QUARTERLY REPORT

KAZAKHSTAN MACRO & MARKET OVERVIEW

Q1 2025 // NATIONAL BANK OF KAZAKHSTAN

CONTENTS

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

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

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

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

Government Securities Market. 7

Contacts..................................... 8

STRONG BUFFERS AND REFORM AGENDA SUPPORT STRONG RATING

S&P Global affirmed Kazakhstan's sovereign rating as BBB- with a Stable Outlook on February 21, 2025 reflecting S&P's view that risks of protracted fiscal weakness and higher interest expenses for the government are mitigated by planned governance and economic reforms, as well as Kazakhstan's strong asset buffers.

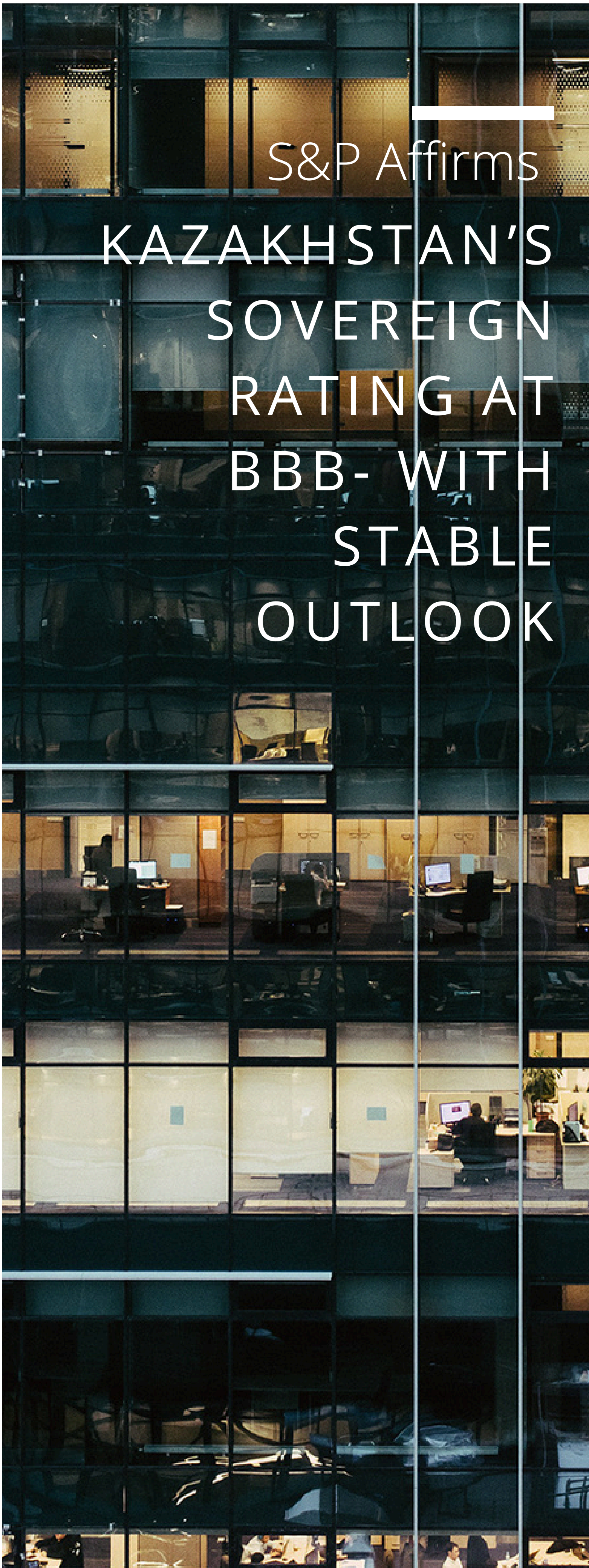
The Agency also notes the positive impact of non-oil sector growth in the GDP structure, fiscal sustainability, significant external reserves and moderate external debt.

According to S&P, the measures taken by the NBK to curb inflationary pressures and reduce involvement in economic support programs are gradually strengthening the effectiveness of the monetary policy. Analysts point to a decline in the inflation rate to 8.6% at the end of 2024. Further stabilization of deposit dollarization levels and the exchange rate of the national currency is expected.

S&P expects the government to take further steps to broaden the tax base, enhance non-oil sector development, and gradually reduce the fiscal deficit to 3.7% of GDP over 2025–2028.

The rating could be upgraded if consistent reform implementation leads to stronger non-oil growth and a more effective fiscal framework.

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



DECISIVE RATE HIKE

to ensure a return to the inflation target over the medium term, while supporting a moderately tight monetary policy stance

INFLATION

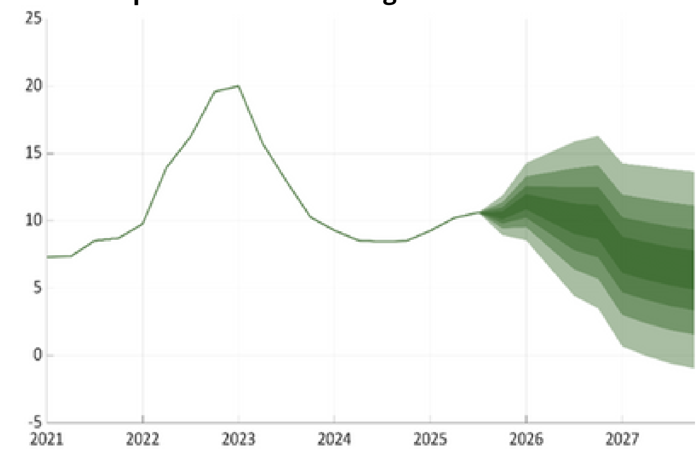
The 1Q2025 was marked by a steady rise in annual inflation, reaching 10% in March. The intensification of inflationary pressures was primarily driven by rising regulated utility tariffs under the "Tariff for Investment" program, accelerating inflation in Russia – Kazakhstan's main trading partner – and the strengthening of the Russian ruble. In addition, robust consumer demand and ongoing fiscal stimulus continue to support inflation.

On March 7th, 2025, the NBK increased the base rate by 125 bps to 16.5%. A significant acceleration of current and projected inflation processes led to a notable deviation from the target and softened aggregate monetary and credit conditions. The increase in the base rate is intended to maintain moderately tight monetary conditions in order to contain demand-side pressures and steer inflation toward the target level. Inflation expectations declined over the first quarter, falling to 12.6% in March. This adjustment reflected a weaker perception of current inflationary pressures and some strengthening of the tenge against the US dollar in early 2025. Despite the decline, expectations remain elevated and highly sensitive to short-term shocks.

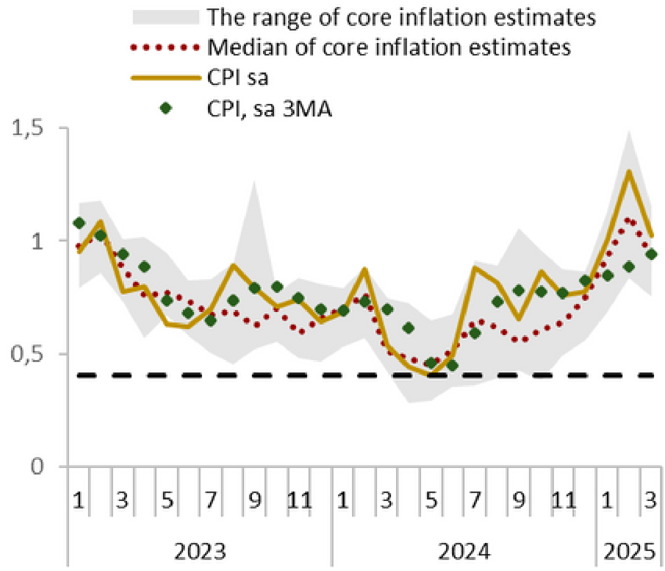
After February's spike, core and seasonally adjusted inflation eased but stayed well above the target. The median estimate of seasonally adjusted core inflation reached 0.93% MoM in March. Seasonally adjusted monthly inflation stood at 1.02%, and the 3-month moving average of the CPI was 1.11%. These indicators show inflationary pressures have slightly eased but remain persistent.

The NBK's inflation forecast for 2025 has been revised upward due to stronger external and internal pressures from accelerating Russian inflation, rising utility tariffs, and fuel price deregulation. Given the planned VAT hike to 16% in 2026, inflation expectations for 2026–2027 have also been adjusted upward. This measure, however, is necessary for fiscal consolidation and long-term disinflation. Inflation is now projected at 10–12% in 2025, 9–11% in 2026, and 5.5–7.5% in 2027.

Annual inflation forecast was revised and now is expected to be in the range of 10%-12% in 2025



The median estimate of seasonally adjusted core inflation has accelerated



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

Figures in brackets represent previous estimates

TEMPORARY SURPLUS IN Q125'

Structural deficit pressures persist through forecast horizon

According to NBK's preliminary data, the current account recorded a surplus of $0.7 billion in the 1Q2025, compared to a slight deficit in the same period of 2024. This improvement was driven by a reduction in the income balance deficit (down 7.1% to $5.3 billion), primarily due to lower profits of direct investors in the commodity sector, as well as a rise in export of goods (up 1.6% to $19.2 billion), driven by higher deliveries of natural gas, cereals, vegetable oil and animal feed. Meanwhile, the import of goods remained roughly unchanged from 1Q2024, totaling $13.1 billion.

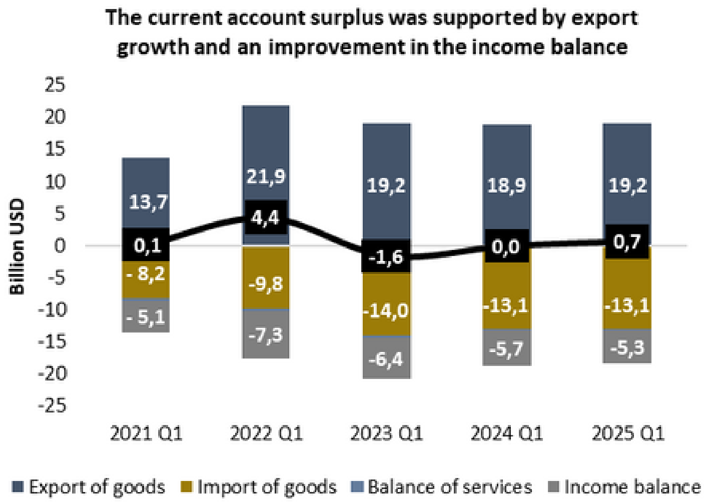
The latest current account forecast, updated in February 2025, was revised slightly downward compared to the November 2024 estimates. The current account deficit is now projected at (-)2.8% in 2025, (-)3.2% in 2026, and (-)2.8% in 2027. The revision primarily reflects higher expectations for the import of goods.

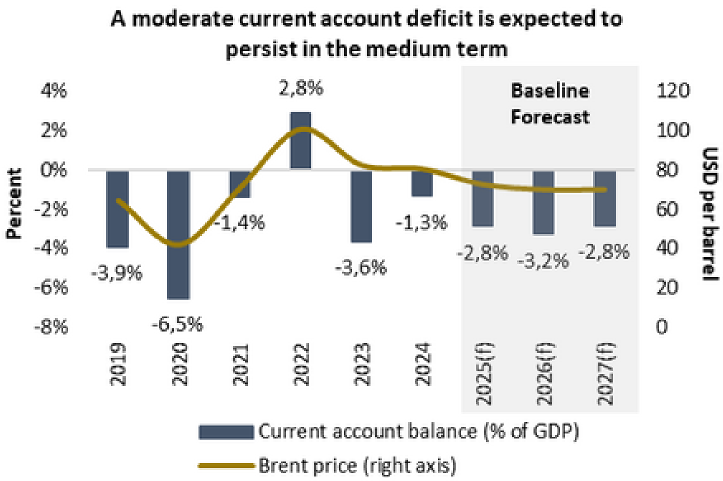
Demand for imported goods is projected to rise moderately, primarily due to higher purchases of intermediate and investment goods related to ongoing and planned investment and infrastructure projects.

Export of goods is expected to increase over the forecast horizon. The scenario-based decline in oil prices will be offset by higher oil production. Growth in non-oil exports will be supported by high global uranium prices and plans to expand its production, as well as scenario-driven rise in global prices for ferrous and non-ferrous metals.

The widening income balance deficit will result from increased commodity exports. In particular, higher net profits of enterprises with foreign participation, driven by increased oil production and high metal prices, will lead to substantial payments to foreign direct investors.

CURRENT ACCOUNT



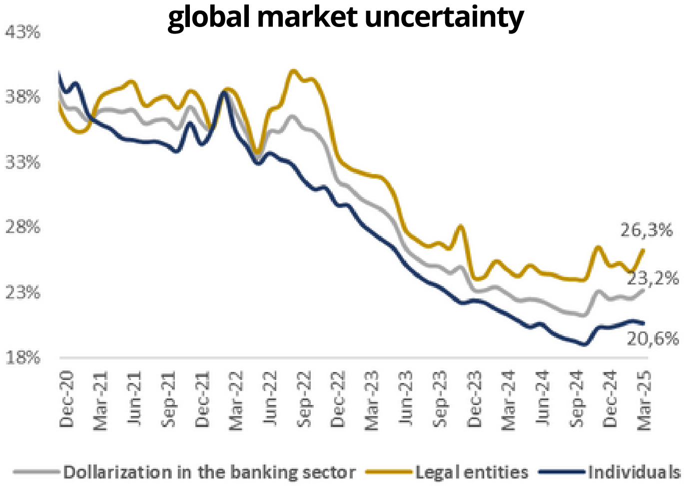


Gold rally drives FX RESERVES TO ALL-TIME HIGH

FX MARKET & FX RESERVES

mln USD	2022	2023	2024	1Q2025
FX Reserves	35 076	35 944	45 823	50 073
Assets in hard currencies	14 585	16 434	21 980	20 930
Gold	20 491	19 510	23 844	29 143
Share of gold,%	58%	54%	52%	58%
USD/KZT total volume on KASE	29 704	37 047	54 963	13 409
USD/KZT rate	463	455	525	504
Interventions (net)	(-) 1 394	0	(-) 1 357	0
Sales from National fund	(-) 4 285	(-) 9 483	(-) 10 180	(-) 2 198
Sales under monetary neutrality principle	0	0	0	(-) 1459 (742 bln. KZT)

Dollarization of deposits rose amid heightened global market uncertainty



In the 1Q25, the tenge appreciated by 4% to 504.27 KZT per US dollar, driven by a combination of external and domestic factors.

Among external drivers, the tenge was supported by a broad weakening of the US dollar (-3.9% in Q1 2025) and a 26.8% strengthening of the Russian ruble, driven by expectations of easing geopolitical tensions.

On the domestic side, the key factors included an increase in FX supply due to large tax payments by exporters and reduced demand as a result of lower import purchases early in the year.

In the 1Q2025, the NBK sold $2.2 billion from the National Fund to support fiscal transfers to the state budget.

In January 2025, the NBK introduced the monetary neutrality principle - a mirroring mechanism aimed at offsetting the impact of tenge issuance resulting from gold purchases. This measure aims to stabilize inflation and support the 5% target.

As part of this mechanism, the NBK sold $1.5 billion (742 bln KZT) in the 1Q2025. In the second quarter, foreign currency sales of approximately 640 bln KZT are planned for the same purpose.

Last year, the foreign currency share of UAPF pension assets was gradually raised to 40%. To maintain this level and support diversification and returns, the National Bank resumed FX purchases in March, as the share fell below target due to tenge appreciation and new contributions. In March, $250 million was purchased for the UAPF portfolio.

As of the end of the 1Q2025, the country's international reserves stood at $107.9 billion, comprising $50.1 billion in FX reserves and $57.9 billion in National Fund assets. The increase in FX reserves was primarily driven by rising gold prices.

The dollarization of deposits has increased to 23.2% against the background of turbulence in the global market. Thus, the dollarization of corporate deposits increased by 1.1 p.p. and retail deposits by 0.3 p.p. in 1Q2025. However, supportive monetary policy measures have preserved the competitiveness of tenge deposits, keeping dollarization close to its lowest historical levels.

GOVERNMENT SECURITIES MARKET OVERVIEW

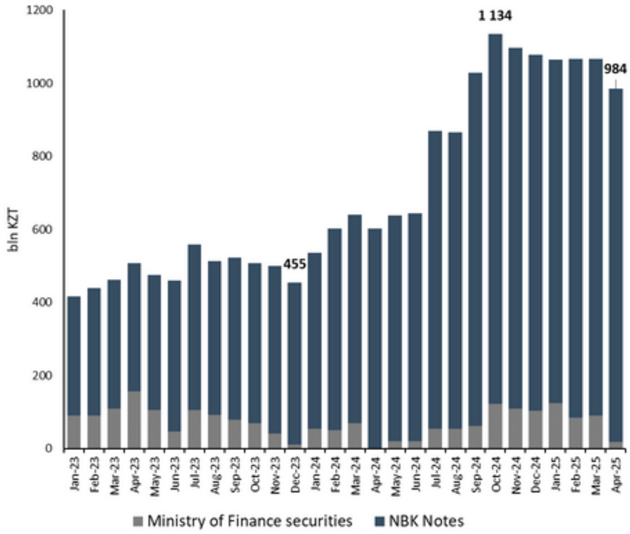
In 1Q2025, the Ministry of Finance of Kazakhstan issued government securities with a fixed coupon for a total amount of 1.5 bln KZT. Compared to 4Q2024, yields on government securities increased by 80-310 bps with the largest increase in bonds up to 6 years due to the increase of the base rate to 16.50% in March 2025, high supply of government securities for financing the budget deficit (323 bln KZT in January, 595 bln KZT in February and 574 bln KZT in March), and persisting inflationary pressure. Market participation (excluding the funds under NBK's management) dropped to 21.1% in 1Q2025 (87.2 in 4Q 2024 and 89.2% in 3Q 2024).

In March, for the first time since 2023, the Ministry of Finance conducted two auctions of floating-rate bonds indexed to the TONIA index and inflation rate. A total of 68 billion tenge was placed, with premiums of 34 bps over TONIA and 250 bps points over the inflation rate, respectively.

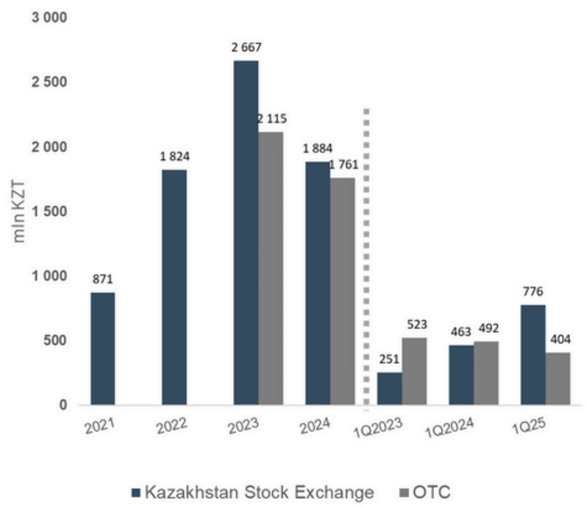
Foreign investor holdings of government securities slightly decreased, however they remain on high level comparing to the begininng of 2024.

The introduction of the primary dealership framework is progressing and remains planned for 2025. 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.

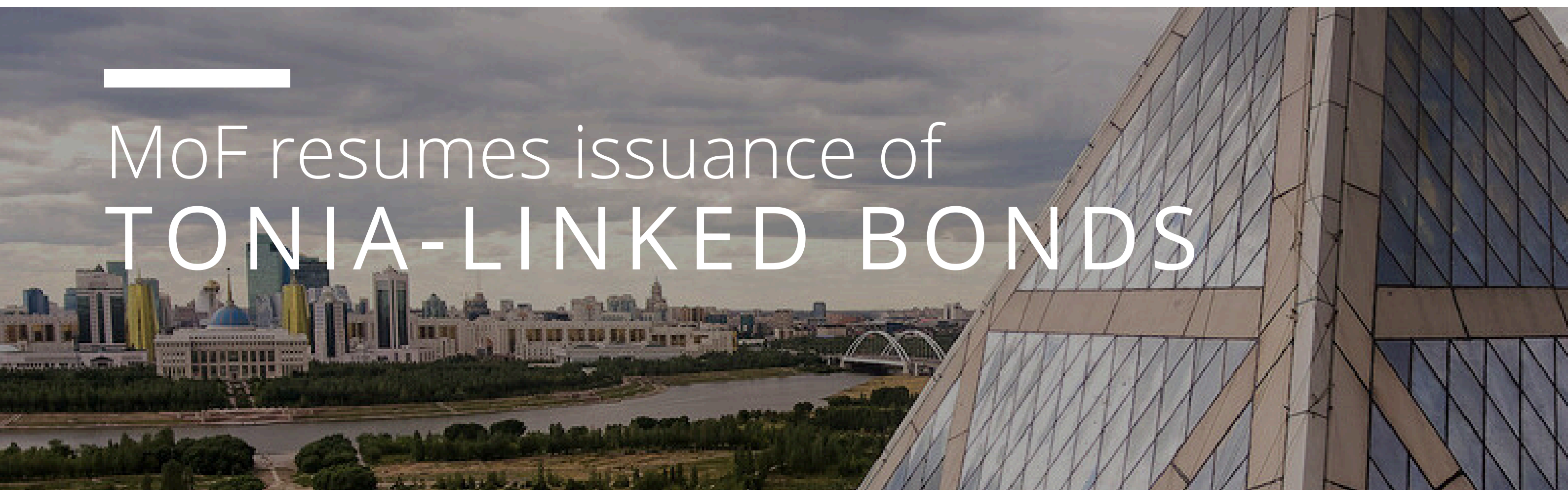
Foreign investors holdings of government securities, in bln KZT



Secondary market liquidity, in mln KZT

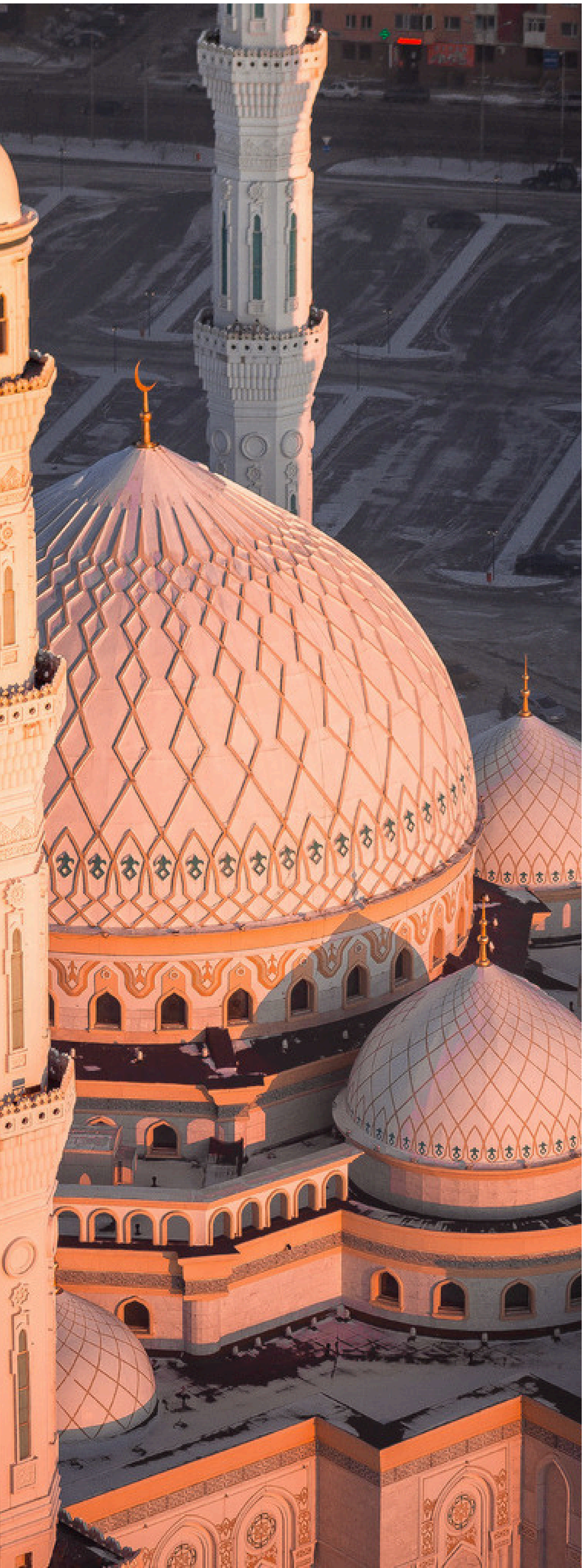


**OTC data is available since 2023*



MoF resumes issuance of

TONIA-LINKED BONDS



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Additional sources:

- Press releases
- Monetary Policy Report