

MONETARY POLICY REPORT

May 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 **May 22, 2025**, and the analysis of macroeconomic indicators as of **June 2, 2025**.

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THE DECISION ON THE BASE RATE OF JUNE 5, 2025

The Monetary Policy Committee of the National Bank of Kazakhstan has decided to maintain 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.

In May, annual inflation reached 11.3%. The key driver of price growth in recent months remains service inflation. Acceleration in price growth is also observed for food products. Core and seasonally adjusted inflation amounted to 10.1% and 11.4% respectively, in annual terms. All this indicates sustained price pressures amid renewed consumer demand growth, rising production costs, and ongoing fiscal stimulus. Inflation expectations among the population in May increased to 14.1%, indicating continued volatility and uncertainty regarding future inflation.

Pressure on prices from the external sector is intensifying. This is associated with persistently high inflation in Russia, the continued rise in global food prices amid strong demand and currency fluctuations, as well as heightened uncertainty caused by escalating trade conflicts and commodity prices volatility.

Under the baseline scenario, the price of Brent crude oil has been revised downward to an average of \$60 per barrel until the end of the forecast period.

The inflation forecast for 2025 and 2026 has been revised. In 2025, it is expected to be within 10.5-12.5%, in 2026 – 9.5-11.5%. By the end of 2027, inflation will decrease to 5.5-7.5% as a result of a restrictive monetary policy and gradual phasing out of budget support measures within the upcoming fiscal consolidation.

The economic growth forecast for Kazakhstan in 2025 has been raised to 5-6%. The forecast for 2026 is 4-5%, for 2027 – 3.5-4.5%.

The evolving high inflation requires the maintenance of moderately tight monetary conditions for a longer period than previously expected. The balance of risks has shifted towards pro-inflation side, making it highly probable to keep the base rate at current level until the end of 2025. Maintaining the current policy stance aims to stabilize inflation expectations, prevent the consolidation of accelerating price growth trends, and return inflation to a sustainable downward trajectory toward the medium-term target of 5%. The National Bank does not rule out potential base rate increases if necessary.

*** – The assessment of the base rate trajectory by members of the Monetary Policy Committee will be published in the Summary of Deliberation on the base rate decision, starting with the current decision, as part of increasing the transparency of the monetary policy of the National Bank.**

I. ECONOMIC DEVELOPMENT PROSPECTS

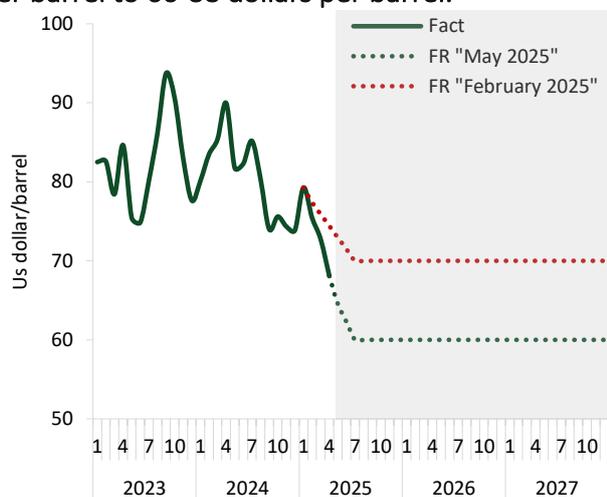
1.1. Key external assumptions

1.1.1. Commodity markets

Rising trade tensions have added to oil market instability and dampened future demand expectations. Oil prices have declined and approached the levels projected in the pessimistic scenario of the previous forecast. In the medium term, oil prices are expected to remain around 60 US dollars per barrel.

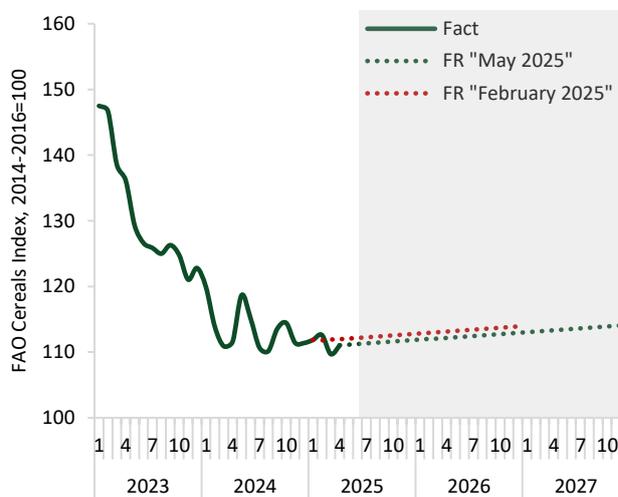
In April 2025, global Brent crude oil prices declined to 68.1 US dollars per barrel, down from 72.7 US dollars in March. During the month, prices dropped as low as 59 US dollars per barrel. This dynamic has closely approached the trajectory of the pessimistic scenario. The decline in prices was driven by rising trade tensions following the introduction of new tariffs by the United States, the OPEC+ decision to accelerate production increases, and expectations of higher oil supplies from Iran. Going forward, global oil demand may come under pressure due to escalating trade conflicts and a slowdown in economic activity in major economies. Additional pressure on prices may also come from the growing popularity of electric vehicles and overall instability in the global economy. At the same time, oil supply is expected to increase – both from OPEC+ countries and from the United States, Canada, Brazil, and Guyana. Given the weak demand, potential oversupply, and rising economic risks, the baseline forecast assumes that the price of Brent oil will decline to 60 US dollars per barrel by mid-2025 and remain on average at this level until the end of the forecast period (Graph 1).

Graph 1. The baseline scenario for Brent oil prices has been revised down from 70 US dollars per barrel to 60 US dollars per barrel.



Source: EIA, Consensus Economics, NBK calculations

Graph 2. Moderate growth in grain prices is expected over the entire forecast period.



Source: UN FAO, NBK calculations

Global grain prices turned out to be slightly lower than projected in the previous forecast. The current forecast maintains the expectation of a slow and gradual increase.

After two months of decline, global grain prices increased by 1.2% in April 2025 compared to March. Prices rose for all major crops – wheat, corn, coarse grains, and rice. The price growth was driven by reduced wheat exports from Russia, exchange rate fluctuations, improved demand in Mexico, and persistently strong global demand. The new forecasts assume a gradual increase in prices (Graph 2). Price dynamics will be influenced by opposing factors: rising global inventories and declining oil prices will exert downward pressure, while a weaker US dollar may provide support. Overall, demand for grains is expected to remain stable.

1.1.2. Global economic development and trade partner countries

Global trade tensions have led to a decline in business activity in both industry and services. At the same time, economic growth in Kazakhstan’s trading partner countries turned out to be higher than previously forecasted.

Escalating trade tensions have slowed global business activity. In many countries, the volume of new and export orders in the industrial sector has declined. The services sector continued to grow, but the slowest pace in the past one and a half years indicates a weakening of positive momentum. Market uncertainty and worsening economic conditions have also led to a decline in business confidence to a multi-year low. Meanwhile, the situation in Kazakhstan’s trading partner countries turned out slightly better than expected. In China, economic growth accelerated due to active foreign trade, investment, and stimulus measures. In EU countries, the economy was supported by both private and public consumption, despite weak exports. In Russia, the economy began to slow down due to tight monetary policy, labor shortages, and production constraints.

Due to trade tensions, global economic growth is expected to be weaker. In China, the slowdown will be driven by weakening domestic demand and the impact of trade tariffs. In the EU, exports and investment are expected to decline. In Russia, growth will slow against the backdrop of low oil prices, tight monetary policy, and production constraints.

According to the IMF, global economic growth is expected to slow amid worsening global trade and elevated uncertainty. The growth forecast for 2025 has been revised down from 3.3% to 2.8%, and for 2026 – from 3.3% to 3% (year-on-year)¹. Forecasts for Kazakhstan’s main trading partners have remained broadly unchanged. In China, economic growth is expected to slow under the pressure of trade tariffs, despite active fiscal support and strong growth in 2024. In the EU, weak growth is expected to persist due to uncertainty, trade barriers, and sluggish industrial activity. However, a gradual recovery is projected by 2027, supported by rising consumption, fiscal easing in Germany, and improving external demand. In Russia, growth is expected to slow to 1.4% by 2027, driven by low oil prices, tight monetary policy, and labor market constraints (Graph 3).

In many countries, inflation remains above target levels. In the EU and China, inflationary pressures are expected to remain moderate. In Russia, inflation may return to the target level by 2026, supported by tight monetary policy and demand stabilization.

Since the previous forecast, inflation has remained broadly unchanged in most countries. In China, annual deflation has been recorded for the third consecutive month amid weak consumer demand. In the EU, inflation remains stable, but price growth in services and food remains elevated. In Russia, inflation was in line with expectations, though strong demand continues to exert price pressures. Inflation forecasts for Kazakhstan’s trading partner countries have remained broadly unchanged. In China, price growth is expected to be slower than projected in the previous forecasting round. In the EU, low inflation is expected to persist throughout the entire forecast period. In Russia, as previously projected, inflation is expected to decline to 7.5% by the end of the year and reach the target level in 2026 (Graph 4).

Trade tensions and risks of weak economic growth continue to support expectations of further policy easing.

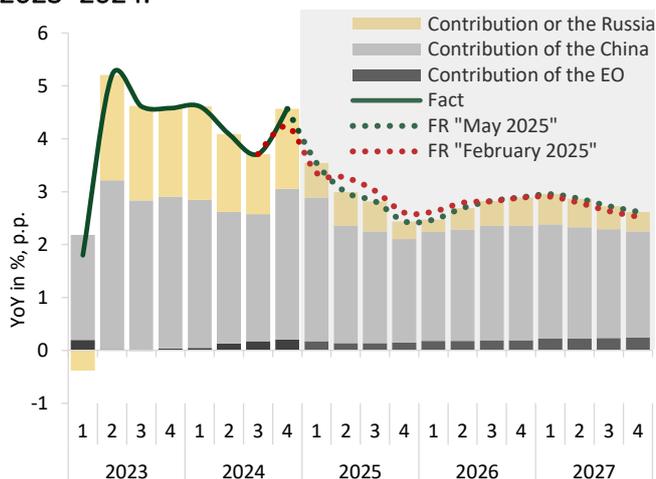
In April-May 2025, central banks in both advanced and emerging economies continued to lower interest rates. At the same time, the U.S. Federal Reserve has maintained a cautious tone due to risks related to trade policy. Against the backdrop of ongoing disinflation, easing labor market pressures, and downgraded growth forecasts, the Fed is expected to begin a rate-cutting cycle in

¹ IMF World Economic Outlook, April 2025

² Consensus Ecs.

the summer of this year. As anticipated, the ECB continued its rate-cutting path. However, due to rising inflation risks associated with U.S. tariffs, further easing is likely to proceed more cautiously. The Bank of Russia kept the key rate unchanged at 21% but softened its policy tone during its meeting on April 25. Given the updated forecasts, a rate cut in the second half of the year cannot be ruled out.

Graph 3. Aggregated External GDP* – Over the forecast horizon, external demand for exported products is projected to be somewhat lower than in 2023–2024.

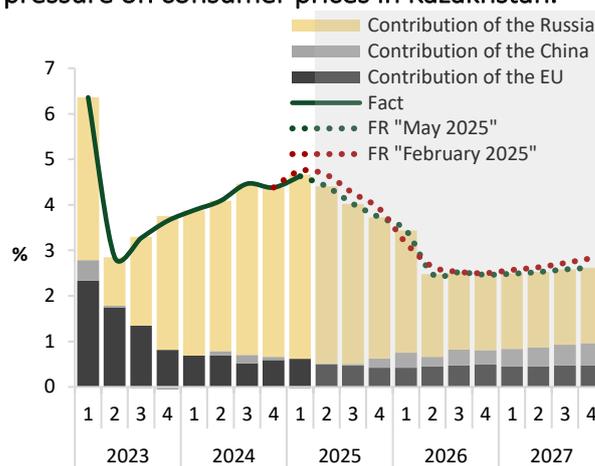


* Represents the GDP growth rates of Kazakhstan's trading partner countries, weighted by their shares in non-oil exports.

** 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

Graph 4. Aggregated External Inflation** – High inflation in Russia will continue to be the main contributor to rising external inflationary pressure on consumer prices in Kazakhstan.



1.2. Economic outlook under the baseline scenario

Taking into account the current high level of economic activity, the GDP growth forecast for 2025 has been revised upwards to 5-6%.

In the first quarter of 2025, Kazakhstan's GDP growth exceeded the National Bank's expectations, reaching 5.6%. This acceleration was primarily driven by an earlier-than-expected increase in oil production at the Tengiz field, higher output in non-extractive sectors, and expanding domestic demand.

Given the downward trend in global oil prices, the baseline scenario has been adjusted accordingly – the oil price is now assumed at 60 US dollars per barrel through the end of 2025, with this level expected to persist in 2026 and 2027 (Graph 5, Table 1).

In 2025, the main sources of economic growth will be domestic consumer demand, oil exports, and investment activity in non-extractive sectors.

On the side of aggregate demand, the key driver of economic growth remains domestic consumption. The growth of household consumption will be supported by increased budget transfers, expansion of consumer lending, and rising wages. At the same time, stronger consumer demand continues to exert pro-inflationary pressure on the economy.

Gross capital formation will continue to increase due to the implementation of investment projects in manufacturing, transport, and education.

The growth of domestic demand, especially after the launch of large-scale investment projects, will contribute to an increase in imports. Simultaneously, exports are expected to grow at a high pace due to rising oil production following the expansion of capacity at the Tengiz oil field. Non-oil export growth is projected to remain slightly positive amid moderate expectations for external demand. **As a result, the updated GDP growth forecast for 2025 is 5-6%.**

Graph 5. GDP growth is expected to accelerate this year, followed by a return to potential levels over the medium term (YoY, %).



Source: NBK forecasts

In 2026, economic growth forecasts have been revised downward. **According to the updated projections, GDP growth is expected to be 4-5% in 2026.** This revision is driven by several factors. First, there is a statistical base effect resulting from the upward revision of GDP growth in 2025. Second, the scenario assumes a lower oil price. Third, external GDP forecasts have been downgraded due to an anticipated slowdown in business activity among Kazakhstan’s trading partners.

The assumptions of fiscal consolidation remain unchanged, which is expected to result in more moderate domestic demand dynamics. In 2026, the main driver of growth will be oil exports, owing to the projected increase in oil production.

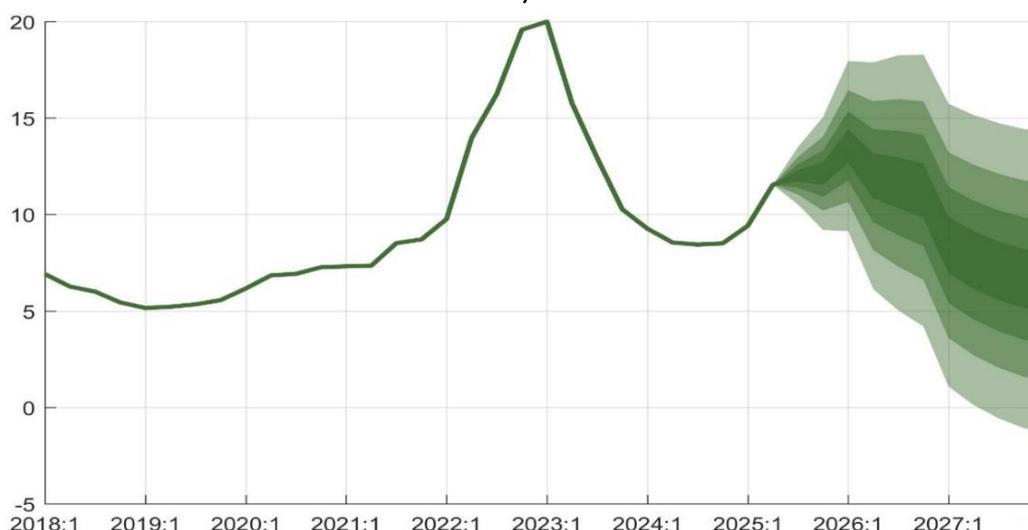
By 2027, as oil production stabilizes and fiscal consolidation continues, GDP is expected to grow near its potential level. **Thus, GDP growth for 2027 is forecasted at 3.5-4.5%.** At the same time, actual growth may be slightly higher given the successful implementation of structural reforms planned by the Government, including increasing investment in fixed assets, attracting foreign direct investment and economy liberalization.

Amid the expected increase in economic activity in 2025, the output gap, defined as the percentage deviation of actual GDP from its potential level, has been revised upward. The anticipated widening of the output gap will be accompanied by a stronger domestic demand gap, which will exert additional inflationary pressure on domestic prices in 2025. By mid-2026, as fiscal stimulus is gradually withdrawn, the output gap is expected to stabilize around zero, and GDP growth will thereafter align with its potential level.

The inflation forecast for 2025-2026 has been slightly revised upward. In 2025, inflation is projected to range between 10.5-12.5%. In 2026, due to the planned increase in VAT from 12% to 16%, annual inflation is expected to be in the range of 9.5-11.5%.

The revision reflects persistently high actual inflation, driven by significant price increases for certain goods and services, as well as stronger-than-expected domestic demand that exceeds supply capacity in the economy. Additional inflationary pressure has come from the appreciation of the Russian ruble against the tenge. It is also important to note that oil price dynamics have followed the pessimistic scenario outlined in the previous forecast round. As these shocks subside and under the influence of moderately tight monetary policy, inflation is projected to slow to 5.5-7.5% in 2027. By the end of 2027, seasonally adjusted quarterly core inflation is expected to converge toward the NBK’s medium-term target of 5% (Graph 6, Table 1).

Graph 6. Higher-than-expected actual inflation, coupled with accelerating economic activity and expanding aggregate demand, led to an upward revision of the inflation forecasts for 2025-2026 (yoy, %).



Source: NBK forecasts

During 2025, the recent increase in external uncertainty, including the potential decline in global oil prices and intensifying trade tensions, may exert additional pressure on prices. Food prices are expected to remain elevated due to high global food prices, supply shortages, and rising production costs.

In the non-food segment, inflationary pressure will be sustained by strong consumer demand, expanding consumer lending, and fiscal measures. Additionally, the anticipated increase in fuel and lubricants (F&L) prices may raise production costs, which will affect the cost of goods and services both directly and indirectly through higher transport and logistics expenses.

Service inflation will continue to face significant price pressures amid rising tariffs for housing and utility services within the "Tariff in Exchange for Investment" program. If the current pace of tariff increases persists, regulated services will remain a key contributor to inflation. Moreover, the growth in prices for non-regulated market services reflects rising input costs and stable consumer demand.

At the beginning of 2026, inflation is expected to accelerate slightly due to the planned increase in the VAT rate to 16%. The forecasts also incorporate further increases in tariffs for regulated utilities and higher F&L prices. The anticipated VAT hike may additionally trigger front-loaded consumption and price increases, reinforcing inflation expectations and exerting inflationary pressure across all components.

Going forward, however, the stabilization of inflation expectations as a result of the National Bank's moderately tight monetary policy, the economy returning to its potential level, and the gradual decline of inflation in Kazakhstan's main trading partners toward their target levels will support the disinflation process and help bring inflation down to the 5% target over the medium term.

At the same time, excluding temporary effects from ongoing reforms, such as tariff adjustments in regulated utilities and the deregulation of the F&L market, the seasonally adjusted quarterly core inflation is expected to align with the NBK's medium-term target of 5% by the end of 2027.

Table 1. Forecasts under the baseline scenario

	2025	2026	2027
GDP, yoy, %	5-6 (4.2-5.2)	4-5 (4.2-5.2)	3.5-4.5 (3.5-4.5)
CPI, Dec. to Dec. previous year, %	10.5-12.5 (10-12)	9.5-11.5 (9-11)	5.5-7.5 (5.5-7.5)
Brent, USD/Barrel, average per year	65 (73)	60 (70)	60 (70)

Table 1 (a). Forecasts under the pessimistic scenario

	2025	2026	2027
GDP, yoy, %	4.5-5.5 (3.6-4.6)	3.8-4.8 (4-5)	3.5-4.5 (3.5-4.5)
CPI, Dec. to Dec. previous year, %	11.3-13.3 (10.8-12.8)	10.2-12.2 (9.7-11.7)	6-8 (6-8)
Brent, USD/Barrel, average per year	53 (50)	40 (50)	40 (50)

Table 1 (b). Forecasts under the optimistic scenario

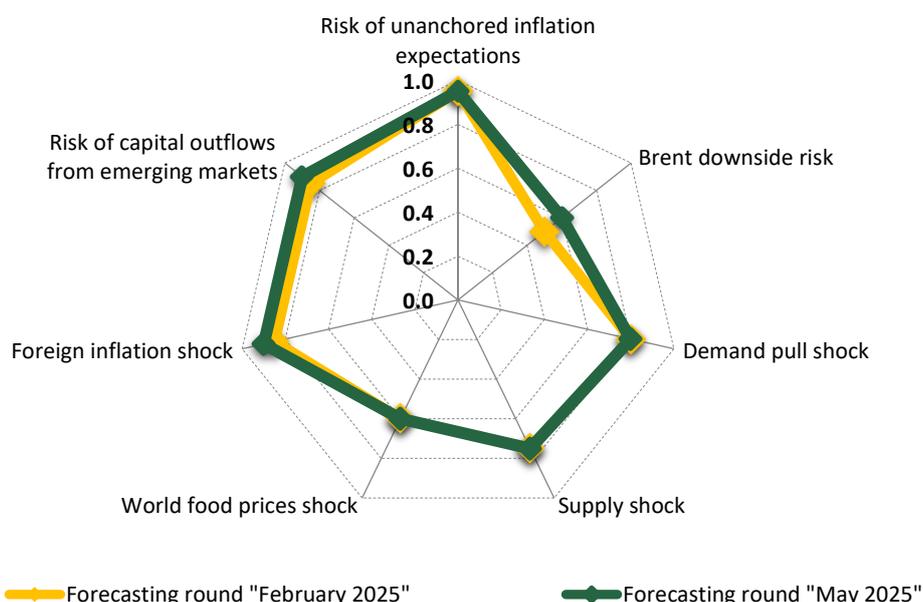
	2025	2026	2027
GDP, yoy, %	5.5-6.5 (4.6-5.6)	4-5 (4.2-5.2)	3.5-4.5 (3.5-4.5)
CPI, Dec. to Dec. previous year, %	10-12 (9.5-11.5)	8.5-10.5 (8-10)	5-7 (5-7)
Brent, USD/Barrel, average per year	77 (90)	80 (90)	80 (90)

Source: NBK forecasts

1.3. Medium-term Risks

The risks of inflation deviating from the forecast trajectory remain elevated, requiring the maintenance of moderately tight monetary conditions (Graph 7).

Graph 7. The balance of risks is tilted towards pro-inflationary pressures.



Source: NBK forecasts

Domestic inflation risks remain elevated. There are persistent risks of unanchored inflation expectations due to ongoing reforms in regulated utility services, the anticipated VAT increase, and the deregulation of fuel prices. Inflation expectations may also rise in response to short-term shocks in specific goods and services markets. In this context, supply-side risks related to utility tariff adjustments and fuel market deregulation remain significant.

There are also heightened risks of inflationary pressure from domestic demand, particularly due to the limited feasibility of fiscal consolidation aimed at stimulating economic growth. This could result in a prolonged situation where demand continues to outpace the economy's productive capacity.

Among external risks, the probability of falling oil prices, accelerating global inflation, and capital outflows from emerging markets has increased simultaneously. Ongoing volatility in global oil markets, driven by geopolitical tensions and demand uncertainty from major economies, raises the likelihood of a drop in oil prices. Such a decline would negatively affect export revenues and macroeconomic stability in commodity-dependent economies, including Kazakhstan.

Furthermore, the continued escalation of global trade tensions, including trade and technology conflicts between the U.S. and China, as well as potential new sanctions, intensifies the risk of faster external inflation.

At the same time, capital outflow risks from emerging markets are rising amid growing global uncertainty. This creates additional pressure on exchange rates and increases the vulnerability of emerging economies to external shocks.

Regarding economic activity, the main GDP forecast risks are associated with oil exports, particularly due to ongoing OPEC+ restrictions on daily production, which may limit the full-scale expansion of Tengiz field output. There is also uncertainty surrounding future fiscal policy parameters, which could pose risks not only to GDP dynamics but also to the inflation forecast trajectory.

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

According to the baseline scenario, the current account deficit is projected to widen over 2025-2027 relative to 2024 levels. This dynamic will be formed due to a reduction in the export of goods against the backdrop of a scenario-based decline in oil prices to 60 US dollars per barrel and high demand for imported goods.

The trajectory of the current account forecast has been revised downward compared to the previous estimates (Table 2) due to lower expectations for export of goods.

Table 2. Forecast of the current account of the balance of payments

	2020	2021	2022	2023	2024	2025 (f)	2026 (f)	2027 (f)
Current account as % of GDP	-6,5%	-1,4%	2,8%	-3,6%	-1,3%	-3,8% (-2,8%)	-4,0% (-3,2%)	-3,8% (-2,8%)
<i>Reference: current account in billion US dollars</i>	-11,1	-2,7	6,4	-9,4	-3,7	-10,9 (-8,4)	-11,8 (-9,9)	-11,3 (-8,9)

* the previous forecast in the forecast round "February 2025" is given in brackets

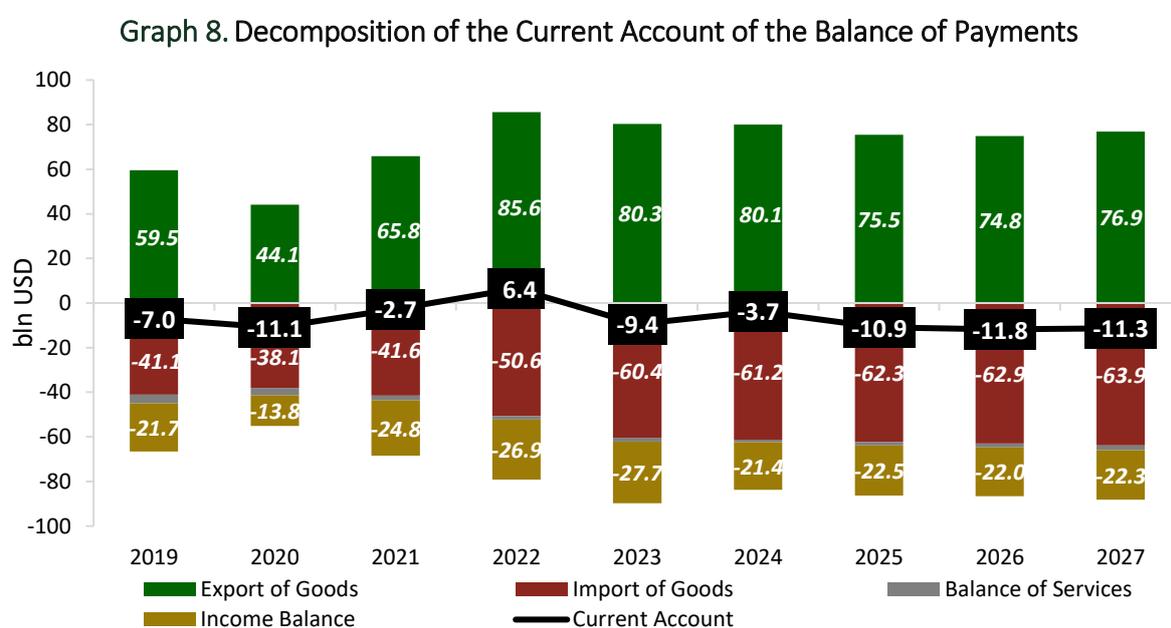
Export of goods will decline in the medium term. The main reason for the decline will be a reduction in crude oil exports, driven by lower oil prices compared to 2024. However, increased production at the Tengiz oilfield will partially offset the negative impact of declining prices. At the same time, non-oil exports will remain stable, primarily supported by sustained external demand for metals and agricultural products, including grains and their processed derivatives. As a result, total export of goods will fall from 28.3% of GDP (80.1 billion US dollars) in 2024 to 25.8% of GDP (76.9 billion US dollars) in 2027 (Graph 8).

Import of goods is expected to be above the 2024 level, showing moderate growth. High levels of imports will be driven by limited capacity and range of domestic production to meet growing demand of households and the corporate sector, as well as the deep integration of imported

components into production processes within the country. In addition, the implementation of state programs and industrial and infrastructure development projects will also lead to high volumes of purchases of foreign products. As a result, import of goods will remain high at 21.5% of GDP (63.9 billion US dollars) in 2027.

The income balance is expected to remain in moderately deep deficit zone over the forecast horizon. Relatively strong income payments to foreign direct investors will be driven by higher oil production volumes and rising metal prices. As a result, the income balance deficit is projected at (-)7.5%-(-)7.7% of GDP (around 22 billion US dollar) in 2025-2027.

Some deepening of the balance of services deficit will be associated with faster growth rates of import of services compared to their exports. The main factor in the growth of import of services will be an increase in the number of tourist trips abroad due to the expansion of the geography of international flights from Kazakhstan and new visa-free entry agreements with a number of countries. At the same time, the growth of transit cargo transportation through the country, as well as the influx of non-residents, mainly from the CIS countries, China and India, will contribute to an increase in export of services. As a result, in the forecast period, the deficit in the balance of services is expected to be at the level of (-)0.5%-(-)0.7% of GDP ((-)1.6-(-)2.1 billion US dollars).



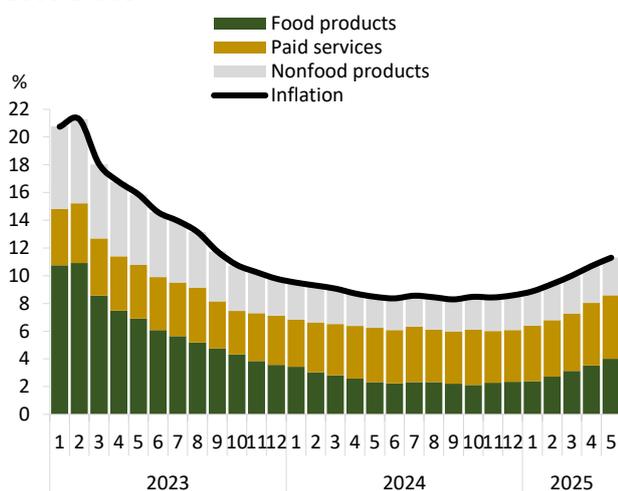
Source: NBK forecast

II. CURRENT MACROECONOMIC CONDITIONS

2.1. Inflation

In May 2025, annual inflation continued to accelerate and reached 11.3%. The main contribution to this acceleration came from rising prices for services and food products. Prices for non-food goods remained generally stable.

Graph 9. Annual inflation continued to accelerate.



Source: BNS ASPR RK, NBK calculations

In May 2025, annual inflation increased to 11.3%, up from 10.7% in April (Graph 9). The rise in inflation was driven by a combination of both external and internal pro-inflationary factors.

Among the external factors were less favorable oil price dynamics and persistent inflationary pressure from the main trading partner – Russia. This is due to high domestic inflation in Russia and the strengthening of the Russian ruble against the tenge.

Internal factors include sustained consumer demand, supported by the growth of consumer lending and fiscal stimulus measures, as well as elevated and unstable inflation expectations.

Service prices continue to have the greatest impact on overall inflation. In May 2025, the annual growth of service prices was 16.0%, compared to 15.7% in April.

The main driver remains the increase in tariffs for regulated utility services under the “Tariff in Exchange for Investment” program. In addition, market-based service prices rose significantly, becoming an increasingly important source of inflation. In recent months (excluding seasonal effects), there have been notable increases in prices for outpatient and hospital services, hairdressing and beauty salons, catering, hotels, recreational services, and waste collection. The acceleration of price growth for market services is likely linked to businesses adapting to persistently high inflation and passing on expectations of further price increases to consumers – including amid a negative information environment.

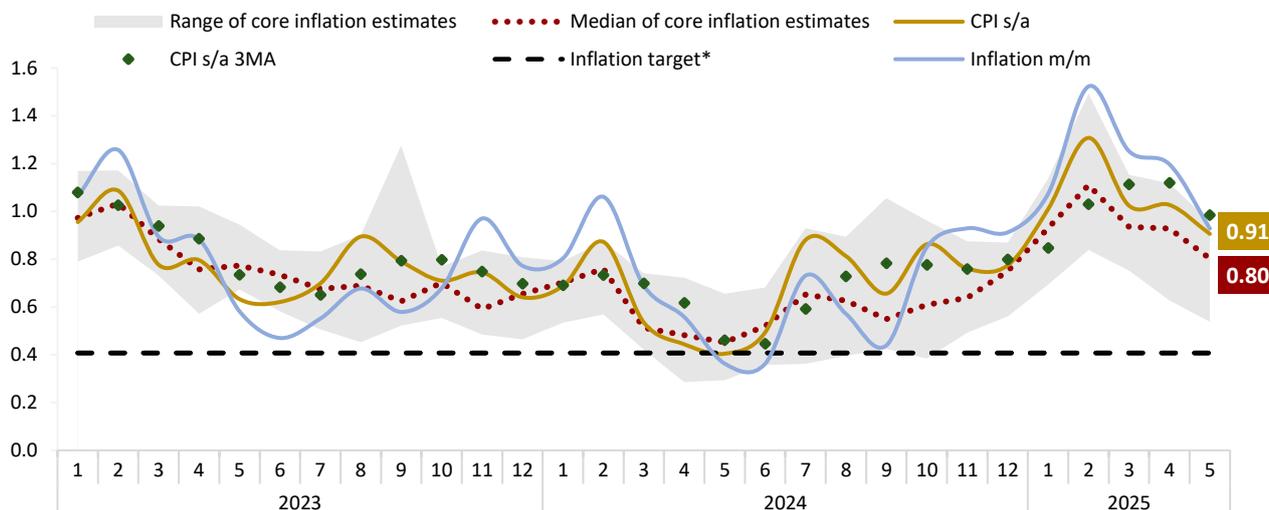
Annual inflation for non-food goods slightly accelerated to 9.0% in May, up from 8.9% in April 2025, contributing the least to overall inflation. The relatively moderate price growth in this category is largely due to the stabilization of the tenge exchange rate against the US dollar following a period of high volatility at the beginning of the year. As the effects of nominal exchange rate fluctuations subside, import prices are stabilizing, which supports the stabilization of domestic non-food price dynamics.

In May 2025, food inflation accelerated significantly, reaching 9.6% compared to 8.5% in April. The main driver was the increase in prices for certain food products, associated with rising producer prices in both the manufacturing sector and agriculture, as well as a decline in production volumes. In recent months, excluding seasonal factors, prices for meat, vegetables, and fruits have risen particularly sharply. An additional source of inflationary pressure on food products is the appreciation of the Russian ruble against the tenge.

In May 2025, seasonally adjusted and core inflation remained elevated, reflecting persistent pro-inflationary pressure in the economy resulting from the combined influence of external and internal factors.

In May 2025, seasonally adjusted inflation stood at 0.9% on a monthly basis (compared to 1% in April), which corresponds to an annualized growth rate of 11.4% (13%) (Graph 10). The median estimate of core inflation was 0.8% month-on-month (down from 0.9% in April), or 10.1% (11.7%) on an annualized basis. Despite the slowdown compared to the previous month, both seasonally adjusted and core inflation remain elevated, indicating persistent underlying inflationary pressure in the economy. This is driven by a combination of factors, including rising production costs, strong domestic demand, and exchange rate effects.

Graph 10. Various monthly inflation measures remain elevated.



Source: BNS ASPR RK, NBK calculations

*monthly price growth consistent with the 5% annual inflation target.

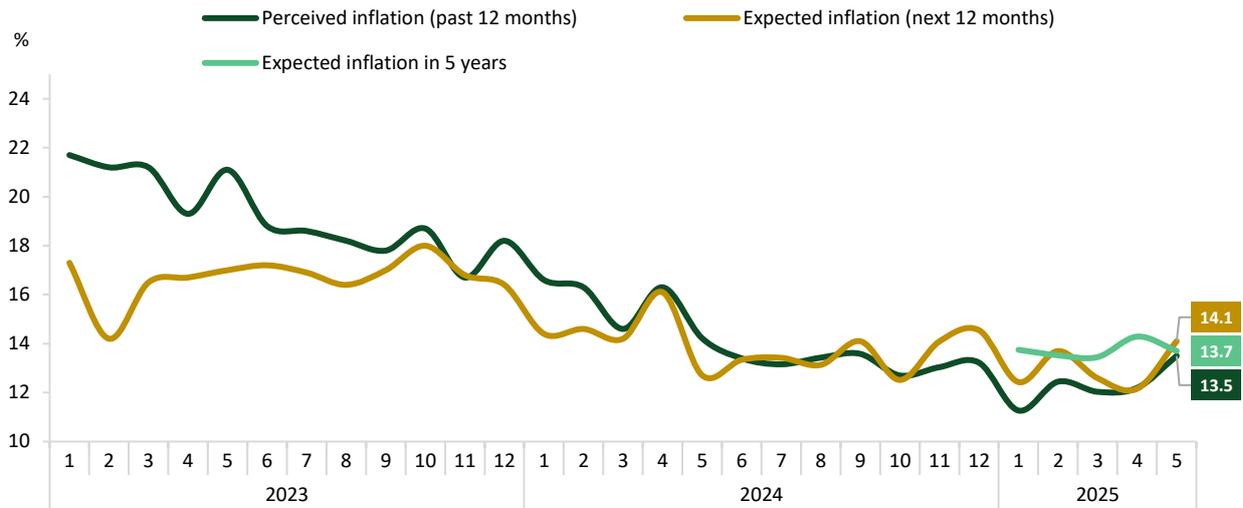
Note: historical estimates may be reviewed.

An increase in short-term inflation expectations is accompanied by a high degree of uncertainty in the responses and does not reflect stable dynamics, while long-term estimates have shown a decrease.

In May 2025, inflation expectations for the 12-month horizon increased to 14.1%, compared with 12.2% in April (Graph 11). The dynamics of expectations remains volatile. The smoothed three-month indicator has been in the range of 12-14% since the middle of last year. Among the factors of possible price increases, respondents cite rising prices for food, utilities, gasoline and diesel fuel, and changes in the exchange rate. In addition, a significant number of respondents are already mentioning in their responses the VAT increase planned for early 2026. Along with this, there is an increase in perceived inflation to 13.5% (12.2% in April 2025) against the background of an acceleration in actual inflation.

In May 2025, the median estimate of expected inflation in five years decreased slightly, amounting to 13.7% (14.3% in April 2025). It is important to note that the short-term inflation expectations of the population are still accompanied by a high degree of uncertainty. The share of respondents who found it difficult to estimate inflation for the next 12 months remains significantly higher than over the five-year horizon. This reflects the high degree of uncertainty among respondents regarding short-term inflation, as many find it difficult to accurately estimate it over a one-year horizon. At the same time, respondents show great confidence over a five-year horizon, expecting high inflation to persist.

Graph 11. Short-term expectations have increased, but the dynamics remain unstable, while long-term estimates have declined amid greater confidence.



Source: FusionLab: population survey

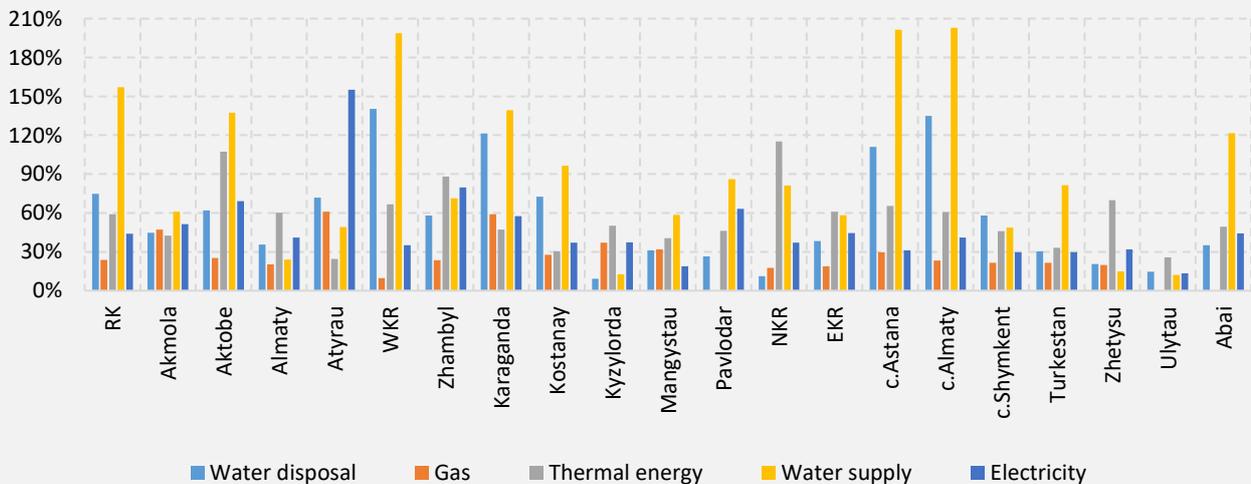
Box 1. Analysis of tariff dynamics and infrastructure depreciation in housing and communal services by region.

The "Tariff in exchange for investment" program has been in effect since July 2023 and is aimed at attracting investments to modernize housing and communal services (HCS) infrastructure. Between July 2023 and April 2025, the cumulative growth in tariffs across Kazakhstan amounted to 157.1% for water supply, 74.8% for water disposal, 59% for heat supply, 43.9% for electricity, and 23.7% for gas (Graph 1).

In some regions, the growth rates of tariffs significantly exceeded the national averages. For instance, in Almaty city, Astana city, and the West Kazakhstan region, there was a notable increase in water supply tariffs (202.8%, 201.4%, and 198.7%, respectively) and in water disposal tariffs (135%, 111.1%, and 140.3%). For heat supply, the highest increases were observed in the North Kazakhstan region (115.3%), Aktobe region (107.4%), and Zhambyl region (88.2%). In terms of electricity, the largest tariff hikes were recorded in the Atyrau region (155%), Zhambyl region (79.7%), and Aktobe region (69.2%). As for gas supply, the most significant growth occurred in the Atyrau region (60.9%), Karaganda region (59%), and Akmola region (47.1%).

It is important to note that the substantial growth in tariffs in these regions may be partially attributed to the implementation of differentiated tariffs, where the cost of services depends on the volume of consumption.

Graph 1. Cumulative inflation for housing and communal services by region, June 2023 = 100



*Gas supply services are not provided in Pavlodar and Ulytau regions.

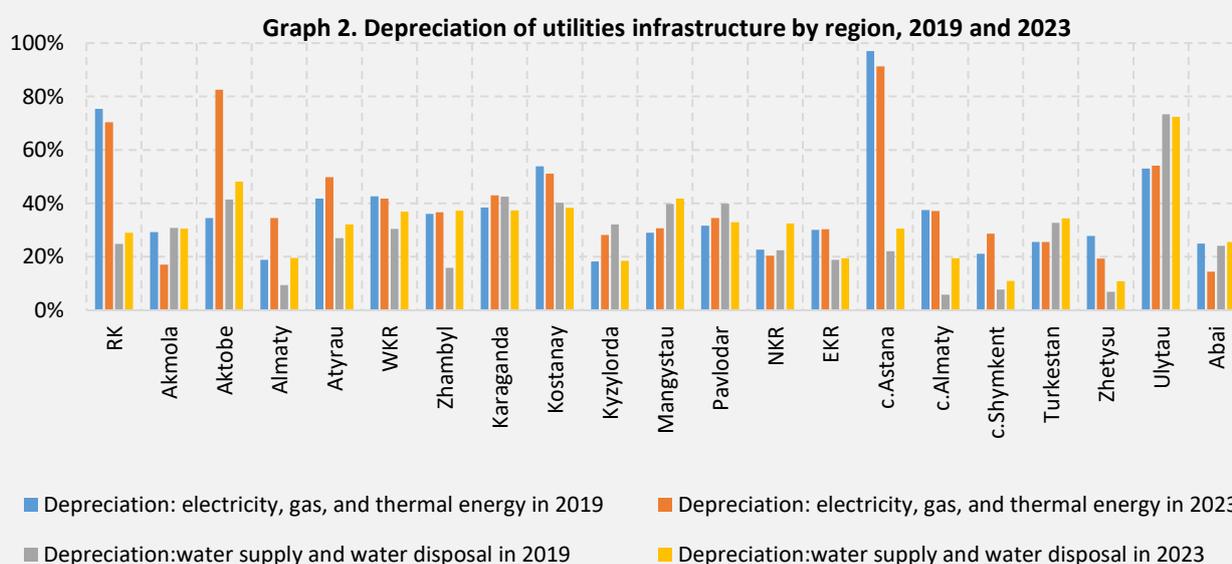
In 2023, the average depreciation level of the main electricity, gas, and heat supply networks in Kazakhstan was 70.4%, which is 5 percentage points lower than the level in 2019. However, despite this decline, the

indicator remains at a critical level. In several regions, depreciation significantly exceeds the national average (Graph 2). For example, in Astana city, it reached 91.3% (97% in 2019), and in Aktobe region, it was 82.6% (34.5% in 2019). At the same time, some regions showed improvements. The most notable reduction in depreciation was observed in Akmola region — from 29.2% in 2019 to 17.1% in 2023, as well as in Zhetysu (from 27.8% to 19.3%) and Abai (from 25% to 14.4%) regions.

Depreciation of water supply and water disposal networks nationwide increased from 24.8% in 2019 to 29% in 2023. The largest increase in this indicator was recorded in Zhambyl region — from 15.9% to 37.3%, Almaty city — from 5.8% to 19.5%, and Almaty region — from 9.4% to 19.6%. The leader in water infrastructure depreciation remains Ulytau region, where the indicator reached 72.4% in 2023. At the same time, some regions showed improvements. The most significant decreases in depreciation were recorded in Kyzylorda region — from 32.1% to 18.5%, as well as in Pavlodar (from 39.9% to 33%) and Karaganda (from 42.5% to 37.4%) regions.

It is important to note that the regional dynamics of tariffs do not always correspond to the level of depreciation of communal infrastructure. For example, despite the high depreciation of electric, heat, and gas networks in Astana city, Aktobe, and Ulytau regions, the highest tariff growth was observed in Atyrau, Zhambyl, and North Kazakhstan regions. An exception is Aktobe region, where the high cumulative inflation in the heat energy (107.4%) and electricity (69.2%) segments correspond to significant network depreciation (82.6% as of 2023). At the same time, the distribution of cumulative inflation in the water supply sector does not reflect the degree of infrastructure depreciation: the highest tariff growth over the period was recorded in Astana city, Almaty city, as well as in West Kazakhstan and Karaganda regions. Part of this growth may be explained by consumption volumes in these regions during 2023–2024.

However, electricity consumption volumes are not a determining factor in inflation dynamics: the largest consumers in 2022 — Karaganda region, Almaty city, and Akmola region — demonstrated more moderate tariff growth compared to Atyrau, Zhambyl, and North Kazakhstan regions.



*Data on depreciation in Zhetysu, Ulytau, and Abai regions are available only for 2022–2023, as these regions were established in 2022.

Currently, statistical data on the depreciation level of housing and communal services (HCS) infrastructure are available only for 2023. Considering that the "Tariff in exchange for investment" program began implementation in July 2023, more time is needed to conduct a comprehensive assessment of its impact. It is expected that the first results of the program's implementation will become apparent in 2024 and 2025.

2.2. Domestic sector

In the first quarter of 2025, Kazakhstan’s real economic growth reached 5.6% YoY, exceeding the forecasts of the National Bank. The acceleration in economic activity was primarily driven by the earlier-than-expected expansion of oil production at the Tengiz field and increased output in non-extractive sectors of the economy. On the demand side, the main drivers of economic growth were robust consumer demand and a strengthened investment activity. Higher economic activity, coupled with expanding domestic demand, contributed to increased inflationary pressures (Graphs 12 and 13).

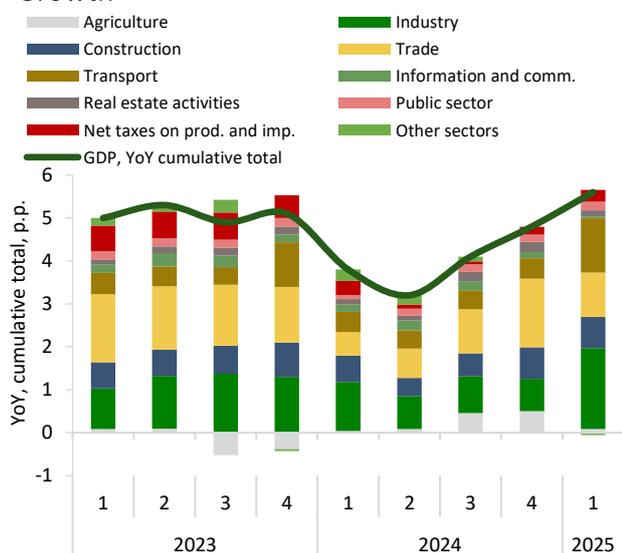
At the beginning of 2025, the early expansion of production at the Tengiz oil field emerged as a key driver of accelerated economic growth. This contributed to faster-than-expected growth in the mining sector and had a positive spillover effect on related industries, including wholesale trade and pipeline transportation.

In parallel with the commodity-driven impulse, the acceleration of economic growth was also supported by active investment in non-extractive sectors. The large-scale implementation of infrastructure projects stimulated growth in manufacturing and construction. The machinery and equipment sector is expanding rapidly, driven by increased production of agricultural machinery, railway locomotives and wagons, as well as passenger cars. The food industry is showing steady growth, supported by the expansion of food exports.

In addition to large-scale investment projects, construction activity is also driven by residential construction, the expansion of public school facilities, and the modernization of road infrastructure and utility networks (including electricity and water supply) across the country.

Graph 12. In the first quarter of 2025 economic growth was driven by the expansion of both oil and non-oil sectors.

Contribution of Industries and Taxes to Real GDP Growth*



Source: NBK calculations based on BNS ASPR RK data

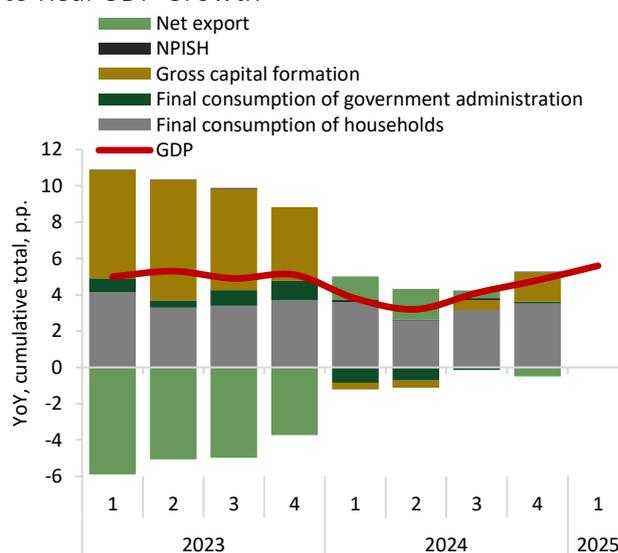
*the contribution of industries to GDP is presented as a cumulative total

The trade and transportation sectors continue to demonstrate positive dynamics, supported by increased turnover in both food and non-food products. This reflects the resilience of domestic demand, as well as improvements in logistics connectivity and the efficiency of transport infrastructure.

Following a significant acceleration at the end of 2024, consumer demand showed signs of moderation in early 2025, returning to historical average levels. However, in March-April 2025,

Graph 13. Despite stronger investment activity, consumer demand remains the main driver of economic growth.

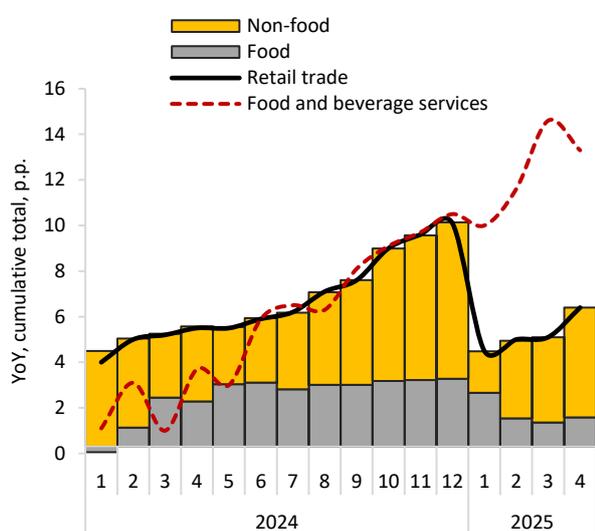
Contribution of Aggregate Demand Components to Real GDP Growth



demand for consumer goods and services strengthened again, as reflected in retail trade dynamics and trends in large purchases. Over the period January to April 2025, real retail sales increased by 6.1% YoY. Demand for non-food products was the primary driver of this growth, supported in part by an increase in real estate transactions during this period. Property purchases were accompanied by increased spending on goods and services related to home renovation and furnishing. A significant acceleration was also recorded in the food and beverage services (Graph 14).

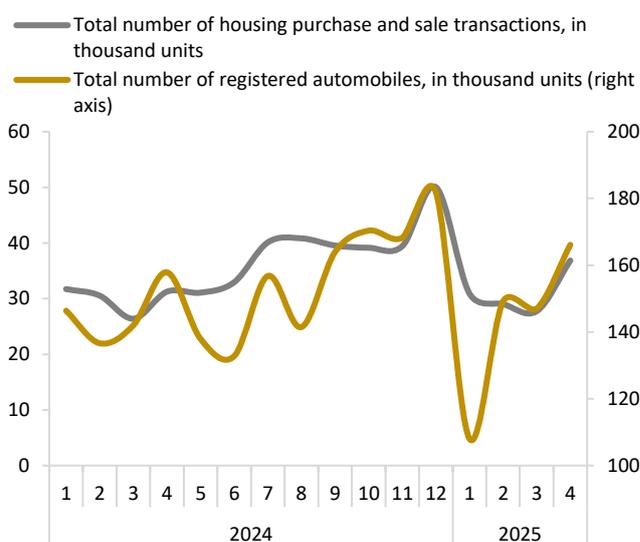
The launch of subsidized auto loan programs and promotional offers by second-tier banks contributed to increased demand for automobiles starting in February 2025. According to data from the Bureau of National Statistics, the number of registered vehicles rose by 5.2% YoY in April 2025 (Graph 15).

Graph 14. The growth of retail turnover and food and beverage services confirms the acceleration of consumer demand growth by the end of the first quarter of 2025.



Source: BNS ASPR RK, NBK calculations

Graph 15. The rise in consumer demand is also reflected in the dynamics of large purchases, such as cars and housing.



In addition to real growth in wages and fiscal transfers, household consumption was financed by personal savings (Graph 16). The real growth of tenge-denominated deposit balances continued to decelerate. In the absence of significant inflows into foreign currency deposits, accumulated savings may have been used to finance the consumption of goods and services in the first quarter of 2025. In the first quarter of the current year, the real growth of household lending moderated. A decline was recorded in mortgage loans and loans for other purposes. However, the real issuance of loans for consumer purposes increased, accelerating to 11.3% YoY in March 2025. As a result, consumer lending also provided support to domestic demand (Graph 17).

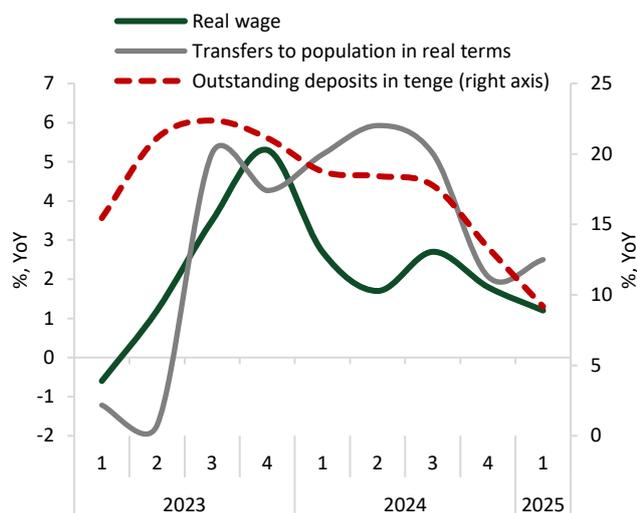
The significant expansion of investment activity in the second half of 2024 contributed to increased imports of capital goods. In the first quarter of 2025, nominal imports of machinery, equipment, and transport vehicles maintained positive growth. Additionally, there was an increase in imports of fuel and energy products, leather raw materials, and selected categories of non-food consumer goods. Growth was also observed in imports of precious and semi-precious metal products.

Nominal exports of goods declined by 11.9% YoY in the first quarter of 2025. Despite higher crude oil production volumes during this period, oil exports, according to the Bureau of National Statistics and ASPR RK, decreased, largely due to a time lag in the recording of customs export data. Meanwhile, export growth was observed in the category of food products, particularly grains and other agricultural goods.

In the first quarter of 2025, the structure of government expenditures reflected an increase in spending on wages, as well as higher employer contributions and other current expenditures. Meanwhile, expenditures on the procurement of services and works by government institutions declined.

Graph 16. Consumption was financed by real wages, government transfers, and personal savings.

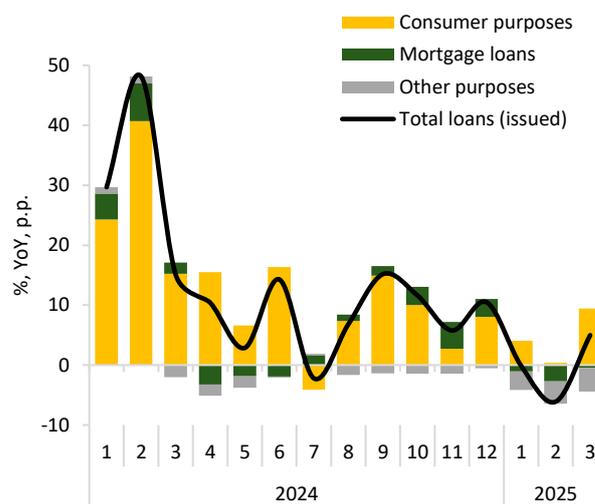
YoY quarterly growth rates in real terms



Source: BNS ASPR RK, Ministry of Finance RK, NBK calculations

Graph 17. Consumer lending supported domestic demand in the first quarter of 2025.

Contributions of loan categories to the real growth rate of household lending



Despite some moderation, investment activity maintained positive growth rates in early 2025. The expansion was primarily driven by increased public investment, while private investment continued to decline, largely due to a contraction in the mining sector.

Following a sharp acceleration in the fourth quarter of 2024, growth in fixed capital investment slowed to 5.8% YoY in the first quarter of 2025 (Graph 18). The growth was primarily driven by an increase in public investment within the framework of infrastructure development programs. Public investment was heavily concentrated in the education sector, with capital inflows rising over sixfold as a result of the 'Comfortable School' program (Graph 19). Meanwhile, investment in the mining sector continued to decline due to the completion of the Future Growth Project at the Tengiz field and the associated reduction in capital spending. Private investment in the non-extractive sector also continued to decelerate, reaching 1.4% YoY.

In January-April 2025, investment growth accelerated, supported by a low base effect from the previous year, as well as the renewal of fixed assets in manufacturing, water supply, and real estate activities. Private investment in the non-extractive sector showed signs of gradual recovery.

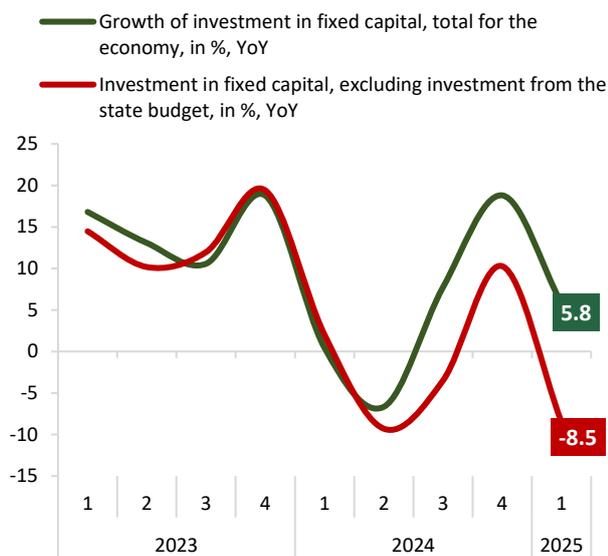
The deceleration in real wage growth, accompanied by rising labor supply and productivity gains, contributed to easing inflationary pressures in the labor market. Nonetheless, inflationary pressures persist in certain sectors of the economy.

In the first quarter of 2025, labor supply continued to expand, primarily driven by an increase in the number of hired employees. The growth rate of wage employment accelerated further, reaching 2.3% YoY - the highest rate observed in the past three years (Graph 20). The strongest growth in employment was recorded in electricity supply, telecommunications, trade, education, healthcare, and arts, entertainment and recreation sectors. Employment growth was largely supported by increased public infrastructure spending and measures aimed at stimulating domestic demand. Meanwhile, for the first time since 2020, a decline was observed in the number of self-employed individuals, particularly those engaged in private practice.

Nominal wage growth remained relatively stable for the fourth consecutive quarter, with a slight acceleration to 10.7% YoY in the first quarter of 2025. The annual growth of real wages slowed to 1.2% (Graph 21). Positive contributions to real wage growth were observed in the information and communications sector, entertainment and recreation, trade, and real estate activities. At the same time, real wages within the public sector continued to decline (particularly in education and healthcare).

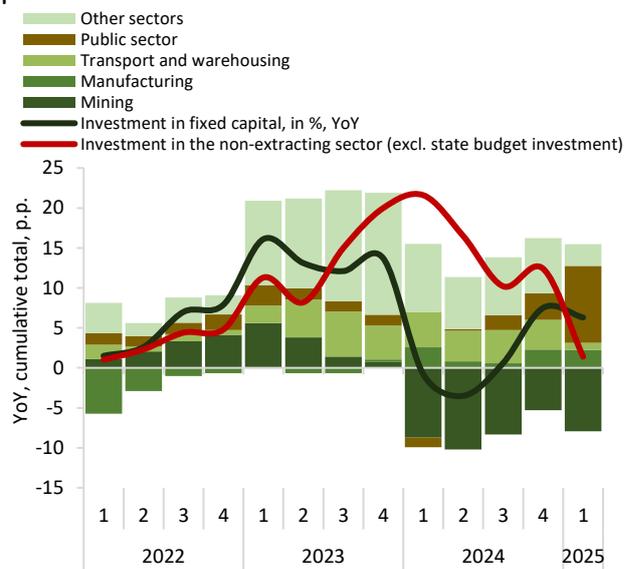
In the first quarter of 2025, the overall trend of rising labor productivity persisted throughout the economy. In several sectors - namely transportation, construction, agriculture, and manufacturing - productivity growth outpaced the increase in real wages, helping to ease inflationary pressures in the labor market. However, certain service industries exhibited a reverse pattern, potentially heightening inflationary pressure on service prices.

Graph 18. At the beginning of 2025, investment activity in the economy slowed.

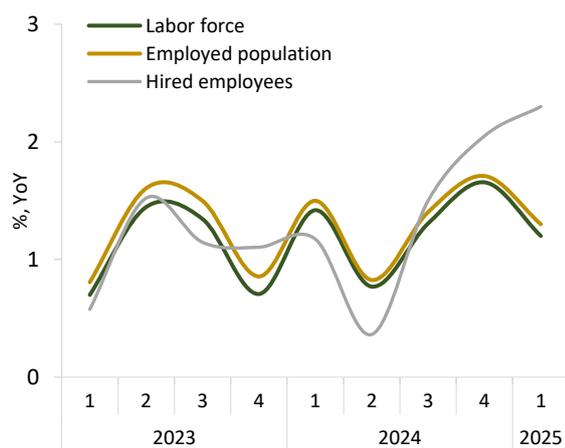


Source: BNS ASPR RK, NBK calculations

Graph 19. Investment growth was driven by the public sector.

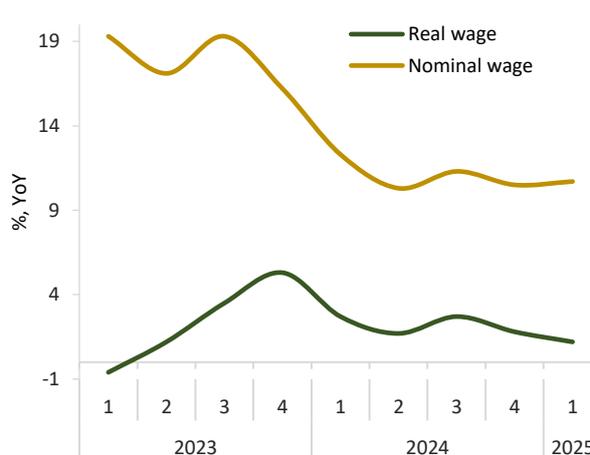


Graph 20. Labor supply



Source: BNS ASPR RK

Graph 21. Nominal and real wage dynamics

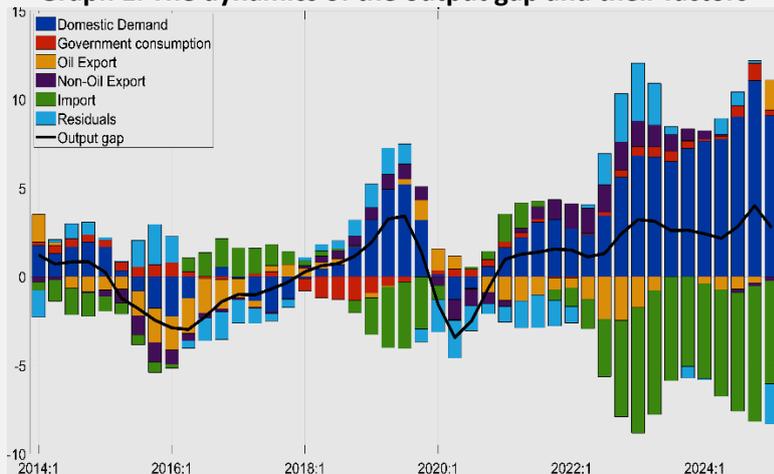


Box 2. Output gap in Kazakhstan.

The output gap is an unobservable variable, defined as the percentage deviation of actual GDP from potential GDP. Potential GDP represents the level of goods and services that the economy can produce at the natural rate of unemployment and with the efficient use of resources—without causing economic overheating or fueling inflation. There are various methods for estimating the output gap, ranging from simple statistical

filtering techniques to more advanced structural economic models. The National Bank of Kazakhstan estimates the output gap using the Kalman Filter within a semi-structural Quarterly Projection Model (QPM).

Graph 1. The dynamics of the output gap and their factors

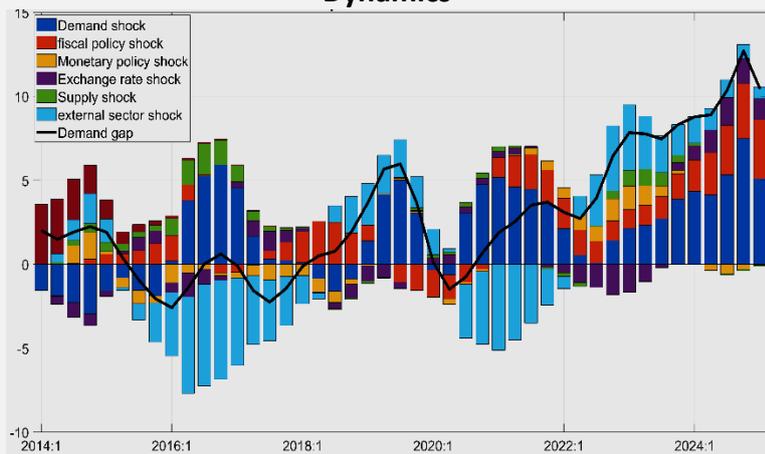


Source: NBK estimates based on data from the Bureau of National Statistics

According to the NBK’s estimates, Kazakhstan’s economy has been operating above its potential level since 2014, with the exception of the periods from 2015 to 2017 and during the 2020 pandemic (Graph 1). Since 2021, the positive output gap has become more persistent, driven primarily by the strong growth in domestic demand, which has emerged as the key contributor to the gap. At the same time, imports have also increased, partially offsetting the rise in domestic demand. Oil exports, meanwhile, have remained below

potential levels during the 2016–2017 oil price crisis and again from 2021 to 2024, amid geopolitical shocks, domestic production issues, and daily extraction caps imposed by OPEC+.

Graph 2. Contribution of Shocks to Domestic Demand Dynamics



Source: NBK estimates based on data from the Bureau of National Statistics

The dynamics of domestic consumption are primarily driven by demand shocks.

According to the shock structure analysis (Graph 2), even during periods of economic downturn, such as in 2015–2017, the contribution of this group remained positive. In 2020, amid the pandemic, the domestic demand gap turned negative. However, due to a strong and positive impulse from demand-side shocks (e.g., consumer lending, growth in real wages) and fiscal policy, it recovered rapidly.

Since 2021, the role of fiscal policy has strengthened, becoming one of the key drivers of domestic consumption growth — reflecting the resilience of fiscal stimulus.

The external environment also has a significant impact during periods of declining demand, having been the main source of crisis phenomena in 2016–2017 and during the pandemic. However, since 2022, the contribution of external shocks has become positive, supported by improvements in the global economic environment and a recovery in oil prices.

The impact of monetary policy (MP) shocks on domestic demand is less pronounced but becomes noticeable during periods of heightened inflationary pressure. For example, in 2024, the MP contribution turned negative, reflecting the tightening of monetary policy aimed at curbing economic overheating and reducing inflation.

Thus, the current positive output gap is characterized by a combination of still strong domestic demand, expanding activity in the oil sector, a moderately restrictive monetary policy, and ongoing fiscal stimulus — all of which may indicate signs of a potentially overheating economy.

2.3. Fiscal policy

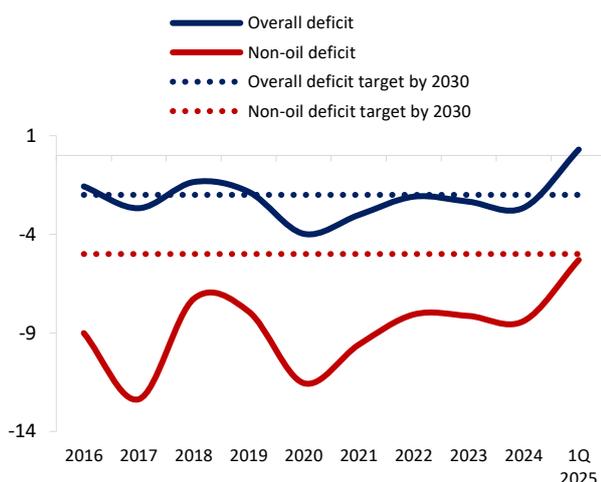
In the 1st quarter of 2025, the balance of the state budget significantly improved against the background of high tax revenues and incomplete disbursement of expenses.

Based on preliminary data from the Ministry of Finance of the Republic of Kazakhstan, fiscal policy was less stimulating in the first quarter of 2025 than in 2024. A significant improvement in the state budget was noted. Thus, the overall balance was formed with a surplus of 0.3% of GDP, while the non-oil balance was formed in the area of the long-term goal at 5.3% of GDP (Graph 22). The main factor in improving the fiscal position was the outstripping growth in tax revenues. An increase in economic activity, a weakening of the tenge exchange rate, as well as the effect of a low base for corporate income tax and value added tax due to advance payments and refunds to exporters contributed to an increase in tax revenues by 18.9% year-on-year. The total over-fulfillment of the tax revenue plan exceeded 500 billion tenge, which is significantly higher than at the beginning of 2024. Over-fulfillment was recorded for all major tax items, with the exception of VAT, for which there was a slight shortage.

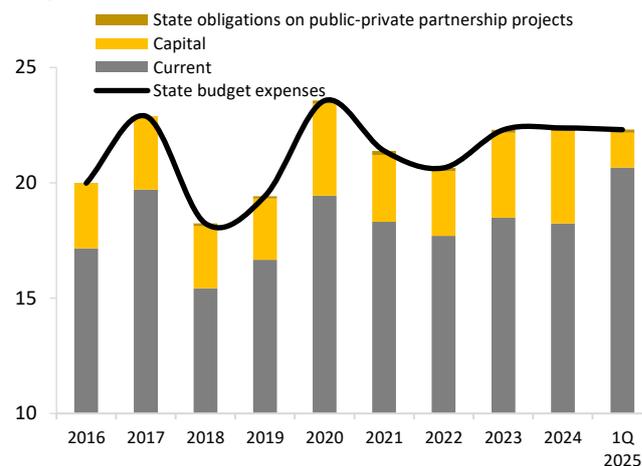
At the same time, expenses grew at a more moderate pace due to the incomplete disbursement of funds in the amount of about 1 trillion tenge. The total expenses growth was 9.5% YoY. The share of current expenses increased in the expenditure part, mainly due to the growth of transfers to individuals and servicing of domestic debt (Graph 23). At the same time, the total expenses-to-GDP ratio has not changed significantly.

In terms of budget levels, the positive dynamics of the state budget balance can be explained by the over-fulfillment of the revenue side of local budgets compared to the plan, which compensates for the larger deficit of the republican budget.

Graph 22. State budget deficit, as % of GDP



Graph 23. The structure of state budget expenses, 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, NBK calculations

Box 3. The impact of government spending on long-term economic growth.

The State plays a key role in shaping and maintaining macroeconomic stability, stimulating growth, and ensuring the public good. Through fiscal policy mechanisms, the government influences supply and demand, redistributes resources, and invests in infrastructure and human capital. In addition, one of the functions of the state in the economy is the countercyclical regulation of the economy, which consists in reducing the output gap, i.e. minimizing the deviation of actual GDP from the productive potential of the economy. In this case, such policy measures tend to be tax cuts and spending increases during periods of economic downturn, and conversely, tax increases and spending cuts during periods of economic boom. In Kazakhstan, the tax policy is characterized by the static nature of most taxes, in which tax rates do not change, except for the introduction of preferential conditions for individual taxpayers. Accordingly, the countercyclical fiscal policy

can be realized through the regulation of budget deficits by increasing (during periods of recession) or reducing/optimizing (during periods of boom) expenditures in conjunction with built-in stabilizers.

For Kazakhstan, government budget expenses³ increased from 11.3 trillion tenge in 2018 to 30.3 trillion tenge in 2024. Their level relative to GDP increased from 18.4% to 22.6%. More than half of the expenses are for education, healthcare and social assistance. The share of debt servicing is growing.

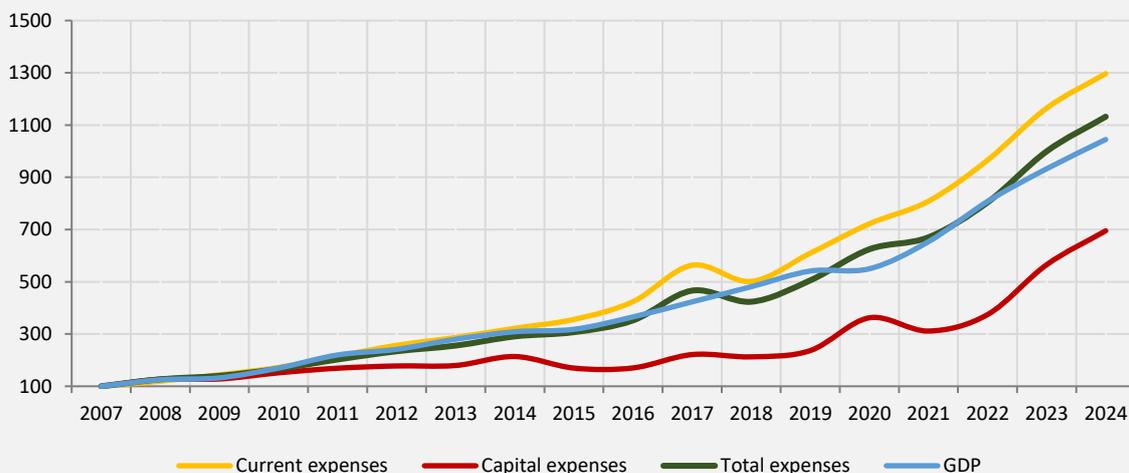
Current expenses (wages, employer contributions, current transfers, purchase of stocks, works and services), stimulating demand, have a greater impact on cyclical fluctuations in GDP. While capital expenses (acquisition and overhaul of FA, capital expenses on development) are aimed at increasing the productive potential of the economy. From 2007 to 2024, the economy of Kazakhstan increased 10.4 times in nominal terms. At the same time, current expenses increased 13-fold, while capital expenses increased only 7-fold (Graph 1). Although short-term incentives through current spending support economic activity, their dominance in the budget structure makes the economy less shock-resistant and less competitive.

In this context, budget expenditures can be divided into productive and unproductive. Productive expenditures contribute to the accumulation of physical and human capital (spending on education, healthcare, construction, and infrastructure development) and stimulate long-term economic growth. Unproductive expenditures (expenditures on defense, public order, public services, social assistance and social security), on the contrary, are assessed as less effective from the point of view of long-term economic development (but certainly necessary from a national point of view).

In addition, there are high volumes of transfers from the National Fund (since 2020, the amount of transfers exceeds 4 trillion tenge annually) are not accompanied by a better development of the economy of Kazakhstan in terms of its diversification. According to the Economic Complexity Index⁴, Kazakhstan ranked 85th in 2007, but by 2023 it had dropped to 89th in the ranking.

The continued active injection of money into the economy, after the crises have passed, accelerates demand, and with lagging supply growth (when budget expenditures grow faster than incomes and economic activity) increases inflationary pressure, overheating the economy, to a lesser extent contributing to balanced long-term economic growth.

Graph 1. Expenses of the state budget and GDP in nominal terms, 2007=100



Source: BNS ASPR RK, NBK calculations based on data from the MF RK

³ The expenses do not include budget loans and the purchase of financial assets

⁴ The Economic Complexity Index, developed by Harvard University, evaluates the complexity and diversity of a country's goods in its export basket. The index value for Kazakhstan is -0.4 in 2007 and 2023.

III. THE TRANSMISSION MECHANISM OF MONETARY POLICY

3.1. The transmission mechanism of monetary policy

Money market rates evolved in line with the movements of the base rate and remained within the corridor. The dynamics of deposit rates reflected changes in the base rate, with corporate deposit rates reacting more quickly.

Deposits in the banking sector showed growth on the background of growth of tenge deposits and revaluation of foreign currency deposits due to exchange rate revaluation.

The cost of corporate lending generally followed the dynamics of the base rate, while consumer loan rates continued to be influenced by the share of installment plans. There were no significant changes in mortgage rates.

Overall, the growth rate of lending remained high.

The money supply increased as a result of the expansion of the credit channel and the accumulation of external assets.

3.1.1. Interest rate channel

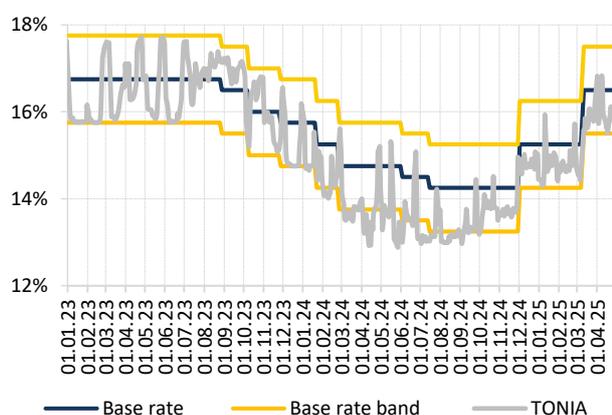
Money market rates remained within the base rate corridor.

From February to April 2025, money market rates remained within the interest rate corridor and showed an increase in March following the rise in the base rate (Graph 24). The average spread between TONIA and the base rate over this period amounted to (-) 0.5 percentage points.

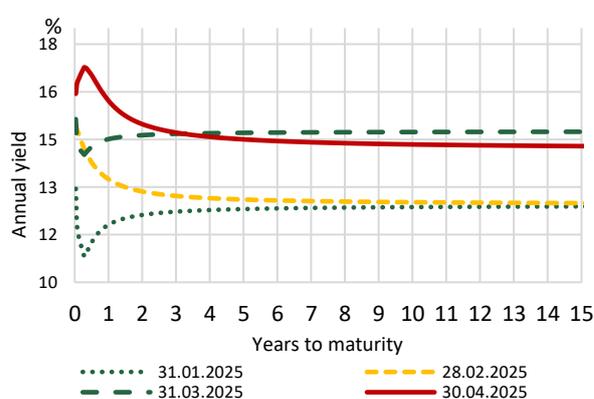
Government securities (GS) yields increased across the curve in April, reflecting the increase in the base rate and rising inflation expectations among market participants.

As of end-April 2025, the risk-free yield curve shifted upward along its entire span compared to January, taking on an inverted shape (Graph 25). Short-term yields rose more significantly than medium- and long-term rates.

Graph 24. The Interest Rate Band and the TONIA



Graph 25. Risk-Free Yield Curve, %



Source: NBK, KASE

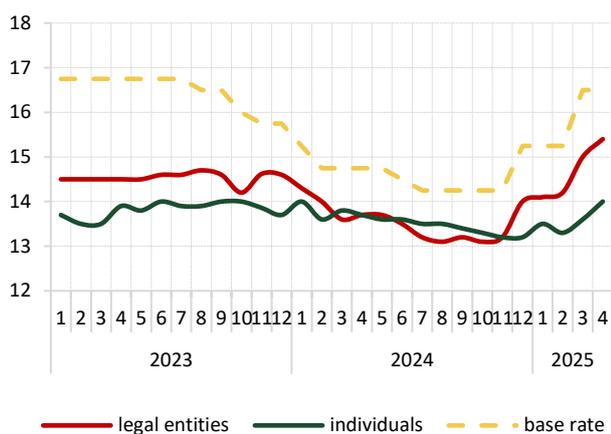
The increase in the base rate led to an increase in deposit rates, especially for corporate deposits in tenge (from 14.1% in January to 15.4% in April 2025). Interest rates on retail deposits increased more moderately - by 0.5 p.p. to 14.0% (Graph 26). The transmission of monetary policy to retail deposits is constrained by the time lag and changes in regulation: since March 2025, the KDIF cancelled the marginal rates on all household deposits, while retaining the mechanism of increased premiums for exceeding the market level.

Lending rates for businesses followed changes in the base rate.

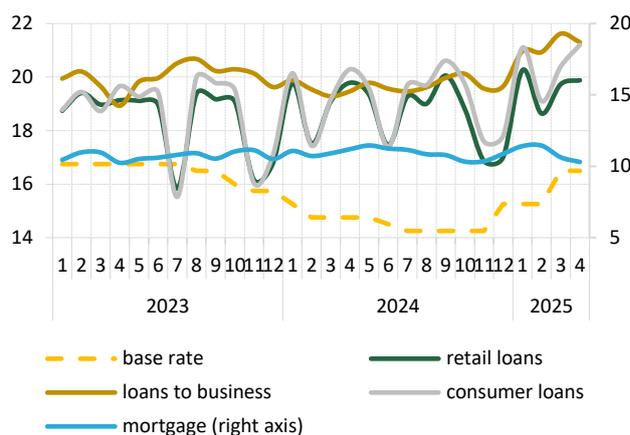
Corporate Lending Rates. The weighted average interest rate on business loans in the national currency increased by **0.3 p.p.** from January to April 2025, reflecting the March hike in the base rate (Graph 27). Lending rates for large and medium-sized enterprises responded more noticeably to the base rate increase (rising by **1,1** and **1,3** p.p. respectively), while the growth in lending rates for small businesses was more moderate (by **0,4** p.p.).

Retail lending rates remained relatively stable. Consumer loan rates continue to be shaped by shifts in the share of installment-based lending within the overall volume of consumer credit. From February to April 2025, consumer lending rates ranged between 19% and 21%. Mortgage rates showed little movement and remained within the 10% to 11% range (Graph 27).

Graph 26. Deposit rates in national currency, %



Graph 27. Lending Rates in National Currency, %



Source: NBK

3.1.2. Credit channel and deposits (Wealth channel)

The loan portfolio of second-tier banks grew by 20.4% YoY in April 2025, supported by the continued expansion of lending to both households and businesses (Graph 28).

Demand for consumer loans remains strong (household lending grew by 22.4%YoY in April 2025), despite a slowdown in the growth of consumer credit.

In April 2025, the mortgage portfolio grew by 12.7% YoY. Applications for preferential mortgage loans were collected in March 2025 as part of the “Nauryz” program, which is expected to encourage growth in mortgage lending in the coming months.

In April 2025, lending activity among large and medium-sized enterprises remained high.

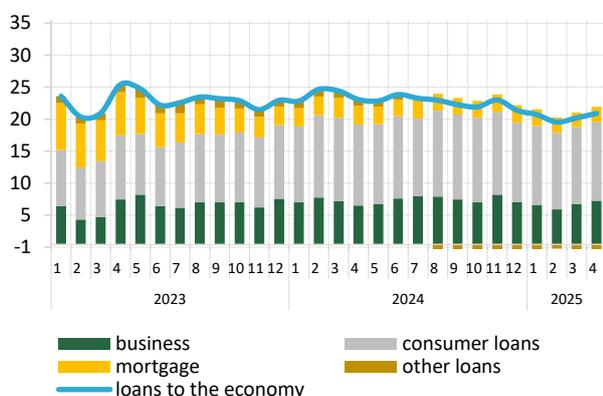
Lending to businesses by second-tier banks continued to grow at double-digit rates in March 2025 (by 17.3% YoY), mostly driven by accelerated lending growth to large and medium-sized enterprises as investment projects in the real sector progressed. Lending to small enterprises slowed slightly in April 2025, reaching 10.4% YoY growth.

Deposit market demonstrates active growth and sensitivity to changes in the base rate.

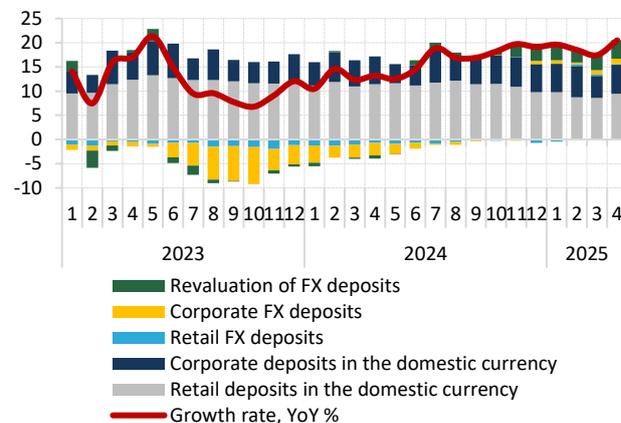
As of the end of April 2025, deposits in depository organizations increased by 20.5% in annual terms. The main contribution to the growth was made by deposits in the national currency (19.9% YoY), which reflects the preservation of their attractiveness against the background of a significant differential of interest rates between deposits in tenge and foreign currency deposits (Graph 29). At the same time, there was an increase in foreign currency deposits by 22.6% YoY, which was mainly due to the effect of exchange rate revaluation, and to a lesser extent due to the inflow of new

deposit inflows. Despite the seasonal decline, the household savings rate⁵ remains close to the maximum levels. Also, in March-April of this year there was an increase in the share of the saving households after a decline since November 2024. Thus, the behavior of the deposit market under the current monetary policy demonstrates sensitivity to interest rate incentives and supports the functioning of the transmission mechanism.

Graph 28. Loans to the Economy from STBs (portfolio), YoY, %



Graph 29. Residents' deposits in deposit organizations, YoY, %



Source: NBK

Deposit dollarisation remains close to the historical minimum level.

In April 2025, the level of deposit dollarization remained virtually unchanged QoQ and amounted to 22.8% (22.7% in January 2025). Dollarization of corporate sector deposits slightly increased (up 0.6 p.p.) amid increased global uncertainty caused by changes in the US foreign policy, as well as due to currency revaluation. Dollarization of retail deposits showed a decline to 20.2% (20.5% in January 2025).

3.1.3. Exchange rate channel

The dynamics of the exchange rate are driven by external and internal factors.

In April compared to January, the tenge appreciated by 1.1%, mainly due to domestic factors (Graph 30). Support came from foreign currency sales by the NF and the quasi-government sector, as well as the mirroring of gold purchase operations. A significant factor was the seasonal decline in demand for foreign currency observed in February. In March–April, a slight depreciation of the tenge was recorded, driven by a decline in global oil prices amid the introduction of U.S. import tariffs and expectations of a slowdown in global trade.

⁵ $(Total\ household\ income - total\ household\ expenditure) / total\ household\ income$

Graph 30. Exchange rate of the tenge to the US dollar, *tenge per one US dollar*



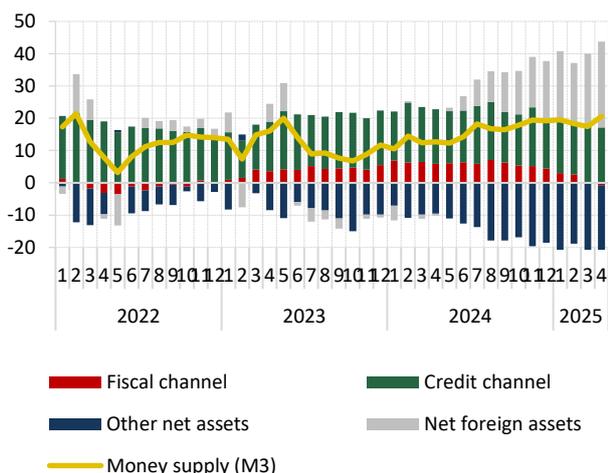
Source: KASE

3.2. Money supply

Money supply growth is being supported by the ongoing expansion of the credit channel and rising external assets.

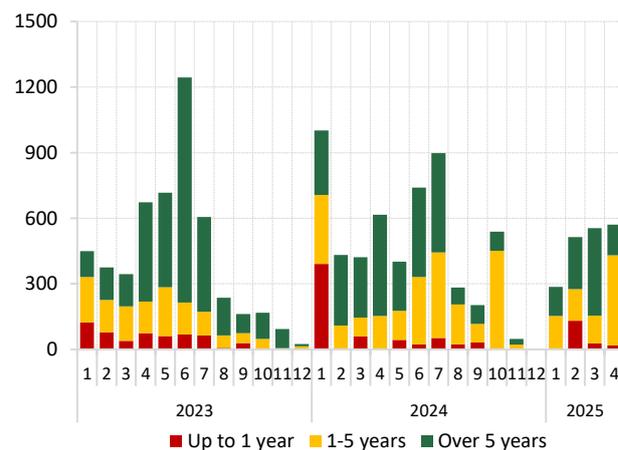
In April 2025, the total money supply increased by 20.6% year-on-year, while the tenge money supply rose by 20.1% (Graph 31). The main sources of money supply growth were the credit channel and the increase in external assets due to the government's external borrowing. At the same time, the contribution of the fiscal channel declined compared to previous periods. This was driven by reduced bank activity in purchasing government securities (GS) and the accumulation of funds in government accounts. At the same time, in January–April 2025, the volume of GSs issuance by the MoF decreased by 22.1% compared to the same period of the previous year (Graph 32). As budget funds are gradually utilized, they are expected to be directed into the economy, which will exert upward pressure on the money supply.

Graph 31. Money supply, YoY, %



Source: NBK, KASE

Graph 32. Volume of GSs issuance by the MoF RK, billion tenge



Box 4. The impact of monetary policy on household savings and housing prices.

Monetary policy (hereinafter referred to as MP) within the framework of achieving price stability influences the behavior of economic agents by facilitating the redistribution of resources between current consumption and future savings. In this process, the savings effect and the wealth channel play a particularly important role.

Savings Effect. By changing the interest rate, the central bank affects the attractiveness of savings such as deposits and other financial investments. In the case of tightening monetary policy, the propensity to save increases, which exerts a restraining effect on consumption and inflation.

The savings effect in Kazakhstan has been clearly observed from the end of 2021 through 2024. After the key interest rate increased from 9.75% in December 2021 to 16.75% in December 2022, and remained at these levels throughout 2023–2024, the savings rate (adjusted for seasonality) rose significantly, reaching its peak in the second quarter of 2024 — nearly tripling compared to the second quarter of 2022. Despite a seasonal decline in the third and fourth quarters of 2024, the savings rate remained close to historical highs. The results of the households’ survey⁶ also showed an increase in the share of households with savings, reaching a maximum level of 35% (since early 2023) in October 2024, with the indicator staying at historically high levels thereafter.

Overall, the results of empirical estimates for the period from Q1 2017 to Q4 2024 show a positive effect of the TONIA rate (a proxy for the base rate) on household savings. In particular, a one-percentage-point positive shock to the TONIA rate leads to a cumulative increase in the savings rate of 0.5 percentage points within one year after the shock (see Figure 1).

Figure 1. Cumulative impulse responses of the household savings rate to a 1 p.p. shock in the TONIA rate



Wealth Channel. Changes in asset values (including real estate) caused by monetary policy measures affect the consumption motivation of households and businesses. A reduction in the base interest rate can increase demand for real estate and, consequently, raise housing prices. As housing prices rise, households — especially those who own property—feel wealthier, which ultimately increases their propensity to consume. In Kazakhstan, the relationship between monetary policy and housing prices is observed during certain periods, but the presence of distorting factors in the mortgage market significantly complicates the determination of the extent of this influence. From 2016 to 2020, government subsidized programs and the active expansion of the housing construction savings system among the population made a significant contribution to the growth in mortgage demand.

After a period of moderate growth, the previously stable mortgage portfolios of banks began to expand rapidly despite the tightening of monetary policy. Mortgage loans from second-tier banks increased 2.6 times—from 2.4 trillion tenge in December 2020 to 6.1 trillion tenge in December 2024. As a result, the average price per square meter of primary housing increased by 1.4 times, and secondary housing by 1.5 times by the end of 2024 compared to early 2021. The sharp rise in prices during this period was driven by the enactment of legislation allowing early withdrawal of pension savings. Through this measure, the Unified Accumulative Pension Fund (UAPF) made payments to the population aimed at improving housing conditions totaling 3.8 trillion tenge.

Overall, the high demand for real estate was explained not only by the population’s housing needs but also by the growing attractiveness of real estate as an investment avenue.

⁶ The question about savings within the monthly inflation expectations survey conducted by FusionLab among the households

With the introduction of limits on government programs, an increase in the threshold amount for withdrawals from the UAPF, and the tightening of loan conditions at Otbasý Bank, a gradual slowdown in housing market price growth was observed.

Empirical estimates for the period from 2015 to 2024 show a negative effect⁷ of the TONIA rate on average prices of both primary and secondary housing. According to the impulse responses derived from various models, a 1 p.p. increase in the rate leads to a cumulative decline in the price per square meter of primary housing in the range of 0.08 to 0.12 p.p. over a 12-month period (see Figure 2). The price response of secondary housing to a one percentage point increase in the TONIA rate is slightly stronger, ranging from 0.10 to 0.15 p.p. cumulatively after one year (see Figure 2).

Figure 2. Cumulative impulse responses of the average price per square meter of primary and secondary housing to a 1 p.p. shock in the TONIA interest rate*



* Note: the chart shows the upper bounds of quantitative estimates

Thus, along with other channels of MP transmission, the wealth channel and the savings effect play a key role in conveying monetary policy signals. Historical data and modeling results indicate that, all else being equal, monetary tightening increases the propensity to save and contributes to a decline in housing prices. Ultimately, these mechanisms support the stabilization of inflationary processes in the country (in the absence of factors that distort MP transmission).

⁷ The interest rate effect has a delayed impact on housing prices due to the lag between the decisions of the National Bank of Kazakhstan and the increase in mortgage rates by banks.