 2023. The expansion in imports of goods is driven by an increase in the import of consumer goods by 18.3% – to 19.6 bln US dollars, of which food products by 0.9% – to 4.4 bln US dollars and non-food products by 24.5% to 15.2 bln US dollars.

Imports of intermediate goods increased by 9.5% – to 26.6 bln US dollars, imports of investment goods (capital goods) increased by 34.3% – to 13.6 bln US dollars.

The deficit on international services balance increased by 16.9% (to 1.8 bln US dollars) compared to the 2022 figure. The increase in the balance of services deficit is associated with an increase in imports of services by 27.1%. Foreign trade turnover in international services increased by 28.0% and amounted to 22.4 bln US dollars.

The deficit in the balance of primary income remained approximately at the level of the 2022 figure and amounted to 26.0 bln US dollars. A slight decrease in the deficit was driven by a decline in income payable to foreign direct investors.

Investment income of residents increased by 11.5% compared to 2022 and amounted to 3.9 bln US dollars. About half of this return comes from revenues from the country's official reserves (reserve assets and foreign assets of the National Fund), which increased by 51.6% to 1.8 bln US dollars.

Investment income payable to non-residents increased by 2.3% to 28.6 bln US dollars. Returns payable to non-residents on direct investments decreased by 1.0% – from 25.4 bln US dollars in 2022 to 25.2 bln US dollars in 2023.

The net inflow in the financial account (excluding reserve assets) in 2023 amounted to 1.6 bln US dollars (in 2022, there was a net outflow of 5.9 bln US dollars).

The net capital inflow (negative balance) of foreign direct investments, amounted to 2.3 bln US dollars in 2023.

The increase in liabilities on foreign direct investments amounted to 5.3 bln US dollars. The increase



in liabilities of residents on foreign direct investments is secured by the reinvestment of non-residents' income (retained earnings attributable to direct investors). Reduction in debt liabilities to foreign affiliates partially offsets the increase in liabilities on foreign direct investments.

The net capital outflow of portfolio investments, amounted to 5.3 bln, mainly associated with an increase in the assets of the National Fund.

As for medium- and long-term debt instruments reflected in the item «Other investments», there was a net capital inflow of 0.2 bln US dollars. The inflow was secured by attracting external loans from other sectors.

Reserve assets (excluding the assets of the National Fund) as of January 1, 2024 were estimated at 35.9 bln US dollars, which covers the needs of financing 6 months of Kazakhstani imports of goods and services.

The external debt of the Republic of Kazakhstan at the end of 2023 amounted to 162.7 bln US dollars, of which 8.6% or 14.0 bln US dollars was the external debt of the public sector, 6.9% or 11.2 bln US dollars was the external debt of the «Banks» sector, 28.2% or 45.9 bln US dollars – debt of the «Other» sector unrelated to direct investments, 56.3% or 91.6 bln US dollars is intercompany lending (Appendix 2 to section 1.5, table 1.5.2).

The country's external debt in 2023 increased by 2.0 bln US dollars (in 2022 – a reduction of 3.4 bln US dollars). The increase is secured by the balance of payments operations and other changes. At the same time, negative price and exchange rate changes partially offset the growth of external debt.

The government external debt went down by 1.5 bln US dollars and equaled 14.0³ bln US dollars. The government external debt went down due to a reduction in the liabilities of the Ministry of Finance of the Republic of Kazakhstan on securities held in the portfolio of non-residents (because of redemption of Eurobonds in rubles and euros), as well as through the repayment of liabilities on loans received from international creditors. In addition, the reduction in external debt of the public sector was affected by the repayment of short-term notes of the National Bank, as a result, the volume of short-term notes held by non-residents decreased from 214 mln US dollars as of January 1, 2023 to 23 mln US dollars as of January 1, 2024.

The external debt of the banking sector increased by 1.5 bln US dollars and amounted to 11.2 bln US dollars, mainly due to the inflow of non-resident funds to accounts in Kazakhstani banks' and an increase in other liabilities of banks. Reduction in banks' liabilities on foreign loans and the planned repayment by banks of previously issued Eurobonds partially offset the increase in external debt of the banking sector.

The external debt of the «Others» sector to unaffiliated creditors amounted to 45.9 bln US dollars, having increased by 3.6 bln US dollars since the beginning of the year, mainly due to expansion liabilities on loans and trade credits. An increase in loan liabilities was observed mainly from trans-

port enterprises, enterprises engaged in the extraction of metal ores, and holding companies.

Intercompany lending decreased by 1.6 bln US dollars, amounting to 91.6 bln US dollars owing to the repayment of intergroup loans (from foreign direct investors and foreign fellow enterprises) by oil and gas and mining sector enterprises, and transport companies.

The economic growth contributed to an improvement in the relative indicator of external debt to GDP from 71.1% as of January 1, 2023 to 62.5% as of January 1, 2024 (Appendix 3 to Section 1.5, Table 1.5.3). At the same time, the increase in external debt along with a decline in exports of goods and services led to deterioration in the ratio of external debt to exports of goods and services from 171.7% as of January 1, 2023 to 177.5% as of January 1, 2024.

Kazakhstan's net external debt at the end of 2023 amounted to 41.8 bln US dollars, having decreased by 9.0 bln US dollars since the beginning of the year. The public sector and the «Banks» sector function as net creditors to the rest of the world (48.2 bln US dollars in total), and the «Other» sector and the intercompany lending – as net debtors (90.0 bln US dollars).

³ Under methods on external sector statistics (the difference is due to classification of the debt on securities)

2

National Bank's Activities

2.1 Ensuring Price Stability

Based on the balance of risks, in conditions of high inflation in the first half of 2023, the National Bank continued to pursue a disinflationary monetary policy. The base rate remained at 16.75% (Figure 2.1.1).

At the end of February 2023, inflation reached a maximum of 21.3%. Subsequently, it began to decelerate gradually as a result of the pursued monetary policy, joint measures with the Government and the last year's high base.

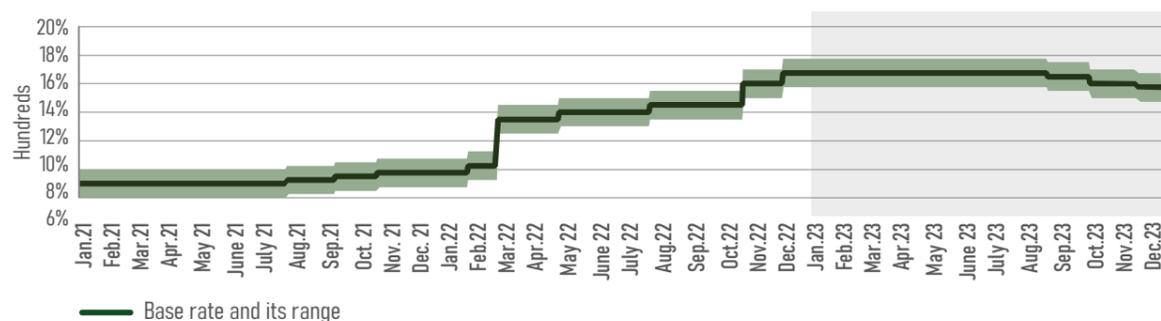
Inflation dynamics were influenced by a number of internal factors in the form of unstable inflation

expectations, increased government spending, and the start of implementation of much-needed reforms in the fuel and lubricants market and utility services. External factors were associated with the persistence of global inflation at high levels, despite its gradual slowdown. Accordingly, the balance of factors made it necessary to maintain the base rate at a constant level.

By the end of the first half of 2023, the balance of inflation risks began to gradually shift towards disinflationary factors. At the end of June, annual inflation decreased to 14.6%, forming within the forecast range of the National Bank.

The base rate path

Figure 2.1.1



Pressure from the external sector has eased somewhat as a result of low inflation in Kazakhstan's trading partner countries and a slowdown in the growth of world food prices. At the same time, pro-inflationary pressure within the economy persisted and was associated with the stimulative fiscal policy, steady domestic demand, high and unstable inflation expectations, as well as rising prices for fuel and lubricants and utility services.

At the beginning of the second half of 2023, a weak slowdown in core inflation and growing inflation expectations required caution in the implementation of monetary policy. However, the slowdown in actual inflation has begun to create space for a gradual reduction in the base rate.

In August 2023, the National Bank began a gradual easing of monetary policy, reducing the base rate by 25 basis points – to 16.5%. In October 2023, the National Bank lowered the base rate by another 50 bp – to 16%, and in November, it reduced the rate by additional 25 bp – to 15.75%. The room for reduction was created by the dynamic decline in annual inflation and its lower forecasts until the end of 2023. At the same time, National Bank maintained moderately tight monetary conditions, which is necessary to achieve the 5% target in the medium term.

At the end of 2023, annual inflation decreased to a single-digit level, making up 9.8%.

In 2023, the work was performed to assess the compliance of the current inflation target values with the prevailing external and internal conditions. A number of research works were carried out with the involvement of representatives of the academic community. The National Bank presented the results of these assessments at a scientific and practical conference with the participation of international organizations and the research and academic community in April 2023.

As a result, on July 5, 2023, the National Bank adjusted the previously announced inflation target, replacing interval values with a point level, setting the inflation target for the medium term to maintain annual inflation near 5%.

Money Market

In 2023, the money market continued to function amid a structural liquidity surplus that increased by 18.3% to 4.4 trln tenge.

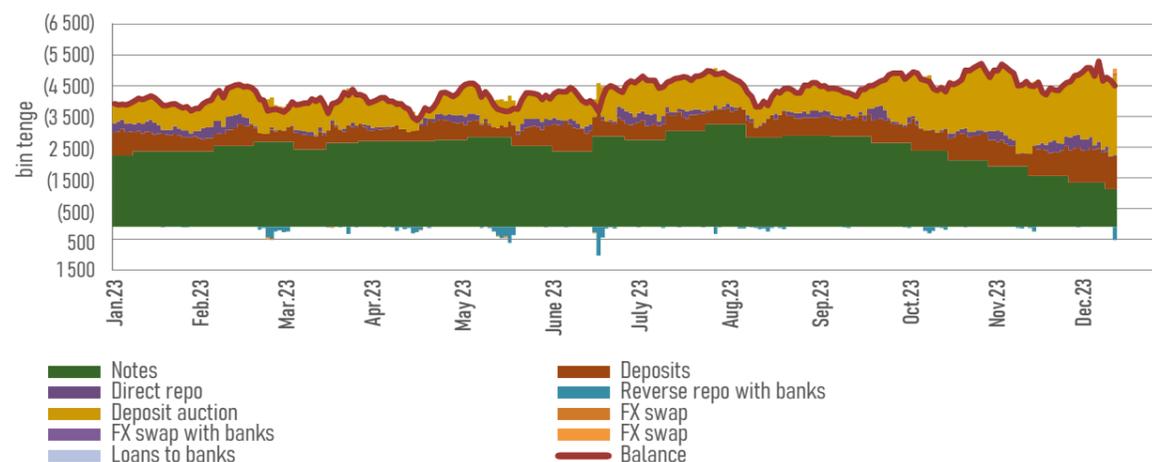
During 2023, the National Bank absorbed liquidity primarily through the issuance of short-term notes, with 26 auctions for their placement with maturity of up to one month; this resulted in the average volume of notes in circulation at 2.5 trln tenge.

Starting from the 4th quarter of 2023, the number of issued notes was gradually reduced, resulting in a decrease in their volume in circulation to 1.2 trln tenge by the end of the year. Against this background, the share of deposit auctions increased, with their volumes reaching 2.5 trln tenge by the end of December 2023 (an increase of 2.6 times in 2023). Liquidity at the end of 2023 was withdrawn primarily through deposit auctions, deposits, and standing facilities operations (Figure 2.1.2). As part of standing facilities operations, deposit transactions were conducted in the OTC market, and repo operations and currency swaps were made on the platform of the «Kazakhstan Stock Exchange» JSC.

At the end of 2023, annual inflation decreased to a single-digit level, making up 9.8%.

Open position of the National Bank's operations

Figure 2.1.2



Operational monetary policy measures contributed to ensuring the setting of rates in the money market within the target interest rate corridor.

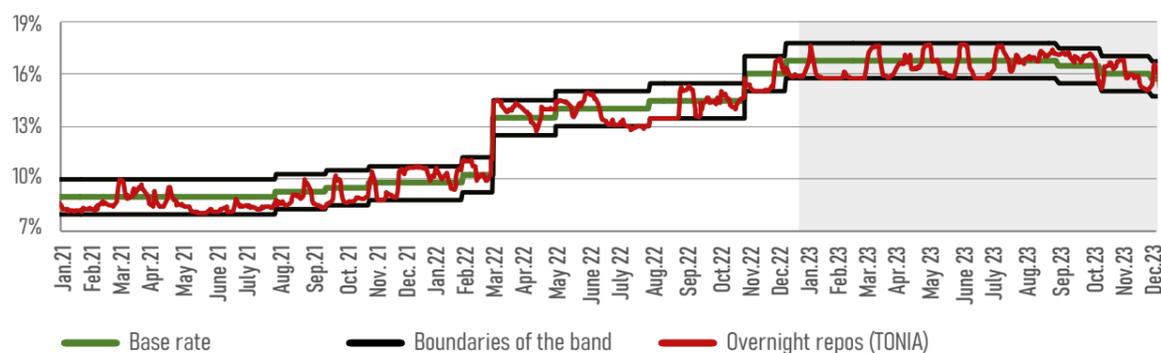
closer to the upper bound. The rest of the time, the TONIA rate was formed near the base rate or at its lower bound of the corridor (Figure 2.1.3).

The target money market rate TONIA⁴ during 2023 was formed within the range of 14.75 – 17.72%. During the periods of tax payments, there was an increase in rates on overnight repo transactions

The average daily trading volume of one-day repos increased over the year by 40.6% – to 932 bln tenge (in 2022 – 663 bln tenge).

Interest rates in the repo market

Figure 2.1.3



The dynamics in the money market rates market were mainly influenced by the activity of market participants, while the contribution of the National Bank remained minimal. In the repo market during the main trading session, the National Bank's participation in liquidity provision decreased from an average of 8% in 2022 to 5.6% given an increase in liquidity supply from large funds, the development bank and state-owned companies (Figure 2.1.4).

In 2023, in the structure of entities participating in overnight repos, there was an increase in the share of large funds, development banks and quasi-government enterprises in the placement of liquidity from 31.4% on average in 2022 to 36.5% in 2023. At the same time, the share of brokers and investment companies decreased by 4.6 percentage points, reaching an average of 27.7% of the total in 2023. The average share of second-tier banks increased slightly, amounting to 30.2% in 2023 compared to 27.9% in 2022.

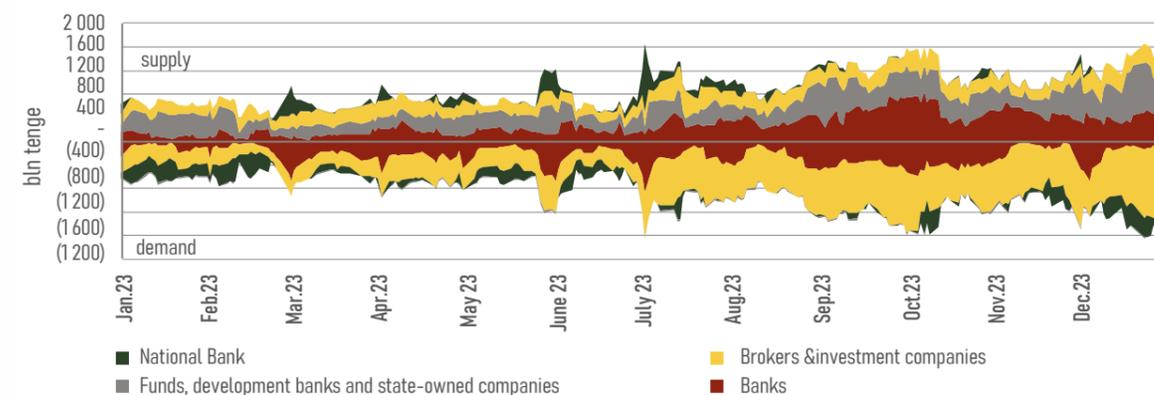
⁴ Overnight repo rate on securities in the government securities basket

In terms of liquidity attraction, the share of second-tier banks decreased significantly from 44.1% in 2022 to 27% in 2023, while the participation of brokerage and investment companies increased significantly by 20.1 percentage points per

year, on average from 37.4% to 57.5%. The National Bank's contribution to liquidity attraction decreased slightly to 14.3% on average in 2023 compared to 17.2% in 2022.

Structure of the overnight repo market in 2023

Figure 2.1.4



Foreign Exchange Market

In 2023, the tenge exchange rate was in the range from 431.06 to 482.24 tenge per US dollar, having appreciated by 1.7% at the end of the year – to 454.69 tenge per US dollar.

In the domestic market, in the period from January to August 2023, the national currency was also supported by the sale of foreign currency by the quasi-public sector entities within the framework of requirement to sell export proceeds in foreign currency. The total sales volume by the quasi-government sector entities amounted to 2.1 bln US dollars.

The tenge exchange rate was formed in the environment of volatile oil prices, disinflationary policies pursued by central banks of developed countries and monetary policy expectations of market participants. On the part of internal determinants, the factors strengthening the national currency were the monetary policy pursued by the National Bank, a high differential of interest rates between the tenge and foreign currency deposits, the inflow of funds from foreign investors into the government securities market, sales of foreign exchange earnings by entities of the quasi-government sector (from January to August), and also the National Bank's operations on conversion of the National Fund assets.

At the same time, in view of the balanced situation on the foreign exchange market and in order to provide the quasi-government sector companies with greater opportunities in managing foreign exchange flows, the Government suspended the rule on the mandatory sale of foreign currency proceeds from August 2023.

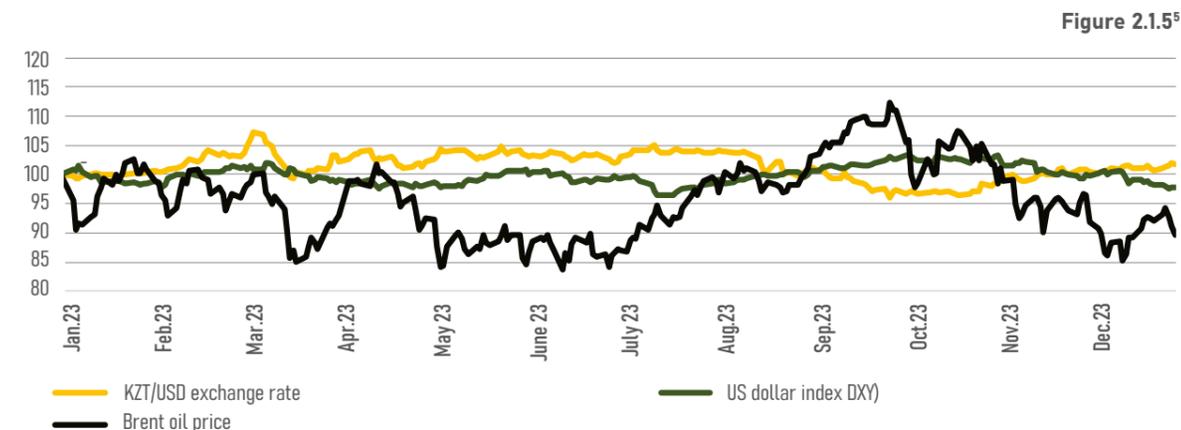
The growing attractiveness of instruments in tenge against the backdrop of the disinflationary monetary policy of the National Bank contributed to the increased interest of foreign investors in government securities of the Republic of Kazakhstan. At the end of 2023, non-resident investments in government securities increased by 73 bln tenge.

As part of financing the national budget in 2023, transfers in the amount of 4 trln tenge were allocated from the National Fund. Additionally, by decision of the Government, from October to December 2023, at the expense of the National Fund, shares of the JSC NC «KazMunayGas» were purchased for a total amount of 1.3 trln tenge. Sales of foreign currency to ensure transfers from the National Fund to the national budget and the purchase of shares of the JSC NC «KazMunayGas» amounted to 9.5 bln US dollars in 2023, which supported the exchange rate of the national currency against the US dollar.

In general, in 2023, the prevailing trend in the foreign exchange market of Kazakhstan was towards the strengthening of the national currency. During the year, the foreign exchange market quickly adapted to external shocks and was balanced

in terms of supply and demand with a moderate level of volatility. During the reviewed period, the National Bank did not conduct foreign exchange interventions.

Movement of the Russian ruble and the tenge against the US dollar, oil price and the US dollar index (December 30, 2022 = 100)



In order to ensure transparency of the exchange rate policy, an active communication policy was implemented, including the preparation of analytical and information materials on the foreign exchange market. In particular, the National Bank began to publish monthly forecasts for the participation of the National Fund, UAPF and the «Kazakhstan Deposit Insurance Fund» JSC in the foreign currency market. Thanks to the measures taken, confidence in the National Bank's policies was increased, which helps strengthen the floating exchange rate regime.

Development of the Government Securities Market

In 2023, jointly with the Ministry of Finance of the Republic of Kazakhstan, The NBK continued to build a risk-free yield curve and increase liquidity of the government bond market.

In the reporting period, the Ministry of Finance of the Republic of Kazakhstan, as part of financing the state budget deficit, issued government securities with maturities from 1 to 15 years with a total volume of about 5.5 trln tenge (at nominal value). Auction yields on government securities varied between 11.5% – 16.7%.

Together with the Ministry of Finance of the Republic of Kazakhstan, the National Bank went on with

the effort to include sovereign bonds of the Republic of Kazakhstan in the J.P. Morgan Emerging Markets Bond Index. The next step for the market development should be the inclusion of government securities in the emerging markets bond index (GBI-EM), which serves as a reference point for a wider range of investors and international funds.

In 2023, active work was carried out with international investors, including with the index provider, aimed at enhancing the interest of non-residents in the local government debt market. In order to increase the awareness of foreign investors about the situation in the local market, the «Kazakhstan Macro & Market Overview» report was prepared to be published on a quarterly basis. In order to further improve the infrastructure in the government securities market and facilitate access for foreign investors, work was carried out to introduce settlements in the system of the Euroclear global custodian. In particular, a legal expertise of Kazakh legislation was initiated.

As part of implementation of the institute of primary dealers, in order to determine the list of primary dealers, the National Bank, together with the Ministry of Finance of the Republic of Kazakhstan, initiated a monitoring period, during which, according to the developed scoring model, the activities of participants in both the primary and secondary markets were assessed.

⁵ The value above 100 points indicates a growth of the indicator in a certain period compared to December 30, 2022 and that below 100 points shows its decline.

The presence of proper incentives for market participants made it possible to increase liquidity of the secondary market. Thus, in the Bloomberg E-Bond trading system, quotes are available daily for more than 40 government securities of the Ministry of Finance of the Republic of Ka-

zakhstan. Liquidity in the on-exchange secondary market increased by 1.5 times compared to 2022. In addition, from 2023, the «Kazakhstan Stock Exchange» JSC began to publish not only the statistics on the on-exchange secondary market, but also on the OTC market.

2.2 Ensuring Financial Stability

The year 2023 turned out to be favorable for the financial sector of Kazakhstan without sharp external and internal shocks, given the beginning of a gradual stabilization of inflation and the subsequent beginning of easing of monetary policy. For its part, the National Bank assisted in ensuring stability of the financial system, including jointly with Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market and the Government.

The financial condition of the banking sector remained stable during 2023 amid a significant liquidity reserve and adequate capitalization, as well as the continued growth of key indicators. At the end of 2023, bank assets increased by 15.4%, or 6.9 trln tenge, rising beyond 50 trln tenge for the first time ever, amounting to 51.4 trln tenge (growth in 2022 was 18.4%). The loan portfolio of banks increased by 23.1%, or 5.6 trln tenge, amounting to 29.9 trln tenge (growth in 2022 amounted to 20.1%, or 4.1 trln tenge).

The corporate portfolio (including SMEs) at the end of 2023 equaled 12.5 trln tenge, an increase of 16.2%, or 1.7 trln tenge (16.7% or 1.5 trln tenge in 2022). At the same time, according to a survey of banks, in 2023 the demand for credit resources from large businesses and SMEs was multidirectional⁶. Demand from large businesses was mainly limited by the cost of credit resources, while demand from SMEs persisted and was supported, among other things, by government programs. Some banks continued the active transition to digitalization of loan products for SMEs by developing online loans and improving scoring models for assessing the solvency of borrowers. This was facilitated by the work carried out by the National Bank together with the Government to integrate second-tier banks and credit bureaus with government databases on legal entities, their income and property. In 2023, the «State Credit Bureau» JSC integrat-

⁶ The National Bank's publication, «Banks' Lending Survey».

ed 37 necessary services and provided access to market participants.

In 2023, the retail loan portfolio of banks increased to 26.7% to 16.7 trln tenge (in 2022 – 31.3%). The drivers of retail lending growth continue to be consumer loans and loans for the construction and purchase of housing. The growth of consumer loans in 2023 amounted to 34.2% (versus 25.1% in 2022), which largely results from high demand, the development of on-line products, as well as active marketing promotion by banks. The growth of the loan portfolio for construction and purchase of housing in 2023 amounted to 13.1% (2022 – 39.6%), reaching 5.4 trln tenge. The development of limits within the framework of government housing programs was the main factor in the slowdown in this area of lending compared to 2022.

Bank lending terms remained the same as in the previous year, with the exception of some tightening of requirements to the solvency of borrowers and a slight easing of collateral requirements.

The quality of bank loan portfolios remained high in 2023. In 2023, loans 90+ days past due increased by 49.2 bln tenge, or 6% (in 2022, the volume of such loans increased by 145.8 bln tenge, or 21.8%). Thus, in 2023, the share of loans 90+ days past due decreased to 2.9% of the total loan portfolio of banks (in 2022 – 3.4%). Provisions created as of January 1, 2024 amounted to 1.7 trln tenge, having increased by 3.2%, or 52.9 bln tenge, in 2023 (in 2022, provisions increased by 232.4 bln tenge, or 16.5%). The coverage ratio of created provisions for loans 90+ days past due was 75.9%.

The quality of bank loan portfolios remained high in 2023. In 2023, loans 90+ days past due increased by 49.2 bln tenge, or 6% (in 2022, the volume of such loans increased by 145.8 bln tenge,

or 21.8%). Thus, in 2023, the share of loans 90+ days past due decreased to 2.9% of the total loan portfolio of banks (in 2022 – 3.4%). The amount of provisions created as of January 1, 2024 amounted to 1.7 trln tenge, having increased by 3.2%, or 52.9 bln tenge, in 2023 (in 2022, provisions increased by 232.4 bln tenge, or 16.5%). The coverage ratio of provisions formed for loans 90+ days past due amounted to 75.9%.

As of January 1, 2024, the share of corporate loans 90+ days past due amounted to 2.3% of the banks' corporate portfolio, having decreased by 0.7 percentage points in 2023 (in 2022, the share decreased from 3.4% to 3.0%). Reduction in the share of overdue debt in the corporate sector is mainly driven by the increase in new loans in the bank loan portfolios. At the same time, as of January 1, 2024, SMEs accounted for 84.7% (versus 77.49% in 2023) of the total corporate sector debt 90+ days past due.

In 2023, the share of loans 90+ days past due in the retail portfolio of banks amounted to 3.4% compared to 3.7% at the end of 2022. However, at the end of 2023, the volume of non-performing loans in absolute values amounted to 574.6 bln tenge, an increase of 81.1 bln tenge. Thus, reduction in the share of past due debt of individuals is mainly caused by the growth of new loans in the loan portfolio of banks.

Bank liabilities amounted to 44.6 trln tenge, having increased over the reviewed period by 13.3%, or 5.3 trln tenge. The funding structure of banks is traditionally largely represented by customer deposits, amounting to about 35.1 trln tenge at the end of 2023, or 78.7% of the banking sector liabilities, where 67.7% and 25.7% are time deposits and current accounts, respectively. During the reviewed period, the growth of deposits amounted to 11.1%.

Deposit dollarization declined to 23.2%, while a decrease in the foreign exchange component occurred in both retail (from 29.7% to 22.4%) and corporate deposits (from 33.6% to 24.3%). Dollarization of loans remains low, amounting to 7.7% (8.1% at the beginning of 2023). The volume of highly-liquid assets of the banking sector amounted to 15 trln tenge, or 29.3% of total assets, an increase of 12%.

Owners' equity of banks amounted to 6.9 trln tenge, an increase of 31.2%. As of January 1, 2024, the capital adequacy ratio k1 was 19.2% (18.6% in January 2023), the equity adequacy ratio k2 was 21.5% (21.7% in January 2023), which signifi-

cantly exceeds the ratios established by the law (k1 – 5.5%, k2 – 8%).

At the end of 2023, the microfinance market kept growing. Thus, in 2023, total assets of the microfinance market entities increased by 21% and amounted to 2,550.4 bln tenge, the loan portfolio (less provisions for impairment) – by 16.9% (2,111.2 bln tenge), equity – by 40.4% (869.4 bln tenge), liabilities – by 12.9% (1,681 bln tenge).

Taking into account an active growth of retail lending, the National Bank in 2023 designed approaches to modify the countercyclical capital buffer. This tool is widely used in the international regulatory practice to limit risks associated with excessive growth of the loan portfolio. The countercyclical capital buffer allows banks to accumulate an additional capital buffer during the period of a credit boom, that is, excessive growth of the loan portfolio or its individual segments, which often leads to the formation and accumulation of systemic risks. The subsequent release of a countercyclical capital buffer during a downturn reduces the risk of contraction in lending to the economy. Based on the studied international experience, the National Bank prepared and published proposals in the format of a discussion document for the introduction of a sectoral countercyclical capital buffer in relation to the retail lending segment. The possibility of introducing this instrument will be discussed with banks in 2024.

In addition, the National Bank implemented, together with the Ministry of Labor and Social Protection of the Population of the Republic of Kazakhstan and State Credit Bureau JSC, a pilot project based on granular data on household income, prepared as part of the implementation of paragraph 30 of the tripartite Agreement between the National Bank, the Government and Agency of the Republic of Kazakhstan for regulation and development of the financial market on the coordination of macroeconomic policy measures for 2023–2025. The study assessed the microstructure of the population's debt burden at the level of each borrower, broken down by region, age group and income level.

In 2023, the Program for the payment of compensation (premiums) on the tenge deposits of the population (hereinafter referred to as «the Program») as announced by the National Bank and the Government on February 23, 2022, which was intended for one year to maintain confidence in the national currency had been completed. This measure provided for the ac-

crual of 10% as a one-time compensation (premium) on the tenge deposits that met its conditions. In March 2023, the National Bank together with the Government transferred funds worth 306.6 bln tenge on a parity basis to make payments. The program outreached more than 2.6 mln people. The measures taken had a positive effect on the stability of bank funding, preventing a drop in the tenge deposits of the population and an increase in dollarization.

Kazakhstan Financial Sector Assessment Program (FSAP)

The National Bank, together with the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market, took part in Kazakhstan Financial Sector Assessment Program (FSAP), conducted by the IMF and the World Bank in 2023.

The FSAP is an in-depth diagnosis of the country's financial sector, including its stability, crisis resistance and compliance with international standards.

As part of the FSAP, the IMF and the World Bank assessed the financial sector of Kazakhstan in such areas as financial security and crisis management, assessment of compliance with the core principles of effective banking supervision of the Basel Committee, macroprudential policy, climate risk analysis, stock market development and others.

Based on the results of the FSAP, the IMF and the World Bank provided recommendations to remove the identified shortcomings and further develop the financial sector. The point was made about the necessity of bringing the practice of bank resolution, including the use of government (budget) funds, in line with international recommendations and principles, clarifying the roles of all participants in the financial safety net, including the role of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market, the Government and the National Bank, if necessary, to provide government support. In particular, the IMF considers it necessary to strengthen the participation of the Government in the settlement process.

The IMF also recommended clarifying the role and responsibility of the National Bank and the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial

Market in relation to the macroprudential policy. Taking into account the FSAP recommendations, the National Bank has drafted a document «On the Macroprudential Policy», containing a vision and approaches for the formulation, implementation and communication of the macroprudential policy. The macroprudential policy of the National Bank was approved by a decision of the Financial Stability Council of the Republic of Kazakhstan in December 2023.

To continue work on the recommendations received, the Financial Stability Council approved an interdepartmental Roadmap for implementation of the FSAP recommendations.

The Financial Stability Council of Kazakhstan («the Council»)

As part of ensuring financial stability, in 2023 six meetings of the Council were held; during these meetings, the following issues were considered: the approval of the list of banks for asset quality review (AQR) and supervisory stress testing in 2023, as well as information on the implementation of individual corrective action plans based on the results of AQRs by banks, regulation of digital assets, as part of such information, the results of designing approaches to introducing effective regulation, preliminary conclusions of the Financial Stability Report for 2022, which contains a comprehensive analysis of the financial sector, households, government securities and real estate markets and other areas, on the macroprudential policy of the National Bank were presented.

In addition, as part of the work carried out by the Council, the FSAP conclusions and recommendations on financial safety nets, crisis management and compliance with the core principles of effective banking supervision of the Basel Committee, instructions related to the financial sector of the National Action Plan for the implementation of the Address of the Head of State to the people of Kazakhstan dated September 1, 2023 were discussed, results of monitoring the countercyclical capital buffer and proposals for introducing a sectoral countercyclical capital buffer.

During the meetings, attention was paid to the strengthening of interaction between the National Bank and the Government, where several initiatives were announced, including increasing the efficiency of information exchange, strengthening cooperation in the research field,

sharing experience and forecasting and modeling techniques, as well as unifying digital services and introducing a unified approach on creating an infrastructure for communication of government authorities with the financial market and fulfilling the instructions of the Head of State to expand lending to the economy, where, in particular, the issues of providing

a long-term funding base to banks for lending to the economy, digitalization and integration of banks and credit bureaus with government information services, development of syndicated lending, expansion of lending mechanisms in the agricultural sector and development of lease financing.

2.3 Asset Management

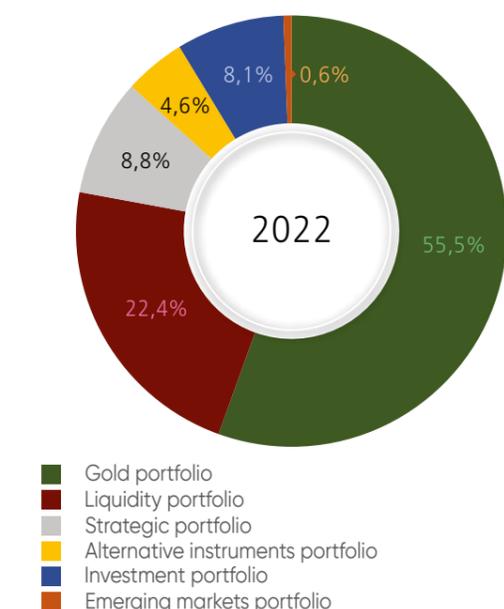
2.3.1 Management of the National Bank's Gold and Foreign Exchange Assets

Gold and foreign exchange reserves of the National Bank are formed from the National Bank assets, which have high liquidity in international markets. The gross gold and foreign exchange reserves of the National Bank at the end of 2023 amounted to 36.0 bln US dollars, which is by 0.9 bln US dollars, or 2.5% greater compared to 2022. The growth in the volume of gold and foreign exchange reserves of the National Bank was caused by an increase in the foreign currency portion of its assets. At the same time, during the year, for the purpose of diversification, the share of gold in reserves was reduced through the gradual sale of the precious metal in foreign markets, which led to an increase in the volume of assets in freely convertible currency.

In September 2023, in accordance with the resolutions of the Board of the National Bank dated August 21, 2023 №62 «On formation of a portfolio of alternative instruments of the National Fund of the Republic of Kazakhstan» and dated December 25, 2023 №103 «On withdrawal of assets of a portfolio of alternative instruments of gold and foreign exchange assets of the National Bank of the Republic of Kazakhstan», a portfolio of alternative instruments of the National Fund has been created. At the same time, in December 2023, a part of the portfolio of alternative instruments of gold and foreign exchange assets in the amount of 1.3 bln US dollars was sold to the National Fund with further transfer of funds from the sale to the investment portfolio, which was reflected in the increase in the amount of gold and foreign exchange reserves.

Structure of gold and foreign exchange assets of the National Bank

Figure 2.3.1.1



The structure of gold and foreign exchange reserves includes assets in hard currency, gold, as well as net claims of the Republic of Kazakhstan on the IMF denominated in SDRs. The structure of gold and foreign exchange assets includes assets in foreign currency, gold, and alternative instruments.

The management of gold and foreign exchange assets of the National Bank is carried out in accordance with the Investment Strategy for Management of Gold and Foreign Exchange Assets

of the National Bank, which involves division into portfolios depending on the goals of profitability, liquidity and safety of assets (Figure 2.3.1.1, Table 2.3.1.1).

Table 2.3.1.1 Portfolios market values as of end-2023

Portfolio	Market value, bln US dollars
Gold portfolio	19.8
Liquidity portfolio	8.0
Strategic portfolio	3.1
Investment portfolio	2.9
Alternative instruments portfolio	1.6
Emerging markets portfolio	0.2

The goals of the investment portfolio are to preserve and increase the return on assets in the short and medium term. The portfolio assets are placed on bond markets of developed countries and have the following currency structure: US dollars – 62.0%, euros – 12.5%, British pounds sterling – 12.5%, Australian dollars – 8.0%, and Canadian dollars – 5.0%.

The return on the investment portfolio expressed in the US dollars was 7.16%, while the return on the benchmark portfolio made up 6.74%. Excess return in the US dollars equaled 42.0 bp.

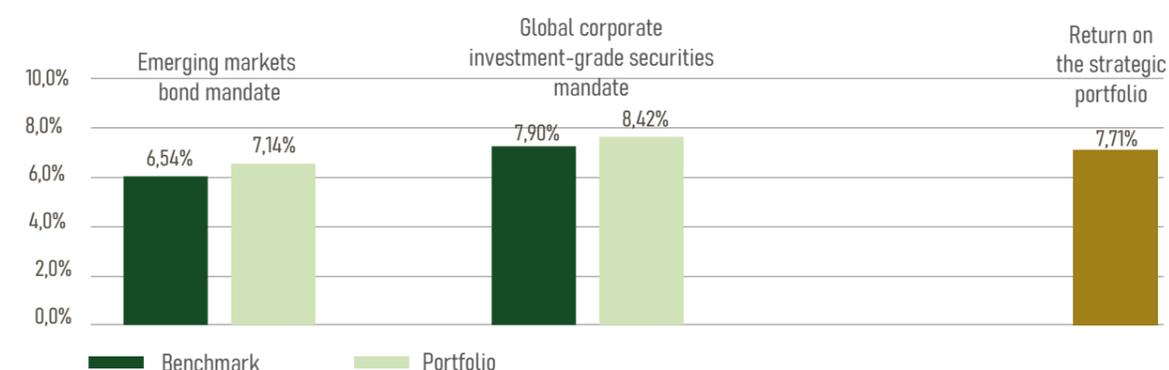
The purposes of the strategic portfolio are to provide a return on assets in the medium- and long-term perspectives and to diversify gold and foreign exchange assets.

The return on the investment portfolio expressed in terms of the currency basket in 2023 accounted for 5.54%, and on its benchmark portfolio – 5.13%. The resulting excess return was positive⁷ and equaled 41.0 basis points.

In 2023, the return on the strategic portfolio accounted for 7.71% (Figure 2.3.1.3). Excess return on the Emerging markets bond mandate was 60.0 bp, and on the Global corporate investment-grade securities mandate – 52 basis points.

Returns on the strategic portfolio mandates

Figure 2.3.1.3



⁷ The difference between the actually achieved level of profitability and the level of profitability of the benchmark portfolio.

Funds in the emerging markets portfolio have been invested into assets denominated in the Chinese Yuan. In 2023, the return on portfolio in the Chinese Yuan had been at 2.99%, in the US dollars – 0.96%.

The liquidity portfolio of gold and foreign exchange assets is held for conducting money market operations for the purpose of monetary policy implementation, for maintaining a high level of liquidity as well as for servicing the external government debt. Generation of excess return is not the purpose of the liquidity portfolio asset management.

The alternative instruments portfolio is designed to diversify and increase the return on gold and foreign exchange assets in the long term. Its assets can be invested abroad in areas such as private equity, hedge funds, funds of funds, real estate,

infrastructure and equities. The return on the alternative instruments portfolio since the transition to the reference portfolio strategy at the end of 2023 was at the level of 9.47% (in annual terms) with the return on the reference portfolio at 6.94% (in annual terms).

The gold portfolio consists of internal and external gold, portfolio assets are also placed on deposits for a term not exceeding one year. The purpose of managing assets in gold is safety and protection from a possible decrease in the attractiveness of assets in currency in international financial markets. The return on the gold portfolio in US dollars in 2023 was 13.88%. The return on the gold portfolio placed on deposits was 0.16% in troy ounces and 13.97% in US dollars.

2.3.2 Management of the National (Oil) Fund's Assets

The main objectives of investment operations in managing the National Fund assets are preservation, maintaining an adequate liquidity level, and ensuring profitability in the long-term perspective at an adequate risk level. Ensuring the long-term profitability of the National Fund assets foresee for short-term fluctuations in profitability. The return is calculated in the National Fund's base currency – US dollars.

According to the National Fund's main goal and functions, its structure is made up of the stabilization portfolio and savings portfolio.

The total market value of the National Fund's portfolio as of end-2023 equaled to 65.7 bln US dollars, including the volume of foreign currency portfolio of 60.0 bln US dollars.

Market values of stabilization and savings portfolios within foreign currency portfolio of the National

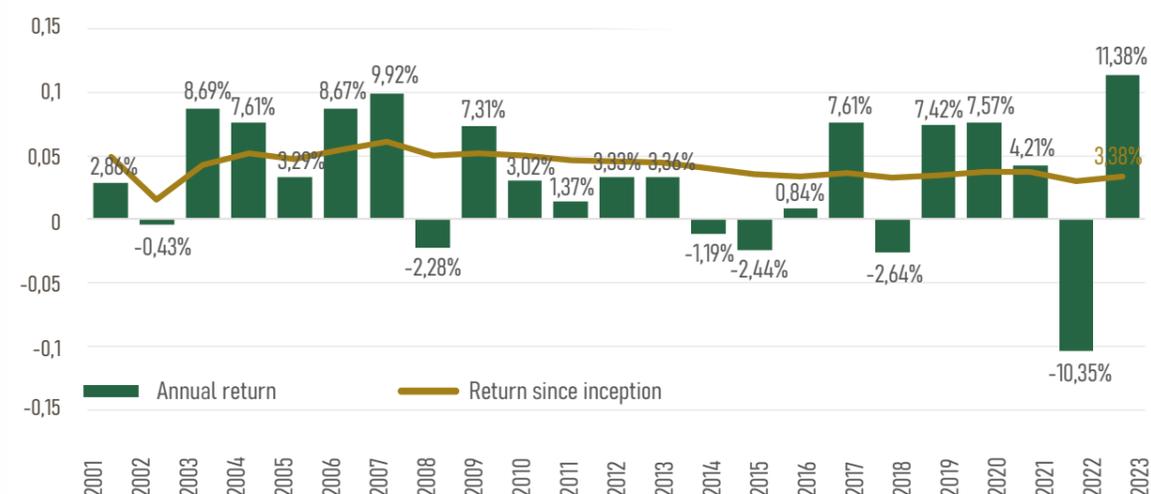
Fund were 8.2 bln US dollars (13.62%) and 51.8 bln US dollars (86.38%), respectively.

Thanks to the systematic work of the National Bank to improve asset management strategies of the National Fund record return of 11.38% is achieved at the end of 2023. This was also supported by favorable market conditions: all major asset classes showed growth over the past year, including a significant recovery in the equity market.

The National Fund was established in order to ensure profitability in the long term; it is also correct to assess the results of activities in the long term perspective. Thus, investment return of the National Fund since its inception and until the end of 2023 amounted to 21.3 bln US dollars, and the profitability of the National Fund equaled 111.68%, which is 3.38% in annual terms (Figure 2.3.2.1).

Return on foreign currency assets of the National Fund in the US dollars

Figure 2.3.2.1



In 2023, assets in the stabilization portfolio under own management were invested into the money market instruments and fixed income securities, mainly the US Treasuries.

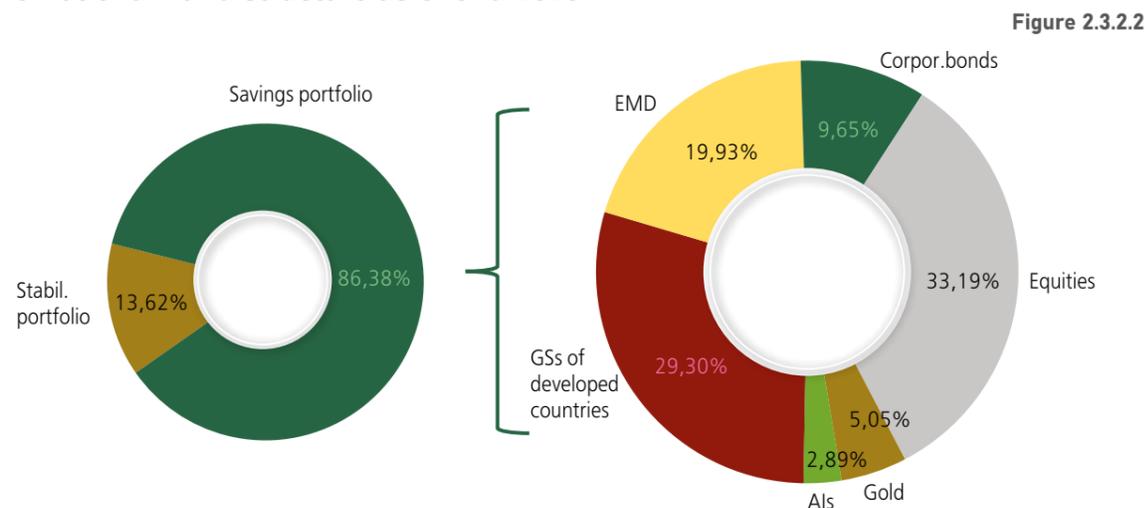
Return on the stabilization portfolio in 2023 was 5.06%, during the same period, the return on the benchmark portfolio (Merrill Lynch 6-month US Treasury Bill Index) accounted for 5.14%. The resulting negative excess return of (-)0.09% is due to specifics of the employed benchmark portfolio, which consists of one security, that does not allow replicating the portfolio exactly without significant transaction costs.

The savings portfolio is managed through 7 mandates: developed countries' government bonds, emerging markets government bonds, investment-grade corporate bonds, global equities,

global tactical allocation, alternative investment portfolio and gold portfolio.

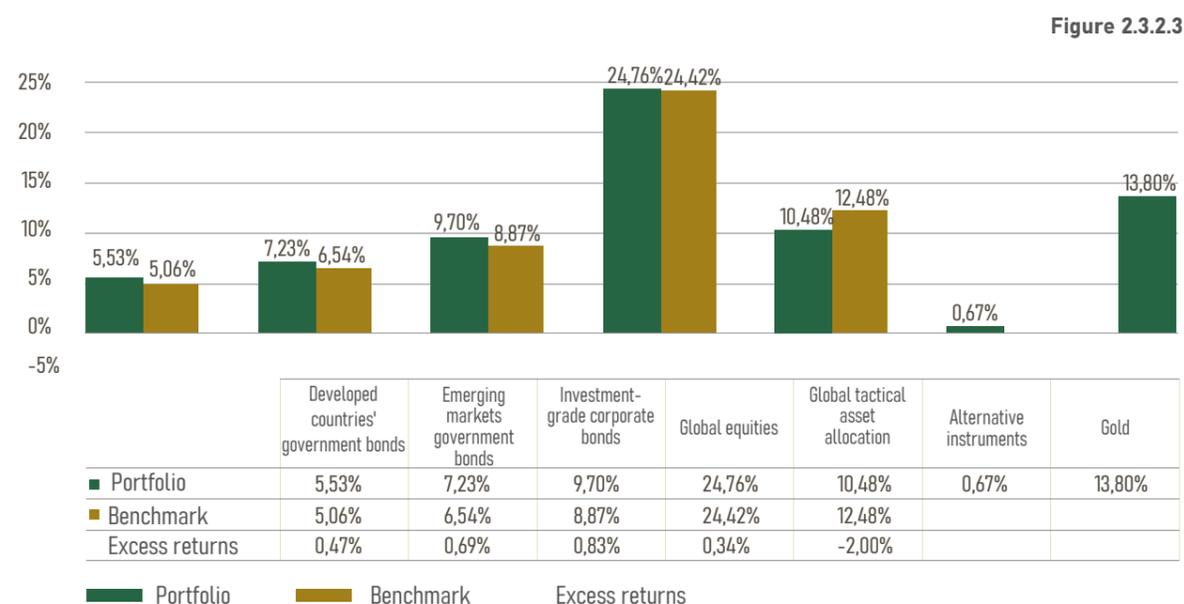
As part of completion of the transition to a balanced distribution of the National Fund savings portfolio (60% bonds, 30% equities, 5% gold, 5% alternative instruments) in accordance with the resolution of the Board of the National Bank dated August 21, 2023 №62 «On formation of the alternative instruments portfolio of the National Fund of the Republic of Kazakhstan» in 2023, the alternative instruments portfolio of the National Fund was created by purchasing 50% of the alternative instruments portfolio of gold and foreign exchange assets of the National Bank by means of developed countries' bonds in the savings portfolio of the National Fund internally managed by the National Bank.

The National Fund structure as of end-2023



In 2023, the return on the savings portfolio made up 12.48%, while the benchmark portfolio yielded 12.11%. Thus, excess return on the savings portfolio reached 37 basis points.

Results of management of the National Fund's savings portfolio as of end-2023



* The gold portfolio and the Chinese yuan portfolio within the «emerging markets government bonds» mandate do not have a benchmark portfolio. There is also no benchmark portfolio for the alternative investments portfolio, but its profitability is assessed relative to the reference portfolio.

Negative excess returns for the Global Tactical Asset Allocation mandate is related to a more conservative allocation by the manager due to expectations of a recession and renewal of inflation risks. At the same time, the manager underestimated the artificial intelligence sector, in which 7 compa-

nies determine about two-thirds of the profitability of the US stock market.

Since the creation of the alternative investments portfolio on September 30, 2023, the return, according to preliminary data, is 0.67%. At the same time, the National Bank points out that due to the spe-

cifics of structure and accounting of alternative investments, the final full revaluation of the market value of the alternative investments portfolio at the end of 2023 will be available only by the end of the first half of 2024. Therefore, up-to-date information on the status of alternative investment assets and portfolio profitability will be reflected in investment accounting as part of the quarterly report on the trust management of National Fund assets as of the end of the 2nd quarter of 2024.

As part of improving the management strategy of the National Fund, the National Bank made changes to the Rules for conducting investment operations of the National Fund, which contributes to an increase in long-term profitability at an appropriate level of risk, namely:

- consolidation of broad securities indices in order to speed up the adoption of investment decisions related to rapid response to emerging investment opportunities in financial markets,

as well as for the purpose of de-bureaucratization and optimization of the process;

- expanding the types of instruments of the corporate bond portfolio by reducing the minimum credit rating of securities of the corporate bond portfolio to the BB level, i.e. additions of more profitable/risky securities;
- expanding the list of alternative asset classes for the purpose of investing in debt capital, direct lending or other debt securities of private companies.

At meetings of the National Bank Investment Committee, decisions were made to switch from a benchmark portfolio with an investment horizon of 1-10 years to a benchmark portfolio with a horizon of 1 year and above for a portfolio of government securities of developed countries, as well as to include emerging markets corporate bonds with a share of 20% in the structure of emerging markets bond portfolio.

2.3.3 Management of Pension Assets of the Unified Accumulative Pension Fund

At the end of 2023 total pension assets of the Unified Accumulative Pension Fund under the fiduciary management of the National Bank amounted

to 17.8 trln tenge or 99.7% of pension savings, having increased by 3.2 trln tenge or 21.8% over 2023 (Table 2.3.3.1).

Table 2.3.3.1 Structure of pension assets investment portfolio of the Unified Accumulative Pension Fund under fiduciary management of the National Bank

Item	Current value at January 1, 2023, bln tenge	Share on January 1, 2023, %	Current value at January 1, 2024, bln tenge	Share on January 1, 2024, %	Change over the period, %
Government securities of the Republic of Kazakhstan	7 268.5	49.7%	8 289.5	46.6%	14.0%
Securities of issuers of the Republic of Kazakhstan	2 956.0	20.2%	3 709.0	20.8%	25.5%
Securities of foreign issuers	2 808.8	19.2%	3 095.6	17.4%	10.2%
Deposits at banks of the Republic of Kazakhstan	200.4	1.4%	197.2	1.1%	-1.6%
Cash on investment accounts	27.8	0.2%	108.9	0.6%	291.8%
Assets under external management	1 355.4	9.3%	2 379.0	13.4%	75.5%
Other assets	4.9	0.0%	26.8	0.2%	447.5%
Total	14 621.9	100.0%	17 806.0	100.0%	21.8%

Pension assets are invested on market conditions in various types of Kazakhstan and foreign financial instruments. As for the local securities market, pension assets are invested into areas approved by the Management Board of the National Fund of the Republic of Kazakhstan. The total investments in the domestic financial market amounted to 1,394.4 bln tenge.

Pension assets denominated in foreign currency are invested in accordance with the target strategic allocation of the foreign currency portfolio in accordance with the Investment Declaration of the Unified Accumulative Pension Fund. At the end of 2023, the structure of the foreign currency portfolio of pension assets corresponds to the target strategic allocation. Thus, as of January 1, 2024, the share of bonds of developed countries is 29.1%, emerging markets bonds – 23.0%, corporate bonds – 17.4%, and equities – 21.6%.

In order to maintain the foreign currency share of pension assets at a level not less than 30% during 2023, foreign currency was purchased on a step-by-step basis at the «Kazakhstan Stock Exchange» JSC trading site in the amount of about 2.5 bln US dollars, which allowed to increase the foreign currency share to 31.7% of pension assets.

In order to diversify and increase the profitability of pension assets in 2023, funds were transferred under the management of foreign management companies for the total value of transfer amounting to 1,930.0 mln US dollars, including the following:

2.3.4 Financial Risk Management

The National Bank has continued to refine its risk management mechanisms to minimize the risks of investment processes.

During the reporting period, policies and regulations for managing financial assets risks have been improved and updated. The updates encompass both the management of securities and foreign exchange currency, as well as enhanced approached to the use of derivative financial instruments, including within the framework of hedging strategies.

Additionally, a document was developed and approved, establishing core principles for forming the internal portfolio of the National Bank. This

under the «Global Equities» mandates – 1,010.0 mln US dollars, under the «Global Investment-Grade Corporate Bonds» mandate – 770.0 mln US dollars and under the «Global Emerging Markets Bonds» mandate – 150.0 mln US dollars.

At the end of 2023, accrued investment return on pension assets of the Unified Accumulative Pension Fund amounted to 1.6 trln tenge. The bulk of investment return came from income in the form of interest on financial instruments (88.9%). Pension contributions amounted to 2.2 trln tenge.

The current investment strategy provided a 10.1% return on pension assets of the Unified Accumulative Pension Fund at the end of 2023, exceeding the inflation rate (9.8%).

In 2023 the National Bank, together with the government stakeholders, as part of the ongoing work to develop an effective investment strategy for the Unified Accumulative Pension Fund that provides for the possibility to involve private managers in the management of pension assets, prepared conceptual proposals, the main of which was to grant investors of the Unified Accumulative Pension Fund with the right to transfer up to 50% of the amount of pension savings to private management.

The above right of transfer is exercised within the framework of the Social Code of the Republic of Kazakhstan, which came into force on July 1, 2023.

document specifies the permitted uses of the internal portfolio, the acceptable composition of assets, decision-making authority, and a mechanism for regular reporting to the management of the National Bank.

As part of implementing strategic initiatives and increasing potential returns, decisions were made to increase the duration metric of certain assets within the structure of the gold and foreign exchange reserves.

The risk parameters for the portfolios of gold and foreign exchange assets as well as the actual

levels at the end of the reporting period are presented in the following table:

Table 2.3.4.1

Portfolio	Risk parameters	Established levels	Actual levels
Strategic portfolio	Value-at-Risk for one month with probability of 95%	10%	2.39%
Liquidity portfolio	Weighted average maturity	1 year	0.07 year
Investment portfolio	Deviation of the portfolio duration from the benchmark portfolio duration	+30%/- 40%	-0.78%
	Expected variability of the deviation in the return on portfolio from the return on the benchmark portfolio (Tracking error)	2%	0.30%

The actual level of the risk parameter – Value at Risk (VaR) for a one-year period with a 95% probability for the entire portfolio of gold and foreign exchange assets was no more than 13.03% in 2023.

Expected credit losses on financial assets of the National Bank are calculated quarterly, and provisions are made in accordance with the International Financial Reporting Standard 9 «Financial Instruments». The calculation of expected credit losses is based on the credit ratings

assigned to financial assets by international rating companies and corresponding default probability indicators. As of the end of 2023, the amount of expected credit losses was 20.2 bln tenge.

On a quarterly basis, the National Bank sets internal credit ratings for banks of the Republic of Kazakhstan, based on the methodology that assesses the financial indicators of banks and credit ratings established by international rating agencies as well as assessing the banks' loan portfolios.

2.4 Payment System Development

2.4.1 Payment Systems

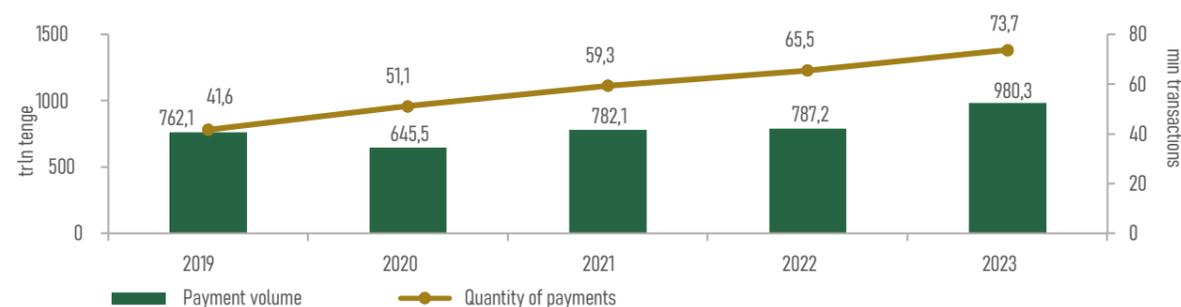
Nineteen payment systems are functioning within the territory of the Republic of Kazakhstan, of which the Interbank System of Money Transfers and the Interbank Clearing System belong to the National Bank. The National Bank's payment systems are oriented at payments in the national currency within the territory of the Republic of Kazakhstan and process a significant portion of cashless payments in the country. There are also private payment systems that are presented by card payment systems and money transfer systems.

The level of the uninterrupted operation of payment systems, the system's productivity and the volumes of payments processed through the sys-

tems serve as an indicator of efficient functioning of the National Bank's payment systems. Operability coefficients of the National Bank's payment systems indicate a high level of uninterrupted operation of their work and on average equaled 99.95% for the Interbank System of Money Transfers and 99.95% for the Interbank Clearing System in 2023. Compared to 2022, the quantity of payments in the payment systems increased by 12.5% (by 8.2 mln transactions), and the amount of payments – by 24.5% (by 193.0 trln tenge) (Figure 2.4.1.1). On average, 300.9 thous. transactions totaling 4.0 trln tenge were processed through the payment systems daily.

Dynamics of payment flows in the National Bank's payment systems

Figure 2.4.1.1



Interbank System of Money Transfers

At the end of 2023, 31 financial organizations were the members of the Interbank System of Money Transfers, including all infrastructure entities of the financial market. In 2023, 25.5 mln payments amounting to 969.3 trln tenge were made through the system. Compared to 2022, the volume of payments increased by 24.8% (by 192.4 trln tenge), the number of electronic payment messages processed through the system increased by 17.0% (by 3.7 mln transactions). The largest increase in the volume of payments made through the Interbank System of Money Transfers falls on transactions with securities of non-residents of the Republic of Kazakhstan (6.1 trln tenge in 2023, an increase of 74.4% compared to 2022) and loans (11.8 trln tenge, 54.1% growth).

The average amount of one payment in the Interbank System of Money Transfers in 2023 was 38.0 mln tenge and compared to 2022 increased by 6.6% (by 2.4 mln tenge). The largest share in terms of the number of payments in the Interbank System of Money Transfers falls on payments in the amount of up to 3 mln tenge (82.6%), the main amount of payments in volume is on payments over 1 bln tenge (share 85.8%).

Mainly, payments through the system were made for interbank transactions with short-term deposits (43.4%), for transactions with securities of residents of the Republic of Kazakhstan (34.0% of the total volume of payments), payments for goods and services (7.9%) and payments for transactions with foreign currency and precious metals (6.9%).

Interbank Clearing System

At the end of 2023, twenty two financial organizations were participating in the Interbank Clearing System. In 2023, 48.2 mln electronic payment messages totaling 11.0 trln tenge were processed through the system. Compared to 2022, the quantity of payment messages in the clearing system increased by 10.3% (by 4.5 mln documents), the amount of payments increased by 6.5% (by 669.7 bln tenge).

An average amount of one payment in the Interbank Clearing System in 2023 was 227.9 thousand tenge, decreasing by 3.4% (by 8.1 thous. tenge) compared to 2022.

The main volume of payments in the clearing system accounted for payments by business entities for settlements for goods and intangible assets with a share of the total volume of payments of 23.3%, services rendered – 27.1%, while payments for interbank transactions with short-term deposits amounted to 14.6%.

International Money Transfer Systems

International money transfer systems are a simple and accessible channel for individuals to quickly send and receive money between countries without opening a bank account.

At the end of 2023, eight international money transfer systems operated in Kazakhstan: Golden Crown, Western Union, Contact, Faster, MoneyGram, UPT, Ria Money Transfer and UNISTREAM.

At the end of 2023, the volume of money transfers sent abroad through international money transfer systems decreased by 7.1%. The average amount of one transfer abroad was 372.2 thousand tenge.

The main recipient countries of remittances in 2023 were Uzbekistan (27.5%), Russian Federation (25.1%), Turkey (23.1%), Georgia (9.6%) and Kyrgyzstan (3.4%).

Transfers from abroad to Kazakhstan in 2023 decreased by half, being driven by the smoothing of the dynamics of transfers after a sharp increase in transfers from Russia in 2022. The average amount of one transfer from abroad was 282.3 thousand tenge.

The bulk of incoming transfers were made from the Russian Federation (35.3%), the USA (11.0%), Uzbekistan (11.0%), the Republic of Korea (10.7%) and Turkey (6.4%).

Transfers across Kazakhstan using international money transfer systems also decreased by 37.5% (the average amount of one transfer is 287.2 thousand tenge) (Figure 2.4.1.2), which is due to the increased availability of transactions carried out through bank accounts, including P2P transfers.

Dynamics of the change in volumes of money transmitted via money transfer systems, in bln tenge

Figure 2.4.1.2



2.4.2 Payment Services Market

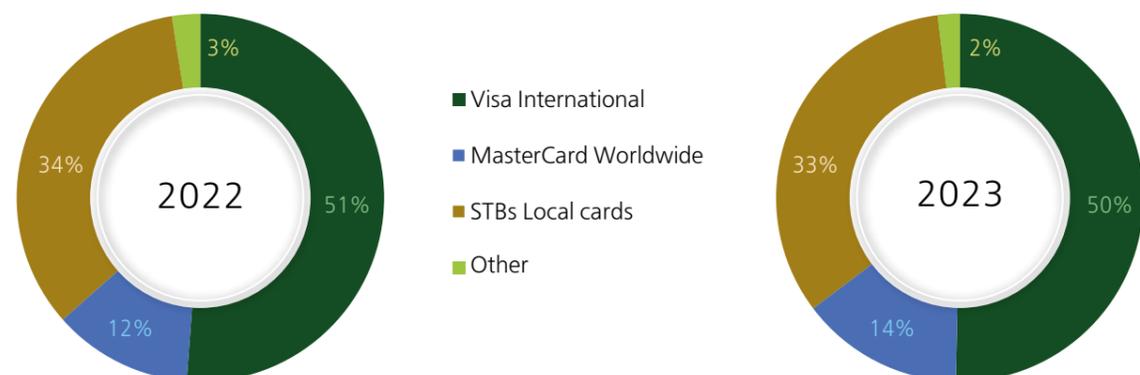
Payment services are provided by banks, organizations engaged in certain types of banking operations, and non-bank payment organizations.

At the end of 2023, there were 38.7 mln active payment cards in circulation (an increase of 15.7% over the year), of which debit cards – 33.9 mln units, credit cards – 4.5 mln units, debit cards with a credit limit and prepaid cards – 287.7 thous units.

Eighteen banks and the «Kazpost» JSC issue payment cards in Kazakhstan, while 66.6% of cards in circulation are cards of international payment systems: Visa International, Mastercard, UnionPay International, etc. (Figure 2.4.2.1).

Share of payment cards of international payment systems in the total volume of cards in circulation

Figure 2.4.2.1

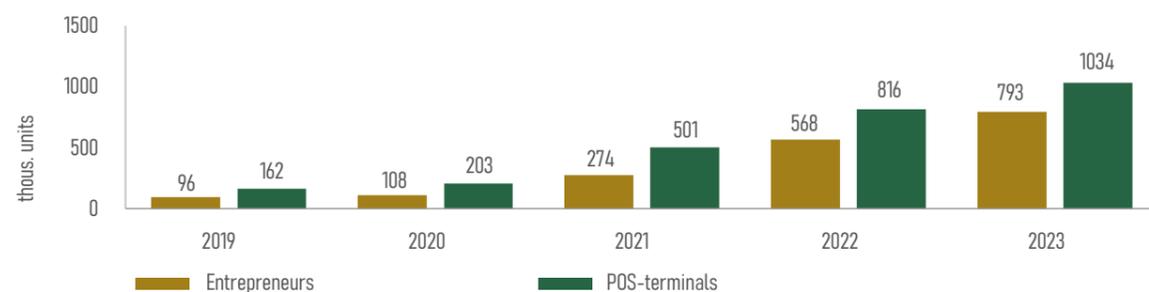


The infrastructure of payments for goods and services using payment cards is expanding. The number of trade enterprises accepting payment cards increased by 39.7% (793,065 enterprises in 2023). At the end of 2023, the following POS-terminals operated within the territory of the Republic of Kazakhstan:

- 1,041,884 POS terminals, of which 1,033,770 POS terminals are owned by entrepreneurs (an increase of 26.8%) in 932,062 retail outlets (Figure 2.4.2.2);
- there were 12 649 ATMs, 60.6% of which are ATMs with the Cash-in function.

POS-Terminals at Entrepreneurs

Figure 2.4.2.2



In 2023, the growth of transactions with the use of payment cards issued by Kazakhstani issuers

was 30.7%, and the increase in terms of amounts accounted for 31.8% (Figure 2.4.2.3).

Quantity and volume of operations conducted with the use of payment cards of Kazakhstani issuers

Figure 2.4.2.3

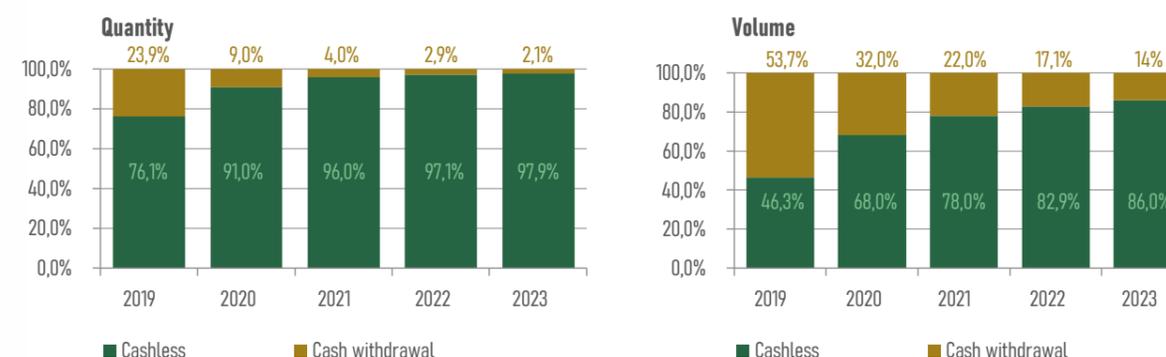


During 2023, the share of cashless transactions increased and the share of cash withdrawals de-

creased, both in terms of quantity and in volume (Figure 2.4.2.4).

The share of transactions in total quantity, by transaction type, as %

Figure 2.4.2.4

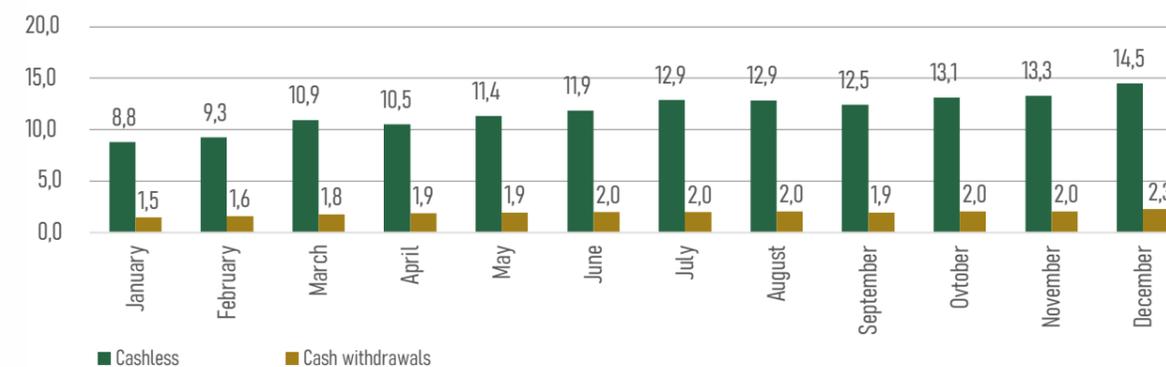


In 2023, the number and volume of cashless transactions using payment cards went up by 31.8% and 36.7%, respectively, and amounted to 11.3 bln transactions worth 141.9 trln tenge.

In 2023, the number of cash withdrawals using payment cards decreased by 5.2% and amounted to 241.1 mln transactions. Holders of payment cards cashed out 23.1 trln tenge in 2023 (Figure 2.4.2.5).

Dynamics of the volumes of operations with the use of payment cards in 2023, in trln teng

Figure 2.4.2.5



Internet and mobile banking remain as the most popular way to perform cashless transactions. At the end of 2023, the number of active users of online/mobile banking was 23.0 mln people.

their use, processing of transactions using payment cards via the Internet and mobile applications).

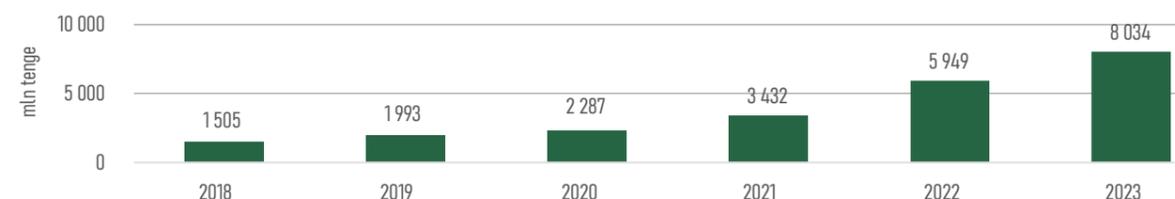
Payment Services of Payment Organizations

At the end of 2023, the National Bank registered 130 payment organizations that provide certain types of payment services to customers (payment through payment terminals, distribution of electronic money and processing of transactions with

At year-end 2023, the quantity of transactions processed through the services of payment organizations increased by 60.2% and equaled 956.7 mln transactions. Meantime, at year-end 2023, the growth in volume of operations was 35.0% compared to 2022 (Figure 2.4.2.6).

Volumes of operations conducted via services of payment organizations

Figure 2.4.2.6



Payment organizations acted as operators of 30 out of 34 electronic money systems functioning in Kazakhstan, and 4 electronic money systems are operated by second-tier banks and the «KazPost» JSC.

2.4.3 Digital Financial Infrastructure

In order to develop the payment industry, the National Bank is carrying out systematic work to implement infrastructure solutions provided by the Program for the National Payment System Development in the Republic of Kazakhstan until 2025.

The key projects provided by this Program constitute the National Digital Financial Infrastructure and are aimed at organizing the national retail payment environment – the Interbank Payment Card System and the Instant Payment System (IPCS, IPS), the development of Open API and Open Banking, the creation of the national digital currency «Digital Tenge», development of a remote customer identification service.

In 2023, together with the financial market participants, work on scaling the services of IPCS and IPS with an expansion of the number of participants was in progress.

Measures have also been taken to implement the «Digital Tenge» project, which is the third (digital) form of the national currency and will exist along with cash and funds accounted for in bank accounts at second-tier banks (cashless money). The project architecture includes a two-tier model, in which the National Bank issues and organizes a platform for servicing transactions in the digital tenge, and interaction with end consumers—individuals and corporate entities occurs via the financial market participants. In November 2023, with the participation of banks, the «Digital Tenge» platform was launched in a pilot mode.

The Concept for the development of Open API and Open Banking in the Republic of Kazakh-

stan for 2023–2025, which was approved in 2022 by the National Bank, the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market and the Agency for Protection and Development of Competition of the Republic of Kazakhstan, provides for the development and phased launch of the Open API and Open Banking platform for the standardized exchange of financial and non-financial information between third-party providers and financial institutions based on open program interfaces (APIs) of participants at the initiative and consent of the client. Together with the financial market participants, on November 1, 2023, the Open API platform was launched in a pilot mode with the implementation of a scenario for obtaining information about bank accounts and the cash balance on them.

In 2023, the work of the Identification Data Exchange Center (IDEC) service continued, which allows the financial market participants to remotely identify clients without visiting the offices of financial organizations by using the biometric technology. In 2023, the service was modernized with the implementation of a service for managing consents for collecting and processing of personal and financial data, as well as identity verification. Seventy six financial organizations (16 banks and 60 non-banking organizations) are connected to the IDEC service. In 2023, the service processed about 21.5 mln requests from financial organizations.

Since 2023, in order to ensure prompt exchange of data between banks and government stakeholders to effectively combat fraud, the National Bank has initiated the creation of an Anti-Fraud Center, whose objectives are to promptly respond to trans-

actions with signs of fraud, exchange information in real time between the center participants, maintain a single databases on fraudulent transactions. As part of the implementation of the Anti-Fraud Center, an algorithm of work, interaction between financial market participants and government stakeholders, as well as the necessary legislative amendments providing for the creation of a legal basis for the activities of the Anti-Fraud Center have been developed and agreed upon. The first phase of the pilot project on the basis

of the «National Payment Corporation of the National Bank» JSC was launched in November 2023 with the participation of 11 banks.

The national digital financial infrastructure forms the basis for creation and development of digital financial products and solutions by market participants, ensuring reliability, security and uninterrupted provision of financial services, providing effective interaction of all financial market participants.

2.5 Cash Circulation

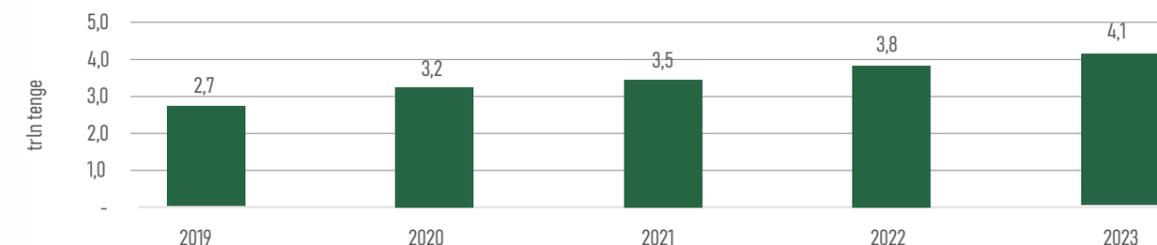
2.5.1 Cash Issuance and Circulation

Despite an active development of cashless payment infrastructure, the dynamics of the amount of cash in circulation in Kazakhstan shows stable growth. The average annual growth rate of cash

in circulation over the past 5 years has been 9.8% and at the end of 2023, the amount of cash in circulation was 4.1 trln tenge (Figure 2.5.1.1).

Cash in circulation

Figure 2.5.1.1



According to the results of public surveys⁸, cash still plays an important role in the life of Kazakhstanis. Thus, about 60% of the country's residents still pay in cash.

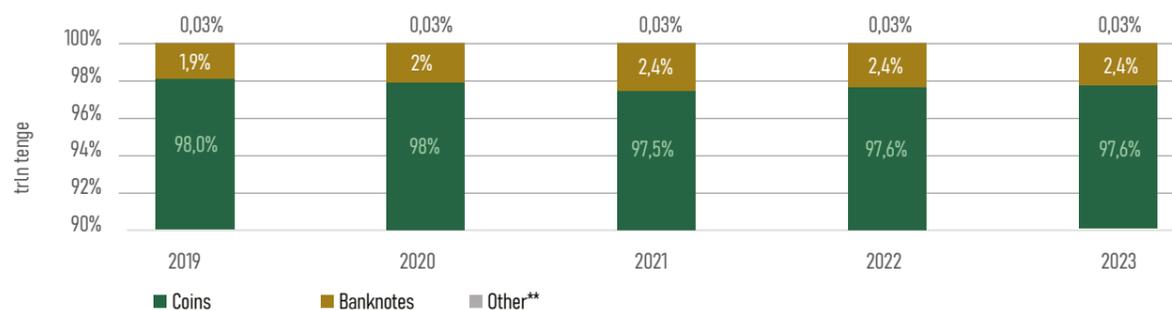
At the end of 2023, the nominal amount of banknotes in circulation equaled 4.0 trln tenge, and the nominal amount of circulating coins in circulation was 97.9 bln tenge (Figure 2.5.1.2).

This indicates that cash retains its position as one of the important payment instruments among economic entities.

⁸ <https://www.nationalbank.kz/ru/news/sociologicheskoe-issledovanie-o-platezhnyh-predpochteniyah-subektov-ekonomiki>

Share* of banknotes and coins in circulation

Figure 2.5.1.2



*of nominal amount in circulation

**Collectible and investment coins as well as cash withdrawn from circulation

In order to provide the economy with the required denominations of banknotes and coins, in 2023 the National Bank delivered cash in the amount of 1,753.2 bln tenge to the regions of the country and counted 1.1 bln banknotes to maintain the proper quality of banknotes in circulation.

In the reporting year, at the 11th Kazakhstan Financial Congress, the National Bank presented a new series of national currency banknotes (in denominations of 500, 1000, 2000, 5000, 10000 and 20000 tenge). It is based on elements of the «Saka style» and reflects the country's heritage – from the unique culture of nomads to modern Kazakhstan (Figure 2.5.1.3).

The design of a new banknote series called «Saka Style»

Figure 2.5.1.3



In accordance with the international practice, the design of banknotes is being updated in stages in order to introduce improved levels of security and prevent counterfeiting. Banknotes of the new «Saka Style» series will be issued into circulation gradually over several years. The first banknote from this series, with a face value of 5,000 tenge,

was officially issued into circulation on December 25, 2023.

In addition, to commemorate the 30th anniversary of the national currency – the tenge, in the reporting year the National Bank issued a banknote with a face value of 10,000 tenge.

2.5.2 Forensic Analysis of Banknotes and Coins

In 2023, the National Bank performed the forensic analysis of 2 752 suspicious currency notes worth 14.9 mln tenge (2 750 banknotes and 2 coins). Out of this number, 104 counterfeit currency notes have been detected totaling 463 100 tenge, which exceeds their quantity in 2022 by 17.3%.

counterfeited: 5,000 tenge – 68 banknotes (37.6% of the total number of identified counterfeits), 2,000 tenge – 58 banknotes (32%), 500 tenge – 26 banknotes (14.4%).

In 2023, the largest quantity of counterfeit banknotes was detected in the city of Almaty and the Almaty region – 124 banknotes, or 68.5% of the total quantity of detected counterfeits. The remaining regions accounted for 57 banknotes, or 31.5% of the total number of detected counterfeits.

The quantity of counterfeit banknotes identified by the National Bank and second-tier banks in the reporting period was 181 pieces amounting to 649,100 tenge, which is by 53.7% less than in 2022. The following banknotes were most often

2.5.3 Collectible and Bullion Coins, Minted Bars of Refined Gold

In the reporting year, the National Bank carried out work to develop a new design of investment coins – KÓKBÓRI, which used the style of the series of coins «Cult Animals – Totems of Nomads». The exclusive design makes KÓKBÓRI bullion coins interesting not only from an investment perspective but also for collecting and giving as a gift.

than 1.9 bln tenge, which is seven times more than in 2022 (281.7 mln tenge).

As for implementation of the program for the sale and buyback of minted refined gold bars for the population in 2023, second-tier banks and non-bank exchange offices sold 38,729 refined minted gold bars with a total weight of 1,550.9 kg.

In accordance with the Theme of issue of collectible coins of the national currency for 2022–2023⁹ and the adopted resolutions of the National Bank Board in 2023, 13 types of silver coins, 7 types of cupronickel alloy coins, 5 types of nickel silver alloy coins, as well as a souvenir blister set containing 8 circulation coins of 2023 mintage (in denominations of 1, 2, 5, 10, 20, 50, 100 and 200 tenge). Thus, 387.5 thousand collectible coins (of which 27.5 thousand made of silver, 110.0 thousand made of cupronickel alloy and 250.0 thousand made of nickel silver alloy) as well as 30.0 thousand souvenir blister sets containing circulating coins were issued in 2023.

Gold bars are available in five varieties: 5, 10, 20, 50 and 100 grams. The most popular bar in 2023 among buyers was the 100-gram bar (the share of total sales in 2023 is 28%), followed by a 5-gram (25%) and 10-gram (24%), 50-gram (12%), 20-gram (10%). Minted bars are mainly in demand in Almaty, Astana and Shymkent.

Gold bars are a long-term investment and a savings tool. In total, since the beginning of sales (since 2017) of minted refined gold bars, 151,574 gold bars with a total weight of 5.4 tons have been sold to the population; 28,156 minted bars with a total weight of 736.5 kilograms have been accepted for buyback.

In 2023, the upgraded online store platform www.kazcoins.nationalbank.kz was put into commercial operation. During the reporting period, more than 690 thousand collectible coins were sold through the online store, which is twice the figure for 2022 (281.7 thousand pieces), for a total amount of more

9 Resolution of the Board of the National Bank dated September 20, 2021 No. 83 dated September 20, 2021 No. 83 «On determining the subject of the issue of collectible coins of the national currency of the Republic of Kazakhstan for the period 2022–2023».

2.6 Currency Regulation and Currency Control

Export proceeds are the main source of foreign currency supply in the domestic foreign exchange market of Kazakhstan; thus, the currency exchange legislation establishes the requirement of repatriation of the national and/or foreign currency in respect of export-import transactions («the repatriation requirement» hereinafter). In doing so, the repatriation timeframe is determined based on terms and conditions of a foreign exchange contract on exports and imports.

In order to increase the efficiency of currency control over export-import transactions, including as a measure to combat the illegal removal of capital from the country, legislative work was carried out to recognize the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan as an authority in charge of currency control and its involvement in monitoring the implementation of repatriation requirements. To implement these initiatives, the Republic of Kazakhstan Rules for Implementing Currency Control over Export-Import Transactions in the Republic of Kazakhstan, jointly with the Ministry of Finance, have been adopted¹⁰.

In addition, in 2023, as part of the effort to improve and update the legislation in the area of currency regulation and control, the following measures have been taken:

- to establish a list of operations, the conduct of which may be aimed at getting money out of the Republic of Kazakhstan, evading the requirements of the currency legislation of the Republic of Kazakhstan, changes have been made to the Rules for performing foreign exchange transactions in the Republic of Kazakhstan¹¹;
- with an aim to bring into compliance with the requirements for the design of reporting forms for collection of administrative data,

changes were made to the Rules for monitoring sources of supply and demand in the domestic foreign exchange market of the Republic of Kazakhstan and the Rules for monitoring foreign exchange transactions in the Republic of Kazakhstan¹²;

- the work was carried out to elaborate law enforcement practice for conducting transactions in accordance with the AIFC Rules¹³ and to increase the efficiency of information sharing on foreign exchange transactions conducted on the AIFC site, including the draft amendments to the AIFC Rules were elaborated jointly with the AIFC.

In August 2023, the Government decided to suspend the rule on mandatory sale by quasi-government sector entities of a portion of foreign exchange proceeds in the domestic market, which was introduced in 2020. In turn, the National Bank has provided a procedure for monitoring compliance with this requirement by second-tier banks.

As part of the record registration of foreign exchange agreements on the movement of capital and notification about accounts in foreign banks, 3,431 record numbers were assigned in 2023, which is by 4.2% less than in 2022.

In 2023, the National Bank conducted inspections of authorized banks regarding compliance with requirements of the currency legislation of the Republic of Kazakhstan. Regional branches monitored compliance by exporters and importers with repatriation requirements, as well as control of compliance by corporate entities and individuals with other requirements of currency legislation. When violations were detected, administrative sanctions were applied in the form of warnings or fines, or materials on the identified violations were submitted for consideration

to judicial authorities within their jurisdiction. Materials for failure to comply with the repatriation requirement with signs of a criminal offense were handed over to the economic investigation departments of the Financial Monitoring Agency of the Republic of Kazakhstan.

In 2024, the National Bank will continue to analyze the state of the foreign exchange market and improve the methodology for regulating foreign exchange transactions. Work will be also under way to improve the mechanism of export-import currency control, including by establishing integration processes between the National Bank and the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan as authorities in charge of currency control.

Activities within the Framework of Combating Illegal Capital Outflow from the Country

In 2023, the National Bank, within its scope, took part in:

- the work of the Interdepartmental Commission¹⁴ on combating the illegal concentration of economic resources based on the plan of priority measures adopted by the Interdepartmental Commission;
- the drafting and approval of the Law of the Republic of Kazakhstan «On the return of illegally acquired assets to the state» (hereinafter referred to as the Law on Return) and related by-laws.

The Bank took part in the preparation of proposals and coordination of draft regulations elaborated by government authorities pursuant to the Repatriation Law.

In addition, in 2023, based on the results of analytical work, the National Bank sent to the Financial Monitoring Agency of the Republic of Kazakhstan its proposals regarding the expansion of typologies and schemes of money laundering through foreign economic transactions, as well as the updating of signs of suspicious transactions in order to effectively combat the removal of capital out of the country through cross-border foreign currency transactions.

Organization of Exchange Transactions with Foreign Cash

¹⁴ Decree of the President of the Republic of Kazakhstan «On the Interdepartmental Commission on Combating the Illegal Concentration of Economic Resources» dated 06/05/2022 No. 908

and Control and Supervision of the Exchange Office Operations

As of January 1, 2024, the foreign cash market of the Republic of Kazakhstan is represented by 2,147 exchange offices (as of January 1, 2023 – 2,114 exchange offices), of which 1,618 (75.36%) belonged to banks and the «Kazpost» JSC (as of January 1, 2023 – 1,645 offices), 529 (24.64%) were non-bank exchange offices (as of January 1, 2023 – 469 offices).

In 2023, net sales of foreign cash to the population through exchange offices amounted to about the equivalent of 2 trln tenge (in 2022 – 2.5 trln tenge), where sales through bank exchange offices and the «Kazpost» JSC equaled 1.7 trln tenge (in 2022 – 2.1 trln tenge) and through non-bank exchange offices – 0.3 trln tenge (in 2022 – 0.4 trln tenge).

Based on performance in the reporting year, out of 200 audited supervised entities (194 authorized organizations, 6 second-tier banks), administrative and other measures were applied to 111 entities.

In 2023, the functionality for collecting and processing reports on exchange transactions with foreign cash of authorized banks and authorized organizations was transferred to the new «FRSI» AIS platform, where data is uploaded exclusively in an electronic format.

In order to ensure stability of the financial system of the Republic of Kazakhstan, as part of implementation of the Presidential Decree of the Republic of Kazakhstan dated March 14, 2022 No. 830 «On measures to ensure financial stability of the Republic of Kazakhstan» (hereinafter referred to as the Decree), the National Bank, together with government stakeholders, adopted the Government Decree dated July 11, 2023 No. 548 «On certain aspects of ensuring financial stability in the Republic of Kazakhstan», which lifted restrictions on the export of cash Russian rubles for second-tier banks until January 1, 2024, thus enabling to export Russian rubles for converting them into cashless form and replenishing their correspondent accounts in foreign banks.

At the same time, in 2023, as part of the analysis of relevance of existing restrictions on the export of foreign currency, gold and other valuables from

¹⁰ A joint resolution of the Board of the NBRK dated September 29, 2023 No. 78 and order of the Deputy Prime Minister – Minister of Finance of the Republic of Kazakhstan dated October 4, 2023 No. 1054 «On approval of the Rules for the implementation of export-import currency control in the Republic of Kazakhstan»

¹¹ Resolution of the Board of the National Bank of the Republic of Kazakhstan dated September 26, 2023 No. 66 «On introducing amendments and additions to the resolutions of the Board of the National Bank of the Republic of Kazakhstan dated March 30, 2019 No. 40 «On approval of the Rules for carrying out currency transactions in the Republic of Kazakhstan» and dated April 10, 2019 No. 64 «On approval of the Rules for monitoring foreign exchange transactions in the Republic of Kazakhstan»

¹² Resolution of the Board of the National Bank of the Republic of Kazakhstan dated February 27, 2023 No. 8 «On amendments to the resolutions of the Board of the National Bank of the Republic of Kazakhstan dated November 29, 2018 No. 294 «On approval of the Rules for monitoring sources of supply and demand in the domestic foreign exchange market of the Republic of Kazakhstan» and dated April 10, 2019 No. 64 «On approval of the Rules for monitoring foreign exchange transactions in the Republic of Kazakhstan»

¹³ Rules for currency regulation and provision of information on conducted currency transactions in the AIFC No. 6 dated November 10, 2021.

the Republic of Kazakhstan, the National Bank elaborated a draft amendment to the Decree in terms of the indefinite permission for export operations:

- by second-tier banks of cash national currency of countries – members of the Eurasian Economic Union;
- bullion coins from gold and silver issued into circulation by the National Bank.

In 2023, within the framework of the Republic of Kazakhstan's passing of the mutual evaluation of the EAG and obtaining positive results on the recommendations of the Financial Action Task Force on Money Laundering (FATF), participation in off-site meetings was taken, justifi-

2.7 Statistical Activities

The statistical activities of National Bank are based on international standards and fundamental principles of statistics, as well as on the standards and practices of working with data of foreign central banks and international statistical organizations. In 2023, the National Bank continued to improve the quality of statistical publications and expand the range of published information. It took an active part in the Government's activities to form an information and analytical platform for government data and implement other digital technologies, including within the framework of international cooperation.

Monetary and Financial Market Statistics

As part of the ongoing work to ensure full statistical coverage of lending operations in the real sector of the economy, the National Bank has made the transition to monthly posting of data on credits to the economy in an expanded definition on the official Internet resource. The implementation of these changes was preceded by the work to transfer the collection of reporting information on loans from microfinance organizations from a quarterly to a monthly basis.

In order to expand the range of published statistical data, based on the needs of users, the National Bank has carried out work to supplement the statistical information posted on its official Internet resource with a block of analytical tables on credits to the economy by the banking sector (second-tier banks and the «Development Bank» JSC of Kazakhstan). The data

were presented and explanatory letters were sent for comments of international expert assessors on the interim drafts of the mutual evaluation report of the Republic of Kazakhstan, affecting the issues of regulation of authorized organizations.

Based on the results of mutual evaluation by the EAG, a standard monitoring procedure was established for the Republic of Kazakhstan, thus indicating that the AML/CFT system implemented by the National Bank in relation to authorized organizations is effective, and there is significant compliance of the country's legislation in the field of AML/CFT with international FATF standards.

are presented by industry and region, by type of business entities and by purpose (objects of lending) and are supplemented with indicators on the volume of loans provided, their average weighted interest rates and past due debt.

In order to improve the quality of analytical data, an effort has been made to improve the methodological approaches to the formation of statistical information on interbank market interest rates and interest rates in the credit market, published on the official Internet resource of the National Bank. The publication of data according to the updated methodology is planned to begin in 2024.

In 2023, the National Bank was actively involved in the discussion of regulations on issues of statistical activities. In particular, the National Bank provided conceptual proposals on the draft law aimed at introducing amendments to some legislative acts of the Republic of Kazakhstan on issues of government statistics and data management.

Together with the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, the National Bank worked on preparing a list of departmental indicators and methods for their calculation to form a Unified List of Administrative Indicators. Cooperation with the Eurasian Economic Commission of the Eurasian Economic Union was carried out on an ongoing basis in terms of convergence of methodology,

improving the quality of data and presenting statistical information on monetary statistics and financial market statistics in accordance with approved formats and deadlines.

The digital agenda of the Eurasian Economic Union's activities in the framework of statistical activities is implemented through the introduction of digital technologies for the exchange of statistical information based on the SDMX standard. The National Bank was one of the first central banks of the Eurasian Economic Union member states to join the work on testing the SDMX standard for monetary statistics reports. In 2023, using the SDMX format, the National Bank sent data on the credit market and exchange rates to the Eurasian Economic Commission, and also took part in a seminar organized for members of the working group on the preparation and maintenance of the SDMX Eurasian Register under the Advisory Committee on Statistics.

Developing the Toolkit for Report Collection and Data Dissemination

Along with the continued development of technological platforms for collecting and processing data from financial market entities, in 2023 a number of activities were carried out in the field of optimizing methodological requirements, including amendments to regulations on reporting collection issues.

As part of the work on developing the portal of the government information and analytical system «Smart Data Ukimet», work was carried out to expand the list of reports transmitted by the National Bank from 16 to 21 forms, in particular, historical data for the past 6 years was uploaded into the «Smart Data Ukimet» IAS.

In 2023, the National Bank initiated work on creating an area of open data in a machine-readable format, accessible to a wide range of interested parties through the API service, which allows expanding the possibilities of using modern BI analytics tools and various integration options, including government analytical systems.

As part of the work on the transition to direct uploading of transaction data into the National Bank Data Warehouse, technological aspects of interaction and projects with the subsequent implementation of data marts on operations of the «Unified Accumulative Pension Fund» JSC

and JSC «Kazakhstan Stock Exchange» were elaborated. An Agreement on information exchange was signed between the National Bank and the «Unified Accumulative Pension Fund» JSC.

As part of development of data-centric supervision tools, during 2023, the National Bank implemented templates of questionnaires with qualitative indicators (survey forms) of the risk assessment system of second-tier banks and professional participants in the securities market in accordance with the SREP (Supervisory Review and Evaluation Process) and RASS (Risk Assessment and Supervision System) methodologies of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market. A data mart has been designed, where indicators include respondent reporting data and calculation of key metrics, for the formation and regular updating of analytical tables for risk-based supervision and assessment of financial condition of second-tier banks.

In order to develop a platform approach to the data used for statistical, analytical, regulatory and supervisory purposes, the work was under way to bring together and unify the credit information indicators of the National Bank Credit Register and the Credit History Database of Credit Bureaus, and a concept for a single set of indicators for collecting credit information has been developed.

In 2024, the National Bank will continue to work on developing a database of financial market entities, including in cooperation with the competent authority in charge of regulation and development of the financial market, credit bureaus and supervised organizations, as well as developing tools for direct data upload, which will facilitate the use of modern analytical tools, increase the depth of research and expand the potential for the application of innovations and modern regulatory technologies.

2.8 Research Activities

Research activities of the National Bank are a key component of the decision-making process. In accordance with the directions defined in the National Bank Research Program, the National Bank employees prepared research and review articles that were published on the official website in the «Research» section and in the periodical academic journal «Economic Review of the National Bank of the Republic of Kazakhstan».

A number of studies, dedicated to monetary policy and its long-term strategy, have been conducted by the National Bank employees. The works «Issues of establishing and achieving inflation targets. Selecting optimal characteristics of the inflation target in Kazakhstan» and «Inflation target: formulating the target and the consequences of changing it. Review of International Experience» present the results of studies on determining the optimal inflation target, provide experience in changing inflation targets across countries since the introduction of inflation targeting, conduct assessments and consider the main arguments for revising or maintaining target benchmarks, and analyze the experience of establishing and achieving the inflation target in Kazakhstan.

One of the main areas of research in the context of macroeconomic policy is the topic of inflation and its nature. The following works were dedicated to this topic: «The impact of increase in prices for fuel and lubricants (F&L) on inflation: Kazakhstan's experience», «Decomposition of food inflation into supply and demand factors», «Various core inflation estimates for Kazakhstan», «The Impact of world and foreign trade prices for food products on domestic inflation in Kazakhstan». The studies revealed the significance of the impact of fuel shocks on inflation, the existence of certain risks for the economy of Kazakhstan due to the predominant contribution of supply-related factors. An assessment of core inflation was also made using various methods and its relationship with other macroeconomic variables was examined. A conclusion was made about the narrowing of the physical supply of food products in the domestic market due to foreign trade flows under the influence of high external demand and high external prices for them, which puts pressure on domestic prices with insufficient growth rates of domestic production.

Effective communication and the degree of central bank transparency is one of the current research issues. In 2023, a number of studies were conducted on this topic, in particular, «Measuring and assessing the level of transparency of the National Bank of the Republic of Kazakhstan», «Review of the communication policy of central banks of foreign countries on monetary policy decisions». These works reveal the importance of communication policy as one of the main tools of central banks aimed at increasing the predictability of monetary policy decisions, describe the channels of communication policy used, measure the level of openness of the National Bank by constructing transparency indices.

In the context of studying the issues of macroeconomic coordination, several research works were performed: «Fiscal policy parameters of Kazakhstan» and «Interaction of macroprudential and monetary policies in Kazakhstan: goals, instruments, and effects». The nature of Kazakhstan's fiscal policy for 2010–2022 was analyzed and assessed, and mutual influence of the instruments of macroprudential and monetary policies was studied.

As part of the assessment of the financial system stability, a number of research works were conducted on the study of the financial sector. The works present an analysis of the implemented mechanism for internalizing systemic risk in the deposit market, the bank consumer lending market and four concessional car loan programs, present an overview of the main parameters of the non-bank financing market, in particular microfinance organizations (MFOs), the international experience in the establishment and operation of an institution for managing and improving the efficiency of recovering non-performing assets was presented. More detailed information can be obtained from the following studies: «Pigouvian tax on high interest rates on deposits as a macroprudential instrument: Kazakhstan's experience», «An overview of the bank consumer lending market», «Analysis of non-bank household financing in Kazakhstan», «An overview of international practice of using a «bad» bank» and «The analysis of the concessional car loan market».

A summary of sovereign wealth funds, studies on stock market, and sub-indices of business

activity were also included. The main findings are presented in the works «The importance and role of the stock market in improving the efficiency of monetary policy», «An assessment of the leading properties of short-term economic indicators of Kazakhstan» and in the framework of the work «Sovereign Wealth Funds: investment objectives and strategic asset allocation».

The cycle of studies devoted to the analysis of Kazakhstan's foreign economic activities was continued. Thus, in the work on the topic «The Impact of Government Spending on the Current Account of the Balance of Payments of Kazakhstan through the Channel of Imports of Goods» the structural problems of the balance of payments of Kazakhstan are described, an overview of the expenditure side of the republican budget is presented, and an empirical assessment of the relationship between imports of goods and government expenditure is carried out to test the «twin deficits» hypothesis. The work confirms the hypothesis of a twin deficit in Kazakhstan: a deterioration in the balance of the state budget leads to a deterioration in the current account through the channel of imports of goods.

In 2023, a discussion paper was published, which presented approaches to the application and implementation of a countercyclical capital buffer and some of its modifications, developed based on the results of studying the methodological recommendations of the Basel Committee on Banking Supervision and the experience of other regulators in this area.

An analysis of the unemployment rate in Kazakhstan was conducted and an alternative unemployment indicator was calculated based on an analysis of the labor force structure. As part of the work, five different unemployment indicators were calculated using the methodology studied and described in the research of the International Labor Organization. The results show that all alternative unemployment indicators exceed the unemployment rate of official statistics.

In 2023, the National Bank together with the scientific community held the 3rd International Scientific and Practical Conference on the topic: «Strategic issues of the monetary policy. Challenges of the new economic reality.» The event was attended by representatives of the National Bank, the academic community, research centers, financial and international organizations, government institutions, experts in the field of economics and finance. The conference presented the results of research on setting and achieving

inflation targets, discussed issues of long-term monetary policy strategy, global trends and their impact on inflation processes in Kazakhstan, the interaction of monetary, fiscal and macroprudential policies. The experts also shared their vision of determining the optimal inflation target and macroeconomic policy measures to stabilize inflation.

Within the framework of the grant financing mechanism, the National Bank awarded 4 research grants to academic and research entities to study the consumer demand in the post-crisis period as well as the measures against financial fraud.

Press releases, analysis, and research materials were published to guarantee the transparency of base rate decisions and to enhance communication efficacy. The results of the analysis of the main macroeconomic factors influencing inflation processes, as well as forecasts of macroeconomic parameters used in the decision-making about the level of the base rate, were reflected in the quarterly publication entitled «Monetary Policy Report».

Enhancement of the medium-term forecasting modeling techniques are underway. As part of the IMF technical assistance to improve the analysis and forecasting system at the National Bank, work was carried out to improve the equations of the Quarterly Projection Model (QPM) and fine-tune its parameters. First, the equations for the nominal exchange rate and interest rate were slightly modified to account for the refinement of the inflation target. Second, the headline inflation indicator in the QPM was replaced by core inflation (inflation excluding fuel and regulated utility prices), and the dynamics of fuel and regulated utility prices began to be modeled outside of the QPM to generate a headline inflation forecast. Third, the parameters of equations and dimensions of standard deviations of shocks were refined to obtain better forecasting accuracy. Based on such changes, the forecasting qualities of the model were improved.

In order to exchange experience, the National Bank employees held lectures and practical classes for master's degree students of the JSC «Narxoz University» and Lomonosov Moscow State University branch in Kazakhstan. As part of the partnership and knowledge development program, the National Bank, together with the Central Bank of Korea and Seoul National University, carried out work on a joint study

on the topic «The Use of Capital Flow Management Tools for Promoting Economic Development of Kazakhstan». In 2023, a seminar was organized on the topic «The System for ensuring financial stability» for representatives of employees of the central banks of the EAEU

countries, which discussed matters such as features of methods for analyzing and monitoring financial risks, improving professional knowledge in the field of macroprudential policy, stress testing, crypto assets, and household debt burden.

2.9 Improving Financial Technologies and Data Protection Systems

2.9.1 Developing Information Technologies

In 2023, in order to implement the Roadmap for the Implementation of the Concept of Financial Digital Transformation Roadmap for 2020–2025 (the Concept), the National Bank, in collaboration with the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market and other participants, has completed all planned activities. It is noteworthy that the following activities have been implemented:

- within the framework of the «Automatic collection of detailed transaction data in a single electronic format» line of activities, work was carried out on the implementation of direct data loading with the participation of the «Central Securities Depository» JSC, UAPF and the KASE;
- under the «Creating a «single window» of interaction» line of activities, work has been completed on the transition to a single platform for collecting data from supervised organizations, transferring second-tier bank reporting from «matrix» forms to the collection of granular indicators that combine the goals of statistics and supervision, and transferring statistical data collected from second-tier banks to the category of administrative data;
- within the framework of the «Defining approaches to the implementation of Open API and creating the necessary regulatory framework for Open Banking» line of activities, the Concept for the Development of Open API and Open Banking in the Republic of Kazakhstan for 2023–2025 provided for measures to align the regulatory environment for the functioning of Open API and referred to the activities within the framework of the Roadmap for 2023–2025.

Additionally, measures were taken to develop a model for the automation of independent control and supervisory functions of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market that will be financed by the National Bank, with the elaboration of legal issues and the approval of the Decree of the President of December 7, 2023 No. 407, the implementation of the measures of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market as provided for by the Roadmap for the automation of the system of government control and supervision of business entities based on the risk management system, was ensured.

Also, as part of the activities to transfer the National Bank's function of monitoring the repatriation of currency to the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan (SRC MoF), the development of the departmental information system of the National Bank was ensured to provide access to the system for employees of the central office and regional departments of the SRC MoF with their training. As part of the work to ensure the continuity of operations and digitalization of the National Bank in 2023, an integrated approach and high-level target architecture of the National Bank Data Factory that is being created based on the principles of Data Governance were approved; work has been set up to implement the SAP ERP system for the automation of administrative and economic activities, cash circulation and personnel management; technical support and maintenance were strengthened in terms of allocating additional specialists for the Asset and Risk Management System.

The organization of transition to a new scheme of work of the National Bank's data processing centers (DPC) was approved. In particular, in 2023, the relocation of server and network equipment to the DPC in Kosshi town was carried out with subsequent migration and launch of information systems.

The Regulations of the highly critical infrastructure of the National Bank were also approved, the implementation of the corresponding functionality and software for the main accounting system of the National Bank, the T24 Banking Information System, for the transition to the new payment standard ISO20022 was completed. The transition to the new standard for local payments in the national currency is

2.9.2 Ensuring the Data Protection and Corporate Security

With an aim to counteract challenges and cyber threats as well as to ensure ongoing development of protective mechanisms and the formation of a comprehensive approach to ensuring cyber protection of information technology facilities, the National Bank approved the Concept for the development of a unified technological platform for collecting, monitoring and responding to cyber incidents in the financial sector (UTP). At the same time, as part of the UTP improvement, an echeloned protection against cyber threats was introduced; comprehensive training of employees on perimeter protection against targeted attacks was conducted on the basis of the National Bank Cyber Security Center; the UTP was enriched with information from international cyber sources, including work on connecting to the automated incident processing system of the Central Bank of the Russian Federation.

According to performance in 2023, there were no realized cyber incidents in the National Bank, which led to disruptions in the operation of information technology facilities.

On November 15, 2023, within the framework of the XI Congress of Financiers of Kazakhstan, a panel session on the topic of «Digital Immunity: Cyber Resilience of the Financial Sector in the Context of Digital Transformation» was held. Existing challenges and problems of cybersecurity in the financial sector, mechanisms for rapid response and prevention of cyber attacks in the context of digital transformation and issues of cyber awareness of the population in the provision of financial services were discussed.

scheduled for July 1, 2024. Work was carried out to develop and modify the modules of the Digital Core IS – 9 functioning business processes of the National Bank were automated.

In 2023, the first stage of the creation of the Open Data Repository, which is necessary for providing access to the National Bank data for financial market entities in a machine-readable format, has been implemented.

A new version of the online store has been launched that meets business requirements to provide an open mechanism for the sale of National Bank collectible and investment coins.

In order to develop international cooperation with financial institutions, the National Bank has participated in expert groups under the Council of the Interstate Bank on information security, meetings of the working group of central banks of the EAEU member states on ensuring information security of the financial market and countering computer attacks, international conferences and seminars organized by the central banks of the EAEU member states. Proposals for a digest of regulatory legal acts of the EAEU in the field of information security were sent, online meetings were held with representatives of the central banks of Türkiye and the Russian Federation, and the issue of participation in international cyber security training is being worked out.

In addition, the National Bank is included in the Interdepartmental Coordination Group, which is developing a Comprehensive Plan to Combat Cybercrime within the framework of the joint project – «Support for Kazakhstan in Developing an Effective Policy to Combat Cybercrime and Crimes Using Information and Communication Technologies» of the Ministry of Internal Affairs of the Republic of Kazakhstan with the OSCE Programme Office in Astana, designed for 2024–2027.

In 2023, the National Bank continued its effort to raise public awareness in the area of cyber fraud, and informational messages on the prevention of Internet fraud were published on official resources and in the media. At the same time, in accordance with the requirements of the Law of the Republic of Kazakhstan «On Counteracting Terrorism», as well as the Res-

olution of the Board of the National Bank dated November 28, 2022 No. 116dsp «On approval of the Instructions for organizing anti-terrorist protection of facilities of the National Bank of the Republic of Kazakhstan vulnerable to terrorism», the National Bank, the Resident Representative Office, branches and organizations of the National Bank approved regulations, and together with special and law enforcement agencies, specialized organizations, preventive and educational activities were carried out to raise awareness in the field of anti-terrorist protection.

In addition, in accordance with the Law of the Republic of Kazakhstan «On Civil Defense», the head office of the National Bank conducted training in civil defense, tactical and special exercises to prepare facility formations for civil defense, evacuation training

for workers in case of fire, as well as activities to practice the anti-terrorist protection of the facility. To ensure the protection of employees, reserves have been created and personal protective equipment is maintained in readiness. In order to fine-tune legislation in the field of civil defense, participation was taken in the working group of the Mazhilis of the Parliament of the Republic of Kazakhstan on the development of the draft Law of the Republic of Kazakhstan «On Amendments to Certain Legislative Acts of the Republic of Kazakhstan on Civil Defense Issues».

Additionally, the Bank officials took part in the work of the Public Council under the Ministry of Emergency Situations of the Republic of Kazakhstan regarding the activities of civil defense agencies.

2.10 International Cooperation

In 2023, by maintaining a continuous dialogue, the National Bank pursued to build long-term cooperation with key foreign partners – central banks, international financial institutions and bodies of regional integration associations.

In April and October 2023, the National Bank management took part in the Spring and Annual Meetings of the Board of Governors of the IMF and the World Bank Group. The National Bank delegation participated in meetings of the International Monetary and Financial Committee (IMFC), Swiss Constituency, collegial discussions of central bank governors and finance ministers of the Caucasus, Central Asia and the Middle East.

The National Bank management took part in the Annual General Meeting of the Bank for International Settlements (BIS), which was held on June 24–25, 2023 in Basel (Switzerland). During the event, the BIS member states' decisions on monetary policy in the context of the current macroeconomic situation and high volatility of financial markets, as well as issues of financial technology development were discussed.

In June and November 2023, National Bank hosted the IMF Missions, which are carried out on an annual basis in accordance with Article IV of the IMF Articles of Agreement. Following

the visit, the IMF Mission compiled a review of Kazakhstan's current financial and economic development, which contains an overview of the country's priority development areas, macroeconomic prospects and risks, monetary policy, and financial stability aspects. The Concluding Statements published by the IMF positively assessed the commitment to the inflation targeting regime, as well as efforts to improve outreach on monetary policy decisions. Important priorities, according to the IMF Mission, are the withdrawal from non-core tasks performance and strengthening the independence of the National Bank.

On June 9, 2023, a grand opening ceremony of the Regional Capacity Development Center for the Caucasus, Central Asia, and Mongolia in Almaty (Technical Assistance Center) was held in Almaty with the participation of the National Bank Governor and IMF Managing Director, Kristalina Georgieva. The ceremony was also attended by the heads of central banks of the region and other IMF member states, international financial institutions and a number of diplomatic missions, as well as representatives of government agencies. The opening of the IMF regional center in Almaty is the outcome of long-term cooperation between Kazakhstan and the IMF. In 2023, the National Bank employees participated in 17 webinars, workshops, and 12 research/analytical seminars

organized by the Technical Assistance Center.

In 2023, the National Bank management also held meetings with representatives of the World Bank, the European Bank for Reconstruction and Development, the Asian Development Bank and other international financial organization institutions to discuss the macroeconomic situation, monetary policy, and prospects for expanding bilateral cooperation.

In 2023, the National Bank worked to attract technical assistance from foreign central (national) banks and international financial institutions (IMF, EBRD, ADB, BIS, and WEF). Expert consultations were held on the central bank operations, including currency regulation and control, quarterly projection model enhancement, lender of last resort mechanism, compliance functions, implementation of communication policy in the context of the inflation targeting regime, AML/CFT and other issues. In addition, international experience in combating internet fraud, implementation of IT solutions and GS1 standard for cash circulation, promotion of central banks' digital currencies, development of research activities and optimization of the budgeting process in central banks were reviewed.

The National Bank provided technical assistance to the Central Bank of Uzbekistan on the implementation of International Financial Reporting Standards, to and the National Bank of Tajikistan functionality of existing payment infrastructure and methodological aspects of the payment services market regulation.

As part of interaction with international rating agencies, consultations were held, following which the S&P rating agency confirmed Kazakhstan's sovereign rating at «BBB-», raising the outlook from «negative» to «stable». Moody's rating agency raised the outlook on the sovereign rating to «positive», affirming it at «Baa2». Fitch and ACRA agencies affirmed the Kazakhstan's sovereign rating with «stable» outlooks at of «BBB» and «BBB+», respectively.

In 2023, for the purposes of enhancing bilateral cooperation, the National Bank held meetings with representatives of the central banks of England, Brazil, Hungary, Germany, Spain, Canada, Korea, the UAE, the USA, Turkiye, Switzerland, Egypt, Qatar, Sweden and the CIS countries. Also, with a view to expand and strengthen cooperation with international financial

institutions and foreign counterparties, the National Bank organized working visits of the National Bank Governor to the USA, European countries (France, Switzerland, Great Britain), during which meetings with representatives of central banks and global asset management companies were held.

On November 15, 2023, in Almaty, the National Bank in cooperation with the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market and the Association of Financial Institutions of Kazakhstan, organized the 11th Congress of Financial Institutions of Kazakhstan dedicated to the 30th anniversary of the introduction of the Republic of Kazakhstan national currency – the tenge. The Congress included presentation of the «Digital Tenge» project implementation, discussion of topical issues of monetary policy, public finance, stock market and investment opportunities, digital security and financial inclusion.

The event was attended by representatives of state agencies, professional financial market participants, foreign participants – heads of central banks of neighboring and far abroad countries, representatives of international financial institutions and partners of the National Bank. In 2023, working meetings and consultations between the National Bank and the Central Bank of the Russian Federation were held regularly at the high and expert levels on various issues of mutual cooperation, including the organization of mutual settlements between the countries.

In May 2023, the National Bank Governor participated in the international conference held by the National Bank of the Kyrgyz Republic in honor of the 30th anniversary of the Kyrgyz som, speaking at the panel discussion on «The Role of Monetary Policy in the Context of Economic Transformation» along with the heads of central banks of other countries.

In September 2023, the National Bank management took part in the Symposium «30 Years of the Armenian Dram: Reflecting on the Past and Navigating the New Digital Era», dedicated to the 30th anniversary of the Armenian dram.

The National Bank Governor attended the 24th and 25th meetings of the Monetary Policy Advisory Councils in May and September 2023, where the top managers of the EAEU central banks exchanged views on the current economic environment and implementation of monetary

policy in the EAEU member states. At the same time, the parties agreed to continue work on the recognition of national credit ratings, as well as on other priority areas. The 12th meeting of the Kazakh-Chinese Financial Cooperation Subcommittee was held on September 22, 2023. Following the Subcommittee meeting, the parties agreed to continue cooperation on facilitating settlement and clearing in the national currencies, payment infrastructure, financial markets, as well as trade and project financing in the two countries.

In November 2023, the National Bank management participated at the 11th meeting of the Kazakh-Chinese Cooperation Committee, and in December 2023 – in the official ceremony to appoint the Industrial and Commercial Bank of China in Almaty (ICBC Almaty) as a clearing bank for RMB transactions in Kazakhstan. In 2023, the work continued to represent and protect national interests under the framework of regional integration associations, management's engagement in regular meetings of EEC Council, Eurasian Intergovernmental Council, Working Group on Coordination of Development of National Payment Systems, and coordination of a number of EEC program documents.

With a view to developing cooperation within the CIS, the 48th meeting of the Eurasian Council

of Heads of Central (National) Banks (June 15–16), the Regional Meeting (Round Table) on the Development of Payment Systems of National (Central) Banks of Central Asian Countries (Kyrgyzstan, Tajikistan, and Uzbekistan) and Azerbaijan (October 3–4) were held and chaired by the National Bank in 2023. In 2023, four meetings of the Interstate Bank Council were held with the participation of the management of the National Bank and the central (national) banks of Armenia, Belarus, Kyrgyzstan, the Russian Federation, and Tajikistan.

Within the framework of the Shanghai Cooperation Organization, the National Bank management took part in the in the SCO member states' Finance ministers and central bank Governors meeting with a report. A number of the Expert Group meetings chaired by the National Bank were held with a completion of the first stage of Roadmap for the gradual increase in the share of national currencies in mutual settlements of the SCO member states. In 2023, the work on updating the contractual and legal framework of international agreements was continued. As part of strengthening bilateral cooperation with the central banks of Azerbaijan and Tajikistan, memorandums of understanding and cooperation were signed.

of foreign currency assets of the National Fund and the UAPF assets.

In order to explain the decisions on the base rate, the forecasts for key macroeconomic indicators and the assumptions, press releases and statements by the National Bank Governor were published. The decisions on the base rate were followed by media briefings by the National Bank executives, which were held in a hybrid format and broadcasted on the National Bank YouTube channel. Another important area of activities in communication was coverage of the 30th anniversary of the national currency, tenge. The Kazakhstan Financial Congress dedicated to the anniversary date was attended by more than 80 representatives of the media. During the event, journalists were presented with a new series of national currency banknotes «Saka Style» and the achievements in development of the Digital Tenge project. The National Bank also released

2.11 Communication Policy

During 2023, the National Bank continued to inform the general public, financial institutions, and the expert community about its activities through various communication channels according to the principles of openness and transparency.

In total, more than 300 information materials of various formats were published in 2023, including press releases and public information notices, interviews and official statements by the National Bank executives, and comments of the National Bank experts covering the current issues of the National Bank performance. The main subjects were monetary policy, including explanations of the decisions on the base rate, the National Bank operations in the foreign exchange market, development of the national payment system and implementation of the Digital Tenge pilot project, investment management

The National Bank is traditionally represented in all popular social media. By the end of 2023, the total audience of official accounts was about 40 thousand subscribers and followers; the reach of publications was about 100 thousand users.

a documentary film «30 Years of Tenge», which outlines a retrospection of not only the economic but also the social life of the country. With the support of akimats (mayor offices), an information campaign titled «Tenge is the Symbol of Independence» was also held in all regions of Kazakhstan.

During the year, systematic effort was carried out to develop the official accounts of the National Bank in social media. Subscribers had access to video and analytical commentary, infographics, messages about the main news and events in all areas of activity, video presentations of new issues of National Bank collectible and investment coins. New formats of explanatory videos with the participation of National Bank experts were introduced, a series of videos «In simple words» was prepared. The videos are intended for a general public and clearly cover professional topics: the monetary policy matters, provision of foreign trade statistics, flexible exchange rate formation, etc.

The National Bank is traditionally represented in all popular social media. By the end of 2023, the total audience of official accounts was about 40 thousand subscribers and followers; the reach of publications was about 100 thousand users.

In order to improve the communications of the National Bank with the professional audience and expert community, round table discussions were held with the media and financial experts. Dialogue with the expert community and the discussion format of the meetings reduce the information asymmetry between the regulator and the financial market.

The National Bank continues to actively communicate with the media: during the year, the National Bank Press Office received about 400 requests by media from Kazakhstan and abroad, official comments were provided both in writing and in a video format.

The National Bank is one of the key providers of statistical and analytical information in regard to economy and financial market. The audience of the official Internet resource of National Bank is about 2 mln users, page views in 2023 exceeded 11 mln. The most frequently viewed sections by users are: «Statistics», «Monetary policy», «Press center», «Publications», «Research». In August 2023, a re-designed version of the National Bank Internet resource was presented to the public.

With an aim to ensure maximum openness and transparency, the National Bank will remain committed to applying transparency standards in communications, being represented in the Kazakhstan information environment and inform the public about the work carried out in the main areas of the regulator's activities via its platforms and channels.

3

Organizational Development of the National Bank

3.1 Organizational Structure and Human Capital Development

The National Bank is constantly working to improve the efficiency of its organizational structure, based on strategic priorities, global practice and the need to develop relevant functional areas of activity, as well as creating conditions for human capital as a determining factor for the successful development of National Bank and the achievement of its strategic goals and objectives, maintaining the institutional memory of National Bank, continui-

ty and retention of human resources. At the end of 2023, the National Bank organizational structure included 23 divisions of the central office (21 departments and 2 self-sustaining divisions), the Resident Representative Office of the National Bank in the city of Almaty, 21 branches and 2 republican state-owned enterprises under its jurisdiction (Table 3.1.1).

Table 3.1.1 Staff size of the National Bank

	Staff size at end-period			
	Staffing table, number of individuals		Staff listing, number of individuals	
	2022	2023	2022	2023
1	2	3	4	5
Head office	832	819	768	807
Representative office	54	56	52	58
Branches	1 275	1 286	1 238	1 259
Sub-total:	2 161	2 161	2 058	2 124
National Bank's organizations (RSOEs)*	964	752	878	726
Grand total at the National Bank:	3 125	2 913	2 936	2 850

*from 15.08.2023, the «Kazakhstan Interbank Settlements Center RSOE of the National Bank of the Republic of Kazakhstan» was excluded from the National Bank's structure in connection with its reorganization through its transformation into a joint-stock company.

The number of women among the National Bank staff was 1,270 individuals (60%) (Figure 3.1.1), including 499 individuals (62%) in the head office,

37 individuals (64%) in the representative office, and 734 individuals (58%) in the branches.

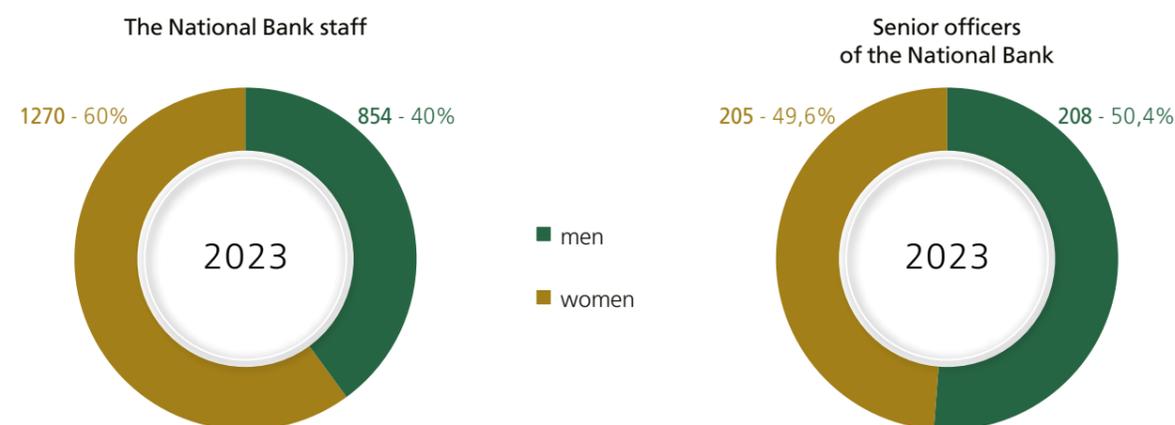
Within the National Bank's management team, the number of female managers was 205 (49.6%), including 85 individuals (43.3%) in the head office, 11 individuals (65%) in the representative office, and 109 individuals (55%) in the branches.

The average age of the National Bank personnel in the head office was 38 years, in the representative office – 41 years, and in the branches – 43 years.

In 2023, the staff turnover rate in the National Bank was as follows: in the head office – 7.1%, in the representative office – 5.3%, and in the branches – 3.6%.

Gender composition of the National Bank staff

Figure 3.1.1



In order to replenish the staff of the National Bank in 2023, a selection of highly qualified candidates to occupy positions of employees of the National Bank was carried out, resulting in the employment of 15 master's degree students of the «Nazarbayev University» JSC, 11 master's degree students of the NJSC «Narxoz University», who studied under a grant from the National Bank, as well as 31 candidates with foreign education.

Staff Training Programs for the Republic of Kazakhstan, Personnel Training and Development

During 2023, the National Bank carried out comprehensive work to train professional personnel for the National Bank, government agencies and financial organizations of the Republic of Kazakhstan.

The National Bank coordinates the following educational projects:

- within the framework of cooperation with the «Nazarbayev University» JSC, an agreement was signed for training in the MSc in Finance program and 13 grants for training were

provided; three employees of the National Bank were sent to study under the Executive MBA program;

- as part of cooperation with the NJSC «Narxoz University», 12 grants were allocated for training such programs as «Financial Analyst», «Financial Risk Management», and «Macroanalytics and Forecasting»;
- within the framework of cooperation with the «Astana IT University» LLP, 11 employees of the National Bank were enrolled in the «Financial Technology and Digital Transformation of Business» MBA program;
- as part of cooperation with the «Kazakh-British Technical University» JSC, 14 grants were allocated for the «Macrofinance and Data Science», «Financial Technologies», «Financial Risk Management and Data Science» MBA programs.

The National Bank consistently maintains the professional level of its human capital to effectively achieve the strategic goals and objectives set before the NBK as the country's central bank. In 2023, 2,239 employees of the National Bank received training (including via distance learning), of which: 286 – at the National Bank; 676 – in Kazakhstan's training centers; and 1,277 – abroad.

3.2 Operational Risk Management and Compliance Control

In 2023, an independent assessment of 5 business processes of the National Bank was performed. Based on the results, recommendations were formulated to minimize the identified risks and optimize individual procedures. In order to de-bureaucratize the activities of the National Bank, a number of proposals were developed to optimize the internal activities of National Bank.

In the reporting year, the work on the formation of a database of incidents, including those related to critical information systems was under way. Responsible departments carried out the relevant work to record incidents, study risk sources, eliminate and minimize the likelihood of their recurrence. An annual independent assessment of the results of self-certification of the SWIFT hardware and software complex was also carried out.

In order to improve the efficiency of the operational risk management system and ensure the continuity of National Bank's operations, international experience was studied and relevant regulations were revised.

In 2023, an analysis of the activities of some of the National Bank's regional branches was conducted in order to identify corruption offenses and study the causes and conditions that contribute to their commission. Based on the results of the internal analysis, no corruption risks were identified in the activities of the National Bank divisions.

Preventive work was carried out on an ongoing basis to inform the National Bank employees about the need to comply with the requirements of anti-corruption legislation and anti-corruption standards of the National Bank. Regular mailings were sent out with a reminder of the conditions for combating corruption and the need to follow ethical standards.

With an aim to monitor corruption offenses on an ongoing basis, anticorruption@nationalbank.kz e-mail address and the helpline service have been provided for receiving messages about corruption offenses committed by the National Bank employees and conflicts of interest in their activities. No complaints about corruption or violations of eth-

ical standards by National Bank employees have been received through these channels.

As part of monitoring of the actions (inaction) on the part of the staff from the National Bank system, in 2023 twelve complaints related to the supervision and control of the National Bank over the activities of authorized organizations entitled to organize exchange transactions with foreign currency were reviewed. Violations of the rights and infringement of the interests of applicants were not detected.

The National Bank, in order to continuously monitor and analyze procurement processes carried out by authorized divisions of the National Bank on the procurement portal, constantly monitors procurements. During the reporting period, more than 49 purchases were monitored for a total amount of over 8 bln tenge. In order to improve procedures for combating money laundering and terrorist financing, the NBK engaged in analyzing suppliers of relevant software and participated in meetings with international experts, in consultations with the Regional Representative Office for Central Asia of the United Nations Office on Drugs and Crime; and when questions arose on AML/CFT, advisory assistance was provided on an ongoing basis to divisions and regional branches of the National Bank.

The Procedure for Conducting Compliance Assessment of the National Bank Employees has been approved, which contains the procedure and conditions for resolving conflicts of interest in the National Bank, as well as compliance assessment of employees, including categories of positions most exposed to compliance risks.



3.3 Public Services

In 2023, the National Bank provided 198 public services (in an electronic form), including:

96 under the public service «Inclusion in the register of payment organizations that have undergone registration with the National Bank of the Republic of Kazakhstan»;

102 under the public service «Issuance of a license for exchange operations with foreign cash to authorized organizations».

Public services were provided within the established timeframes, in accordance with the requirements of the law, including the regulatory legal acts of the National Bank governing the provision of public services.

No complaints were received from service recipients regarding the provision of public services by the National Bank in 2023.

The assessment of the National Bank's effective performance made by competent authorities (the Agency of the Republic of Kazakhstan for Civil Service Affairs and the Ministry of Digital Development, Innovation and Aerospace Industry of the Republic of Kazakhstan) under the «Quality of Public Services» line of activities, resulted in assigning 100 scores out of 100 possible over two years in a row (in 2021 and 2022). As part of the internal quality control of public services, 5 control measures were undertaken in relation to 5 regional branches of the National Bank. Control measures were taken within the prescribed time frame in accordance with the approved schedule in full. There were no cases of public services being provided in violation of the procedure and terms

of their provision, as well as no complaints from service recipients about the quality of public services provided by National Bank.

On a quarterly basis, the provision of public services was monitored, including an analysis of reg-

ulations, business processes for the provision of public services, compliance with requirements of the legislation of the Republic of Kazakhstan in the field of public services provision, and the results of public monitoring of the quality of provision of public services.

3.4 Internal Audit

In accordance with best practices in the area of internal audit, uniform standards for conducting internal audit have been implemented in the National Bank's subsidiaries.

A new practice of involving representatives of the National Bank's Internal Audit Department in meetings of audit committees under the Boards of Directors of the National Bank's subsidiaries has been introduced. This practice has contributed to an additional impulse in the development of the internal audit framework and the corporate governance system in the National Bank. For the first time, a synergetic audit was conducted jointly with the internal audit service of the «Kazakhstan Deposit Insurance Fund» JSC, whose results showed high efficiency.

In order to enhance the knowledge, skills and competencies of the internal audit service employees of the National Bank's subsidiaries, an in-class seminar was organized and held on risk-based audit, risk management assessment, IT and HR audit, and newly hired auditors completed internships at the National Bank to implement best practices.

In 2023, the 11th meeting of the Advisory Council on Audit Activities under the Eurasian Council of Central (National) Banks was held in Astana

(Armenia, Belarus, Kyrgyzstan, Russian Federation, Tajikistan and the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market were participating).

Following the meeting of the Advisory Council, the participants noted an active work of internal audit services of central (national) banks in expanding cooperation between banks in the field of internal audit and risk management, exchange of experience on various aspects of internal audit work, and implementation of best internal audit practices in their activities.

These internal audit activities are aimed at improving and strengthening the transparency of National Bank's internal processes, as well as facilitating the achievement of the strategic and functional goals of the National Bank.

The value of the internal audit of the National Bank lies in its involvement in business processes and a proactive position in the role of a consultant, contributing to their improvement and dissemination of effective methods and best practices carried out by highly qualified specialists – holders of international certificates (CIA, CFA, CIMA, ICFM, DipIFR).

Appendix 1 to Section 1.5

Table 1.5.1 Balance of Payments of the Republic of Kazakhstan:

Analytical Presentation

mln US dollars

	2022	2023	2023			
			I	II	III	IV
Current account	7 054.4	-8 658.4	-1 621.4	-3 352.8	-1 591.6	-2 092.5
Trade balance	34 997.2	20 168.4	5 183.2	4 383.0	5 163.5	5,438.7
Exports	85,630.4	79 879.4	19 126.4	19 867.8	20 427.9	20 457.2
Imports	50,633.3	59 711.0	13 943.2	15 484.8	15 264.4	15 018.6
Services	-1 550.1	-1 812.4	-391.5	-625.2	-506.3	-289.4
Exports	7 967.9	10 288.0	2 209.7	2 614.9	2 776.5	2 686.9
Imports	9 518.1	12 100.4	2 601.1	3 240.1	3 282.8	2 976.4
Primary income	-25 552.8	-25 994.0	-6 214.4	-6 789.4	-6 000.8	-6 989.3
Compensation of employees (net)	-1 283.9	-1 492.2	-298.9	-386.9	-385.5	-420.8
Investment income (net)	-24 404.1	-24 636.9	-5 949.2	-6,436.2	-5 649.1	-6 602.4
Income receivable	3 540.7	3 949.6	765.0	1 073.3	1 048.1	1 063.2
Income on direct investments	1 498.1	666.5	54.3	260.6	156.5	195.2
Income on portfolio investments	1 464.0	2 090.4	517.9	489.8	582.3	500.4
Income on other investments	578.6	1 192.7	192.8	322.9	309.4	367.6
of which interest on reserves and assets of the National Fund	1 172.9	1 778.5	338.2	481.7	518.9	439.7
Income payable	27 944.8	28 586.5	6 714.2	7 509.5	6 697.2	7 665.6
Income on direct investments	25 417.5	25 165.1	6 034.0	6 639.3	5 802.4	6 689.4
Income on portfolio investments	1 078.9	1 194.4	199.4	371.0	340.0	284.0
Income on other investments	1 448.4	2 227.0	480.8	499.3	554.8	692.1
Other primary income (net)	135.1	135.1	33.8	33.8	33.8	33.8
Secondary income	-839.8	-1 020.5	-198.8	-321.2	-248.1	-252.4
Capital account balance	247.7	1 272.9	83.6	-24.0	1 182.2	31.0
Financial account (excluding reserve assets of the NBK)	5 912.2	-1 556.8	470.5	-1 449.1	850.0	-1 428.2
Direct investments	-8 076.5	-2 310.7	-2 465.7	-1 840.3	1,239.8	755.4
Net acquisition of financial assets	-3 009.6	2 993.2	8291	-61.4	1 825.5	400.0
Net incurrence of liabilities	5 067.0	5 303.9	3 294.8	1 778.9	585.6	-355.4
Portfolio investments	13 275.4	5 314.3	2 515.2	1 996.6	2 386.8	-1 584.4
Net acquisition of financial assets	10 086.4	3 859.0	2 418.0	1 526.0	2 336.0	-2 421.0

	2022	2023	2023			
			I	II	III	IV
RK Central Bank and general government	7 144.7	-1 143.5	944.6	654.5	-1 166.5	-1 576.1
Banks	534.3	642.3	516.2	101.6	28.0	-3.5
Other sectors	2 407.3	4 360.2	957.3	769.8	3 474.5	-841.4
Net incurrence of liabilities	-3 189.0	-1 455.3	-97.2	-470.7	-50.8	-836.6
RK Central Bank and general government	-1 095.9	-1 423.5	-150.6	-218.7	-345.5	-708.7
Banks	-1 007.0	-265.7	-40.9	-211.9	13.1	-26.0
Other sectors	-1 086.1	233.9	94.4	-40.0	281.5	-102.0
Financial derivatives (net)	259.8	-21.8	-0.1	15.7	48.5	-85.9
Other investments	453.6	-4 538.6	421.0	-1 621.2	-2 825.2	-513.3
Other equity, net	16.3	108.7	22.6	3.8	52.9	29.4
Medium- and long-term debt instruments	-878.1	-168.3	-864.9	-197.5	-392.7	1 286.8
Net acquisition of financial assets	1 067.3	1,137.4	-136.7	569.1	429.7	275.3
RK Central Bank and general government	-1.2	-1.1	-0.5	0.0	-0.6	0.0
Banks	222.8	319.5	45.4	24.0	100.9	149.2
Other sectors	845.7	819.0	-181.6	545.1	329.3	126.1
Net incurrence of liabilities	1 945.4	1 305.7	728.2	766.6	822.3	-1 011.5
RK Central Bank and general government	71.0	-482.9	-77.4	-68.9	-218.5	-118.0
Banks	706.9	1 240.3	610.5	564.4	532.5	-467.2
Other sectors	1 167.5	548.3	19.5.1	271.1	508.3	-426.3
Short-term debt instruments	1 315.4	-4 479.0	1 263.4	-1 427.5	-2 485.4	-1 829.5
Net acquisition of financial assets	7 007.5	-708.3	2 065.1	-1 241.1	-1 266.8	-265.5
Net incurrence of liabilities	5 692.1	3 770.7	801.7	186.3	1 218.7	1 564.0
Net errors and omissions	-3 570.0	-93.1	254.2	365.3	-2 394.6	1 682.1
Overall balance	2 180.0	5 921.8	1 754.1	1 562.4	3 654.0	-1 048.7
Financing	-2 180.0	-5 921.8	-1 754.1	-1 562.4	-3 654.0	1 048.7
NBK reserve assets	-2 180.0	-5 921.8	-1 754.1	-1 562.4	-3 654.0	1 048.7
IMF credits	0.0	0				
Exceptional financing	0.0	0				

Appendix 2 to Section 1.5

Table 1.5.2 External Debt: Standard Presentation

(min US dollars)

	As at January 1, 2022	As at January 1, 2023	As at April 1, 2023	As at July 1, 2023	As at October 1, 2023	As at January 1, 2024
External debt	164 131.1	160 682.8	161 996.8	161 961.1	162 688.6	162 697.5
Short-term	12 009.6	16,337.4	17 190.1	17 134.3	18 124.8	19 242.6
Long-term	152 121.5	144 345.4	144 806.7	144 826.8	144 563.8	143 454.8
General government	15 859.3	13 390.1	12 857.6	12 684.0	12 587.3	11 788.3
Short-term	24.3	55.4	60.0	54.6	91.7	94.6
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	24.3	55.2	59.9	54.6	49.5	50.6
Other liabilities	0.0	0.2	0.1	0.0	42.2	44.0
Long-term	15 835.0	13,334.6	12 797.6	12 629.4	12 495.6	11 693.6
Special drawing rights	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	8 748.7	6,336.2	5 844.0	5 763.1	5 909.3	5,135.2
Loans	7 086.3	6 998.4	6 953.6	6 866.3	6 586.3	6 558.5
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities ²	0.0	0.0	0.0	0.0	0.0	0.0
Central bank	2 535.8	2 171.8	2 217.9	2 065.1	2 097.6	2 233.1
Short-term	494.6	230.9	255.3	119.7	185.2	276.4
Currency and deposits	7.9	12.8	10.4	13.6	13.0	249.7
Debt securities ¹	483.3	214.4	240.8	101.9	168.2	22.9
Loans	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	3.4	3.7	4.1	4.2	4.0	3.7
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	2 041.1	1,940.9	1 962.6	1 945.3	1 912.5	1 956.7
Special drawing rights	2 040.2	1,939.9	1 961.6	1 944.4	1 911.5	1 955.7
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities ²	1.0	1.0	1.0	1.0	1.0	1.0
Banks	5 493.8	9 675.4	10 625.4	10 162.6	10 631.1	11 176.6
Short-term	1 837.7	5 658.3	6 012.9	5 224.6	5 330.0	6 302.0

Currency and deposits	1 612.3	4 456.6	4,434.4	4 159.0	4,037.9	4 700.7
Debt securities ¹	0.0	0.0	0.0	0.0	0.0	0.0
Loans	9.3	797.6	1 128.9	569.7	766.6	711.5
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	216.2	404.1	449.6	495.9	525.5	889.8
Long-term	3 656.1	4 017.1	4 612.5	4,938.0	5 301.2	4 874.6
Currency and deposits	226.2	1 462.6	2 141.3	2 685.2	3 158.7	2 811.0
Debt securities ¹	1 888.8	752.6	742.7	553.6	511.7	516.8
Loans	1 541.2	1 801.9	1 728.5	1 699.1	1,630.7	1 546.7
Trade credits and advances	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities ²	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors³	44 013.4	42 259.1	43 132.6	43 635.1	45 198.3	45 885.3
Short-term	9 653.0	10 392.7	10 861.9	11 735.3	12 518.0	12 569.6
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities ¹	0.0	0.0	0.0	0.0	0.0	0.0
Loans	927.9	1 181.5	1 041.5	1 047.2	1 791.1	1 828.0
Trade credits and advances	7 616.8	8 760.9	9 305.7	10 120.1	10,230.0	10 195.0
Other liabilities	1 108.3	450.3	514.7	568.0	496.9	546.6
Long-term	34 360.4	31 866.4	32 27.7	31 899.8	32 680.2	33 315.7
Currency and deposits	0.0	0.0	0/0	0.0	0.0	0.0
Debt securities ¹	10 724.1	6,936.5	7 077/4	6 757.2	7 073.8	7 018.4
Loans	21 261.5	22 787.3	22 945.3	23 079.8	23 407.0	24 258.4
Trade credits and advances	1 894.0	1 465.4	1 464.1	1 333.4	1 408.8	1 226.6
Other liabilities ²	480.8	677.0	783.9	729.5	790.6	812.2
Other financial organizations	2 498.5	1 852.2	1 861.5	2 119.4	2 280.1	2 571.2
Short-term	1,135.8	404.0	200.5	320.6	186.3	399.4
Long-term	1 362.7	1 448.2	1 660.9	1 798.8	2 093.7	2 171.8
Non-financial corporations, households and non-profit institutions serving households	41 514.9	40 406.9	41 271.1	41 515.7	42 918.2	43 314.2
Short-term	8 517.2	9 988.7	10 661.4	11 414.7	12,331.7	12 170.2
Long-term	32 997.7	30 418.1	30 609.8	30 101.0	30 586.5	31 143.9
Direct investments: intercompany lending	96 228.8	93 186.4	93 163.4	93 414.3	92 174.3	91 614.2
Debt liabilities of direct investment enterprises to foreign direct investors	79 283.9	77 592.5	78 180.0	78 681.1	77 745.7	77 077.4
Debt liabilities of direct investors to foreign direct investment enterprises (reverse investment)	9 275.0	9 883.8	10 041.5	10,138.8	10 042.6	10 200.4
Debt liabilities between fellow enterprises	7 669.8	5 710.1	4 941.9	4 594.4	4 385.9	4,336.4

¹ Debt securities are recorded at market value (as appropriate).

² Including insurance and pension programs, standardized guarantees as well as other long-term liabilities listed in the structure of an international investment position.

³ Other sectors do not include intercompany lending, which goes as a separate item in the external debt structure.

Appendix 3 to Section 1.5

Table 1.5.3 External Debt of the Republic of Kazakhstan: Absolute and Comparative Indicators

Item	2022	I quarter of 2023	II quarter of 2023	III quarter of 2023	IV quarter of 2023	2023
Absolute Indicators (mln US dollars)						
1. External debt (estimate at the end-of-period)	160 682.8	161 996.8	161 961.1	162 688.6	162 697.5	162 697.5
including intercompany lending	93 186.4	93 163.4	93 414.3	92 174.3	91 614.2	91 614.2
2. External debt, excluding intercompany lending (estimate at the end-of-period)	67 496.4	68,833.4	68 546.8	70 514.3	71 083.3	71 083.3
3. Long-term external debt service (including intercompany lending)	42 302.4	11 050.9	13 320.8	11 850.3	13 390.4	49 612.5
4. Long-term external debt service (excluding intercompany lending)	20 888.0	6 035.0	8 903.0	7 675.3	8 768.0	31 381.4
Comparative Indicators						
1. External debt to GDP ratio (% , including intercompany lending)	71.1	69.1	67.1	65.1	62.5	62.5
2. External debt to GDP ratio (% , excluding intercompany lending)	29.9	29.4	28.4	28.2	27.3	27.3
3. External debt to exports of goods and services for 12 months (% , including intercompany lending)	171.7	176.8	176.9	177.1	177.5	177.5
4. External debt to exports of goods and services for 12 months (% , excluding intercompany lending)	72.1	75.1	74.8	76.8	77.5	77.5
5. Payments for long-term external debt extinction and servicing to exports of goods and services for the period (% , including intercompany lending)	45.2	51.5	58.1	49.5	57.4	44.3
6. Payments for long-term external debt extinction and servicing to exports of goods and services for the period (% , excluding intercompany lending)	22.3	28.1	38.8	32.0	37.6	24.4
7. Interest payments to exports of goods and services for the period (%)	6.8	10.0	9.8	9.5	10.7	10.0
8. Отношение платежей Payments for extinction and servicing of government external debt and debt guaranteed by the government (%) ¹	1.2	1.9	1.2	3.4	4.0	2.6
9. Отношение резервных активов National Bank's reserve assets to short-term external debt (%)	214.7	210.7	201.1	175.9	186.8	186.8

	Memo Items:					
GDP (bln tenge), for the period ²	103 765.5	23 582.6	23 662.0	28 302.1	43 704.3	119 251.2
GDP for 12 months (bln US dollars) ³	225.9	234.5	241.2	249.9	260.5	260.5
Exports of goods and services for the period	93 598.4	21 468.2	22,931.7	23 949.6	23 314.5	91 664.0
Exports of goods and services for 12 months	93 598.4	91 641.4	91 579.1	91 836.7	91 664.0	91 664.0

¹ Excluding operations with securities in the secondary market.

² Current data from the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan for 2023 as published on February 15, 2024.

³ GDP in the US dollars for the calendar year – data of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan. GDP in the US dollars for 12 months for calculation of comparative indicators for the quarter is derived as the amount of quarterly GDP numbers in the US dollars calculated at the corresponding average exchange rate for the quarter.

List of Used Abbreviations

ADB	-	Asian Development Bank	NC	-	a national company
FRSI AIS	-	«Financial Regulatory Statistical Indicators» automated information sub-system	UAE	-	the United Arab Emirates
ACRA	-	Analytical credit rating agency	OSCE	-	Organization for Security and Cooperation in Europe
JSC	-	a joint-stock company	OPEC+	-	A group of countries that do not have membership in OPEC but cooperate with the Organization and among each other in some matters of oil production and exports
AEO	-	an autonomous educational organization	pp	-	percentage point
AIC	-	agro-industrial complex	AML/CFT	-	anti-money laundering and combating the financing of terrorism
APCP	-	Administrative Procedural Code of Practice of the Republic of Kazakhstan	Government	-	Government of the Republic of Kazakhstan
bp	-	basis point	Repo	-	Repurchase agreement
bank	-	a second-tier bank	SDR	-	Special Drawing Rights
BIS	-	Bank for International Settlements	FCC	-	a freely convertible currency
GDP	-	gross domestic product	CIS	-	the Commonwealth of Independent States
WEF	-	World Economic Forum	USA	-	the United States of America
CC	-	Civil Code of the Republic of Kazakhstan	trln	-	trillion
GSs	-	government securities	thous.	-	thousand
EAG	-	the Eurasian group on combating money laundering and financing of terrorism	FAO	-	the UN Food and Agriculture Organization
EAEU	-	the Eurasian Economic Union	FATF	-	The Financial Action Task Force
EBRD	-	the European Bank for Reconstruction and Development	US Fed	-	the Federal Reserve System of the United States of America
UAPF	-	the «Unified Accumulative Pension Fund» JSC	DPC	-	Data Processing Center of the National Bank
EU	-	the European Union	IDEC	-	Identification Data Exchange Center
UTP	-	Unified technological platform for capturing, monitoring and responding to cyber incidents in the financial sphere	SCO	-	the Shanghai Cooperation Organization
ECB	-	the European Central Bank	API	-	Application programming interface
EEC	-	the Eurasian Economic Commission	AQR	-	Asset Quality Review
SRC MoF	-	the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan	CFA	-	Chartered Financial Analyst
AVC	-	Administrative Violations Code of the Republic of Kazakhstan	CIA	-	Certified Internal Auditor
IMF	-	the International Monetary Fund	CIMA	-	Chartered Institute of Management Accountants
mln	-	mln	DiplFR	-	Diploma in International Financial Reporting
bln	-	bln	ERP	-	Enterprise resource planning
SMB	-	small and medium-sized business	FSAP	-	Financial Sector Assessment Program
AIFC	-	the «Astana International Financial Center»	GBI-EM	-	Government Bond Index-Emerging Markets
NCJSC	-	a non-commercial joint-stock company	ICFM	-	Institute of Certified Financial Managers
National Bank	-	National Bank of the Republic of Kazakhstan	KASE	-	Kazakhstan Stock Exchange
National Fund	-	National Fund of the Republic of Kazakhstan	SAP	-	System Analysis and Program Development
			SDMX	-	Statistical Data and Metadata Exchange

