QUARTERLY REPORT

KAZAKHSTAN MACRO & MARKET OVERVIEW

Q4 2024 // NATIONAL BANK OF KAZAKHSTAN

CONTENTS

Credit Ratings.............................. 3

Inflation....................................... 4

Current Account......................... 5

FX Market & Reserves................ 6

Monetary neutrality principle.... 7

Government Securities Market. 8

Investor Relations...................... 9

Contacts......................................10

RATING AFFIRMATION REFLECTS SUBSTANTIAL EXTERNAL BUFFER

On November 15, Fitch reaffirmed Kazakhstan's sovereign credit rating at BBB with a stable outlook. The rating reflects the country's balanced credit profile, supported by substantial external buffer and a strong sovereign net foreign asset position backed by oil revenue savings.

Total reserves (National Fund Assets and FX Reserves) amount to 38% of GDP. A narrowing current account deficit, driven by lower imports and higher gold prices, further strengthens the external balance.

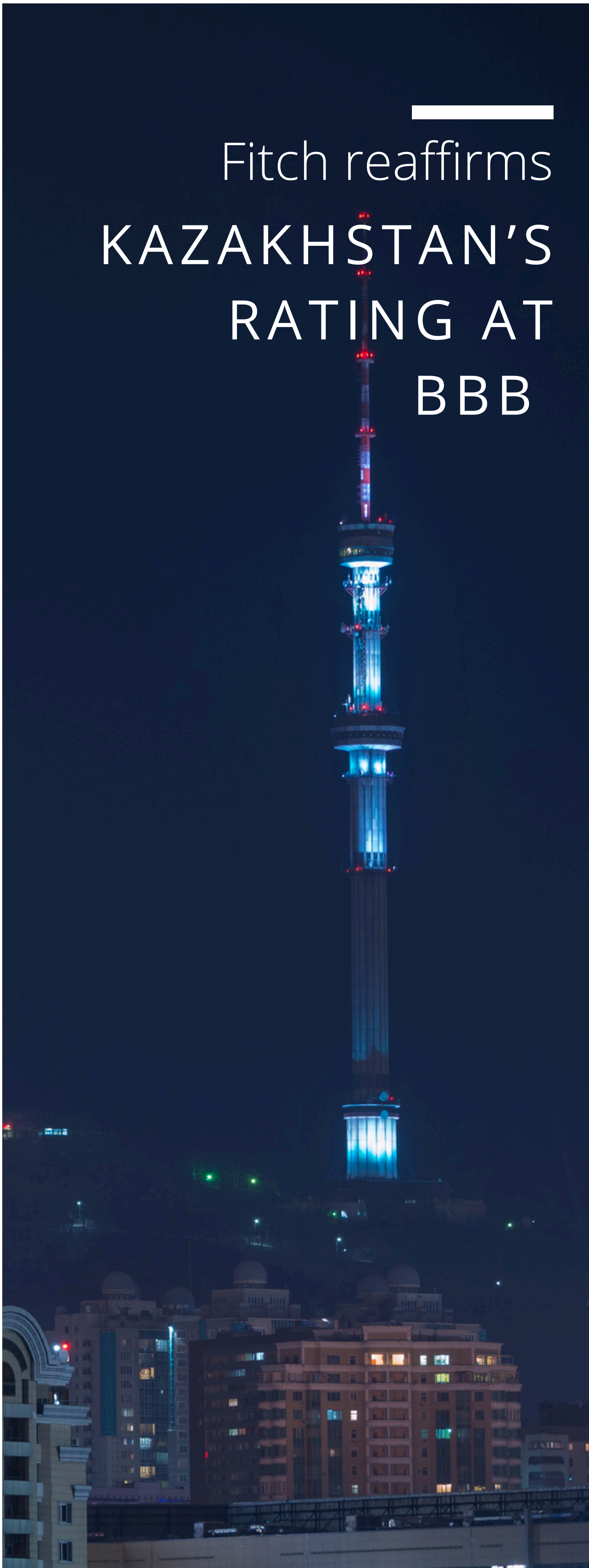
Fitch forecasts GDP growth to accelerate from 3.9% in 2024 to 4.6% in 2025 and 4.9% in 2026, supported by higher oil production, strong investment growth, and rising real incomes.

Public debt remains low by global standards, projected at 28% of GDP by 2026, well below the BBB median of 55.8%. However, Fitch highlights growing reliance on transfers from the National Fund.

In October, Kazakhstan re-entered the international debt market for the first time since 2019, issuing a 10-year $1.5 billion Eurobond with a 4.7% yield. Through 2026, the government intends to cover most of its financing needs domestically, benefiting from ample banking sector liquidity, relatively weak loan demand, high return on equity, and by greater pension fund purchases.

Fitch highlights that inflation remains elevated, at 8.5% as of October 2024, driven by currency depreciation, fiscal stimulus, and rising utility costs. Fitch forecasts inflation falling to an average of 8.1% in 2025, and 6.8% in 2026, above the NBK's medium-term target of 5%.

S&P Global	FitchRatings	MOODY'S INVESTORS SERVICE
BBB- Stable	BBB Stable	**Baa1 Stable**



MODERATELY TIGHT MONETARY CONDITIONS

in response to increased inflation

The NBK decided to raise the base rate by 100 bps to 15.25% on November 29, 2024.

After a steady slowdown throughout 2024, annual inflation saw an uptick in the fourth quarter, reaching 8.6% in December. Upward pressure on inflation is driven by rising regulated utility prices under the 'Tariff for Investment' program, sustained consumer demand, fiscal stimulus, accelerating inflation in main trading partner, and the weakening of the nominal exchange rate of the tenge.

After a slowdown in the previous quarter, core and seasonally adjusted inflation accelerated. The median estimate of seasonally adjusted core inflation grew steadily in the fourth quarter of 2024, reaching 0.78% MoM in December. Seasonally adjusted monthly inflation stood at 0.81%, while the 3-month moving average of the seasonally adjusted CPI was 0.83%. These indicators suggest that inflationary pressure on prices is primarily driven by persistent or core components of inflation.

According to NBK forecasts (forecasting round “November 2024”), inflation is expected to be within the range of 6.5-8.5% in 2025, 5.5-7.5% in 2026, and around 5% in 2027.

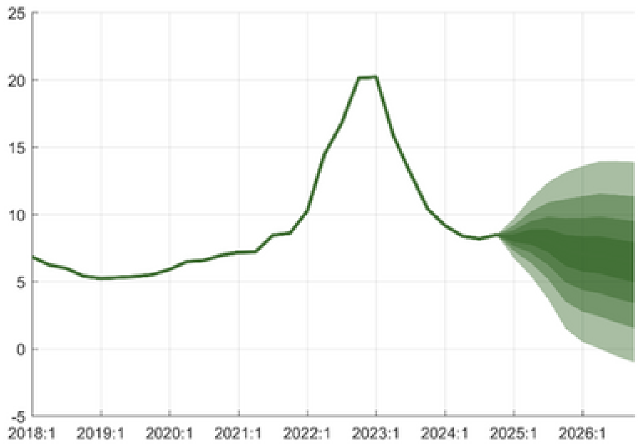
Inflation risks are expected to remain high in 2025, driven by elevated global food prices, rising inflation in trading partner countries, and increasing production costs. The "Tariff in Exchange for Investment" program will continue to contribute to inflation in the services sector.

Compared with the previous forecast round, the estimates of the base rate trajectory by the Monetary Policy Committee (MPC) members have increased throughout the entire horizon.

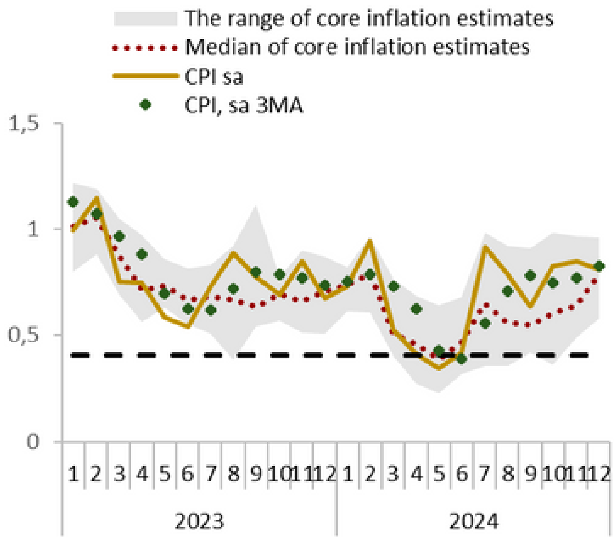
After updating the forecasts for key macroeconomic indicators in the 1Q2025, the MPC members will evaluate the need for further tightening of monetary policy to steer inflation back onto a sustainable downward path towards the 5% target.

INFLATION

Annual inflation is expected to be in the range of 6.5%-8.5% in 2025



The median estimate of seasonally adjusted core inflation has accelerated



MPC members’ estimates of the base rate

	Median			Range		
	2024	2025	2026	2024	2025	2026
Base rate, at the end of the year, %	15.25* (14.25)	13.75 (11.9)	12 (10)	15.25* (13.5-14.5)	12-14.75 (9.5-13)	10-13.75 (8.5-12)

*The last decision in 2024

CURRENT ACCOUNT DEFICIT
shrinks by half in 2024

In accordance with NBK's preliminary data, the current account deficit was reduced by half, dropping from (-)$9 billion in 2023 to (-)$4.4 billion in 2024. This improvement was primarily driven by an 18% reduction in the income balance deficit, which resulted from lower profits of foreign investors in the commodities sector. The decline in global prices for oil and metals, a slight decrease in crude oil production, and operational losses of commodity exporters contributed to this trend.

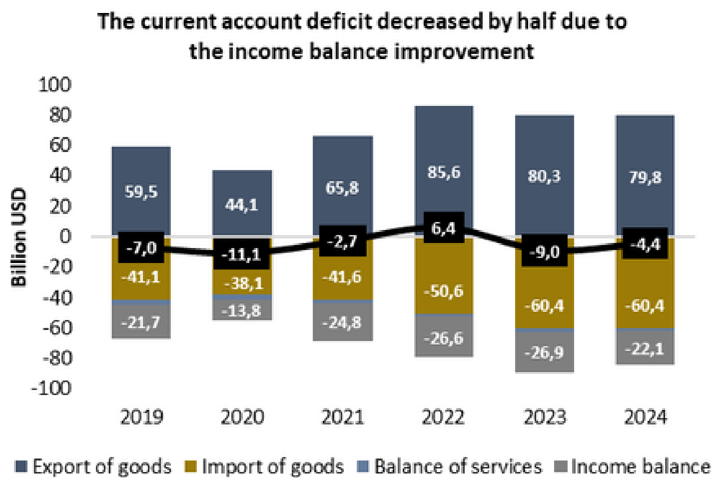
In November 2024, the current account forecast was revised downward compared to the August estimates. Under the baseline scenario, the deficit is now expected to be (-)2.7% in both 2025 and 2026. The main factor behind this revision is the reduction of scenario-based oil prices from an average of $80 per barrel to $70 per barrel.

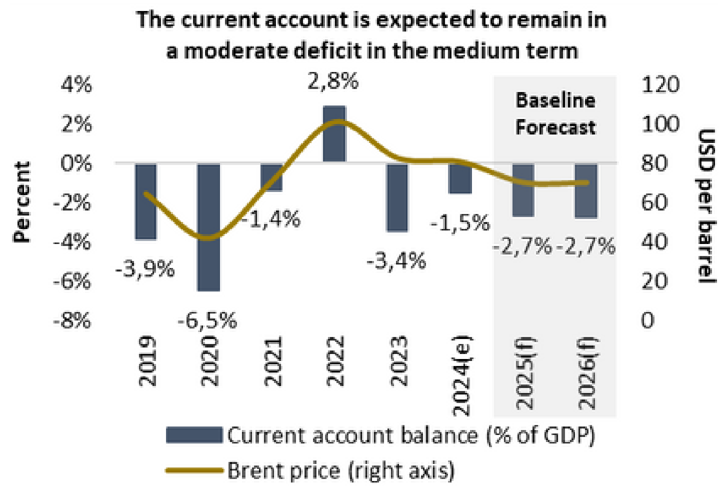
In the medium term, exports will be bolstered by the planned increase in oil production at the Tengiz oil field, which will help partially offset the anticipated decline in oil prices. Additionally, high global prices for uranium and metals will support non-oil export volumes.

Domestic demand for imports is expected to stay robust. A slight increase in import levels will primarily be driven by the purchase of intermediate and investment goods for ongoing and planned investment and infrastructure projects in both the private and public sectors.

The income balance deficit is expected to remain at high levels, reflecting trends in commodity exports. Despite lower oil prices, payouts to foreign direct investors are expected to remain steady due to the forecasted increase in oil production and high metal prices.

CURRENT ACCOUNT





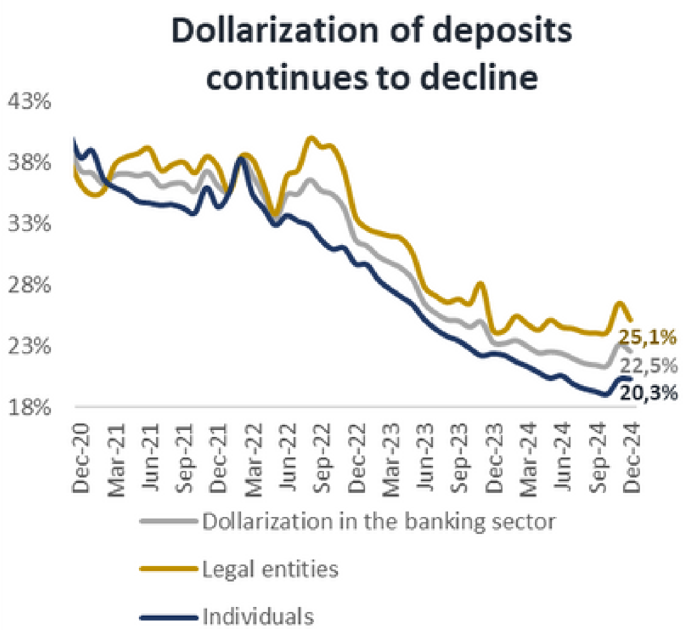
** Figures on NGDP for 2024 are not yet available; therefore, the "Current account/NGDP" ratio represents an estimate by the NBK.*

THE NBK CONDUCTED INTERVENTIONS

to smooth excessive volatility and ensure market stability

FX MARKET & FX RESERVES

mln USD	**2022**	**2023**	**2024**
FX Reserves	35 076	35 944	45 823
Assets in hard currencies	14 585	16 434	21 980
Gold	20 491	19 510	23 844
Share of gold,%	58%	54%	52%
USD/KZT total volume on KASE	29 704	37 047	54 963
USD/KZT rate	463	455	525
Interventions (net)	(-) 1 394	0	(-) 1 357
Sales from National fund	(-) 4 285	(-) 9 483	(-) 10 180



The tenge depreciated by 15% YoY to 525 per US dollar by the end of 2024. In 4Q 2024, we observed higher-than-usual volatility in the FX market, with both external and internal factors exerting pressure on the tenge. The global strengthening of the U.S. dollar, commodity price volatility, and geopolitical tensions weighed on emerging market currencies. The Russian ruble also weakened sharply due to new financial sanctions, at times reaching 113.5 per US dollar. Domestically, FX demand rose amid limited supply, driving trading volumes in 4Q 2024 to 1.5 times the level of the previous year.

The NBK intervened in November and December to smooth excessive volatility and ensure market stability, without targeting a specific exchange rate. Total interventions amounted to $1.357 billion. The NBK remains committed to a free-floating regime but stands ready to act if financial stability risks arise. In 2024, the NBK conducted FX sales from the National Fund, totaling $10.2 billion to support budget transfers. In 2025, planned transfers and bond loans from the National Fund are estimated at 5.35 trillion tenge. With approximately 1.1 trillion tenge expected inflows in tenge, the deficit amount, around 4.25 trillion tenge (equivalent to $8.5 billion), will be obtained through the sale of USD on the FX market throughout the year to cover budget needs, based on requests from the Ministry of Finance.

In 2024, the pension fund purchased $3.6 billion in FX. Starting in November, the pension fund stopped its FX purchases after reaching a target of 40% share of FX holdings.

As of the end of 2024, the country's international reserves stood at $104.7 billion, comprising $45.8 billion in FX reserves and $58.8 billion in National Fund assets. The increase in FX reserves was driven by rising gold prices.

In November 2024, dollarization temporarily increased amid FX market volatility but declined in December, reflecting the impact of monetary policy measures. By year-end, banking sector deposit dollarization fell to 22.5%, down from 23.2% a year earlier. While corporate deposit dollarization rose by 0.8% over the year, the most notable decline was among households, where it dropped by 2.1%, bringing the share of FX deposits to just over 20%.

MARKET NEUTRALITY PRINCIPLE

The introduction of a priority right for the NBK to purchase refined gold from domestic producers in 2011 significantly boosted foreign exchange reserves and supported Kazakhstan's gold mining sector. By the end of 2024, reserves reached a historic maximum of $45.8 billion, and the country saw increased gold production, with refinery like Tau-Ken Altyn LLP earning LBMA accreditation.

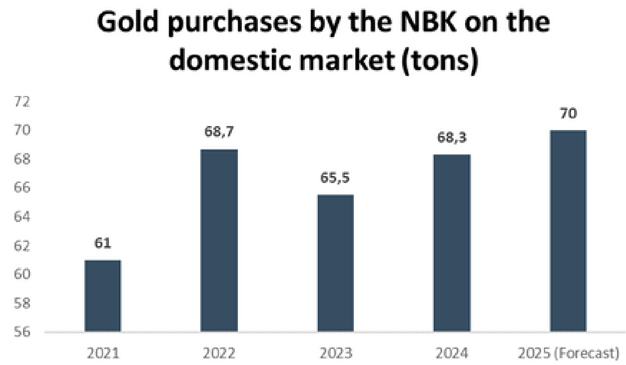
However, the rise in gold prices and production has led to a substantial increase in tenge issuance, impacting inflation. To address this, in 2025, the NBK introduced monetary neutrality principle - a mirroring mechanism, whereby the tenge issuance resulting from gold purchases will be offset by selling foreign currency on the domestic market. This measure aims to stabilize inflation and support the 5% target.

The implementation of the new mirroring mechanism allows monetary policy to adapt to contemporary challenges while maintaining macroeconomic stability.

Foreign currency sales will be conducted in adherence to the principle of market neutrality. The quarterly volume of issuance in foreign currency terms will be evenly sold on the domestic foreign exchange market over the following quarter.

According to forecasts, the planned volume of gold purchases under the priority right in 2025 is estimated at 70 tons, or approximately $6 billion at current gold prices.

To mirror the purchase of refined gold in the fourth quarter of 2024, the National Bank will sell foreign currency equivalent to approximately 750 billion tenge during the first quarter of 2025 on the stock exchange.



GOVERNMENT SECURITIES MARKET OVERVIEW

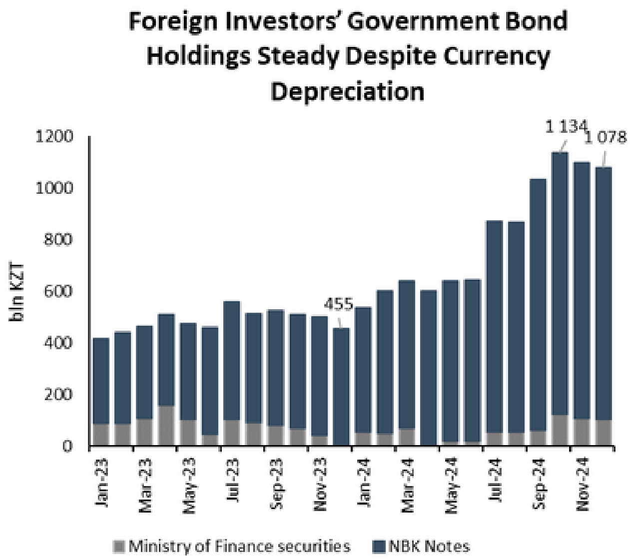
In 4Q2024, Kazakhstan's Ministry of Finance issued fixed-coupon government securities totaling 657 billion tenge, with almost the entire amount allocated to bonds up to 5 years. Yields on these bonds decreased by 20-60 basis points, driven by a lower financing need for the budget deficit, which resulted in a reduced monthly bond supply (590 billion tenge in October and 67 billion in November). Market participation remained strong at 87.2% in Q4 2024 (89.2% in Q3 2024 and 57.2% in Q2 2024). As a result, market demand averaged 1.6 times the supply.

Foreign investor holdings of government securities peaked in October and slightly decreased, however they remain on high level comparing to the begininng of the year.

In 2024 secondary market liquidity decreased comparing to the previous year.

The launch of primary dealership was postponed but is still expected in early 2025. The project is currently at the contract approval stage. Up to seven primary dealers are expected, with responsibilities including regularly quoting the most liquid securities and purchasing a designated amount of government bonds from the Ministry of Finance.

The implementation of settlements within the Euroclear global custodian system is progressing steadily. A Euroclear consultant's Legal Gap Analysis led to proposed amendments to Kazakhstan's "Law on the Securities Market”. These changes will recognize ownership rights for clients of foreign nominee holders and align with Euroclear's account-opening requirements. The amendments are still under parliamentary review and are likely to be approved in the first half of 2025.



**OTC data is available since 2023*

FOREIGN INVESTORS’ BOND HOLDINGS UNCHANGED

despite currency depreciation

INVESTOR RELATIONS

The NBK continues its efforts to strengthen the country's position in the global financial market.

The delegation of the National Bank led by the Governor Timur Suleimenov participated in the Annual Meetings of the IMF and the WB Group on October 23-25.

During engagements with Euroclear, critical legislative changes were discussed to align Kazakhstan's regulations with international standards, facilitating a potential direct link with Euroclear and supporting the development of the government debt market.

Further discussions were held with other prominent global players, where key economic forecasts, macroeconomic stability, and cooperation opportunities were emphasized. Dedicated sessions on Kazakhstan’s investment opportunities were organized for global investors aimed at showcasing Kazakhstan’s advancements in the capital market and promoting investor interest in government securities.

On October 28, NBK hosted the "Kazakhstan Finance Day" conference in New York, bringing together over 450 participants, including foreign investors, representatives of international financial institutions, key Kazakhstani public authorities, quasi-state entities, second-tier banks, and financial organizations. The event has become a key platform for promoting investment opportunities in Kazakhstan and strengthening strategic economic ties with major global financial players.

The Governor of the National Bank participated in the 36th meeting of the Foreign Investors’ Council chaired by the President of Kazakhstan K.K.Tokayev on the topic: The New Investment Cycle of Kazakhstan on October 31.

NBK actively maintains investor relations through regular engagements with institutional investors. In November, in collaboration with Bank of America and other counterparties—including Pictet and ICBC—the National Bank provided updates on Kazakhstan’s macroeconomic outlook, external sector developments, monetary policy, and financial stability.

Additional sources:

- Press releases
- Monetary Policy Report

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