MONETARY POLICY REPORT

February 2025

NATIONAL BANK OF KAZAKHSTAN

MONETARY POLICY OF THE NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

The monetary policy of the National Bank is a set of measures aimed at regulating the value of money in the economy to ensure price stability. Maintaining low and stable inflation contributes to economic growth and job creation.

The objective of monetary policy is to maintain annual inflation near 5% in the medium term.

The main instrument of the monetary policy of the National Bank is the base rate. By setting the level of **the base rate**, the National Bank determines the target value of the interbank short-term rate to achieve the goal of ensuring price stability in the medium term.

Decisions on the base rate are made by the **Monetary Policy Committee**.

The Monetary Policy Report is a quarterly analytical publication of the National Bank explaining the decision taken by the Monetary Policy Committee on the base rate. The document contains an analysis of the main macroeconomic factors affecting inflation, a forecast of macroeconomic parameters, as well as an assessment of the future trajectory of the base rate.

The document is published in an electronic version on the official Internet resource of the National Bank in Kazakh, Russian, and English. The forecast of macroeconomic indicators is based on statistical information as of **February 20, 2025**, and the analysis of macroeconomic indicators as of **March 3, 2025**.

CONTENT

THE DECISION ON THE BASE RATE OF MARCH 7, 2025

The Monetary Policy Committee of the National Bank of Kazakhstan has decided to set the base rate at 16.5% with a corridor of +/-1 percentage point. The decision was made based on an analysis of the actual data, updated forecasts and an assessment of inflation risks balance.

Annual inflation accelerated to 9.4% in February. Acceleration in the rate of price growth is observed across all components, with the largest contribution coming from high growth in prices for services. Monthly core and seasonally adjusted inflation indicate a significant increase in domestic demand pressure in the context of ongoing fiscal stimulus and continued overheating in consumer lending. Along with this, inflation expectations of the population in February again increased to 13.7%.

Pressure on prices from the external sector has increased due to further acceleration of inflation in Russia. Global food prices are still high, despite a slight decrease since December 2024. Inflationary and geopolitical risks persist, leading to tighter monetary policy and more restrictive stance from central banks.

In the baseline scenario, the price of Brent crude oil is maintained at an average of $70 per barrel until the end of the forecast period. The scenario conditions are formed taking into account the actual price dynamics and the expected excess of supply over demand on the oil market.

The inflation forecast for the coming years has been increased taking into account new factors. In 2025, it is expected to be within 10-12%, in 2026 – 9-11%. By the end of 2027, inflation will slow down to 5.5-7.5% as a result of a restrictive monetary policy and a reduction in fiscal stimulus as a result of the planned tax reform.

The higher forecast for the 2025-2027 period is associated with the growth of external inflationary pressure, higher fuel prices, higher VAT rates, and continued reforms in the housing and utilities sector. The main risks of the forecast are further growth of pressure from domestic demand, acceleration of inflation in Russia, and unanchored inflation expectations. In addition, uncertainty remains regarding the actual rate of increase in fuel prices, fiscal discipline (the practical implementation of plans to reduce withdrawals from the National Fund), as well as the implementation of secondary effects from the growth of regulated prices and the increase in VAT.

Forecasts for Kazakhstan's economic growth in 2025 and 2026 have been slightly reduced to 4.2-5.2%. The revision was caused by a number of factors, including a reduction in the Government's forecast for oil production. At the same time, the positive dynamics of domestic demand amid the recovery of the oil sector will support economic growth in 2025-2026. In 2027, amid fiscal consolidation, GDP growth will be close to potential values – in the range of up to 4.5%. At the same time, actual growth may be slightly higher given the successful implementation of structural reforms planned by the Government, including increasing investment in fixed assets, attracting foreign direct investment and economy liberalization.

A significant acceleration of current and projected inflation processes has led to a significant deviation of inflation from the target and has eased aggregate monetary conditions. In this regard, the current decision required an increase in the base rate. This measure will help to stabilize inflation expectations, prevent the persistence of the price growth acceleration and escalation of inflation spiral.

The decision will support inflation’s return to a sustainable downward trajectory toward the target in the medium term.

1.1. Assessment of the path of the base rate by the Monetary Policy Committee

At the meeting of the Monetary Policy Committee of the National Bank, the members presented their estimates of the most likely trajectory of the base rate for 2025-2027 (Table 1, Graph 1). Compared with the previous forecast round, the estimates have increased throughout the entire horizon under consideration.

The opinion of each member of the MPC was based on the information available at the time of the meeting. This is an assessment by MPC members of the direction of monetary policy, which, in their opinion, is needed to achieve inflation target, taking into account current conditions and future prospects at the time of decision-making.

The proposed trajectory of the base rate does not imply an obligation of the National Bank to keep it at such levels. The National Bank will explain the factors and prerequisites behind its decision in its communication, including in the case of deviation from the previously assessed trajectory of the base rate.

Table 1. MPC members' estimates of the base rate

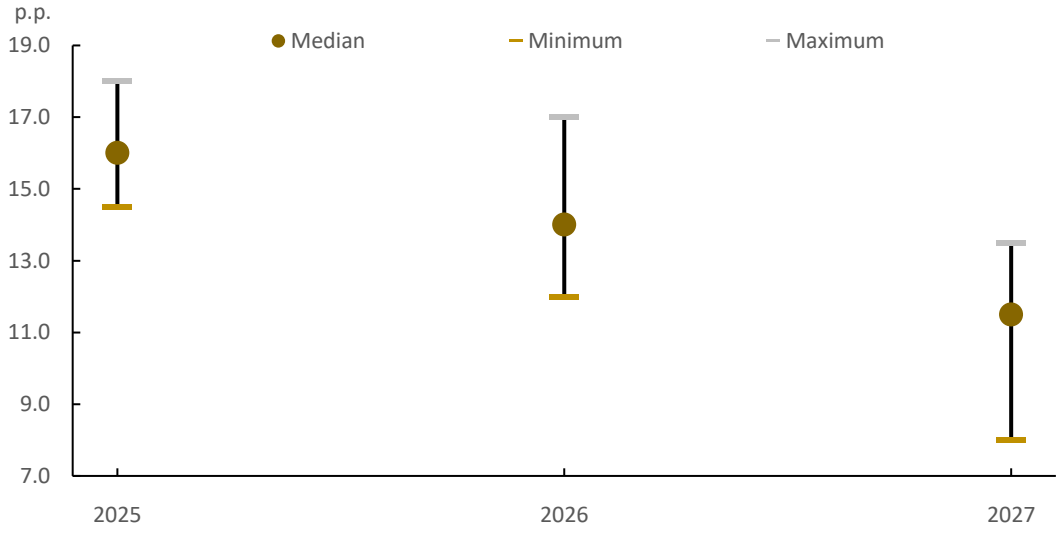
Indicator	Median			Range		
	2025	2026	2027	2025	2026	2027
Base rate, at the end of the year, %	16,0 (13,75)	14,0 (12)	11,5	14,5-18,0 (12-14,75)	12,0-17,0 (10-13,75)	8,0-13,5

Notes:

1. If the MPC member presented an assessment interval, the average value of this interval was taken as the point of the series to determine the median.

2. The range of the indicator includes the estimates of all MPC members from the minimum to the maximum for each year (including the boundaries of the interval, if the estimate is presented as an interval and not a point).

Graph 1. The range of estimates of the base rate by the MPC members



Source: MPC members' estimates

1.2. Key external assumptions

1.2.1. Commodity markets

Since the publication of the previous Monetary Policy Report "November 2024", the dynamics of world oil prices have generally corresponded to the baseline scenario, demonstrating an increase in early 2025 due to supply shocks.

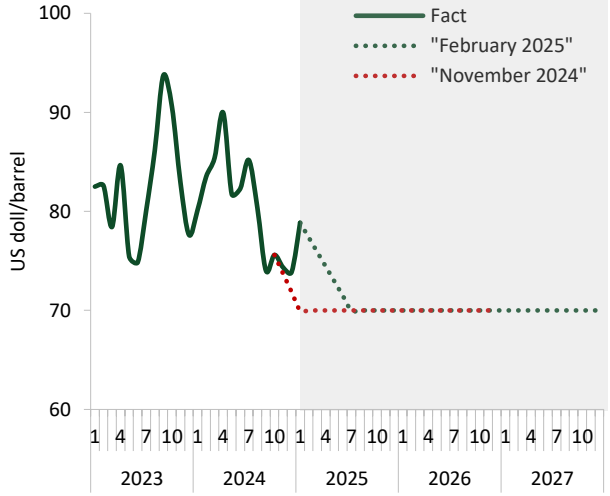
Given the continuing imbalance in the global oil market, oil prices are expected to decline to $70 per barrel in the medium term and subsequently stabilize at this level under the baseline scenario of the February 2025 forecast round.

In November-December 2024, oil prices averaged $74 per barrel, which corresponded to the baseline scenario. In the context of slowing global demand and increasing oil production in non-OPEC+ countries, OPEC decided to postpone the easing of restrictions on the voluntary reduction of oil production in the amount of 2.2 million barrels per day from December 2024 to April 2025. At the same time, in January of this year, oil prices began to rise, reaching $81. Against the background of the introduction of US sanctions against the Russian energy sector, as well as a prolonged decline in oil reserves in the United States. Expectations for a further increase in oil supply and its excess over demand led to the continuation of the scenario dynamics of oil prices in the medium term at the level of the previous forecast round. Under the baseline scenario, Brent crude oil prices are expected to decline to $70 per barrel by mid-2025, followed by stabilization at this level. The key factors are the slow growth in demand from China, an increase in oil supply as a result of the expected easing of OPEC+ restrictions since April this year and continued production growth in the Americas. Additional factors of uncertainty regarding the dynamics of global oil prices remain the geopolitical risks associated with possible changes in international trade and sanctions policies, as well as the degree of effectiveness of measures to restore economic growth in the largest oil importing countries (Graph 2).

Global grain prices have fallen below expectations as a result of weaker import demand and increased supply amid more favorable weather conditions in certain regions. In the medium term, as in the previous forecast round, a gradual increase in grain prices is expected due to excess demand over supply and increased climate risks.

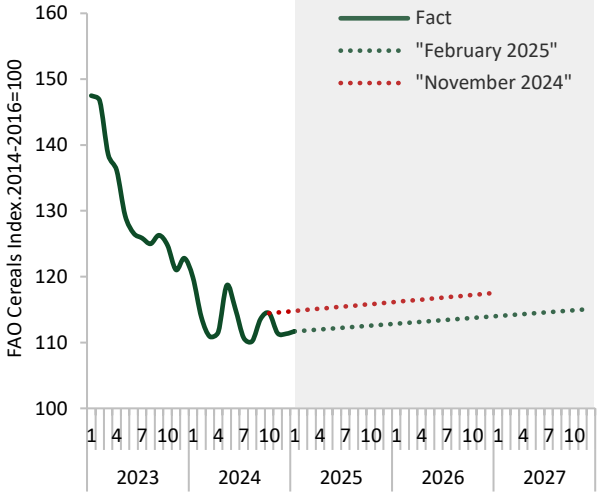
Over the past two months, there has been a general downward trend in global food prices, but their level remains higher than last year. Meanwhile, in December 2024 – January 2025, the grain price index showed weak growth. This was facilitated by weak import demand in the wheat market and lower rice prices amid significant supply volumes (Graph 3).

Graph 2. The base scenario for the price of Brent crude oil remains at the level of the previous forecast round.



Источник: EIA, Consensus Ecs., расчеты НБРК

Graph 3. Excess demand over supply of grain will lead to a further increase in grain prices.



Источник: UN FAO, расчеты НБРК

According to forecast estimates, a gradual increase in grain prices is expected until the end of the forecast horizon. The main factors driving the price increase are a decrease in FAO forecasts for grain production, a reduction in stocks compared to the previous season, as well as climate risks

putting pressure on yields. Additionally, an increase in grain consumption for food purposes will support the price increase. As a result, as in the previous forecast round, the pro-inflationary impact of global food prices will persist over the forecast period.

1.2.2. Global Economic Development and Trade Partner Countries

The growth of global business activity continued but at a slower pace. Economic activity in Kazakhstan's trade partner countries exceeded expectations.

The growth of global business activity slightly slowed down at the beginning of 2025. The main contributing factor was the services sector, where growth rates declined due to rising prices and weakening demand. At the same time, the industrial sector showed growth for the first time in a long period, driven by an increase in orders amid concerns over potential trade tariffs from the United States.

Economic activity in Kazakhstan's key trading partner countries demonstrated positive dynamics. China's economic growth exceeded expectations due to the implementation of stimulus measures and monetary policy easing. In the EU, a moderate economic recovery was observed, driven by strong domestic demand and some improvement in external trade. Russia's economic growth also surpassed expectations due to a more significant expansion in consumer demand, increased investments, and rising exports.

The global economy will continue to grow at a moderate pace. In 2025-2027, economic activity in China and Russia is expected to slow down due to structural and external factors. The economic recovery in the EU will continue at a slower pace.

According to the updated IMF forecasts[1], global economic growth is expected to reach 3.3% year-on-year in 2025-2026. The growth forecast[2] for China remains unchanged. The impact of the 2024 stimulus measures is expected to support the economy in 2025, while in 2026-2027, growth will remain around 4% amid declining global uncertainty and an improving labor market situation.

The EU's economic growth forecast has been revised downward due to industrial stagnation and increasing risks of geopolitical tensions. In Russia, after an acceleration in 2024, economic growth is projected to slow to 1.5% year-on-year by 2027. Growth will be constrained by labor shortages, the impact of sanctions, and lower oil prices (Graph 4).

Global inflation has significantly declined over the past two years but remains above target in many countries. Inflation in the EU and China is expected to remain low throughout the forecast horizon. Higher current inflation in Russia has led to an upward revision of forecasts.

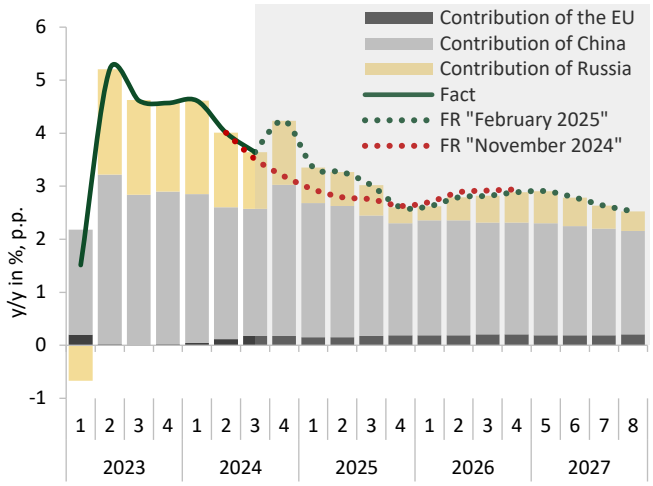
At the end of 2024 and the beginning of 2025, inflation accelerated in several countries, mainly due to rising food and service prices. In Russia, inflation exceeded expectations amid a poor harvest, rising production costs, and strong demand. In China, inflation remains low due to weak consumer activity. In the EU, price growth for services and food exceeded forecasts.

Inflation in Russia is expected to remain elevated due to another increase in regulated service tariffs and high inflation expectations. In the EU and China, annual inflation is projected to remain below target in the medium term (Graph 5).

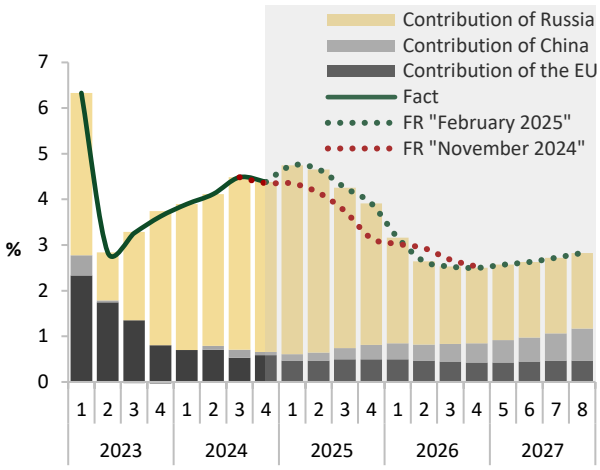
[1] *IMF World Economic Outlook, January 2025*

[2] *Consensus Ecs.*

Graph 4. Aggregated External GDP* – Current growth in China and Russia may support export demand in the short term. In the medium term, demand is expected to grow at a more moderate pace.



Graph 5. Aggregated External Inflation** – Persistently high inflation in Russia will increase external inflationary pressure. However, this effect will be partially offset by low inflation in China and the EU.



** Represents the GDP growth rates of trading partner countries weighted by their share in exports.*
***Represents the annual inflation rates in trading partner countries weighted by their share in imports.*
Source: Eurostat, National Bureau of Statistics of China, Rosstat, Consensus Economics, CBR, NBK estimation

Central banks across countries have continued to lower interest rates while maintaining a more cautious stance amid rising inflationary and geopolitical risks.

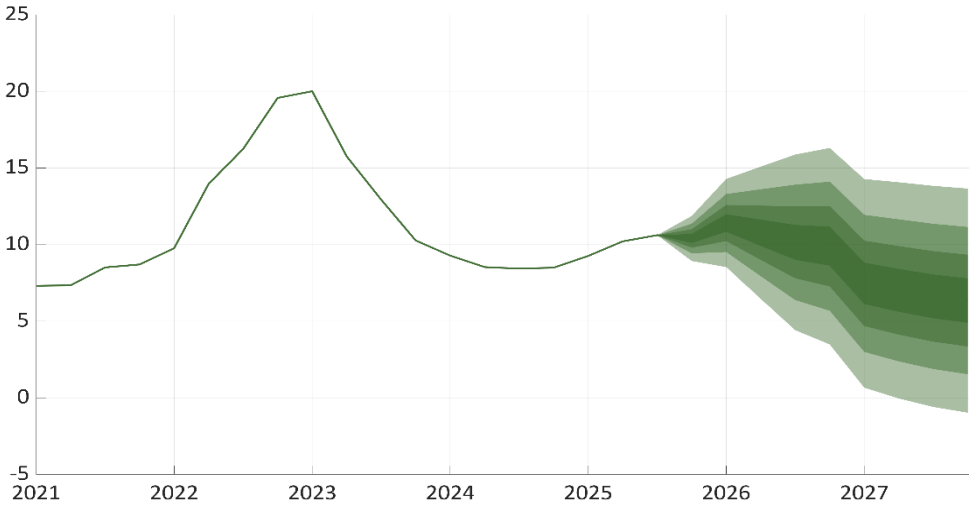
At the beginning of 2025, several central banks in developed countries lowered interest rates to stimulate economic growth amid slowing inflation. Emerging markets are also actively easing monetary policy. At the same time, the U.S. Federal Reserve maintains a cautious approach due to persistent inflation and strong economic activity. The European Central Bank (ECB) follows a balanced course, considering weak economic growth and sustained inflationary pressure in the services sector. In Russia, accelerating inflation and high inflation expectations have led the Central Bank of Russia to maintain a tight monetary policy.

Over the forecast horizon, central banks are generally expected to continue normalizing monetary policy; however, due to increased uncertainty, the pace of rate cuts may slow down. The U.S. Federal Reserve will adhere to a cautious approach, while the ECB will continue its rate-cutting course to support the economy. Meanwhile, the Central Bank of Russia, considering ongoing inflationary risks, allows for the possibility of an additional key rate hike in 2025.

1.3. Outlook for economic development under the baseline scenario

The inflation forecast for 2025 has been revised upward due to increased external and internal inflationary pressures amid rising tariffs for housing and communal services (HCS) and the deregulation of prices for fuels and lubricants (F&L). Given the discussed increase in the VAT rate to 16% in 2026, expectations for inflation dynamics in 2026-2027 have also been revised upward. At the same time, this measure is necessary for subsequent fiscal consolidation and serves as an important factor in ensuring the sustainability of disinflationary processes. Meanwhile, due to the implementation of a moderately tight monetary policy, core inflation (q/q, SA), adjusted for temporary factors, will slow down to 5% by mid-2027. Thus, inflation in 2025 will be 10-12%, in 2026 – 9-11%, and in 2027 – 5.5-7.5% (Graph 6, Table 2).

Graph 6. Amid strengthening pro-inflationary factors, the inflation forecast (y/y, %) has been revised upward.



Source: NBRK forecast

The inflation forecast for 2025 has been revised upward. By the end of the year, inflation is expected to be within the range of 10-12%. In 2025, significant risks of accelerating inflation persist, driven by the combined impact of external and internal factors. Among external factors are rising prices in global food markets and increasing inflationary pressure from Russia. Internal factors include higher HCS tariffs, rising production costs due to higher prices for manufacturing products, imported goods, and the F&L. The increase in F&L prices will not only raise transportation and production costs but will also have an indirect impact on a wide range of goods and services, contributing to their price increases.

Food inflation will remain under pressure due to rising production costs, higher global food prices, and increased external demand for domestic food products.

Non-food inflation will accelerate due to rising F&L prices, increasing production costs, and higher prices for imported goods.

Service inflation will be determined, on the one hand, by rising regulated tariffs under the "Tariff in Exchange for Investments" program, which, if the pace of increases remains at the 2023-2024 levels, will continue to be the key driver of inflation in this sector. On the other hand, price growth for non-regulated services will stabilize amid moderate consumer demand.

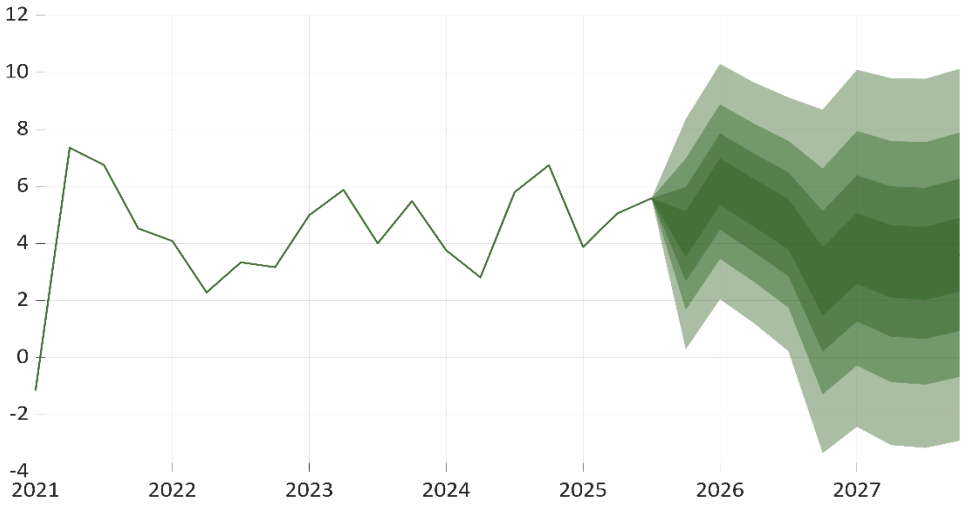
Inflation in 2026-2027 will continue to slow down, but at a slower pace than previously forecasted. This will be facilitated by an increase in the VAT rate to 16% in early 2026, an increase in regulated HCS tariffs and an increase in F&L prices. Additionally, the expected VAT rate increase may lead to preemptive rise in consumption and prices, which will intensify inflationary expectations and have a pro-inflationary impact on all components of inflation.

At the same time, the stabilization of inflation expectations due to the moderately tight policy of the NBK, along with the gradual return of inflation in Kazakhstan's trading partner countries to their target values, will contribute to the reduction of inflation in the medium term.

At the same time, if we do not take into account the impact of temporary factors in the form of ongoing reforms aimed at increasing HCS tariffs and deregulating the F&L market, seasonally adjusted quarterly core inflation will form near the medium-term target of the NBK by mid-2027.

Domestic consumer demand remains the key driver of economic growth which, in turn, exerts pro-inflationary pressure on the economy. In 2025, GDP growth will maintain its current pace due to domestic demand and will be in the range of 4.2-5.2%. In 2026, expectations for GDP growth have changed compared to the previous forecast, it is assumed that economic activity growth will be in the range of 4.2-5.2% in 2026, and 3.5-4.5% in 2027. (Graph 7, Table 2).

Graph 7. More moderate GDP growth is expected in 2025-2026 compared to previous forecasts (YoY, %).



Source: NBK forecast

In the second half of 2024, consumer activity exceeded the NBK's forecasts. The acceleration of consumption growth in the second half of the year was reflected in the dynamics of retail turnover, which increased by 9.8% by the end of the year, primarily driven by non-food products. Additionally, growing demand was observed in the dynamics of large purchases, including automobiles and real estate, which may have been driven by panic-driven demand amid exchange rate fluctuations.

In 2025, domestic demand and exports will be the main contributors to GDP growth. Domestic demand will be supported by continued fiscal stimulus and consumer lending. In 2025, domestic demand and exports will be the main contributors to GDP growth. Domestic demand will be supported by ongoing fiscal stimulus and growing consumer lending. At the same time, export dynamics are expected to be influenced by increased oil production due to the implementation of the FGP/WPMP project at TCO starting in the second half of 2025. An annual increase in oil production in Kazakhstan is expected throughout the forecast horizon. At the same time, non-oil exports will show weak positive dynamics due to moderate growth in external demand and a strong real exchange rate. As a result, the updated GDP growth forecast for 2025 is 4.2-5.2%.

In 2026, the GDP growth forecast has been revised downwards amid the expected fiscal consolidation due to the planned tax reform. As a result of this factor and the stabilization of oil production growth, the annual economic growth will slow down from the second half of 2026 and approach its potential values in 2027. Thus, in 2026, GDP growth will be 4.2-5.2%, in 2027 – 3.5-4.5%. At the same time, actual growth may be slightly higher given the successful implementation of structural reforms planned by the Government, including increasing investment in fixed assets, attracting foreign direct investment and economy liberalization.

The output gap, defined as the percentage deviation of the actual GDP from its potential level, will remain positive throughout 2025 with a gradual closure by the end of 2026. This is a result of the positive dynamics of domestic demand due to fiscal stimulus and consumer lending, as well as increased exports in 2025-2026 due to increased oil production. At the same time, in 2026-2027, with the expected fiscal consolidation, the economy will approach its potential levels. At the end of 2026, the output gap will completely close, and economic growth will remain at a potential level.

Table 2. Forecasts under the baseline scenario

	2025	2026	2027
GDP, *yoy, %*	**4,2-5,2** (4,5-5,5)	**4,2-5,2** (4,6-5,6)	**3,5-4,5**

CPI, *Dec. to Dec. previous year, %*	**10-12** (6,5-8,5)	**9-11** (5,5-7,5)	**5,5-7,5**
Brent, *USD/Barrel, average per year*	**73** (70)	**70** (70)	**70**

Table 2 (a). Forecasts under the pessimistic scenario

	2025	**2026**	**2027**
GDP, *yoy, %*	**3,6-4,6** (3,7-4,7)	**4-5** (4,5-5,5)	**3,5-4,5**
CPI, *Dec. to Dec. previous year, %*	**10,8-12,8** (6,7-8,7)	**9,7-11,7** (6-8)	**6-8**
Brent, *USD/Barrel, average per year*	**50** (50)	**50** (50)	**50**

Table 2 (b). Forecasts under the optimistic scenario

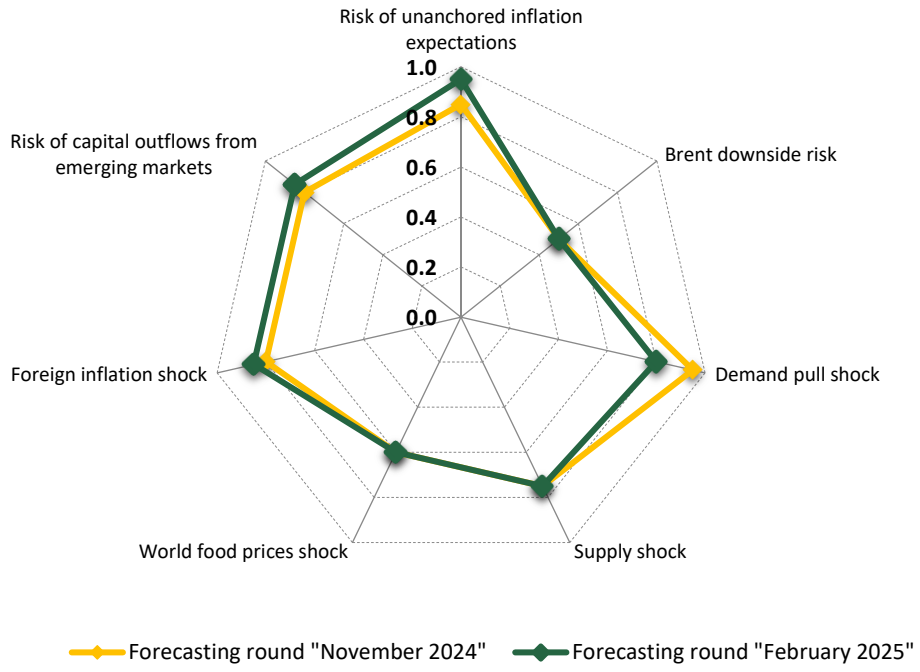
	2025	**2026**	**2027**
GDP, *yoy, %*	**4,6-5,6** (5,1-6,1)	**4,2-5,2** (4,7-5,7)	**3,5-4,5**
CPI, *Dec. to Dec. previous year, %*	**9,5-11,5** (6-8)	**8-10** (5-7)	**5-7**
Brent, *USD/Barrel, average per year*	**90** (90)	**90** (90)	**90**

Source: NBK forecasts

1.4. Medium-term Risks

The risks of inflation deviating from the forecast trajectory remain high, which requires maintaining moderately tight monetary conditions (Graph 8).

Graph 8. The balance of risks is tilted towards pro-inflationary pressures.
Risk Map Based on Expert Judgement



Source: NBK forecasts

The risks of accelerating inflation remain high due to the increase in both internal and external pro-inflationary factors. Among internal factors, the risk of unanchored inflation expectations has significantly increased, as they are susceptible to short-term shocks in certain food markets, the implementation of government reforms in the F&L market (higher increase than in 2023) and the fiscal sector, as well as the continuation of the "Tariff in Exchange for Investments" program. Amid the gradual deregulation of prices in the F&L market and HCS tariff reforms, the risks from the supply side remain high due to possible secondary effects. Among internal factors, the risk of pro-inflationary pressure from domestic demand has somewhat decreased, which will be driven by the planned fiscal consolidation starting in 2026.

Among external factors, the risks of accelerating external inflation and capital outflows from emerging markets have simultaneously increased. Inflation in Russia is currently much higher than the expected dynamics, with pressure coming from both demand and supply. Given these factors and Russia's high share in Kazakhstan's imports, the risk of importing higher external inflation is increased.

At the same time, the current economic policy of the United States, implemented by President Donald Trump's administration, exacerbates risks of geopolitical tensions in the world. The intensification of trade wars, economic competition between the US and China, and the imposition of additional EU sanctions on Russia create high uncertainty and may lead to capital flight from countries with emerging markets, including Kazakhstan. Thus, the risk of capital outflows and pressure on the currency markets of developing countries is elevated.

As for economic activity, the risks to the GDP forecast are mainly related to oil exports. First, concerns are related to the potential disruption of the continuous operation of the Caspian Pipeline Consortium (CPC) due to real threats to the stable logistics of Kazakhstan's oil. Second, existing OPEC+ restrictions on daily oil production could create limitations for the full implementation of plans to expand production capacities at the TCO. Additionally, potential revisions of the GDP dynamics may lead to changes in the parameters of future fiscal policy.

Box 1. International experience of VAT rate increases on inflation.

Raising the value-added tax (VAT) rate is a common fiscal policy tool for reducing budget deficits, but its inflationary impact varies depending on macroeconomic conditions, tax system structure, and monetary policy stance.

In the short run, a VAT hike exerts upward pressure on inflation. However, over the long term, such a fiscal consolidation measure is generally less inflationary than deficit financing through transfers. The magnitude of the inflationary effect depends on prevailing economic conditions.

In economies with tight monetary policy and well-anchored inflation expectations, the pass-through effect is relatively contained. By contrast, in markets characterized by weak competition and high expectation sensitivity, VAT increases tend to generate stronger inflationary pressures. The supply-demand balance also plays a key role: preferential tax treatment and elastic demand mitigate price increases, whereas market concentration and heightened inflation expectations amplify them.

Following the 2008 financial crisis, many European countries raised VAT rates as part of fiscal consolidation efforts[3]. In the Czech Republic, VAT hikes of 1 percentage point (p.p.) in 2010 and 2013 led to inflation increases of 1.1 p.p. and 0.8 p.p., respectively. In Germany, the 2007 VAT increase from 16% to 19% resulted in an actual inflation uptick of less than 1 p.p., below the forecasted 1.4 p.p. This was partly due to anticipatory price adjustments by producers ahead of the tax change. Similar dynamics were observed in Finland and Italy, where VAT hikes of 1 p.p. led to moderate inflationary effects of 0.4–0.5 p.p., supported by stable macroeconomic conditions.

Greece, facing a more fragile economic environment, experienced a more pronounced inflationary impact. A 4 p.p. VAT increase in 2011 pushed inflation up by 2 p.p., while a similar 4 p.p. hike in 2010 had an even stronger effect, raising inflation by 3.3 p.p. The severity of the impact was driven by broader macroeconomic

[3] *Here and throughout the text, calculations from the central banks of the respective countries are used.*

instability and the urgent need for fiscal consolidation. In Portugal, a 3 p.p. VAT increase in 2011 led to a 1.3 p.p. rise in inflation.

Empirical analysis by Benedek et al. (2015)[4], covering 17 Eurozone economies from 1999 to 2013, confirms that the pass-through effect of VAT rate changes is stronger for durable goods than for non-durable goods. The speed and extent of price adjustments also depend on the VAT structure across different product and service categories. In particular, sectors benefiting from reduced rates or exemptions experience lower pass-through effects (approximately 30%), whereas other sectors exhibit near-complete price transmission.

A similar differentiated impact was observed in Japan. A 5 p.p. VAT increase in 1997 resulted in a 2.5–3.0 p.p. rise in consumer prices (Ye et al., 2009[5]). The smaller-than-expected price effect was attributed to mitigating policies such as VAT refunds on exports and exemptions for investment-related purchases, which helped cushion inflationary pressures. Notably, sectors subject to zero VAT rates even saw price declines ahead of the tax change. In 2014, another VAT hike of 3 p.p. led to a 2 p.p. increase in inflation, despite an accommodative monetary policy stance.

In Russia, the VAT rate was raised from 18% to 20% in 2019. The Central Bank of Russia initially estimated the inflationary impact to range between 0.6-1.5 p.p. However, ex-post analysis indicated that the cumulative effect was lower, at 0.55-0.7 p.p., with the strongest impact materializing in January 2019 (Kurovsky, 2019[6]).

Central banks typically do not respond directly to the first-round effects of VAT hikes, as these are considered transitory. However, they closely monitor second-round effects, particularly through inflation expectations, wage dynamics, and longer-term price-setting behavior. These indirect effects can reinforce inflationary pressures, especially in economies with weak monetary policy credibility or low market competition. For instance, in the UK (2010-2011), a VAT increase led to higher household inflation expectations, but stable business conditions and financial market confidence prevented wage pressures, reducing the need for monetary tightening. Conversely, in Romania, a 5 p.p. VAT increase triggered a sharp rise in inflation expectations, forcing policymakers to halt monetary easing. In Hungary, frequent VAT adjustments contributed to heightened inflation volatility, necessitating active intervention by the central bank.

This evidence underscores the importance of a credible monetary policy framework and transparent communication in mitigating the secondary inflationary effects of VAT adjustments.

Overall, cross-country analysis highlights the diverse inflationary impact of VAT rate changes, emphasizing the need for a comprehensive assessment of macroeconomic conditions, market structures, and policy responses when evaluating fiscal policy decisions.

1.5. Forecast of the current account of the balance of payments

Under the baseline scenario, the current account of the balance of payments will remain in deficit in the medium term. The widening of the deficit from its 2024 level will be driven by persistently high domestic consumption of imports and rising income payables to foreign direct investors. (Graph 9).

The current account forecasts have been revised downwards compared to the previous forecast round due to higher than previously expected import of goods (Graph 9). Thus, the previous current account forecast for 2025-2027 was expected to be in the range of (-)7.9-(-)8.7 billion US dollars or (-)2,6%-(-)2,7% to GDP. According to the updated estimates, the current account deficit is expected at (-)8.4 billion US dollars or (-)2.8% of GDP in 2025, (-)9.9 billion US dollars or (-)3.2% of GDP in 2026, and (-)8.9 billion US dollars or (-)2.8% of GDP in 2027.

Import of goods will continue to grow, exceeding the historical maximum of 2024. High import volumes are expected due to the growing demand of the population and businesses in the context of insufficient domestic production to cover it, the dependence of local industry on the import of intermediate and investment goods, as well as the implementation of state programs and measures to diversify the economy. The source of financing sustainable domestic demand for imports, in

[4] *Benedek D., Mooij R., Wingender Ph. Estimating VAT Pass Through. IMF Working Papers. 2015. No. 15(1)*

[5] *Ye, Z., Watanabe, T., Shimoda, M., & Fujikawa, K. Price and Revenue Change by VAT reform in Japan-in consideration of exemption and zero tax rate*

[6] *Куровский Г., «Оценка вклада повышения НДС в годовую инфляцию», Банк России, декабрь 2019*

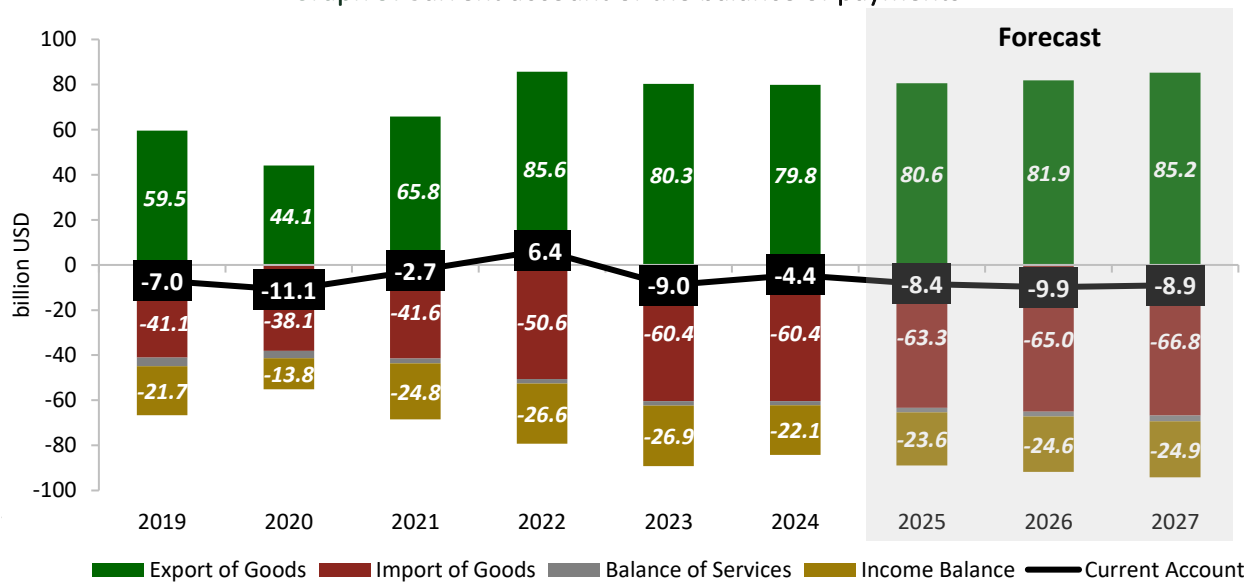
addition to personal and borrowed funds, will be fiscal expenditures. As a result, import of goods is expected to increase from 60.4 billion US dollars (21.2% of GDP) in 2024 to 66.8 billion US dollars (21.0% of GDP) in 2027.

Export of goods will increase over the forecast horizon. The scenario-based decline in oil prices will be offset by higher production at the Tengiz field. Non-oil exports will be supported by a number of factors, including high global uranium prices and plans to expand its production, as well as scenario-driven growth in global prices for ferrous and non-ferrous metals. As a result, in the medium term, exports will rise from 79.8 billion US dollars (28.0% of GDP) in 2024 to 85.2 billion (26.9% of GDP) in 2027.

The widening of the income balance deficit will result from the growth in commodity exports. In particular, substantial payments to foreign direct investors will be driven by higher net profits of enterprises with foreign participation, supported by increased oil production and high metal prices. As a consequence, the income balance deficit will expand from (-)22.1 billion US dollars ((-)7.7% of GDP) in 2024 to (-)24.9 billion US dollars ((-)7.8% of GDP) by 2027.

Higher volumes of import of services compared to their exports will lead to a moderate deepening of the balance of services deficit over the forecast horizon. International travel continues to be the main driver of service imports, and its growth will be stimulated by the opening of new air routes from Kazakhstan and the introduction of visa-free regime with some countries. Export of services, in turn, will grow due to the growth of transportation services through Kazakhstan and the inflow of foreigners, mainly from neighboring countries. As a result, the balance of services deficit will deepen from (-)1.7 billion US dollars ((-)0.6% of GDP) in 2024 to (-)2.5 billion US dollars ((-)0.8% of GDP) by the end of 2027.

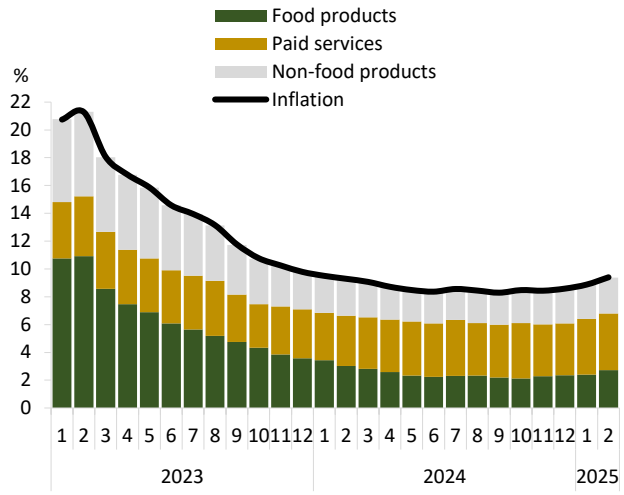
Graph 9. Current account of the balance of payments



2.1. Inflation

In February 2025 annual inflation accelerated up to 9,4%, thereby exceeding the National Bank's expectations. Hastening of the price growth rate is observed across all components of inflation. Paid services component remains as the main driver of inflation, while contribution to overall inflation from food and non-food products is more restrained. At the same time, the food inflation has accelerated significantly.

Graph 10. Annual inflation continued to accelerate.



Source: BNS ASPR, NBRK calculations

In February 2025, the trend towards acceleration of annual inflation continued – price growth accelerated to 9.4% compared to 8.9% in January 2025 (Graph 10). This acceleration is due to the complex pro-inflationary background in the economy, formed by a combination of internal and external factors.

Among external factors, the main upward influence on inflation was exerted by the weakening of the nominal exchange rate of the tenge and the acceleration of inflation in Russia – the main trading partner. Among internal factors exerting pro-inflationary pressure, high and volatile inflation expectations, stable consumer demand and the ongoing increase in utility tariffs can be distinguished.

The paid services sector continues to make the largest contribution to inflation, annual growth in prices for services amounted to 14.1% (13.8% in January 2025). The growth in tariffs for regulated utilities under the "Tariff in Exchange for Investments" program continues to have a significant impact on the overall growth in prices. In addition, it is worth noting the growth in the contribution of individual market services to service inflation against the backdrop of stable consumer demand, the weakening of the nominal exchange rate of the tenge, as well as changes in tariffs for certain service types.

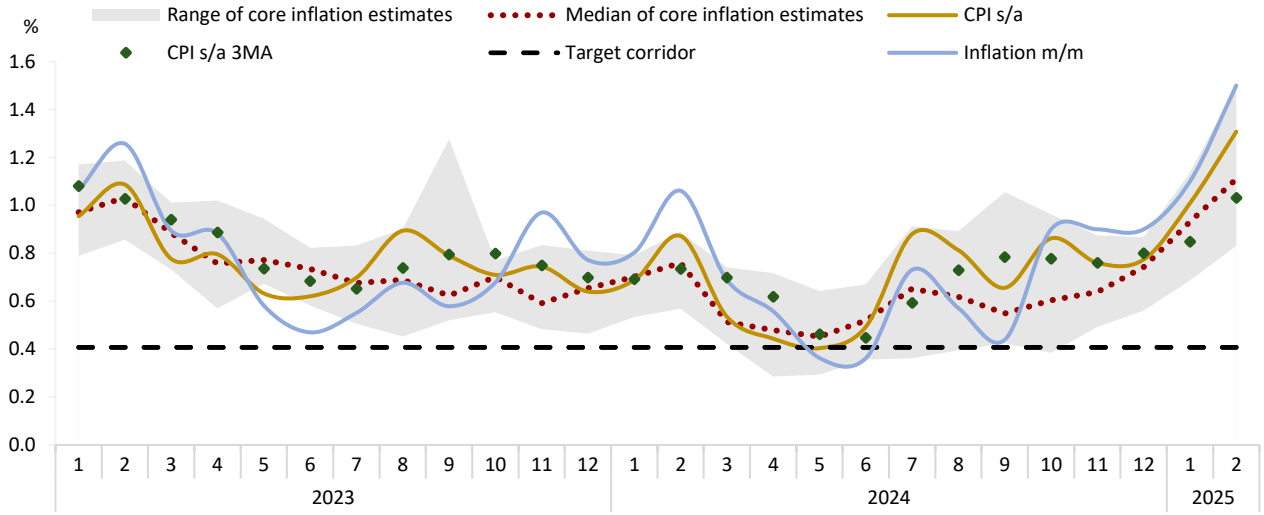
Non-food prices increased by 8.7% in annual terms (8.4% in January 2025), as a result of a combination of the influence of the exchange rate factor and domestic demand. Prices for imported finished consumer and intermediate goods are responding to the weakening of the nominal exchange rate of the tenge, which contributes to a growth in production costs and an increase in the price of a wide range of non-food products. Sustainable consumer demand, in turn, maintains a high level of consumption, despite the increase in consumer prices under the influence of the exchange rate factor.

In February 2025, food inflation accelerated considerably to 6.5% (5.8% in January 2025). This acceleration is linked to the rise in prices of certain food products as a result of rising producer prices in the manufacturing industry, as well as a significant increase in the price of certain goods against the backdrop of a reduction in their production.

In February 2025, seasonally adjusted overall and core inflation continued to accelerate, reflecting sustained price growth across a wide range of goods and services. The widening of the range of core inflation estimates by raising the upper bound indicates increasing inflationary pressure on prices, stemming from the persistent part of inflation.

In February 2025, seasonally adjusted inflation accelerated to 1.31% in monthly terms (1.01% in January 2025), which corresponds to an annualized growth of 16.9% (12.8%) (Graph 11). At the same time, median of the core inflation accelerated, amounting to 1.11% (0.93%), or 14.2% (11.8%) in annualized terms. The acceleration of seasonally adjusted overall and core inflation continues for the fourth month in a row, which indicates persistent pro-inflationary trends in the economy. This reflects not only the influence of the exchange rate factor, but also the persistent growth in production costs and consumer demand. It should also be noted that the expansion of the range of core inflation estimates through an increase in the upper limit indicates the pro-inflationary nature of the current trends.

Graph 11. Various monthly inflation measures have accelerated.



Source: BNS ASPR, NBRK calculations
Note: historical estimates may be reviewed.

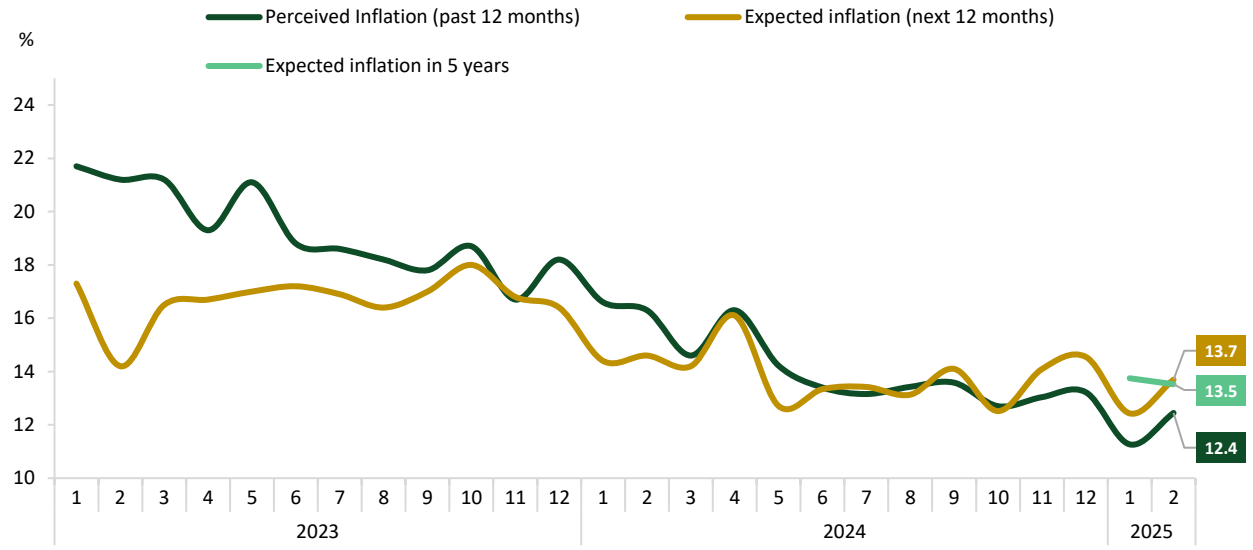
Inflation expectations continue to be volatile, rising again in February 2025 amid accelerating annual inflation. The share of respondents expecting inflation below 10% has decreased, and the number of those expecting inflation above 10% has increased. The respondents' responses are dominated by a high degree of uncertainty about future inflation.

In February 2025, the population's inflation expectations for the next 12 months increased to 13.7%, compared with 12.4% in January 2025. At the same time, the level of perceived inflation increased, reaching 12.4% against 11.3% a month earlier (Graph 12). In the structure of respondents' responses to inflation expectations for the year ahead, an increase in the share of high values was recorded, while a significant degree of uncertainty remains.

Despite the volatility of inflation expectations, the smoothed three-month indicator of inflation expectations in recent months has shown stabilization at the level of 13.6%. This level is close to the value of long-term (five-year) inflation expectations, the publication of which by the National Bank began in January 2025. In February 2025, long-term inflation expectations remained virtually unchanged, amounting to 13.5% (13.7% in January 2025).

In general, respondents continue to form inflationary expectations based on their personal shopping experience, but their share is gradually decreasing. This is happening against the background of an increase in the number of respondents who rely on external sources of information, such as social networks, the Internet, the media and analytical materials from experts.

Graph 12. The dynamics of inflation expectations remain volatile.



Source: FusionLab: population survey

Box 2. Savings Behavior Survey Results.

Fusion Lab LLP conducted an independent sociological survey on the savings behavior of the population in the event of a significant decrease in deposit interest rates (by 4 percentage points) amid the current inflationary environment.

The survey was conducted once in February 2025 among a standardized representative sample of the monthly survey on inflation expectations. Respondents were asked the following question: "Currently, the official inflation rate is 8.9%, and the deposit rate in tenge is around 14%. Please tell us, if the deposit rate decreases from 14% to 10%, what will you do with your deposit funds?". According to the survey results, if the deposit rate drops from the current 14% to 10%, only 46% of respondents expressed willingness to keep their savings in a tenge deposit. At the same time, 54% of respondents indicated that they would withdraw their funds and allocate them for other purposes (Table 1).

The majority of citizens who are potentially ready to withdraw funds from tenge deposits would convert their savings into foreign currency, either by placing them in foreign currency deposits or by purchasing cash foreign currency (approximately 20%). Other investment options would also indirectly pressure the exchange rate of the national currency, as household expenditures stimulate import growth, and investments (stocks, securities, etc.), given the limited instruments available on the domestic stock market, would also lead to increased demand for foreign currency.

From a gender perspective, women are more sensitive to deposit rate reductions than men. 58% of women and 51% of men are inclined to withdraw their deposit funds if the interest rate decreases. Additionally, in the 25-54 age group, a lower tendency to keep savings in deposits was observed.

Table 1. Survey Results on Depositor Behavior in Case of Interest Rate Reduction

Question	Response Options	Share, %
Currently, the official inflation rate is 8.9%, and the deposit rate in tenge is around 14%. Please tell us, if the deposit rate decreases from **14% to 10%**, what will you do with your deposit funds?	1. I will continue to save and accumulate in the deposit	46
	2. I will withdraw from the deposit and spend it on household needs	9
	3. I will withdraw from the deposit and purchase real estate/a car	13
	4. I will withdraw and invest in other assets (investments, stocks, etc.)	13
	5. I will transfer to a foreign currency deposit	11
	6. I will withdraw and buy cash foreign currency	9
	Total	**100**

Thus, the results of the conducted survey confirmed the thesis about the **high sensitivity of the population** to changes in deposit interest rates and the importance of deposits as the most popular savings instrument among the population of Kazakhstan. The majority of respondents are ready to reconsider their savings

behavior and investment preferences in the event of a rate reduction, which highlights the significant role of interest rates in choosing savings instruments. More detailed information on the survey results can be found on the NBK website in the «Publications» section.[7]

2.2. Domestic sector

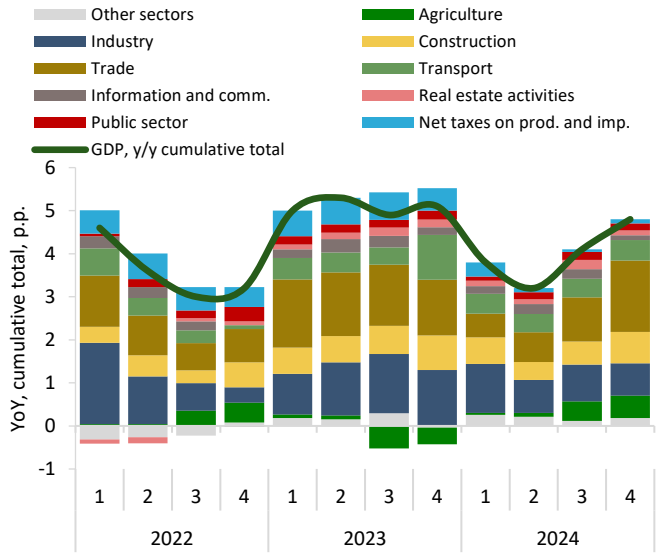
The economic growth of Kazakhstan in 2024 exceeded the expectations of the National Bank, as presented in the November Monetary Policy Report. A significant expansion of business activity in the fourth quarter of 2024 led to an acceleration of annual economic growth to 4.8%. A substantial contribution to economic growth came from the strengthening of domestic demand, which exerted pro-inflationary pressure on prices.

In 2024, the economy demonstrated a confident recovery, accelerating in the second half of the year. Amid a contraction in the oil sector, the driver of economic growth was the non-oil sector, supported by the implementation of infrastructure projects and strong consumer demand (Graph 13).

A significant contribution to economic growth in 2024 was made by the construction sector, which showed high growth rates due to the expansion of non-residential building construction (roads, industrial and social facilities) and an increase in capital investments. Within the structure of the manufacturing industry, acceleration was noted in mechanical engineering and metallurgy. A high grain harvest in 2024 contributed more to economic growth than expected. The growth rate of the services sector accelerated towards the end of the year due to increased investment activity and the realization of heightened consumer demand amid the depreciation of the tenge in November-December 2024. After slowing in the second quarter of 2024, the annual growth rate of household expenditures accelerated in the third quarter from 4.3% to 8.9% (Graph 14).

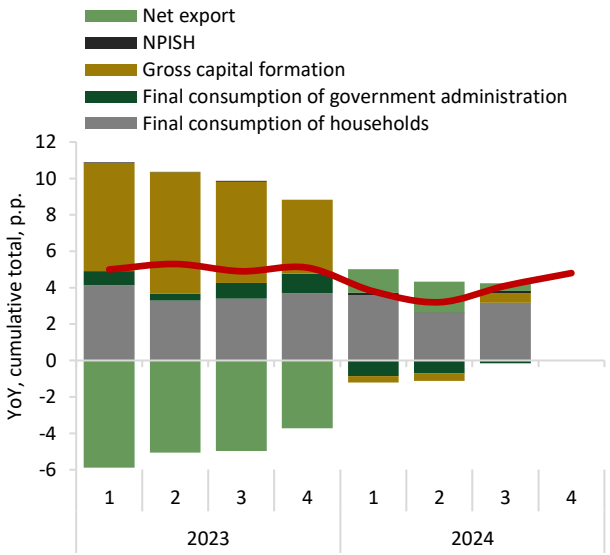
Graph 13. The recovery in annual economic growth rates in the second half of 2024 occurred against the backdrop of an expansion in the non-resource sector.

Contribution of Industries and Taxes to Real GDP Growth*



Graph 14. Consumer demand remains the main driver of economic growth, significantly accelerating in the second half of the year after slowing down in the second quarter.

Contribution of Aggregate Demand Components to Real GDP Growth



Source: NBRK calculations based on BNS ASPR RK data

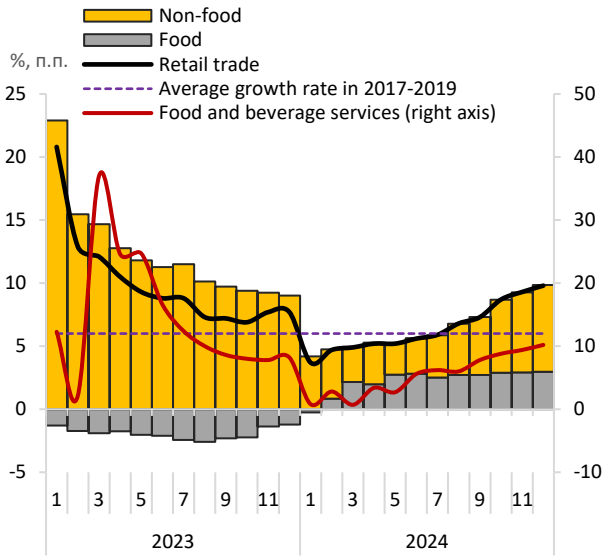
**the contribution of industries to GDP is presented as a cumulative total*

[7] *https://www.nationalbank.kz/ru/page/razovyy-opros-naseleniya-o-depozitah*

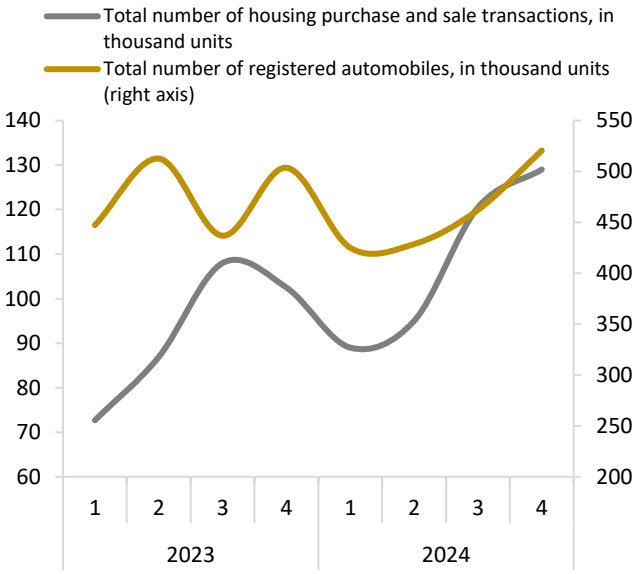
In the fourth quarter of 2024, consumer demand continued to accelerate, as reflected in retail trade growth, which reached 9.8% YoY in 2024. The sales of non-food products in the fourth quarter of 2024 reached 17.9% YoY (Graph 15).

The acceleration of consumer demand in the second half of 2024 is also reflected in the rise of large purchases, including automobiles, real estate, and associated goods. According to BNS data, the number of registered automobiles increased sharply during the second half of 2024, accompanied by a rise in auto lending. There was also a substantial increase in real estate transactions, supported by the expansion of mortgage lending. Loans for housing construction and acquisition peaked in November, growing by 67.2% YoY in real terms. The rise in real estate purchases may have also driven higher demand for furniture and household appliances, as reflected in the retail turnover of non-food products (Graph 16).

Graph 15. The growth of retail turnover and food and beverage services confirms the acceleration of demand growth in the second half of 2024.



Graph 16. The rise in consumer demand is also reflected in the dynamics of large purchases, such as cars and housing.



Source: BNS ASPR RK, NBK calculations

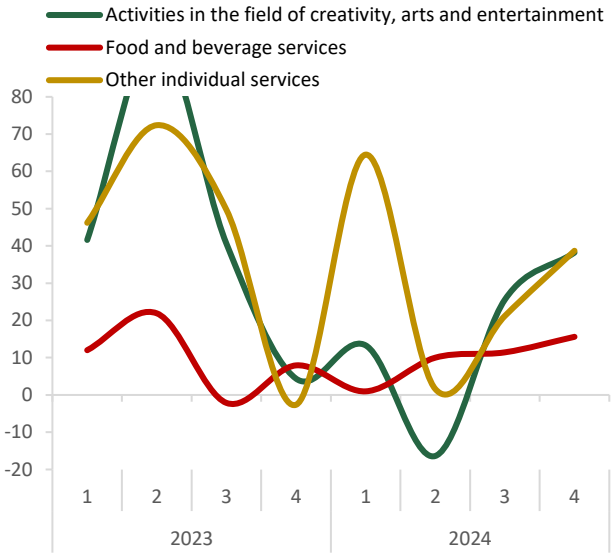
The services sector continues to exhibit positive growth rates, confirming the acceleration of consumer demand. Other personal services, as well as arts and entertainment services, which demonstrate the highest correlation with consumer demand growth, maintained their growth momentum in the fourth quarter of 2024. Additionally, the volume of food and beverage services grew faster in the second half of 2024 (Graph 17).

As the annual growth rates of real wages and transfers to the population slow down, consumer lending remains a key driver of consumer demand. In the fourth quarter of 2024, the growth rate of loan issuance, adjusted for inflation, accelerated after a slowdown in the third quarter due to the implementation of measures to limit the growth of consumer loans (Graph 18).

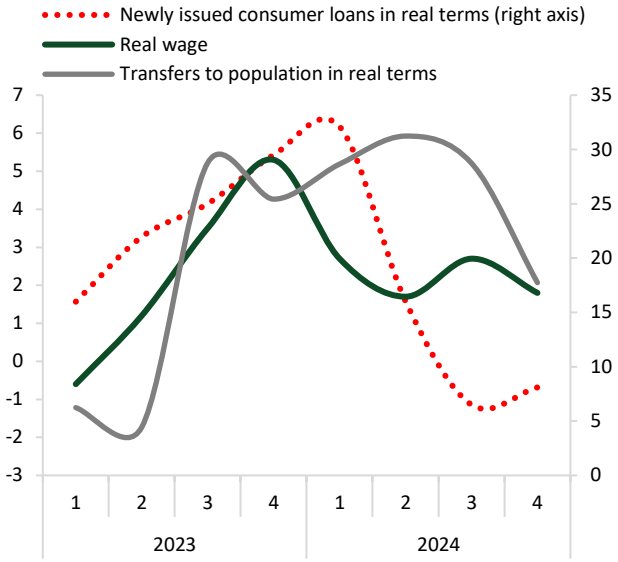
In the third quarter of 2024, government expenditure growth accelerated to 6% year-on-year, driven by a substantial increase in spending on collective services. The education sector made a significant contribution to the overall dynamics of public spending.

Graph 17. The acceleration of demand in the second half of 2024 is also reflected in the dynamics of consumer demand for services.

YoY real quarterly growth rates



Graph 18. The expansion of consumer demand in the second half of 2024 may be driven by wage dynamics, transfers to population, and accelerated consumer lending.



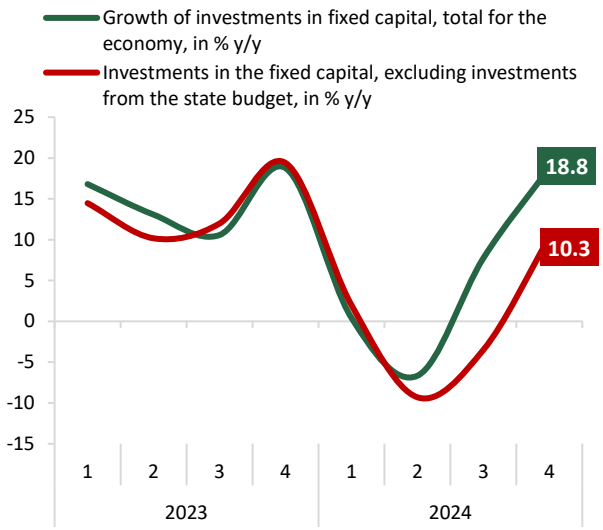
Source: BNS ASPR RK

Investment activity in the economy accelerated significantly by the end of 2024. As before, the growth of investments was driven by an increase in investments in the non-resource sector of the economy. Investments in the resource sector continued to decline.

The growth of fixed capital investments accelerated significantly by the end of 2024, reaching 18,8% y/y in the fourth quarter. The acceleration in fixed capital investment growth occurred amid an increase in private investments in the non-resource sector of the economy (Graph 19).

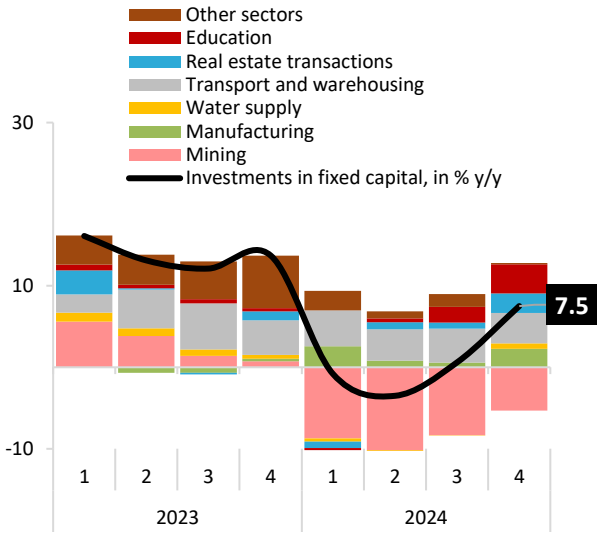
One of the main factors driving the expansion of private investments in the non-resource sector of the economy was the increase in capital expenditures on projects in the manufacturing industry, which contributed to the increased share of investments in the manufacturing industry in the total investment growth by the end of 2024. In addition, significant fixed capital renewal was recorded in the "Education," "Water supply," and "Real estate transactions" sectors in the fourth quarter of 2024. This was facilitated by the active implementation of the state programs "Tariff in Exchange for Investment" and "Comfortable School," aimed at improving communal and social infrastructure. At the same time, investments in the mining industry continued to make a negative contribution to the growth of investment activity in the economy. However, their negative contribution decreased by the end of the year amid accelerated growth of investments in coal mining and the providing services in the mining industry (Graph 20).

Graph 19. Investment activity in the economy increased significantly by the end of 2024.



Graph 20. The acceleration of investment growth was driven by an increase in capital investments in the non-resource sector of the economy.

Cumulative contributions of investments to economic sectors

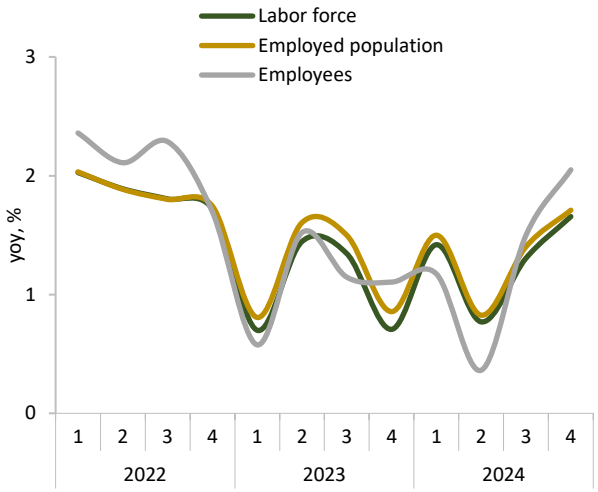


Source: BNS ASPR RK, NBK calculations

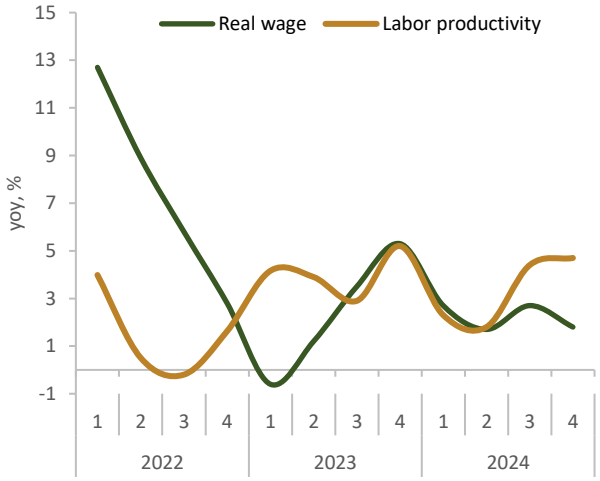
The slowdown in real wage growth against the background of an increase in the supply of labor and an increase in labor productivity contributed to the disinflationary impact from the labor market. At the same time, inflationary pressures remain in the private services and leisure industries.

In the fourth quarter of 2024, the labor supply continued to grow for the third quarter in a row. The growth rate of the number of people employed in the economy and employees accelerated, reaching the indicators of the beginning of 2022. The number of employees in the fields of construction and accommodation and food services, art, entertainment and recreation has increased to a greater extent. At the same time, the number of employees employed by private individuals has increased significantly, which corresponds to the general employment trend in these sectors of the economy. At the same time, the number of people employed in agriculture, public administration and healthcare continued to decrease (Graph 21). The annual growth rate of nominal wages has remained relatively stable for the third quarter in a row, slowing to 10.5% in the fourth quarter of 2024. Real wage growth slowed to 1.8% year-on-year. The spheres of information and communications, entertainment and recreation, as well as the municipal sector have made a significant contribution to its maintenance. However, there has been a decline in labor productivity in these same industries, which has a pro-inflationary impact. The downward trend in real wage growth continues mainly in the public sectors. In the fourth quarter of 2024, labor productivity growth exceeded real wage growth, especially in agriculture, public administration, healthcare, education, trade, and construction (Graph 22). Thus, labor productivity continued to grow in the fourth quarter of 2024. Combined with an increase in the supply of labor and employment, while wage growth slowed, this led to a weakening of inflationary pressures from the labor market.

Graph 21. The labor supply continued to grow.



Graph 22. Labor productivity is outpacing wage growth in the second half year of 2024.



Source: BNS ASPR, NBRK calculations

Box 3. Labor market: assessment of inflationary pressure indicators.

The labor market is one of the most important factors of price dynamics in the economy. Major central banks identify a number of key labor market indicators to assess inflationary pressure. Such indicators can be unemployment, employment, wages, the number of vacancies, labor costs, etc.

At the same time, unemployment rates in Kazakhstan, ranging from 4.6-5.1% since 2015, do not fully reflect trends in the labor market and are not informative. In this regard, a pool of labor market indicators was tested in order to determine the significance for explaining the dynamics of inflation and the labor cost index (wage).

In general, labor market indicators in Kazakhstan are not decisive and leading for the dynamics of inflation, but they can partially explain the dynamics of the labor cost index (wage), which, in turn, causes an increase in the overall price level in the country. Thus, among the statistically significant indicators affecting the cost of labor were the turnover rate for layoffs and the number of vacancies at enterprises.

All the labor market indicators considered have a low correlation with the output gap. At the same time, the change in the alternative unemployment rate demonstrates a closer relationship with the output gap compared with official unemployment. However, none of these indicators has a significant impact on inflation and the wage index. This may indicate that these indicators reflect long-term trends in inflationary pressure to a greater extent than short-term price fluctuations (Table 1).

Table 1. Indicators of inflationary pressure in the labor market

Indicator	*Correlation with output gap***	*Granger causality test, p-value ****	
		Inflation	Labour cost Index(wage)
Alternative unemployment rate (NBB 4)*	-0.52	0.60	0.74
Average monthly nominal salary	0.51	0.28	0.54
Labour cost Index(wage)	0.49	**0.06 (1)**	
Inflation			0.12 (1)
Working from 0 to 30 hours per week	-0.31	0.66	0.65
Labor force	0.30	0.80	0.81
Employed population	0.28	0.92	0.80
Turnover ratio for layoffs	0.27	0.80	**0.04(1)**
Replacement rate	0.19	0.76	0.80
Number of vacant jobs	0.18	0.73	**0.08 (1)**
Labor force participation rate	0.12	0.97	0.71

Unemployment rate	-0.12	0.35	0.66
Youth unemployment rate (aged 15-34 years)	-0.13	0.52	0.49

*NB-B4: Unemployed+ unproductively employed + economically inactive population + temporarily unemployed (part) **Correlation of output gap with annual changes in indicators *** The Granger test is based on quarterly seasonally adjusted changes in indicators, by default, the p-value values are given at lag 2, if the other lags (1 and 4) have a p-value of < 0.10 (at a significance level of 10%), then this p-value is indicated in the table with the lag in parentheses.*

2.3. Fiscal policy

In 2024, fiscal policy was strongly stimulating.

According to preliminary data, in 2024, the overall budget deficit increased to 2.7% of GDP, and the non-oil deficit reached 8.3% of GDP (Graph 23). The main factors contributing to the deterioration of the budget balance were an increase in the non-oil structural deficit caused by a slowdown in the growth of income tax revenues, a reduction in VAT, an increase in capital expenditures to GDP, as well as an increase in public debt servicing expenses (Graph 24).

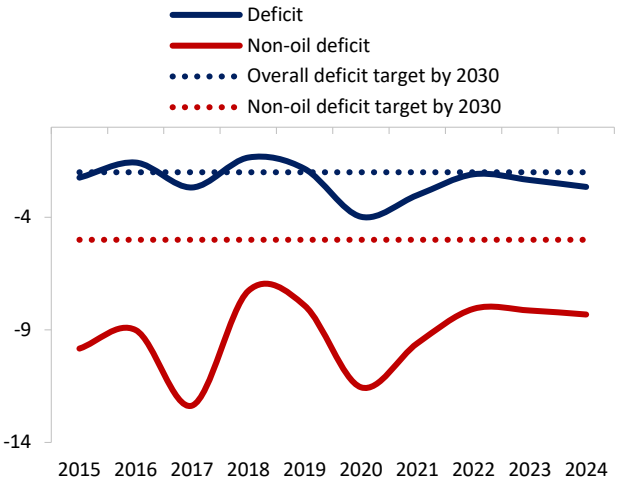
In 2024, there was a significant slowdown in the growth rate of budget revenues against the background of a weakening in the dynamics of tax revenues, whose growth slowed from 27% in 2023 to 4% in 2024. The key reasons were the decline in nominal exports of certain goods and imports, as well as the active refund of VAT to exporters and advance payments under the CIT, which were formed at the end of 2023. Thus, in 2024, as well as in 2023, there was a low level of tax collection compared to the amounts planned in the budget. Thus, the total amount of under-raised funds amounted to 3.5 trln. tenge (according to the plan as for December 1, 2024), which was offset by transfers from the National Fund, dividends on state-owned shares and an increase in domestic debt by 3.9 trln tenge (compared to the beginning of 2024). At the same time, oil revenues in relation to GDP (the amount of export customs duties and transfers from the National Fund) have not changed significantly.

It is also worth noting that the level of government spending remains high, continuing to put pressure on the budget balance. A significant share of the costs is aimed at fulfilling social obligations, financing infrastructure projects and servicing public debt. The share of government spending to GDP has increased for the second year in a row due to an increase in capital expenditures to GDP, but it remains below the peak level in 2020.

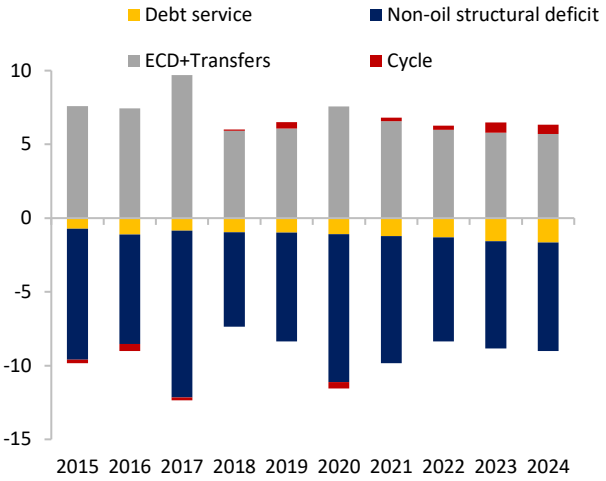
According to the plan, the non-oil budget deficit was expected to reach 6.5% of GDP (Forecast of Social Economic Development 2025-2029). The higher actual value of the non-oil deficit indicates missing tax revenues and planning problems. According to the estimates of the NBRK, the non-oil fiscal impulse[8] demonstrates that fiscal policy was stimulating in 2024 (Graph 25). This indicates a shift in priorities towards supporting economic activity, which, with a positive output gap, leads to further overheating of the economy and rising inflation, despite existing constraints in the revenue side of the budget.

[8] The non–oil fiscal impulse is a cyclically adjusted change in the budget balance as a percentage of non-oil GDP, reflecting the effect of discretionary fiscal policy, excluding automatic stabilizers and revenues from the oil sector.

Graph 23. State budget deficit, as % of GDP



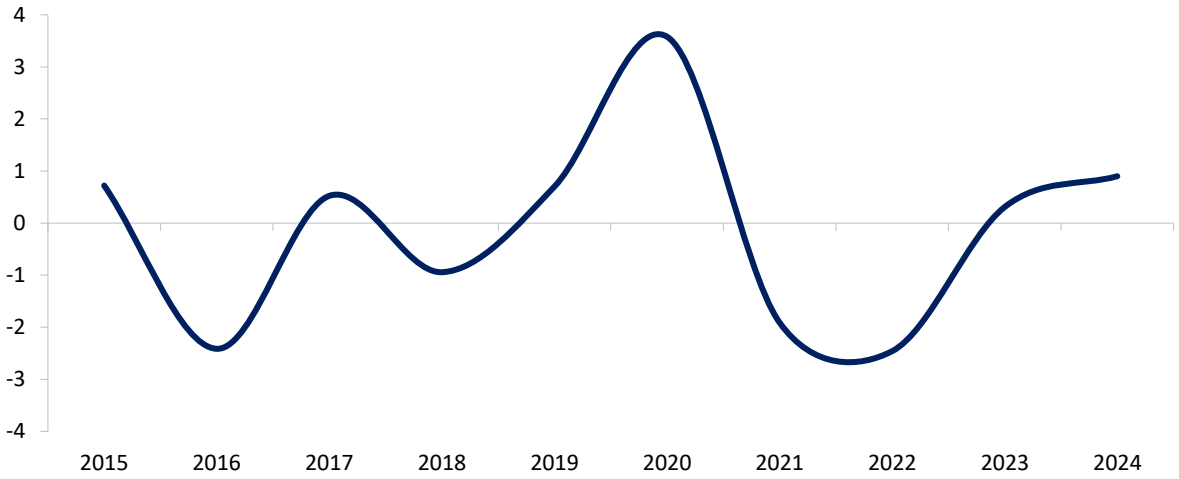
Graph 24. Decomposition of state budget deficit, as % of GDP



Note: the purchase of shares of JSC NC «KazMunayGas» in 2023 and JSC NAC «Kazatomprom» in 2024 by the National Fund received in the form of dividends to the republican budget, which is recorded in the article "Non-tax revenues", as well as in the form of taxes on dividends, for analytical purposes, this amount, by analogy with transfers from the National Fund, was excluded when calculating the non-oil deficit.

Source: MF RK, BNS ASPR RK, NBRK calculations

Graph 25. Non-oil fiscal impulse, as % of non-oil GDP



Source: MF RK, BNS ASPR RK, NBRK calculations

3.1. The transmission mechanism of monetary policy

Money market rates followed the dynamics of the base rate and remained within the corridor. The dynamics of deposit rates reflected changes in the base rate, with a more pronounced impact on corporate deposit rates.
Corporate lending costs generally followed the trend of the base rate, with mortgage loan rates also rising slightly.
Overall credit growth slightly slowed, mainly due to a weaker increase in consumer lending.
The money supply grows due to the expansion of the credit and fiscal channels, as well as external assets. The depreciation of the national currency from November 2024 to January 2025 will increase inflationary pressure, but its appreciation in February will somewhat ease the rise in import prices.

3.1.1. Interest Rate Channel

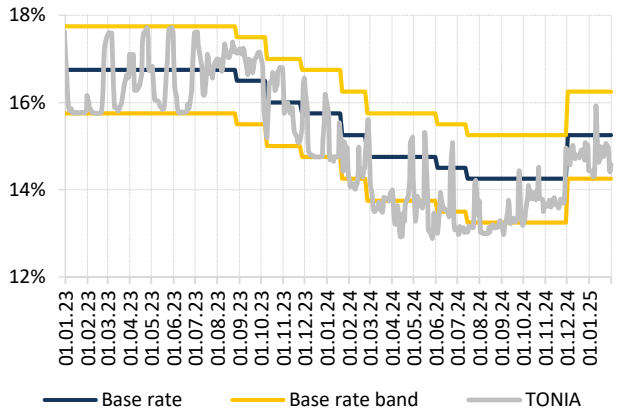
Money market rates were formed within the base rate corridor

From November 2024 to January 2025, money market rates remained within the base rate corridor, supported **by changes in the settlement procedures for deposit auctions** (transition from T+2 to T+0) which came into effect on October 1, 2024, as well as regular communication between the NBK and second-tier banks regarding the significance of their role in forming the TONIA indicator. The average spread between TONIA and the base rate during this period was (-) 0.5 percentage points (Graph 26).

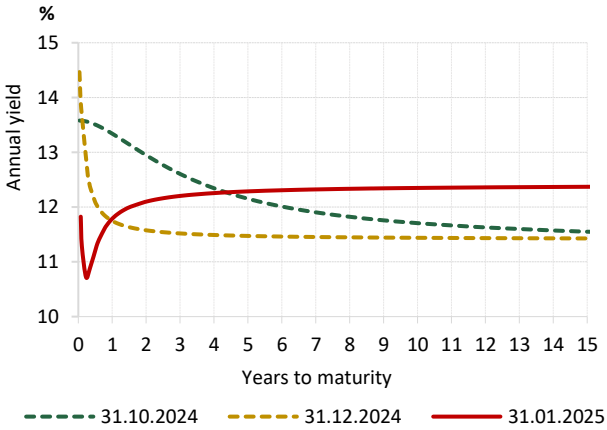
GSs yield curve rates from five years and beyond reflect the persistence of pro-inflationary risks.

Except for the short-term segment, the risk-free yield curve at the end of January was above December levels across the entire range. Starting from the 4.5-year mark, January yields increased relative to October 2024, reflecting inflationary risks in the medium- and long-term periods (Graph 27).

Graph 26. The Interest Rate Band and the TONIA



Graph 27. Risk-Free Yield Curve, %



Source: NBK, KASE

Corporate deposit rates increased (from 13.1% in October 2024 to 14.1% in January 2025) in line with the base rate increase in December 2024.

For retail deposits, the reaction of banks to the change in the base rate was gradual, with a point increase in rates by individual banks in December 2024 and January 2025. Against this background, the weighted average rate on deposits of individuals in the national currency increased by 0.2 percentage points (from 13.3% in October 2024 to 13.5% in January 2025, Graph 28). At the same

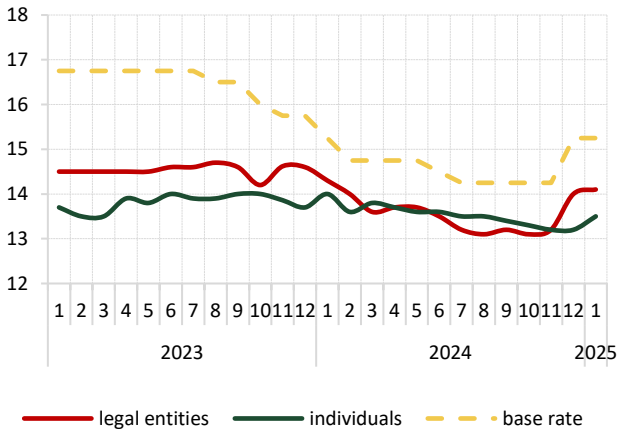
time, according to the "Monitoring of rates of participating banks"[9] of KDIF in February this year, the increase in rates on retail deposits continued from several banks.

Loan rates for large and medium-sized enterprises followed changes in the base rate.

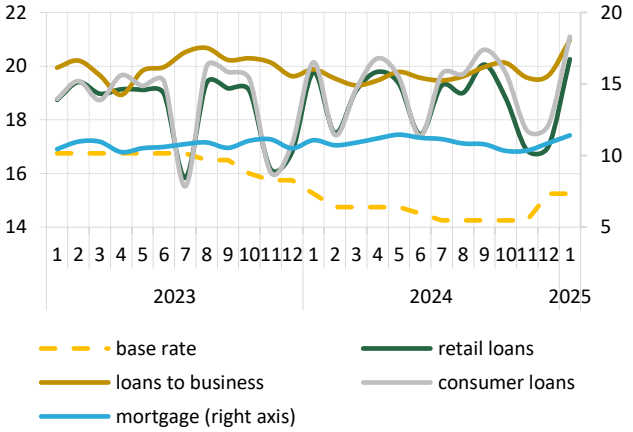
Corporate lending rates. The weighted average interest rate on business loans in the national currency increased by **0.8** p.p. from October 2024 to January 2025 amid a rise in the base rate. Loan rates for large and small enterprises responded more noticeably to the base rate increase, rising by **0.7** and **0.8** p.p., respectively, while loan rates for medium-sized enterprises also increased but less significantly.

Retail credit rates. After the base rate increase, mortgage loan rates rose in December 2024 and January 2025 (Graph 29). Consumer loan rates are influenced by changes in the share of installment loans in the total volume of consumer lending. At the same time, in January 2025, the consumer loan rate increased by 1.4 p.p. compared to October 2024.

Graph 28. Deposit rates in national currency, %



Graph 29. Lending Rates in National Currency, %



Source: NBK

3.1.2. Credit channel and deposits (wealth channel)

The banking sector's loan portfolio increased by 20.2% y/y in January 2025, driven by the continued growth of lending to both individuals and businesses (Graph 30). The growth of the consumer loan portfolio remains high, indicating sustained inflationary pressure. Business lending continues to show strong growth rates.

In December 2024, the mortgage portfolio grew by 14.5% y/y, driven by the implementation of preferential programs by Otbasy Bank, partnership programs between developers and commercial banks, and the digitalization of mortgage products. However, in January 2025, the growth rate slowed to 13.9%. Consumer lending continues to grow at a high rate (increase of 32.9% y/y in January), driven by the active promotion of installments and the development of digital services, exerting inflationary pressure.

High activity in business lending.

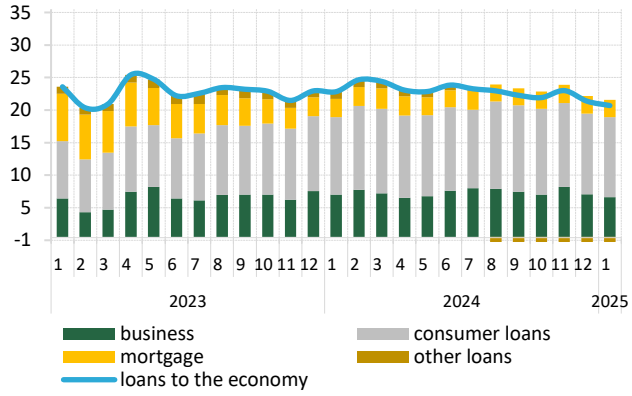
In January of this year, business lending continued to grow at a high rate (15.5%), driven by accelerated loan growth for small and large enterprises compared to October 2024. Meanwhile, lending to medium-sized enterprises declined in January after showing positive growth in November and December 2024.

[9] *https://kdif.kz/press-tsentr/monitoring/*

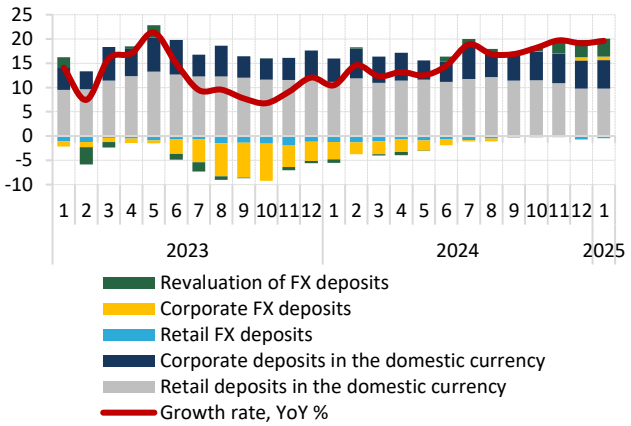
Maintaining high deposit growth rates by increasing retail deposits.

Total deposits continue to grow at a high rate mainly due to the expansion of deposits in national currency (20.4% YoY in January 2025), the attractiveness of which is ensured by a high rate differential on tenge and foreign currency deposits (Graph 31). Deposits in foreign currency also made a positive contribution, largely due to exchange rate revaluation (an increase of 17.1% YoY).

Graph 30. Loans to the Economy from STBs (portfolio), YoY, %



Graph 31. Residents' deposits in deposit organizations, YoY, %



Source: NBK

Despite some growth in recent months, deposit dollarization remains at historically low levels.

Against the backdrop of a weakening exchange rate, the dollarization of legal entities' deposits increased in November 2024 (to 26.5% from 24.2% in October), although it decreased in December. The dollarization of individuals' deposits has increased slightly since November 2024, but remains at levels close to minimums. Against this backdrop, the overall level of deposit dollarization also remained at historically low levels and amounted to 22.7% in January 2025. According to the results of the third quarter of 2024, the household savings rate[10] decreased, but remains close to historical highs.

3.1.3. Exchange Rate Channel

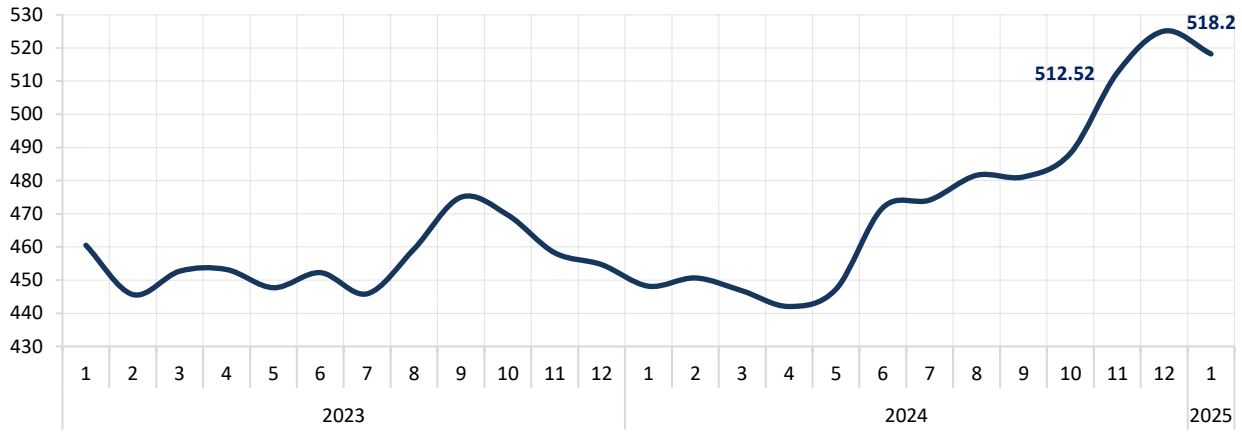
Depreciation of the national currency in November-January and appreciation in February of the current year

From November 2024 to January 2025, the national currency depreciated by 6.1% (Graph 32) amid the depreciation of the Russian ruble against the US dollar (due to sanction restrictions), the strengthening of the US dollar in global markets, as well as increased demand for foreign currency from economic agents and seasonal demand from importers. The depreciation was partially offset by the reinstatement of the requirement for quasi-public sector entities to sell 50% of their foreign exchange earnings, transfers from the NF, interventions by the NBK, the mirroring of gold purchase operations starting from January 2025, and the suspension of foreign currency purchases by the UAPF[11]. In the context of the tenge's depreciation, inflationary risks increased in 2025, including through the expected rise in the cost of imported goods. However, this effect is expected to be somewhat mitigated by the strengthening of the national currency observed in February of the current year.

[10] *(Total household income- total household expenses)/total household income*

[11] *For more information, see the information message on the foreign exchange market (https://nationalbank.kz/ru/news/informacionnye-soobshcheniya/17094)*

Graph 32. Exchange rate of the tenge to the US dollar, tenge per one US dollar



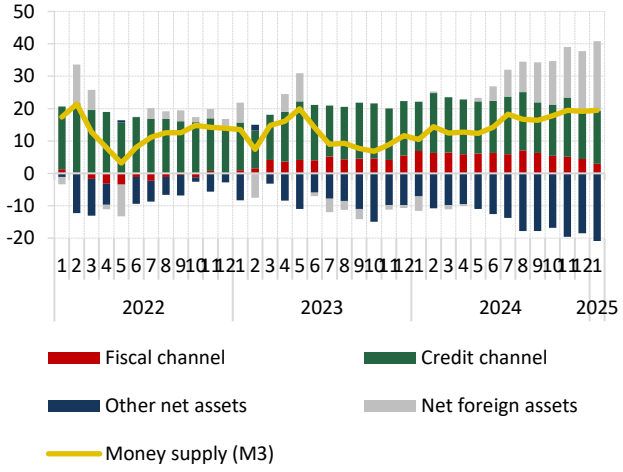
Source: KASE

3.2. Money supply

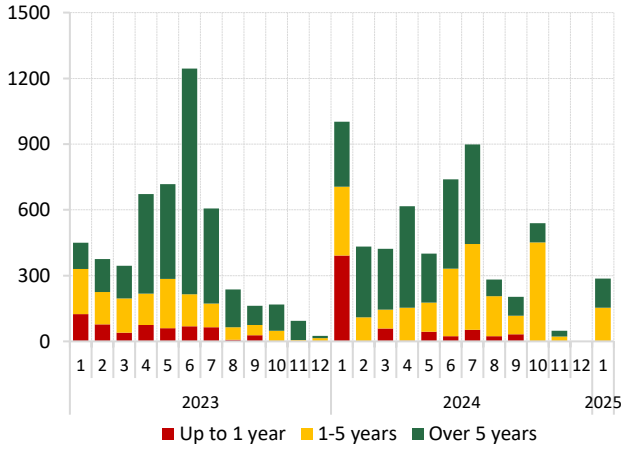
The expansion of the credit and fiscal channels remains a key driver of money supply growth, and the positive contribution of external assets has also increased.

In January 2025, the tenge money supply and total money supply increased year-on-year by 20.1% and 19.6%, respectively (Graph 33). The key drivers of money supply growth remained the credit and fiscal channels, including the issuance of government securities (GS) to finance the budget deficit. In 2024, the volume of GSs issuance by the MoF increased by 9.5% compared to 2023 (in January 2025, GSs issuance decreased by 71.4% YoY, Graph 34). The growth of external assets also contributed to the increase in the money supply.

Graph 33. Money supply, YoY, %



Graph 34. Volume of GSs issuance by the MoF RK, billion tenge



Source: NBK, KASE