



НАЦИОНАЛЬНЫЙ БАНК КАЗАХСТАНА

Financial Stability Report of Kazakhstan 2024

Astana, 2025

Contents

Contents	1
List of Acronyms and Abbreviations	2
Key Findings	5
I Macroeconomic Conditions	7
1.1 Money Market	9
1.2 Foreign Exchange Market	19
1.3 Households	26
1.4 Fiscal Policy	31
II Government Securities Market	38
2.1 Public Debt	38
2.2 GSs Microstructure	41
III Residential Real Estate Market	46
3.1 Activity in the Real Estate Market	46
3.2 Housing Construction	49
3.3 Mortgage Lending	51
IV Risks of the Banking and Microfinance Sectors	54
4.1 Corporate Portfolio Quality	54
4.2 Retail Portfolio of Banks	60
4.3 Unsecured Consumer Loans	69
4.4 Microfinance Organizations	78
V Risks of Liquidity, Funding, Dollarization, Foreign Exchange and Interest Rate Risks	86
5.1 Liquidity Risks	86
5.2 Funding Risks	92
5.3 Risks of Dollarization	100
5.4 Foreign Exchange Risk	102
5.5 Interest Rate Risk	102
VI Activities of the Council for Financial Stability of the Republic of Kazakhstan	107

List of Acronyms and Abbreviations

Agency/AFR	Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market
JSC	a joint-stock company
AIC	agro-industrial complex
STB	a second-tier bank
BCBS	Basel Committee on Banking Supervision
BNS RK/ BNS ASPR	Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan
RK	and Reforms of the Republic of Kazakhstan
DA	domestic assets
GDP	gross domestic product
EKR	East Kazakhstan Region
HLA	highly-liquid assets
DL	domestic liabilities
SCB	State Credit Bureau
GQPS	government and quasi-public sector
GSs	government securities
MP	monetary policy
UAPF	“Unified Accumulative Pension Fund” JSC
EU	European Union
ECB	European Central Bank
GFER	gold and foreign exchange reserves
WKR	West Kazakhstan Region
LLR	loans of last resort
RML	residential mortgage loan
IE	individual entrepreneur
FDI	foreign direct investments
PIT	personal income tax
CPI	consumer price index
IF	investment fund
FSI	financial stability index
FVI	financial vulnerability index
CCB	countercyclical capital buffer
RDA	ratio of placing part of the bank's resources in domestic assets
SRC MF RK	State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan
QPS	quasi-public sector
DSTI	debt service to income ratio
KHC	Kazakhstan Housing Company
KMG	NC “KazMunayGas” JSC
PRC	People’s Republic of China
CIT RB	corporate income tax from large businesses to the republican budget
KASE	Kazakhstan Stock Exchange
KDIF	“Kazakhstan Deposit Insurance Fund” JSC
KSF	“Kazakhstan Sustainability Fund” JSC
LB	local budget
IMF	International Monetary Fund
LEA	local executive authority
MRR	minimum reserve requirements
SME	small and medium-sized enterprises
MF RK	Ministry of Finance of the Republic of Kazakhstan

IFOs		international financial organizations
NBK/National	Bank	National Bank of the Republic of Kazakhstan
RK		
VAT		value-added tax
FNGS		foreign non-government securities
NF RK		National Fund of the Republic of Kazakhstan
OCP		open currency position
IBGP		bonds of the issuer with government participation
UN		United Nations Organization
OECD		Organization for Economic Cooperation and Development
FD		financial derivatives
RB		republican budget
RK		Republic of Kazakhstan
RF		Russian Federation
FCC		freely convertible currency
NKR		North Kazakhstan region
IO		insurance organization
Council		Council for Financial Stability of the Republic of Kazakhstan
USA		United States of America
CEP		Council on Economic Policies
TPS		thermal power station
IPM		investment portfolio managers
FI		financial instrument
US Fed		US Federal Reserve System
CSD		“Central Securities Depository” JSC
CCP		central counterparty
ECDCO		export customs duty for crude oil
LE		legal entity/ legal entities
AQR		Asset Quality Review
FRED		Federal Reserve Economic Data
FSAP		Financial Sector Assessment Program
FX LCR		liquidity coverage ratio in foreign currency
EUR		euro
GBI-EM		Government Bond Index – Emerging Markets
KZT		Kazakhstan tenge
LCR		liquidity coverage ratio
LTV		loan-to-value ratio
NDF		non-deliverable forward
NPL/NPL 90+		loans past due 90+ days on principal and/or interest accrued (non-performing loan)
NSFR		net stable funding ratio
PD		probability of default
PDL		pay-day loans
RUB		Russian ruble
SREP		Supervisory Review and Evaluation Process
TONIA		Tenge Over Night Index Average
TWINA		Tenge Week Index Average
USD		US dollar
WEO		World Economic Outlook
pp		percentage point
y/y		year-on-year
q/q		quarter-on-quarter

sq.m.	square meter
thous.	thousand
mln	mln
bln	bln
trln	trillion

Key Findings

Macroeconomic Conditions

Real GDP growth in the Republic of Kazakhstan in 2024 amounted to 4.8%, despite a slowdown in the mining sector. Domestic consumer demand remains the main driver of economic growth, which concurrently increases inflationary pressure in the economy.

In 2024, the Kazakhstan Financial Stability Index demonstrated a decline in the level of stress in the financial system, amid deceleration of inflation and volatility in financial markets. At the same time, the Financial Vulnerability Index rose to historical average levels because of an increase in household debt burden indicators.

Despite the growth in real household income and the propensity to save, the debt burden of the population continues to grow, outpacing the growth of household income and average wages. In the context of high dependence of household income on external factors, as well as fiscal incentives, the risks of reduction in real income of the population is still significant.

Macro-fiscal risks of the Republic of Kazakhstan remain significant. The gap between expenditures and revenues of the republican budget is persistently high, which gradually leads to the depletion of net financial assets of the Government. Despite the stable level of government debt, the debt burden on the republican budget continues to grow.

Government Securities Market

In the limited conditions of the domestic market, the main buyers of government securities were market participants represented by second-tier banks. Liquidity of the secondary market for government securities remains low. Despite reduction of the base rate during the year, inflation expectations of market participants remained high. The growth in the need for debt financing and the deviation from the tax revenue plan also contributed to the growth of interest rates in the domestic government securities market starting from the second quarter of 2024.

The maturity structure of government securities repayments of the MF RK is still uneven, with peak repayment volumes for 2025-2027, which could potentially increase the burden on the government securities market and the republican budget.

Residential Real Estate Market

In 2024, residential property prices demonstrated steady growth rates, and housing affordability recovered to the levels of 2019-2020. Starting from the second half of 2024, the number of purchase and sale transactions increased, driven by the launch of government mortgage programs, as well as a concomitant increase in the withdrawal of pension assets.

The total area of apartments in commissioned multi-apartment residential buildings in 2024 increased by 11% compared to 2023 and reached 8.9 mln square meters. The increase in construction activity also contributed to an improvement in the provision of housing for the population – the housing stock per capita in 2024 reached 21.4 sq.m. Along with the increase in construction activity, housing and construction companies demonstrated higher profitability.

Despite significant growth in the volume and share of market-based mortgage loans, the main share of concessional loans in the mortgage portfolio is 76%, and the residential real estate market remains dependent on government support measures.

Loan Portfolio Quality

In 2024, Kazakhstan's banking sector continued to demonstrate resilience and adaptability to the changing environment. The quality of the corporate loan portfolio has been steadily improving: the share of problem and risky loans has decreased, provision

coverage has increased, and loans in foreign currency have largely left the high-risk zone. However, challenges associated with a high concentration of large borrowers remain.

Retail lending continued to grow, especially in the segments of unsecured consumer loans, mortgages and car loans. At the same time, risks in the fast-growing car loan segment are increasing, especially for loans originated in recent years. Despite the overall high quality of the portfolio and adequate level of provisions, along with the continued growth of consumer unsecured loans, there is an increase in systemic risks in retail lending.

Regulatory measures adopted in 2024 are aimed at strengthening the financial discipline of borrowers, limiting the debt burden and reducing interest rates on unsecured loans. Tightening of the requirements to consumer loans and microloans is intended not only to curb the overheating of certain segments of lending, but also to increase the responsibility of lenders and borrowers. In the context of continued activity in the microfinance sector and the interest of individual MFOs in transforming into banks, it remains important to control the quality of the portfolio and adherence to the principles of sustainable lending.

In general, the balanced development of corporate and retail portfolios, along with increased supervisory measures, helps to strengthen the financial stability of the banking sector.

Liquidity and Funding Risks

Liquidity risks in the banking sector remained at a moderate level, due to a significant stock of highly liquid assets (HLA). The share of HLA accounted for about one third of all assets in the banking sector, with the tenge component predominating. Liquidity risk analysis showed that the banking sector is generally resilient to moderate deposit outflows, but in an extreme scenario, a significant portion of banks may violate the liquidity coverage ratio. At the same time, the analysis revealed the dependence of Kazakhstani banks on wholesale funding, which makes them vulnerable to market shocks.

Funding risks are also at a moderate level. In 2024, an increase in the share of truly term deposits was observed, which has a positive effect on the sustainability of funding of the banking system. Dependence on the outflow of large depositors given a significant reserve of HLA is low. Half of the banks have sufficient liquidity reserves to cover the outflow of the largest depositors.

Dollarization risks are at a moderate level. The share of deposits in foreign currency is decreasing. Large depositors still prefer to keep a significant part of their funds in foreign currency, despite the general decline in the level of dollarization in all deposit groups.

The currency risk in the banking sector was at an acceptable level. The net currency position in the system was close to neutral in most periods and all banks complied with prudential standards for compliance with open currency position limits.

In 2024, banks continued to be highly profitable with fairly stable levels of interest margin and interest spread.

I Macroeconomic Conditions

In 2024, Kazakhstan's economy demonstrated sustainable growth amid persisting internal and external challenges. Real GDP growth in 2024 was 4.8%, despite a slowdown in the mining sector. Domestic consumer demand remains the main driver of economic growth, which at the same time increases inflationary pressure in the economy.

In the meantime, the continued high dependence on the raw materials sector, budget expenditures and transfers from the National Fund creates risks in the long term. The external economic environment, in particular the acceleration of inflation in Russia and the rise in prices in the global markets, also imposes additional pressure on domestic prices.

Despite deceleration in the overall inflation rate to 8.6% y/y, the ongoing growth of utility tariffs and the weakening of the tenge at the end of the year, and heightened import inflation is exerting price pressure. The increase in household debt burden also remains a key risk to financial stability. At the same time, moderate growth rates of lending and improved real income of the population create conditions for maintaining the stability of consumer demand.

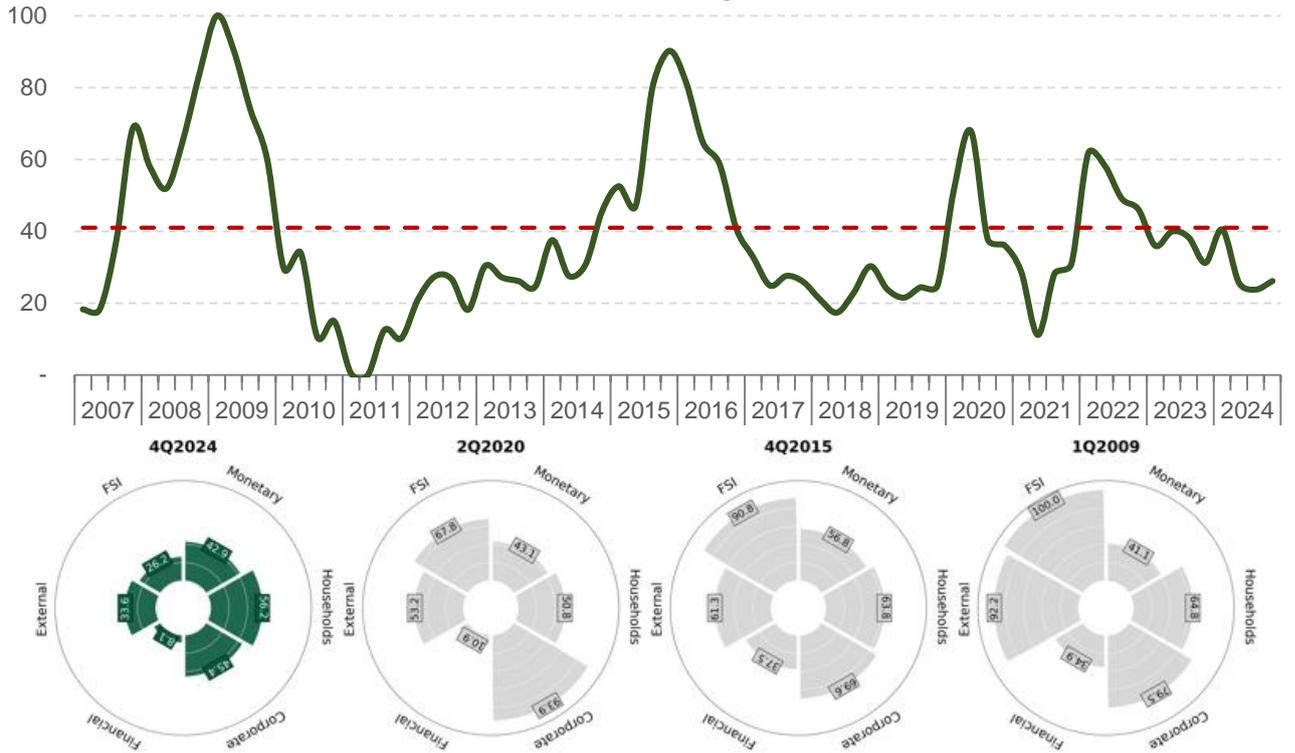
Financial stability index (FSI)¹ was relatively close to the high-risk zone at the beginning of 2024, falling to stable levels compared to 2023 at the end of the year. The reduction of financial stability risks was largely influenced by the decline in inflation and volatility in financial markets.

The reduction of the monetary sector risks was nurtured by a decrease in the inflation rate from 9.8% in 2023 to 8.6% in 2024. However, inflationary pressure is persisting due to the continued growth of tariffs for paid services to the population, especially in the utilities sector, given the Tariff in Exchange for Investments Program, which is being implemented. Since these tariffs are subject to government regulation and react weakly to changes in the base interest rate, their price dynamics are characterized by low elasticity to the monetary policy. Thus, monetary risks remain at a moderate level, including against the expected increase in the VAT rate and reduction of threshold values, which may also increase pressure on consumer prices.

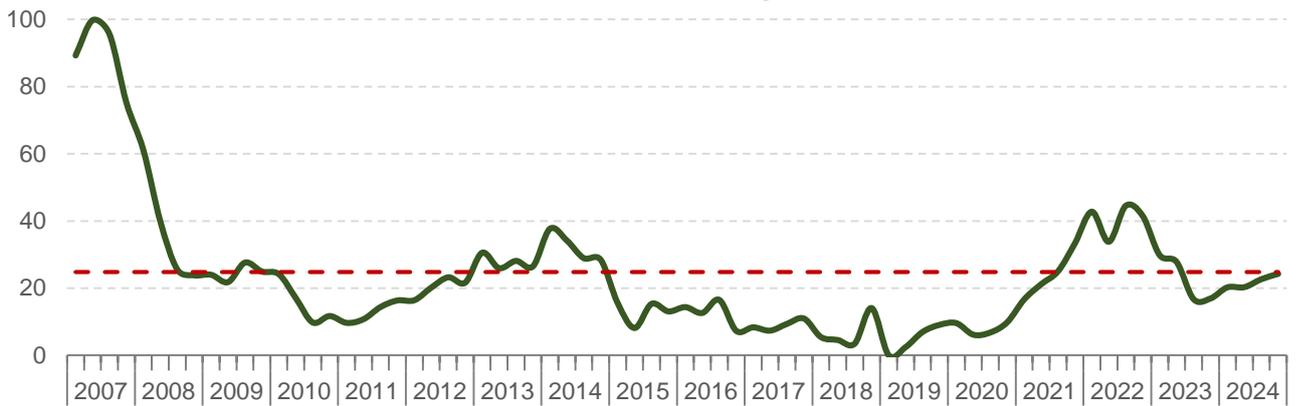
Risks in the external sector remain moderate. Acceleration of inflation in the Russian Federation, as one of the main trading partners, as well as rising prices in the global food markets, are increasing external inflationary pressure on the Kazakh economy. In 2025, the pace of economic growth will be largely determined by the dynamics of the raw materials sector and the scale of government spending, which increases the country's vulnerability to external economic shocks. The average oil price in 2024 was \$80.7 per barrel, which is 2.3% lower than in 2023. The decline in commodity prices, in the context of the economy's high dependence on energy exports, is accompanied by the depletion of the National Fund's assets and an increase in the debt burden on the state budget, thus posing additional fiscal risks in the medium term.

¹ For more detailed information please see FSR-2022. Box 1.1 Financial Stability Index (FSI)

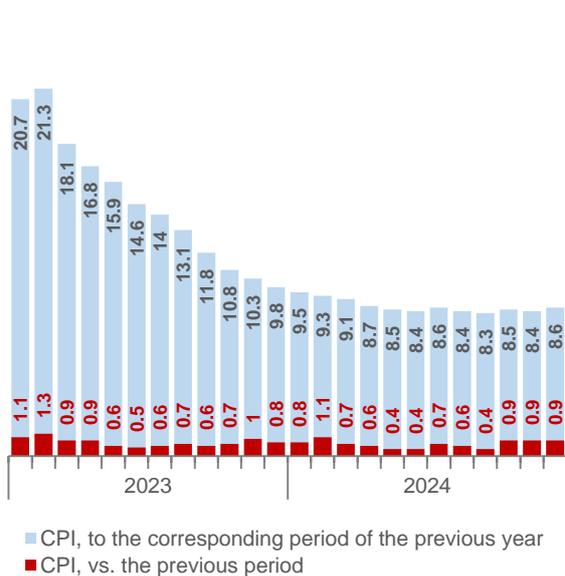
Financial stability index



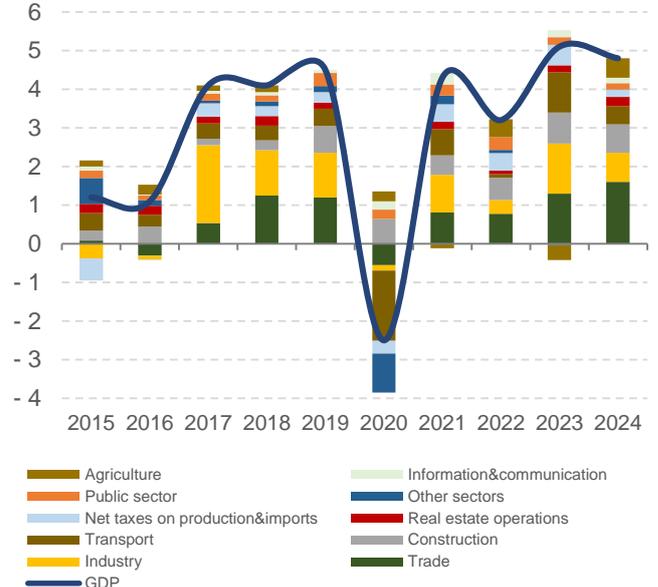
Financial vulnerability index



CPI dynamics, pp



Real GDP growth, y/y (by sector)



Source: ASPR BNS RK, National Bank computations

The increase of risks in the household sector in 2024 was driven by the upward trend in retail loans, which exceeded the growth rate of deposits. Real income of the population demonstrated moderate growth of 3.7% y/y. Despite the increase in the propensity to save and the growth of real income of the population, the rate of increase in the average loan size per person significantly outpaced the dynamics of nominal income. This is an evidence of the persisting steady domestic demand, accompanied by an increase in the debt burden of the population.

Risks in the financial sector remain low due to continued compliance with prudential standards by financial institutions, as well as reduced volatility in domestic financial markets. At the same time, at the end of the year, heightened volatility was observed in the foreign exchange market, associated with the weakening of the tenge against the backdrop of increased geopolitical risks, anti-Russian sanctions and growing external demand for foreign currency. This may act as a potential channel for transmission of external shocks to the financial system, especially in the context of persisting dependence on foreign trade flows and fluctuations in commodity prices.

Risks in the corporate sector declined amid the growth in industrial production and retail trade volumes. At the same time, in the second half of 2024, there was a decline in the business confidence index, which reflects increased uncertainty in the business environment and may restrain investment activity in the medium term.

Financial vulnerability index (FVI)², which assesses the accumulation of imbalances in the financial system and resilience to internal and external shocks, following its decline in 2023, began to show moderate growth in 2024. Although the FVI value remains below historical averages, its upward dynamics require close monitoring to prevent the emergence of systemic risks in the medium term. This signals a gradual increase in procyclical factors that can enhance the financial system vulnerability.

During 2024, the dynamics of prices for financial assets demonstrated steady growth. Additional pressure on the index was exerted by an increase in short-term liabilities of financial institutions and a consistently high level of the quick liquidity ratio, which indicates a possible increase in short-term liquidity risks in the environment of market volatility.

In the residential real estate market, despite the continued growth of rental rates, housing affordability showed recovery, which is an evidence of a relative balance in price dynamics and limits the risks of overheating. At the same time, the growth in the ratio of debt servicing to disposable household income increases the financial burden on the population, making it more vulnerable to economic shocks. Among the positive factors, there is a decline in the level of dollarization and an increase in real income of the population, supporting the stability of consumer demand and the solvency of households.

Thus, in 2024 the dynamics of the FSI indicate the need to remain vigilant in relation to accumulating risks. In the context of the ongoing influence of external shocks and active policies to stimulate demand in certain sectors, it seems appropriate to apply preventive macroprudential measures.

1.1 Money Market

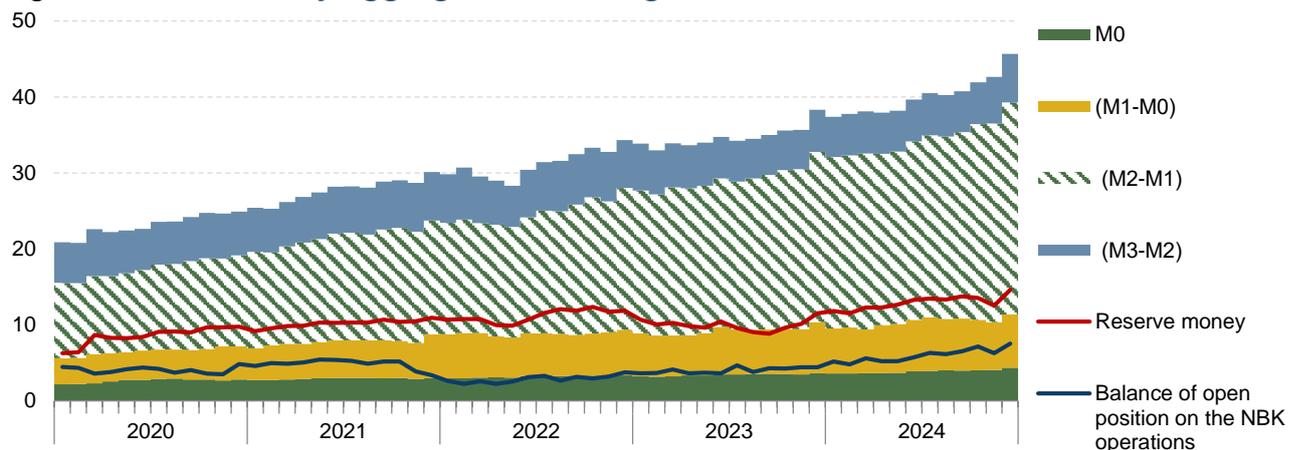
2024 was characterized by a significant increase in the money supply, where the credit and fiscal channels remained as the main growth factors. During 2024, there was a significant increase in the volume of highly liquid assets in the banking sector denominated in the tenge, which led to an increase in excess liquidity. In order to neutralize the excess of the liquidity level and reduce pressure on the money market, the NBK consistently increased the volume of liquidity withdrawal operations. As a result, the total volume of instruments aimed at absorbing excess liquidity demonstrated significant growth. Deposit auctions acted as the main instrument for absorbing excess liquidity. The NBK reduced the volume of short-term notes issued

² For more detailed information, please see FSR-2023. Box 1.1 Financial Vulnerability Index (FVI)

and ceased to participate in liquidity withdrawal operations in the repo and FX swap markets. As a result, rates in the relevant segments of the money market began to be formed under the influence of market factors, reflecting the cost of short-term liquidity from the point of view of market participants.

In 2024, the money supply showed a significant expansion. Thus, in 2024, the money supply increased by 19.2% and by the end of the year amounted to 45.6 trln tenge. In comparison, in 2023, the growth of the money supply was 11.7%, and in 2022 13.9%. As in prior years, the credit and fiscal channels remained as the main factors in the growth of the money supply. In order to finance the budget deficit, in 2024 the MF RK increased the issuance of government securities by 9.6% compared to 2023. The growth of foreign assets also contributed to the increase in the money supply.

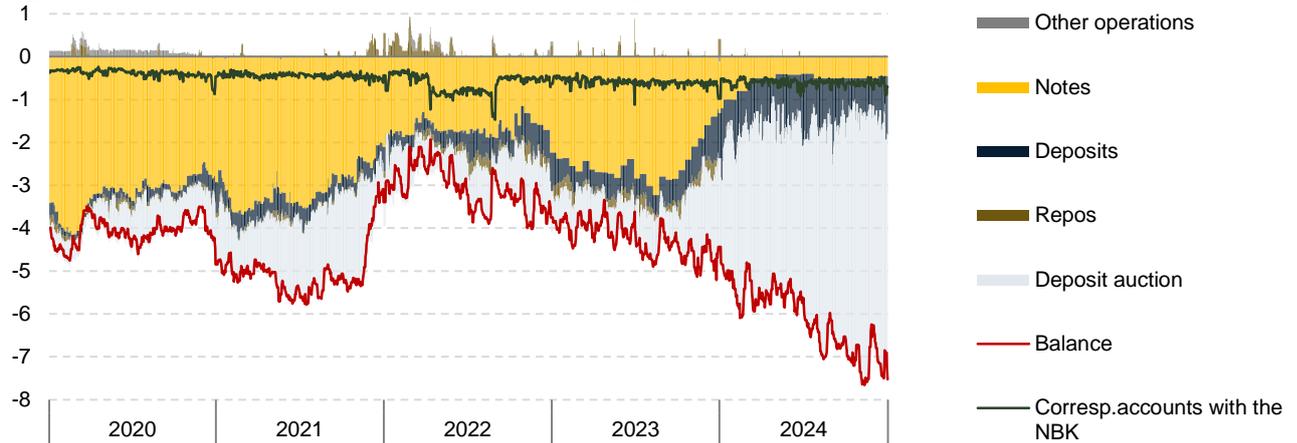
Figure 1.1 *Monetary aggregates, trln tenge*



Source: NBK

In 2024, there was a significant increase in excess liquidity, since the end of 2023, the balance of NBK operations has increased by 70% and amounted to 7.5 trln tenge at the end of 2024. Deposit auctions served as the main instrument of liquidity withdrawal in 2025, the share of deposit auctions in instruments for withdrawing the tenge liquidity averaged about 74%. In 2024, the NBK reduced the frequency of note auctions to one auction per month. The volumes of note auctions were also reduced, starting in March, the volume of note placement did not exceed 500 bln tenge, as a result, the share of notes in instruments for liquidity withdrawal in the tenge in March decreased to 8-9% and did not exceed 10% by the end of the year. The NBK overnight deposits also partially replaced notes in instruments for liquidity withdrawal. In 2024, the NBK stopped withdrawing liquidity in the swap and repo markets. In the repo market, the NBK stopped participating in the main repo sessions and participated only in the additional NBK session, where it participated exclusively in transactions for liquidity provision. The NBK's participation in the total volume of transactions in 2024 was extremely insignificant.

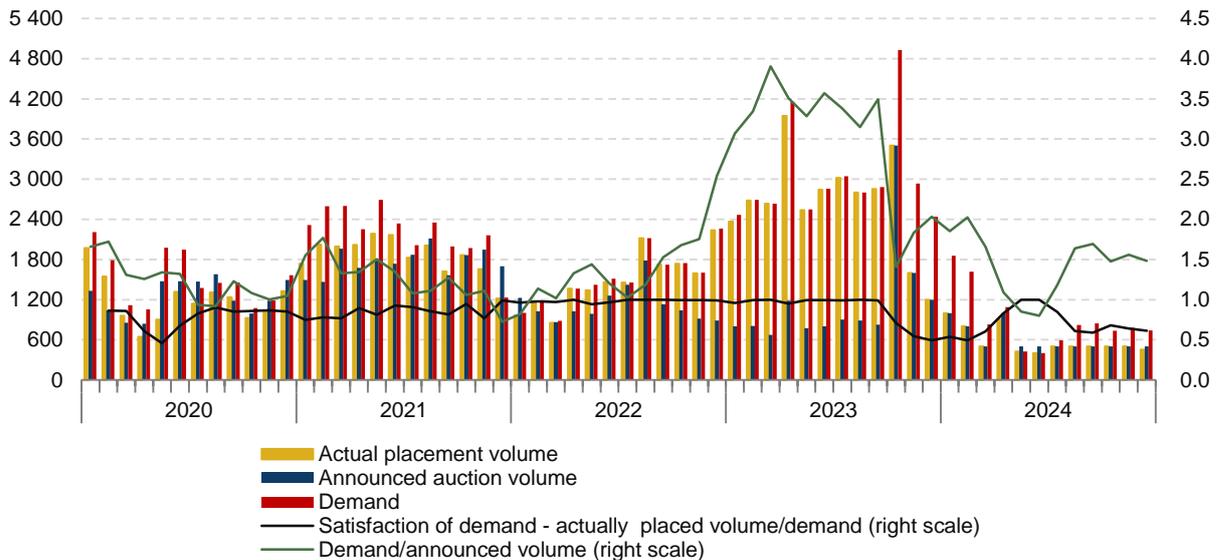
Figure 1.2 NBK's open position, trln tenge



Source: NBK

In 2023, the NBK announced a reduction in the volume of note placements in order to redirect demand to deposit auctions. Thus, starting from October 2023, it ceased to fully satisfy the demand for short-term notes. As a result, starting from November 2023, the volume of note auctions began to decrease significantly and by the end of the 1st quarter they were limited to 500 bln tenge. Demand for notes initially exceeded the announced volumes, but gradually decreased along with reduction in placement volumes and switched to deposit auctions.

Figure 1.3 The demand for notes, bln tenge

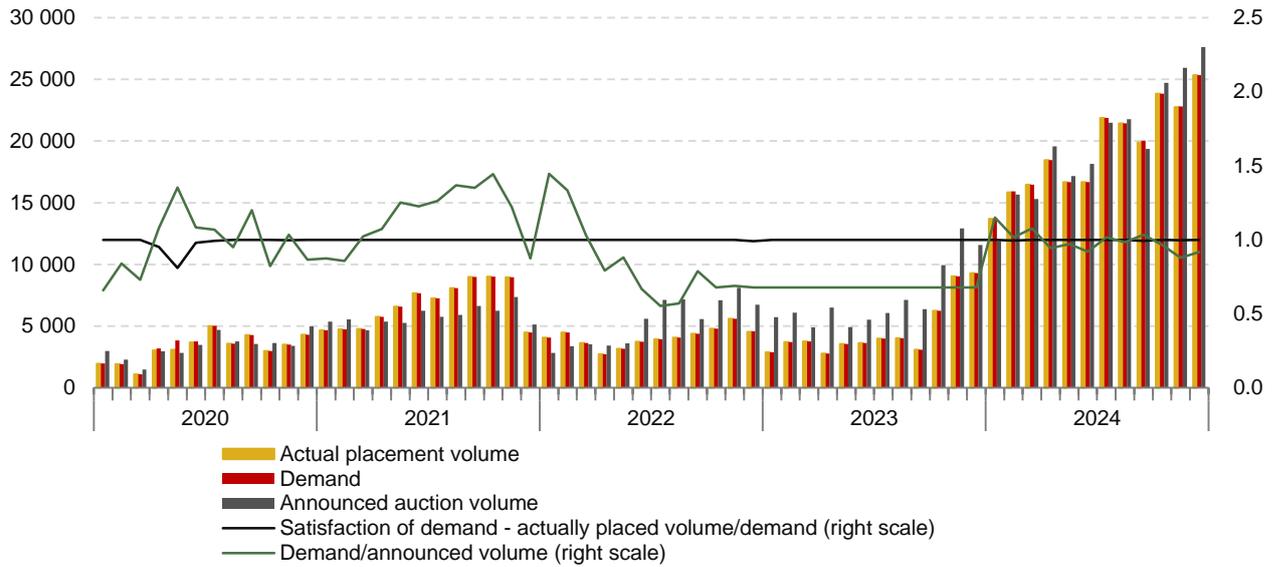


Source: NBK

The reduction in placement volumes in the primary market for short-term notes initially increased competition among participants. Starting from October 2023, the NBK began to satisfy only the best bids, as a result of which the yields of notes on the primary market gradually decreased, from December 2023 to April 2024, notes were placed below the lower limit of the base rate. Due to the fact that participants began to redirect demand to deposit auctions, competition in the note market began to decline, and interest rates began to gradually increase. The NBK, seeking to redirect the demand from short-term notes to deposit auctions, fully satisfied the demand for deposit auctions on more attractive terms while concurrently reducing the volume of note placements. Accordingly, the demand for deposit auctions from market participants began to grow noticeably starting from October

2023 along with reduction in the placement of note volumes, as well as an increase in the level of excess liquidity.

Figure 1.4 The demand for deposit auctions, bln tenge

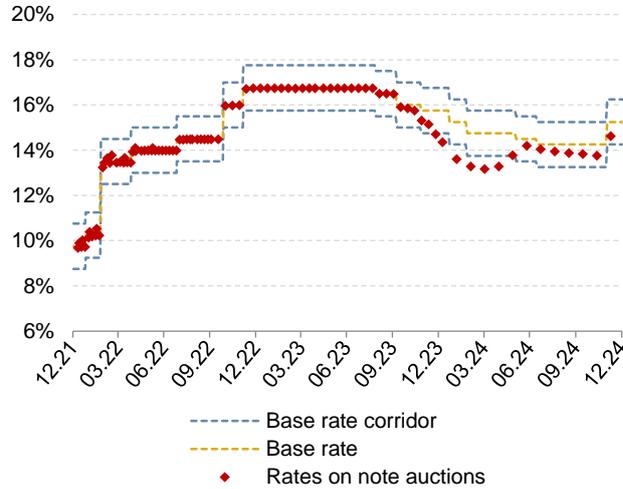


Source: NBK

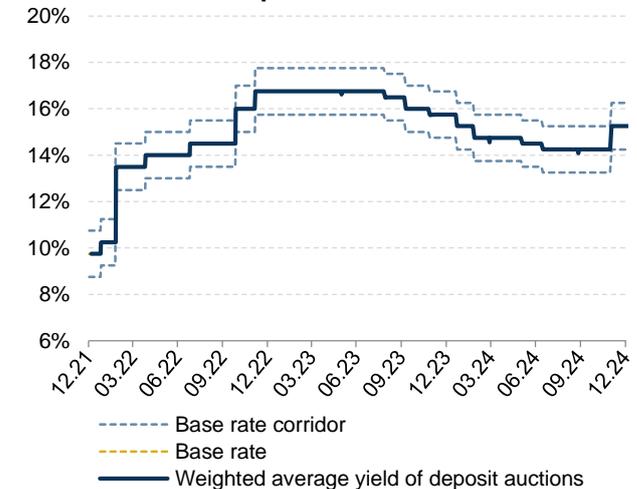
Deposit auctions in 2024 were placed at more favorable interest rates compared to other instruments. Thus, the average weighted rate for auctions was equal to the base rate. In comparison, notes were placed below the lower boundary, and the interest rate for overnight deposits was equal to the lower boundary of the base rate. In the repo and swap market, the NBK stopped participating on the liquidity withdrawal side.

Figure 1.5 Interest rates on open market operations

Interest rates on the NBK note auctions



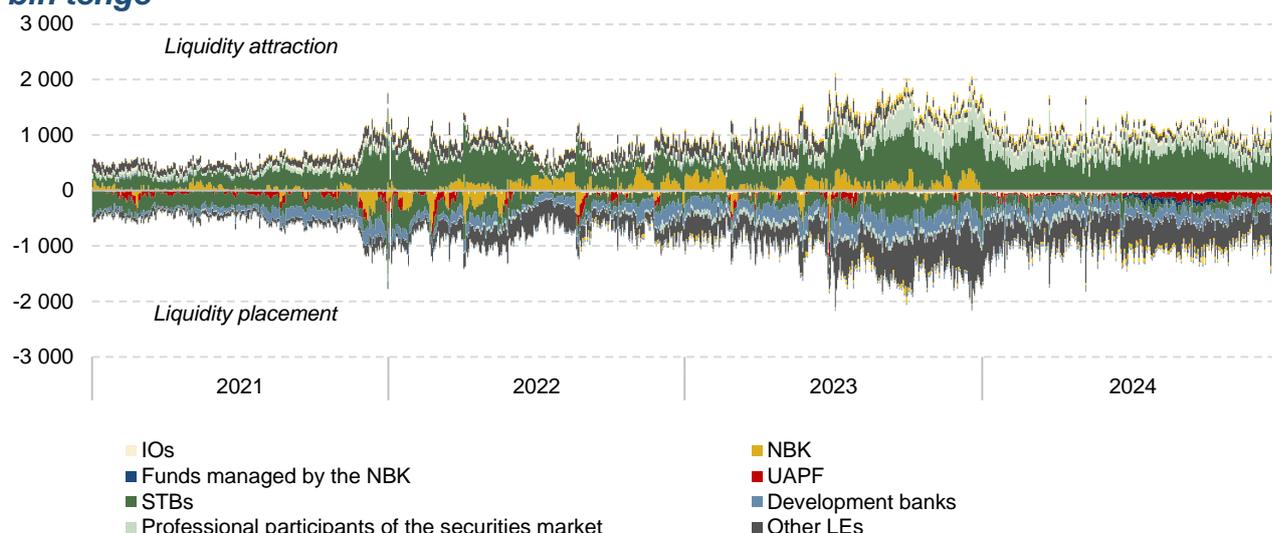
Interest rates on deposit auctions



Source: NBK

1.1.1 Repo Market

In 2024, on-exchange repo volumes decreased by 14.7% compared to 2023. The volume of transactions of the repo market in 2024 amounted to 261.6 trln tenge. The contraction of the repo market was partly influenced by the NBK's withdrawal from the main repo session, as well as by reduction in the volume of liquidity attracted to the repo market by individual participants who had previously attracted significant volumes of liquidity to the repo market. Thus, in 2024 the NBK stopped participating in the repo market on the liquidity withdrawal side. On the liquidity provision side, the volume was insignificant. Thus, liquidity was distributed by the market independently, with minimal participation of the NBK.

Figure 1.6 Daily volumes of the repo market, by groups of market participants, in bln tenge

Source: KASE

Note: Groups of participants are defined up to the level of broker's clients, i.e. if a transaction is made from the participant's own account, the group is defined for the participant, if from the client's account, the group is defined for the client. The group of a participant who is a broker's client is determined by the broker independently, and the information is provided to the central depository.

The main buyers of liquidity in the repo market in 2024 were second-tier banks, the share of STB transactions for liquidity attraction increased from 45% in 2023 to 59% in 2024. Also, professional participants accounted for a significant volume of transactions on liquidity attraction, their share in attracting liquidity increased from 17% in 2023 to 22% in 2024. The share of other legal entities in attracting liquidity continued to decline compared to previous years, and in 2024 amounted to 10%.

Liquidity placement in the repo market in 2024 was mainly secured by other legal entities (46%) and development banks (19%). The share of STBs in the placement of liquidity in the repo market went down to 14% in 2024 (compared to 20% in 2023).

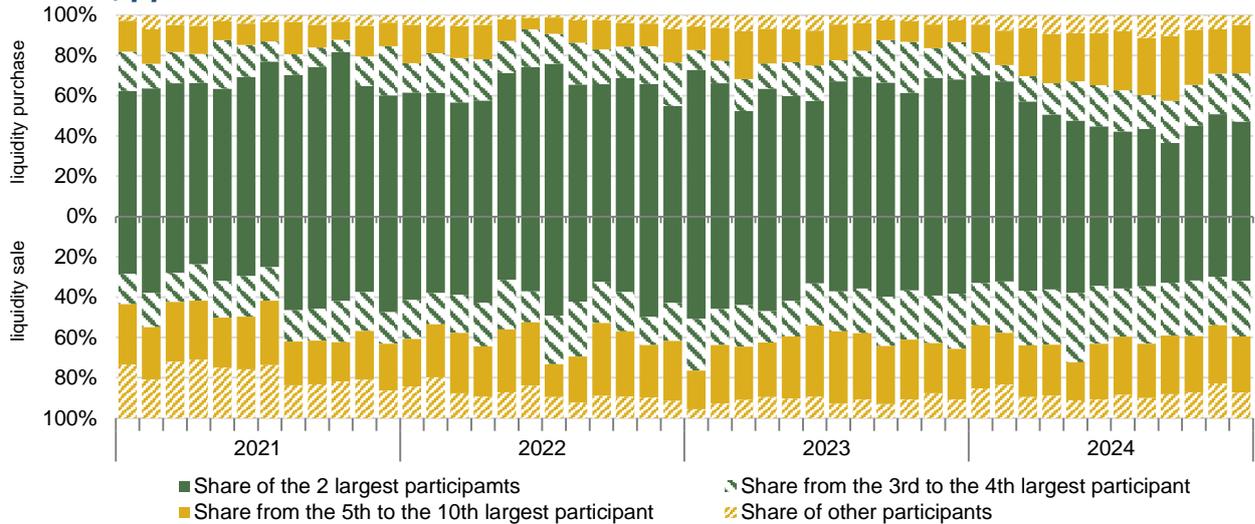
Table 1.1 Shares of liquidity buyers and sellers in the repo market, as %

	Purchase				Sale			
	2021	2022	2023	2024	2021	2022	2023	2024
NBK	7%	14%	12%		6%	9%	3%	0%
UAPF	0%	-	0%	0%	9%	5%	2%	7%
Funds managed by the NBK	-	-	-	-	0%	0%	0%	2%
STBs	51%	55%	45%	59%	45%	26%	20%	14%
Development banks	1%	1%	1%	0%	22%	19%	23%	19%
Professional participants of the securities market (PPSM)	10%	3%	17%	22%	1%	3%	6%	4%
Other legal entities	23%	20%	15%	10%	15%	33%	42%	46%
IOs	6%	5%	6%	6%	2%	3%	3%	4%
Others	2%	2%	4%	4%	0%	1%	2%	4%

Source: KASE, NBK computations

Despite some reduction in the concentration in the repo market during 2024 that existed on the liquidity side in prior years, the concentration remains high. Thus, at the end of 2023 and at the beginning of 2024, the 2 biggest buyers accounted for about 70% of the volume of transactions to attract liquidity per month; by the end of 2024 their share decreased to 47%. On average, the 4 biggest buyers in 2023 accounted for about 80% of transactions to attract liquidity per month, in 2024 this figure went down to 68%.

Figure 1.7 The share of participation in the tenge repo market by large participants, a month, pp



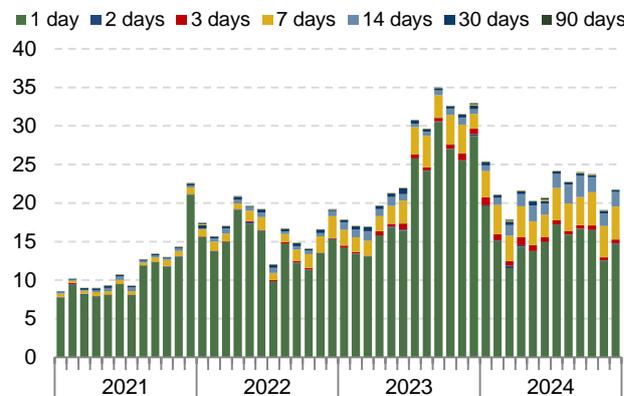
Source: KASE, NBK computations

Note: Shares are calculated at the broker level, i.e. if transactions were made for different clients by one broker, the transactions are grouped at the broker level.

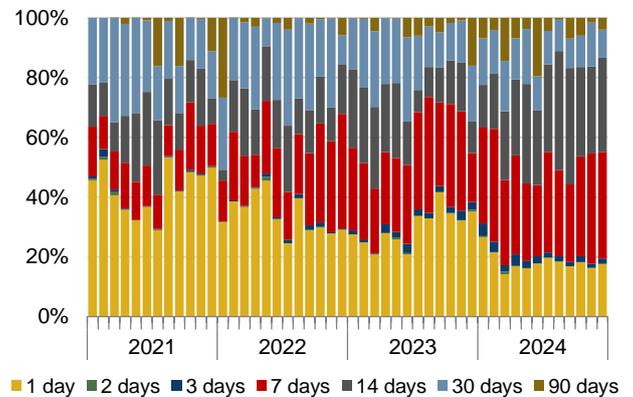
In 2024, there was a significant buildup in the 7-day repo market, its share in 2024 increased to 17% compared to 11% in 2023. The share of repo transactions with maturity of 14 days also increased, from 3% to 8% in 2024. At the same time, the one-day repo market, despite the reduction in its share, still remains the most active. Thus, in 2024, 70% of repo transactions were concluded for one day (in 2023, the share of one-day repos was 82%).

Figure 1.8 The volume of repo operations by maturities

Volumes, trln tenge



Weighted by maturity



Source: KASE, NBK computations

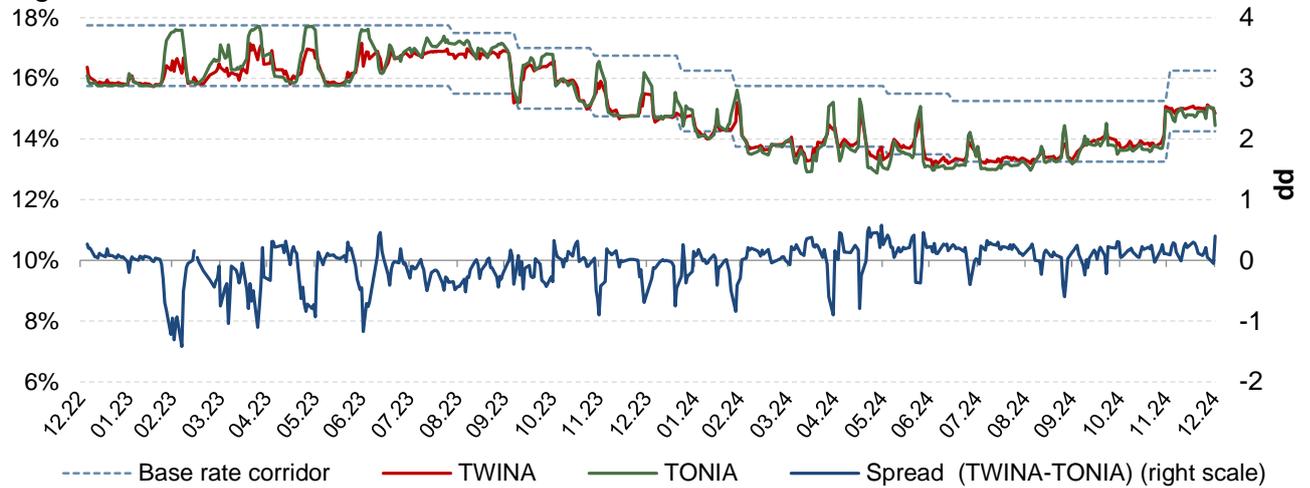
At the same time, when weighted by maturity, liquidity in the repo market was distributed to a greater extent through 7-day and 14-day repo operations. Thus, for 2024, 31% of liquidity in the repo market was distributed through 7-day repo, 29% through 14-day repo. When weighted by maturity, the share of 1-day repo is 18% only.

In 2024, the NBK stopped withdrawing liquidity at the lower boundary of the base rate, which, given a liquidity surplus, contributed to a decline in interest rates in the repo market. In the first half of the year, amid decelerating inflation, the NBK was gradually lowering the base rate; by mid-July, the base rate was reduced to 14.25% (at the beginning of the year, the base rate was 15.75%). At the same time, despite the decrease in the base rate, interest rates in the repo market fell below the lower boundary of the interest rate corridor.

In September, the demand for the tenge liquidity began to increase, interest rates of repo broke away from the lower boundary. In December, because of significant acceleration

of inflation, the NBK raised the base rate by 100 bps to 15.25%. From October to December 2024, the TONIA did not fall below the lower boundary. The path of interest rates in the seven-day repo market is still close to the path of rates in the one-day repo market, but since March, the spread between the TWINA and TONIA in 2024 has often been positive. The positive spread between seven-day and one-day repo rates indicated the formation of a liquidity premium in the seven-day repo market.

Figure 1.9 TWINA and TONIA rates



Source: KASE, NBK

The tenge interest rate in 2024 compensated for participants' expectations of a movement in the exchange rate, as evidenced by the positive spread between the TONIA and the NDF rate on the USD/KZT currency pair. The presence of a positive spread between the TONIA and the NDF rate made strategies aimed shorting tenge unprofitable. The positive spread between the TONIA rate and the consumer price index, which appeared in 2023, remained in 2024. Thus, the tenge interest rate in 2024 offset the inflation.

Figure 1.10 The tenge interest rate in 2024 compensated for participants' expectations of exchange rate movements and inflation

The spread between the TONIA and the NDF rate on USD/KZT currency pair, pp



The spread between the TONIA and the consumer price index, pp



Source: KASE, Bloomberg, ASPR BNS RK, National Bank computations

Note: when calculating the spread between the TONIA rate and the consumer price index, the monthly weighted average for the TONIA was used.

In 2024, participants still preferred to enter into transactions with a central counterparty (hereinafter referred to as the CCP); on average, the monthly share of transactions with the CCP was about 98% per year. The share of transactions with individual financial instruments increased in the regimes with and without the CCP.

Table 1.2 Repo baskets used in the regimes with and without the central counterparty, as %

	With the central counterparty, as %				Without the central counterparty, as %	
	GS basket, IBGP basket	NBK basket	Individual FI	CPC pool	GS basket	Individual FI
2021	91%	3%	6%		99.6%	0.4%
2022	94%	2%	4%	0.0%	99.6%	0.4%
2023	92%	4%	4%	0.0%	99.3%	0.7%
2024	92%	0%	7%	0.1%	97.8%	2.2%

Source: KASE, NBK computations

In 2024, 98.3% of transactions are concluded in the tenge, while securities issued in foreign currency are also accepted as collateral for the tenge repo. In 2024, the volume of repo transactions with securities issued in foreign currency increased significantly. Thus, in 2024, the share of repo with securities issued in the US dollars increased to 14% compared to 5% in 2023.

Table 1.3 Repo operations, by currency

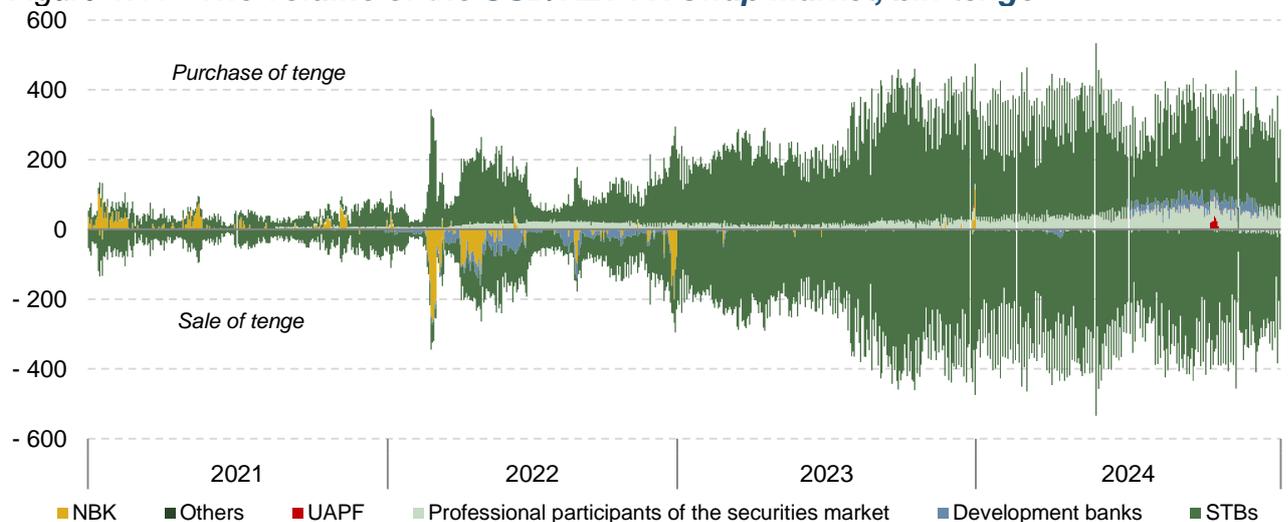
	The share of repo operations, by currency		The share of securities as collateral in repo, by currency		
	KZT	USD	KZT	RUB	USD
2021	98.9%	1.1%	91.9%	0%	8%
2022	97.7%	2.3%	94.1%	1%	5%
2023	98.5%	1.5%	94.0%	1%	5%
2024	98.3%	1.7%	85.4%	0%	14%

Source: KASE, NBK computations

1.1.2 Foreign Currency Swap Market

The significant volume of transactions observed in the USD/KZT currency swap market in 2023 not only held over, but also increased in 2024. Thus, the volume of transactions in 2024 in the USD/KZT currency swap market amounted to 75.7 trln tenge, which is by 20.5% greater than in 2023.

In 2024, the distribution of liquidity in the USD/KZT currency swap market was carried out by market participants independently. The NBK ceased its participation on the liquidity withdrawal side in 2024. At the same time, despite the fact that market participants still have the opportunity to borrow liquidity from the NBK at the upper boundary of the interest rate corridor for swaps (the NBK base rate plus 3%), not a single transaction was concluded with the NBK in 2024.

Figure 1.11 The volume of the USD/KZT FX swap market, bln tenge

Source: KASE

The bulk of transactions in the currency swap market falls on second-tier banks, both on the side of attracting and on the side of placing the tenge. In 2024, second-tier banks accounted for 85% of transactions to attract liquidity in the tenge and 99% of transactions to place the tenge liquidity. In 2024, the share of professional participants in the securities market on the side of attracting liquidity in the tenge increased significantly, their volume of transactions amounted to 14% compared to 6% in 2023.

Table 1.4 Shares of participants in the FX swap market

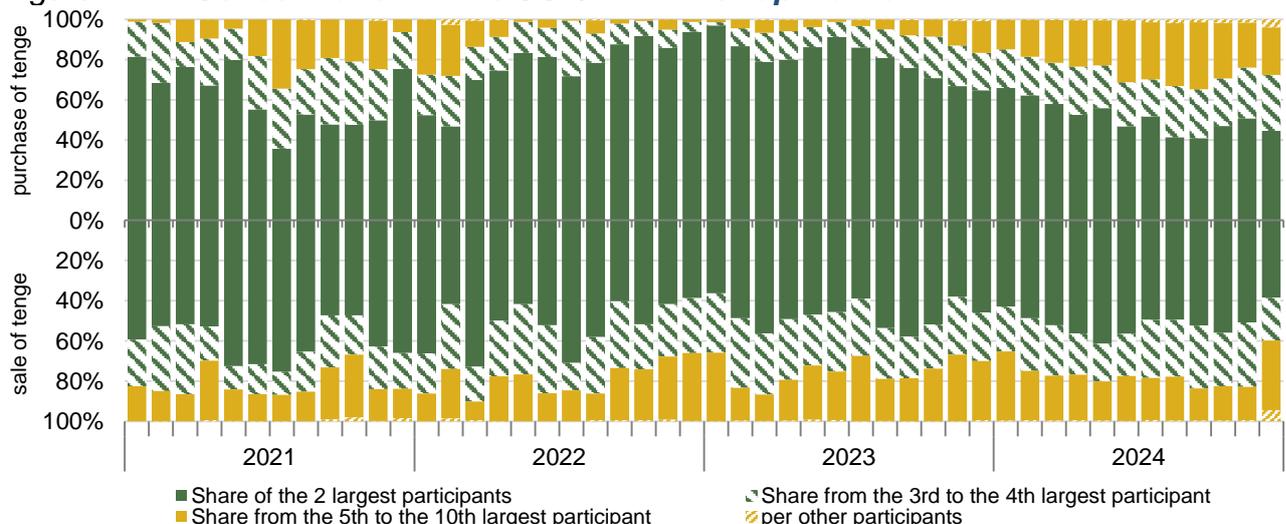
	Tenge purchase					Tenge sale				
	NBK	UAPF	STB	Development banks	PPSM	NBK	UAPF	STB	Development banks	PPSM
2021	25%	0%	70%	0%	6%	1%	0%	99%	0%	0%
2022	1%	0%	86%	0%	13%	19%	0%	65%	16%	0%
2023	0%	0%	93%	0%	6%	0%	0%	100%	0%	0%
2024	-	0%	82%	4%	14%	-	0%	99%	0%	1%

Source: KASE, NBK computations

Despite a significant decrease in concentration on the liquidity side in 2024, it remained quite high. Thus, the share of the two largest participants on the tenge side, which was 65% in December 2023, gradually decreased during 2024 and was 45% in December 2024. At the same time, despite the fact that the share of the next two largest participants increased in the month (from 19% in December 2023 to 28% in December 2024), the total share of the four largest participants still decreased from 83% in December 2023 to 72% in December 2024. In general, a decrease in concentration is seen as a positive signal for the market and indicates reduction of risks. On the other hand, market volumes remained at the same level, which shows an increase in the demand for the tenge liquidity secured by the US dollar from other participants. The reason for demand from other participants may be an increase in the dollarization of the participant's liabilities or, while maintaining the structure of liabilities, more attractive conditions in the swap market compared to, for example, the repo market.

The level of concentration on the placement side of the tenge liquidity remained high throughout 2024. Thus, the two largest participants accounted for about 51% of liquidity placement transactions on average per month, while the four largest participants accounted for about 76% on average per month.

Figure 1.12 Concentration in the USD/KZT FX swap market

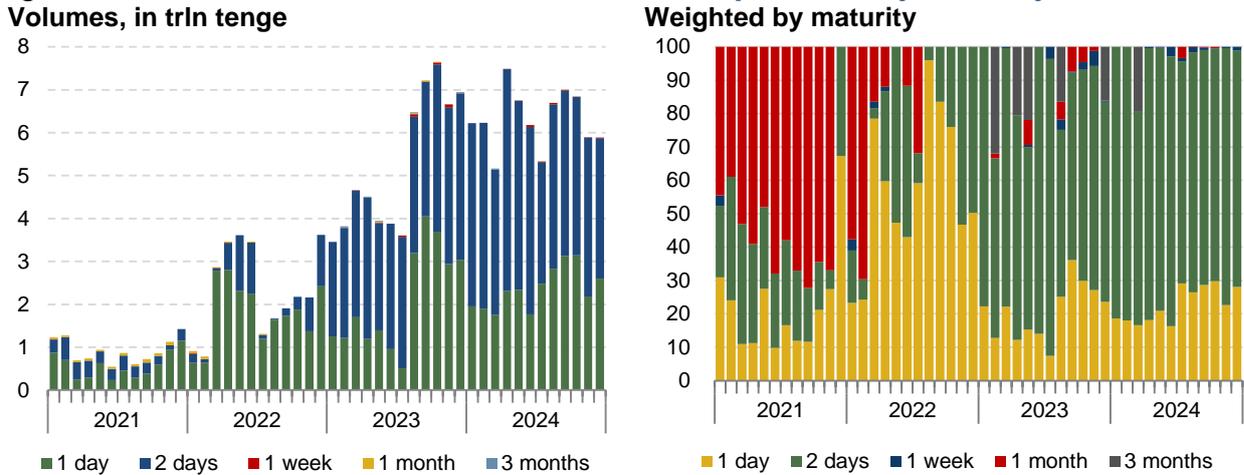


Source: KASE, NBK computations

Starting from 2023, the volumes of the two-day swap market began to exceed the volumes of the one-day FX swap market, and this trend continued in 2024. In 2024, the

share of two-day swap transactions was 62%, and the share of one-day FX swap transactions was 37%.

Figure 1.13 The volume of the USD/KZT FX swap market by maturity

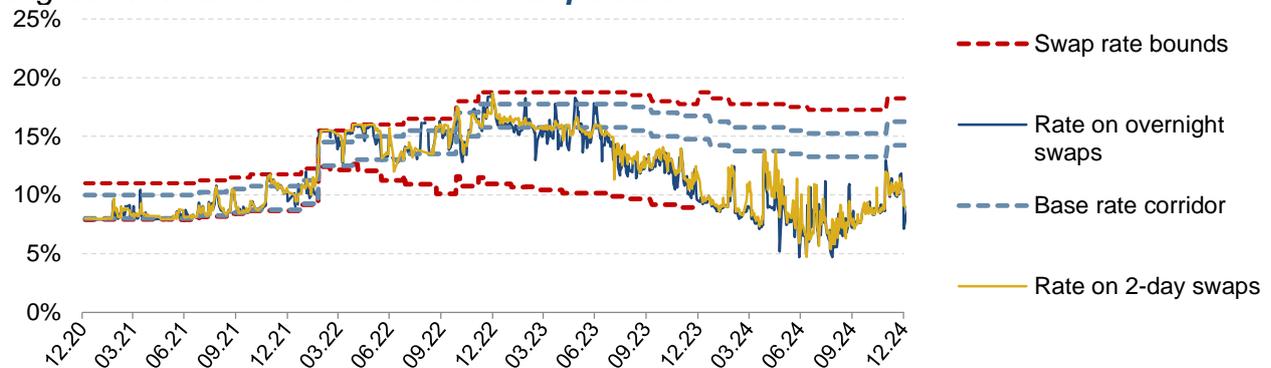


Source: KASE, NBK computations

When weighted by maturity, the share of two-day swaps increases even more. Thus, taking into account the maturity of swaps, 75% of the liquidity in the FX swap market was distributed using two-day swaps, while the share of one-day swaps was only 23%, 2% were swaps with maturity of 90 days.

The cost of liquidity in the USD/KZT FX swap market was much lower than the cost in the repo market. In 2024, the NBK stopped participating on the liquidity withdrawal side of the FX swap market, and, accordingly, supporting the lower limit of the swap interest rate corridor. As a result, the swap market was highly volatile, and rates fell to all-time lows for this market (in July, rates fell below 5%).

Figure 1.14 Interest rates in the swap market



Source: KASE, NBK

Box 1.1. Changes in the System of Instruments of Monetary Policy Implementation

In 2024, the NBK introduced a number of changes to the MP instruments with a view to make the monetary policy implementation more efficient. Thus, monetary policy instruments will undergo the following changes in 2024:

Open Market Operations

1. NBK Notes.

Prior format: Issues of notes are placed twice a month. The NBK fully satisfied the demand, the main volume of liquidity withdrawal of the NBK was in notes.

Changes: In 2024, two current issues of notes were consolidated into a single issue, notes began to be issued once a month. In addition, starting from October 2023, the NBK

began to gradually reduce the volume of notes issued, and by the end of the 1st quarter of 2024, the volume of notes in circulation was limited to 500 bln tenge.

2. Deposit Auction.

Prior format: Deposit auctions are held daily with a value date of T+2. The NBK fully satisfied the demand, while the volume of short-term notes significantly exceeded deposit auctions.

Changes: In 2024, deposit auctions became the main instrument for liquidity withdrawal. In order to redirect demand from participants from short-term notes to deposit auctions, the NBK began to fully satisfy the demand with a cutoff rate equal to the base rate. In addition, deposit auctions began to be held in the T+0 format to facilitate forecasting of liquidity flows.

Standing Facilities

3. Repo operations.

Prior format: Until 2024, the NBK participated in the main session of the repo market (11:30 - 17:00), as well as in the additional session (17:00 - 17:30). The NBK withdrew liquidity at the lower boundary of the base rate, and provided liquidity at the upper boundary of the base rate.

Changes: In 2024, the NBK completely stopped participating in the main repo session, and in the additional session, the Bank began to participate only on the liquidity side. The time of the additional session was extended, it began to be held from 15:00 to 17:30. It should be noted that only STBs are allowed to participate in the additional session.

4. Foreign Currency Swaps.

Prior format: The NBK provided liquidity at a rate defined as **the upper boundary of the base rate + 1%**, and withdrew liquidity at a rate calculated as $(R_{KZT} - R_{USD}) / (1 + R_{USD})$.

Changes: The NBK will no longer withdraw liquidity from the currency swap market, and liquidity will be provided at a rate determined by the formula: **Base rate + 2%**.

1.2 Foreign Exchange Market

At the end of 2024, the official tenge-dollar exchange rate was 525.10 tenge/dollar, having depreciated by 70.4 tenge, or 15.5% over the year. The maximum value of the official exchange rate was 524.66 tenge/dollar, the minimum value was 439.4 tenge/dollar. Despite the strengthening of the tenge by the end of the first half of the year, in the third quarter it weakened given the strengthening of the global US dollar index against the currencies of developing and developed countries, an increase in importers' demand for foreign currency and the weakening of the Russian ruble as the currency of Kazakhstan's largest trading partner. In the context of a freely floating exchange rate, the exchange rate of the national currency was formed taking into account the absorption of external macroshocks and internal imbalances. In order to smooth out excessive volatility of the tenge exchange rate and to ensure the supply of foreign currency, the National Bank (NBK) conducted currency interventions in November-December 2024 from November 15 to 28. Their total volume amounted to USD 1.4 bln.

The average daily volume on the Kazakhstan Stock Exchange (KASE) in 2024 amounted to 221 mln US dollars with a maximum value of more than 713 mln US dollars. The absolute growth in trading volume on the KASE is partly stemming from the growth in the number of trading participants due to the dominant position of the exchange in the region. In the exchange spot market, the ratio of shares of the USD /

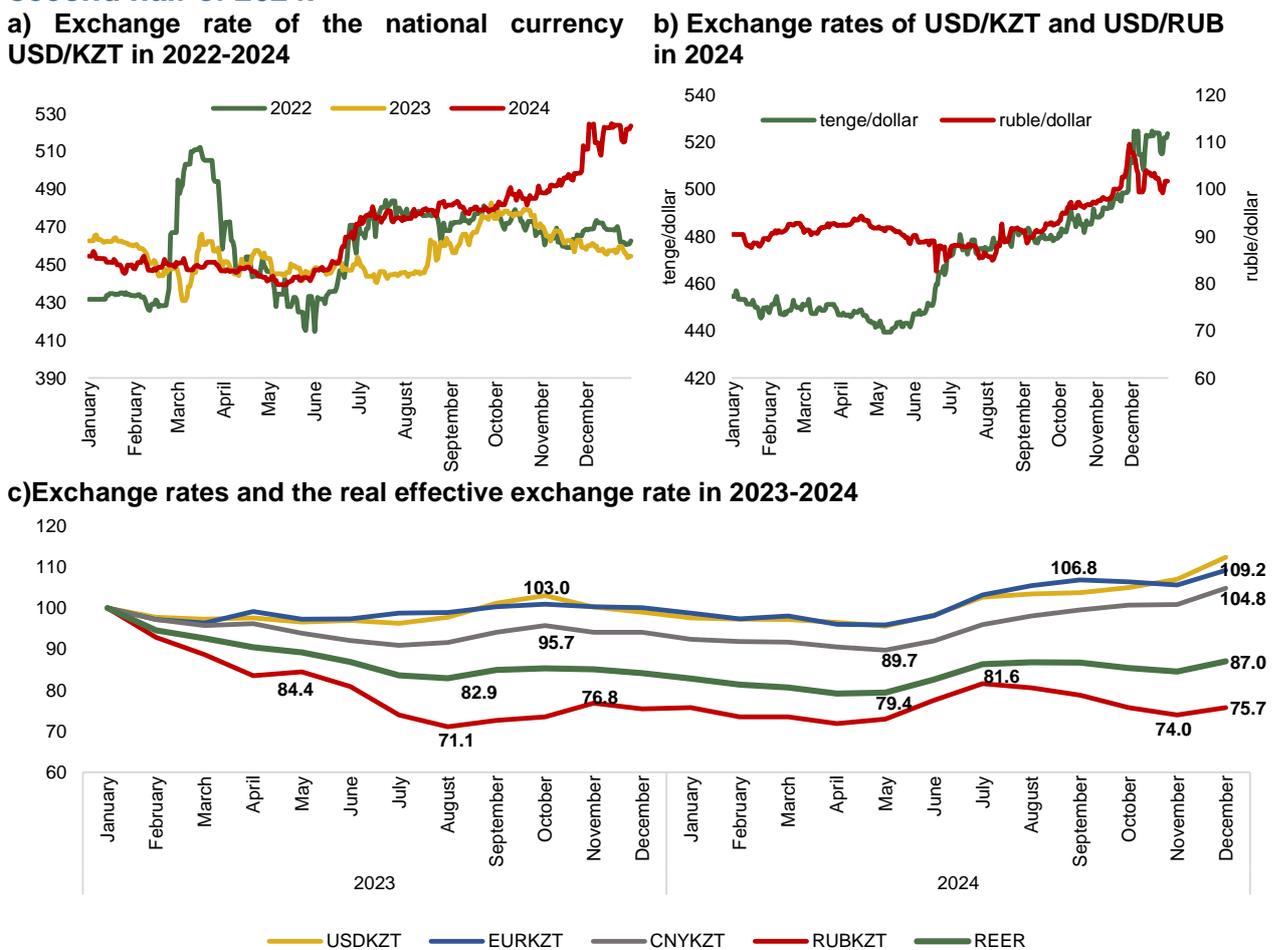
KZT, RUB / KZT, EUR / KZT and CNY / KZT currency pairs is upheld in the period 2023-2024 with the absolute dominance of the US dollar.

The growth in volumes on the off-exchange market for all currencies by more than 4 times is observed from 2021 to 2024, from 13,466 to 49,256 bln tenge. Despite the upward trend in the volume of over-the-counter trading, a decrease was noted in 2024 compared to 2023. In 2024, the largest growth since the previous period occurred in the CNY/KZT pair, exceeding 50 times.

1.2.1 Dynamics of the Exchange Rate of the National Currency and the Foreign Exchange Market

In 2024, the exchange rate of the US dollar against the tenge showed depreciation of 70.4 tenge, or by 15.5% (Dec/Dec) (*Figure 1.15a*), particularly, in the second half of the year. In a certain period in April-May, the exchange rate demonstrated appreciation to 439 tenge. By the end of the year, the rate exceeded the 500 tenge per dollar mark given the global strengthening of the US dollar against the currencies of developing and developed countries, increased demand for foreign currency by importers and the weakening of the ruble as the currency of the largest trading partner. During the same period, the maximum value for the year was reached – 524.66 tenge per US dollar.

Figure 1.15 The national currency exchange rate against the US dollar had similar trends with the exchange rate of the Russian ruble against the US dollar in the second half of 2024.



Source: NBK computations

Note: REER – real effective exchange rate. The exchange rates of currencies and REER are indexed (January 2023 = 100).

Despite fluctuations in the price of oil during the year, the behavior of the USD/KZT exchange rate was to a larger extent correlating with the ruble as the currency of a trading partner country (*Figure 1.15b*). In the second half of 2024, the USD/KZT exchange rate

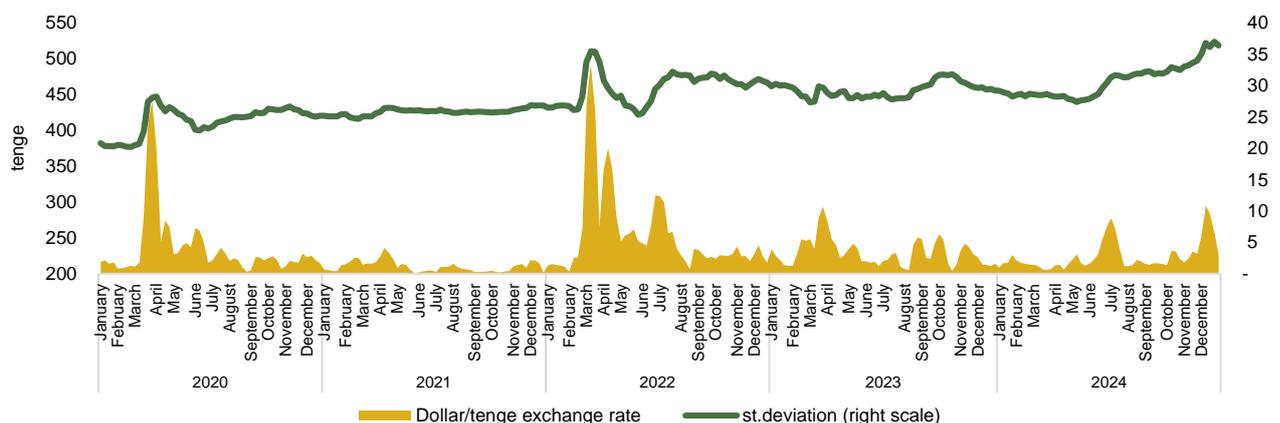
weakened following the ruble. Amid the exchange rate volatility, the NBK conducted currency interventions of USD 1,047 mln in the period from November 15 to November 28, 2024 and USD 307.6 mln in December 2024.

The real effective exchange rate (REER) weakened in the second half of 2024, amid the weakening of the tenge against the currencies of major trading partners (*Figure 1.15c*). The dynamics of the tenge exchange rate and the effect of other currencies are explained by the respective weight of each trading partner country in the trade turnover. Thus, given more moderate dynamics of the REER in 2024, the exchange rate of the national currency absorbed shocks and the relative purchasing power of the currency was maintained.

When analyzing the three-year period of 2022-2024, the most volatile year is 2022. Assessing the dynamics of the USD/KZT exchange rate, the highest volatility during the year was observed in 2022, especially in the period of February-April (*Figure 1.16*). High volatility of the exchange rate of the US dollar against the tenge is associated with external geopolitical factors. The main shocks that affected the Kazakhstan currency market in 2022 were the January 2022 events and the escalation of the geopolitical conflict that began in February 2022. The NBK intervened in the first half of 2022, the total volume of net interventions in 2022 per year amounted to USD 1.4 bln.

Figure 1.16 *The most volatile period for the national currency against the US dollar was 2022, mainly because of external shocks.*

The weighted average weekly exchange rate of USD/KZT and its volatility in 2020-2024



Source: NBK computations

Note: Standard deviation is the mean square deviation from the arithmetic mean. A 4-week moving average was used.

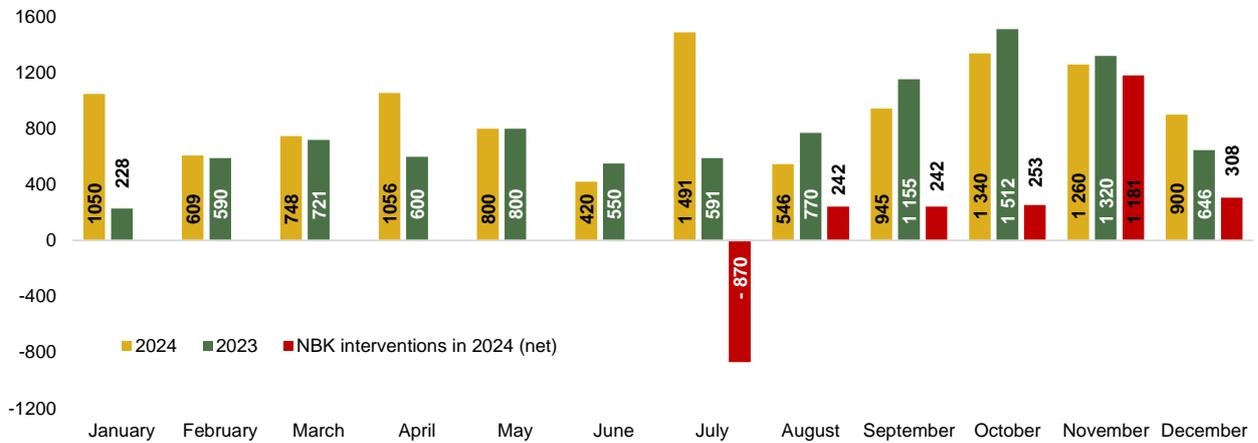
The sale of currency from the National Fund of the Republic of Kazakhstan (NF RK) was carried out as part of attracting transfers to the republican budget, where the guaranteed and target transfers in total amounted to 5.6 trln tenge in 2024. The volume of conversions from the NF RK increased in total by 40% in 2024 compared to 2023 (*Figure 1.17*). The total volume of conversions in 2024 was USD 11.2 bln, and in 2023 – USD 9.5 bln. A significant increase in the volume of currency sales occurred in the second half of 2024, given the acquisition of shares of the “NAC Kazatomprom” JSC by the National Fund in the amount of 467.4 bln tenge. To conduct this transaction, the purchase of foreign currency assets of the National Fund in the gold and foreign exchange reserves of the National Bank was made, followed by mirroring³.

The share of currency sales by the NBK and its clients in the total trading volume in 2024 was 23% (in 2023 – 26%). The total USD/KZT trading volume on the KASE in 2024 amounted to USD 55 bln compared to USD 37 bln in 2023, i.e. an increase of 49%. A significant ramp-up in volumes was observed in the period of July-December 2024 due to the increased activity of market participants, conversion of transfers to the budget, purchase

³ <https://nationalbank.kz/ru/news/informacionnye-soobshcheniya/16862>

of shares of the “NAC Kazatomprom” JSC and foreign currency interventions. In the above-mentioned period of 2024, the volume of sales by the National Bank and its clients was by 26% larger than in the same period of 2023. The total volume of net interventions amounted to USD 1.4 bln, including sales from the NBK gold and foreign exchange reserves in order to mirror the acquired volume to the foreign exchange market.

Figure 1.17 Volume of currency sales from the National Fund and net interventions of the NBK, mln US dollars



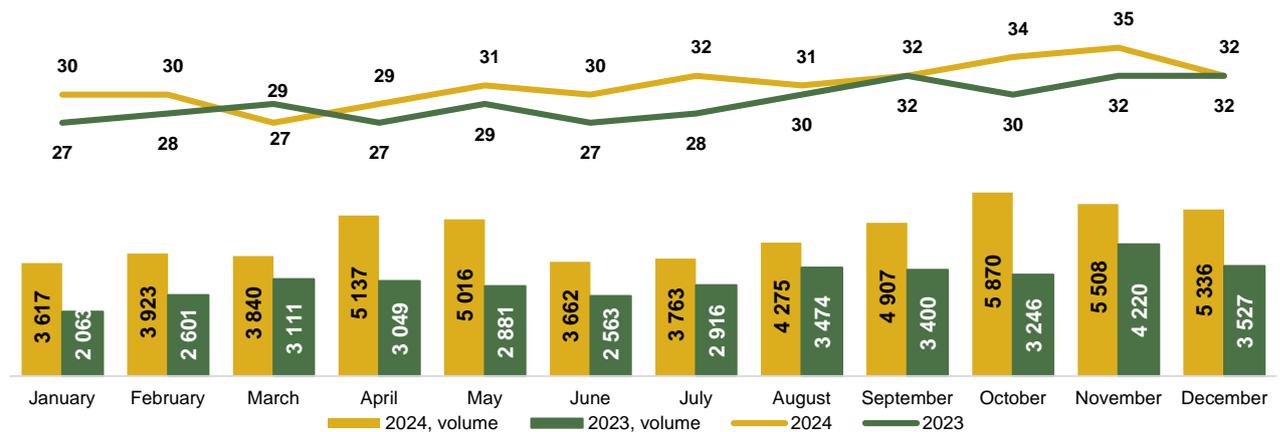
Source: NBK web site

Note: In July-December 2024, sales were made from the NBK gold and foreign exchange reserves in order to mirror the acquired volume to the foreign exchange market to purchase shares of the “NAC Kazatomprom” JSC in the NF RK.

1.2.2 On-Exchange Market of USD/KZT

The average daily volume in 2024 was USD221 mln with a maximum of over USD713 mln on November 28, 2024. For comparison, in 2023, the average daily volume was USD151 mln with a maximum of over USD290 mln. The absolute growth in trading volume on the KASE is partly driven by the growth in the number of trading participants due to the dominant position of the exchange in the region and increased sanctions pressure on the Russian Federation (Figure 1.18).

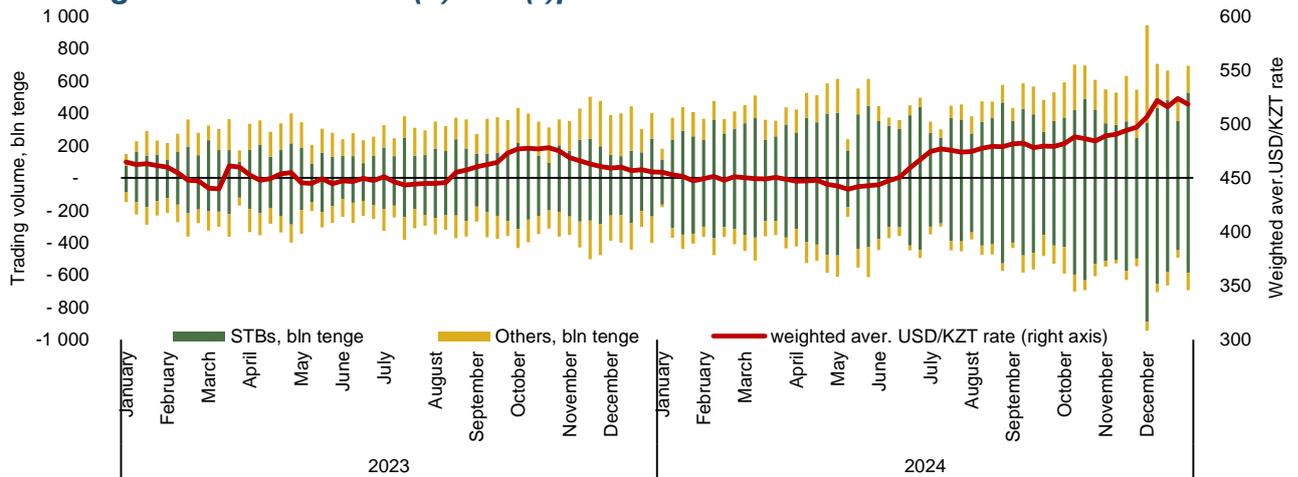
Figure 1.18 The number of active participants in the KASE trades and trading volumes in the on-exchange spot market in mln US dollars



Source: KASE

Second-tier banks (STBs) remain key participants in the KASE trades. In 2024, STBs were net buyers of currency, maintaining a similar trend since 2023. In 2024, along with the growth in trading volume, the share of other participants, such as brokerage organizations, also increased. The share of other participants in the sale of currency exceeds the share in the purchase of currency both in 2023 and 2024 (Figure 1.19).

Figure 1.19 Trading volume of USD/KZT, bln tenge, and the weighted average exchange rate of USD/KZT (+)sale/(-)purchase

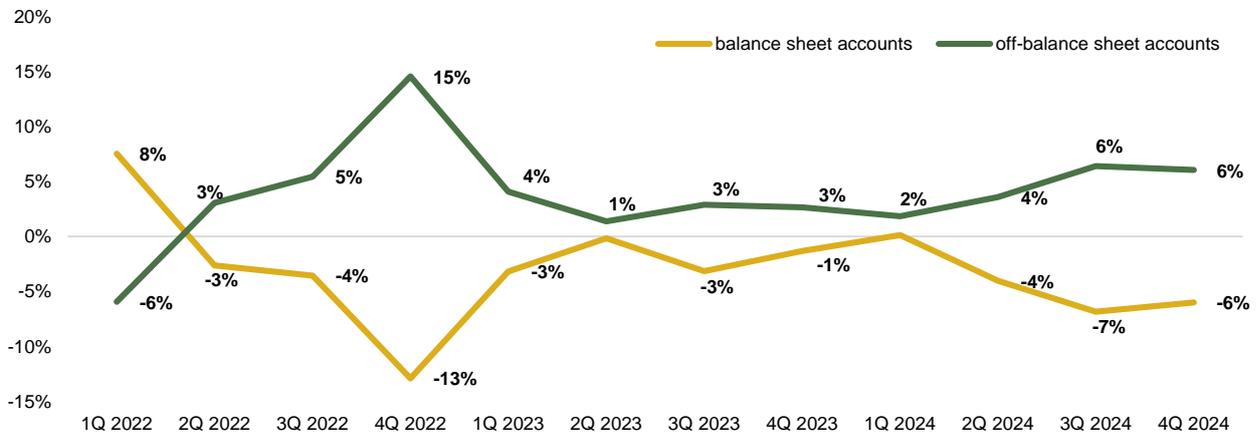


Source: KASE, NBK computations

1.2.3 Open Currency Position

Analysis of the balance sheet open currency position (OCP) for the period from Q1 2022 to Q4 2024 demonstrates a predominance of assets over liabilities, although the gap is narrowing (*Figure 1.20*). The absolute values of the balance sheet OCP indicators for the reporting period show that there is mainly a short position in the US dollar. In general, a sustained short balance sheet OCP may point to the presence of some currency risks. With the strengthening of the foreign currency exchange rate, the revaluation of liabilities denominated in this currency will lead to an increase in liabilities. In terms of changes in the balance sheet and off-balance sheet portions, the largest gap is observed in Q1 2023.

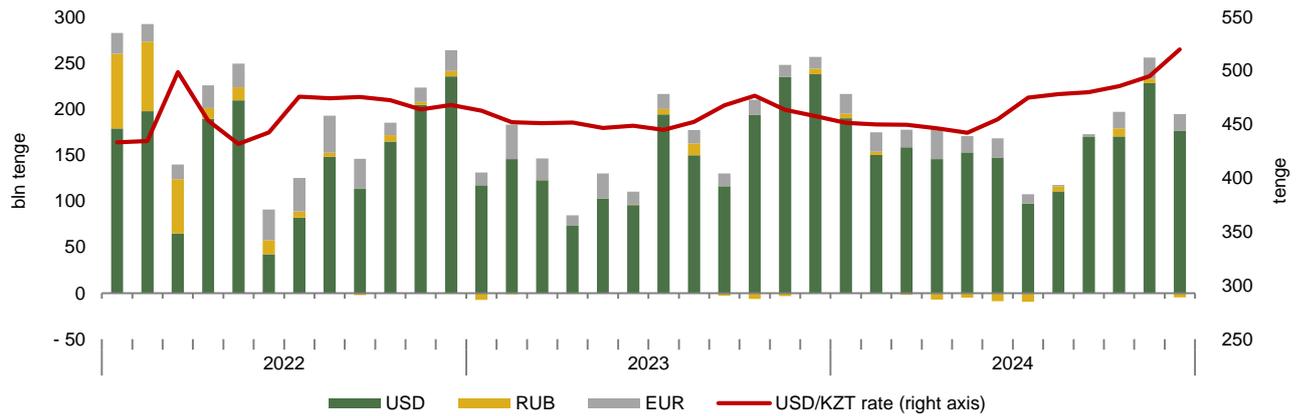
Figure 1.20 The currency position to the banks' owners' equity for the US dollar, %



Source: NBK computations

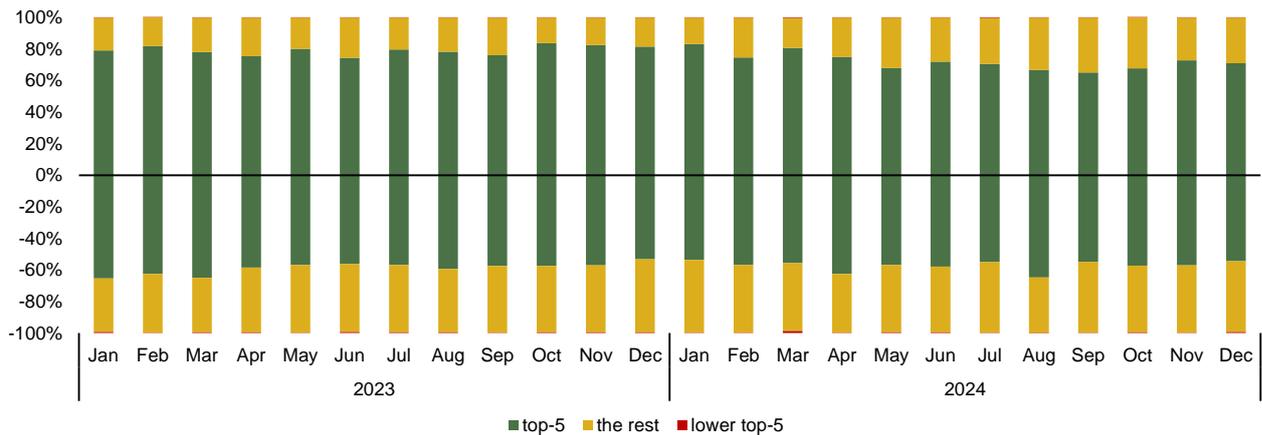
Hedging short balance sheet OCP at the expense of the off-balance sheet portion of OCP neutralizes the realization of currency risks. In terms of banks, there were no violations of currency position limits in the analyzed period, except for individual periods for some banks due to geopolitical instability and currency fluctuations.

The share of a monthly volume of net sales in the US dollars by exchange offices in 2023 was at least 90% per month of the total volume of on-exchange trading (*Figure 1.21*). The total volume of net transactions by currency was: the US dollars – 1896 bln tenge, euros – 207 bln tenge, and rubles – (-)9 bln tenge. For the above-mentioned currencies, there was a decrease in net transactions for the ruble and euro compared to 2023. The largest decline was observed among the ruble-tenge currency pair, which is associated with the last year's increased selling volumes of this currency pair due to the inflow of cash rubles into Kazakhstan against the backdrop of a geopolitical shock in the region.

Figure 1.21 Net purchases(-)/sales(+) of foreign exchange by exchange offices


Source: NBK computations

The on-exchange spot market of trading in the USD/KZT currency pair is poorly diversified (*Figure 1.22*). The top 5 market participants, both on the buyer and seller side, hold the dominant share in the volume of transactions. The satisfaction of supply and demand with foreign currency and a relatively even distribution of volumes throughout the year were demonstrated.

Figure 1.22 Concentration of market participants in the USD/KZT currency pair trading (+)sale/(-)purchase


Source: KASE, NBK computations

In the on-exchange spot market, the ratio of the shares of the USD/KZT, RUB/KZT, EUR/KZT and CNY/KZT currency pairs remains unchanged in the period of 2023-2024, with the absolute dominance of the US dollar (*Table 1.5*). The share of the US dollar has slightly decreased compared to 2023 with a concurrent increase in the shares of other currencies, such as RUB/KZT and CNY/KZT. The increase in the shares of ruble and yuan in 2024 stemmed from the geopolitical conflict and subsequent sanctions against the Russian Federation.

Table 1.5 The share of currencies in the volume of trading in the on-exchange FX market

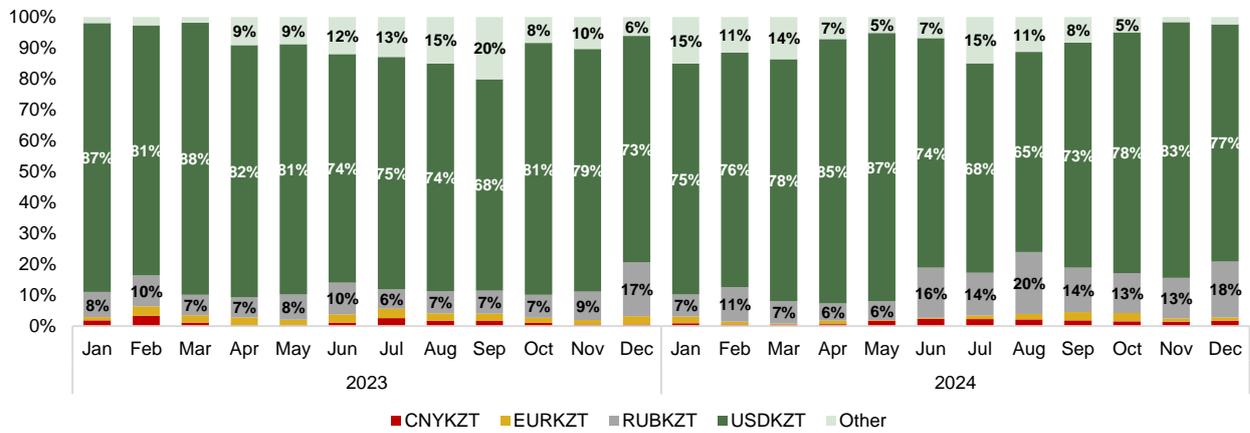
	USD	RUB	EUR	CNY
2023	84%	9%	6%	1%
2024	82%	13%	3%	2%

Source: KASE, NBK computations

In terms of currency pairs in the on-exchange market, the USD/KZT currency pair continues to dominate in the monthly dynamics in 2023-2024. The most noticeable movements were observed in the RUB/KZT and CNY/KZT pairs. The share of the RUB/KZT

pair went up from an average monthly value of 9% in 2023 to 12% in 2024. In 2024, peaks in the RUB/KZT share were observed in August and December, which was caused by the geopolitical situation in the Russian Federation (Figure 1.23). In 2023, the dynamics of the RUB/KZT share were more monotonous with a peak value of 17% in December (Figure 1.23). The CNY/KZT pair continues to show low figures of its share; however, in 2024, the months of June-September saw the largest shares of 2%.

Figure 1.23 On-exchange FX market in 2023-2024, %



Source: KASE, NBK computations

1.2.4 Gold and Foreign Exchange Reserves

During 2024, the NBK assets in foreign currency expanded by 34% and amounted to USD 22 bln at the end of the year (Figure 1.24). The share of foreign currency assets in gold and foreign exchange reserves (GFER) increased from 46% to 48%. Reduction in the share of gold in GFER (from 54% to 52%) due to the sale of gold in the external market as part of increasing the liquidity of reserves increased the diversification of the portfolio (Figure 1.25).

Figure 1.24 The NBK gold and foreign exchange reserves

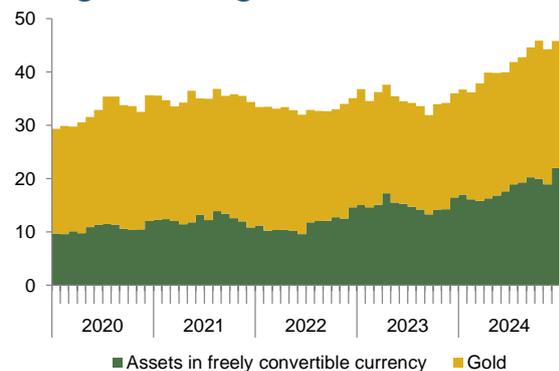
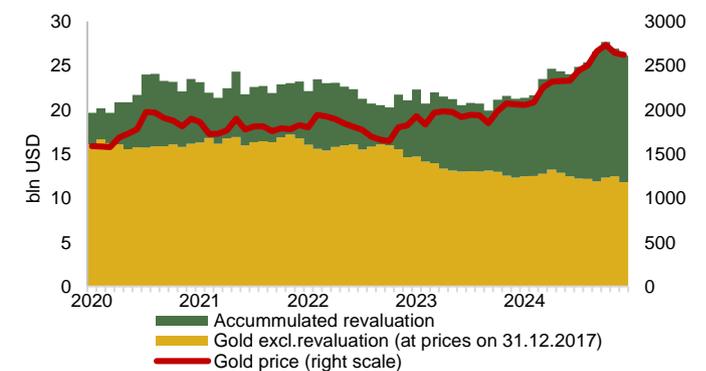


Figure 1.25 Gold reserves and revaluation, bln US dollars

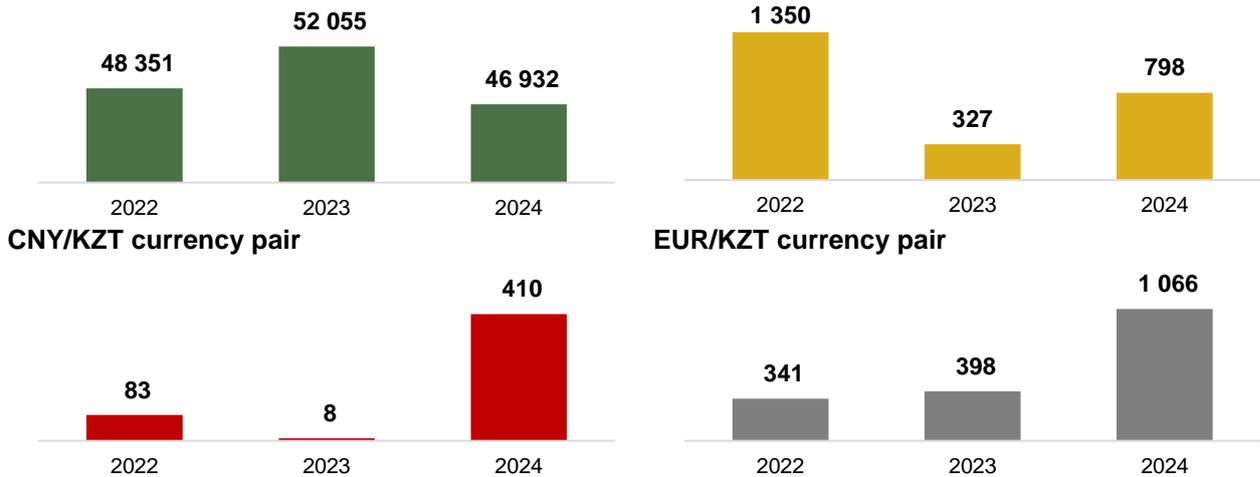


Source: NBK computations

1.2.5 Off-Exchange Market

The more than 4-fold growth of volumes in the off-exchange market for all currencies has been observed from 2021 to 2024, from 13,466 to 49,256 bln tenge. In terms of currencies, similar to the exchange market, the dominance of the USD/KZT pair persists (Figure 1.26). Due to geopolitical shocks and sanctions imposed on the Russian Gazprombank, which provoked the demand for the yuan in the on-exchange and off-exchange markets, the ratio of currency pairs in the off-exchange market has somewhat changed. The CNY/KZT pair demonstrated the largest volume in 2024, amounting to 410 bln tenge, which exceeds the volume of the previous period by more than 50 times.

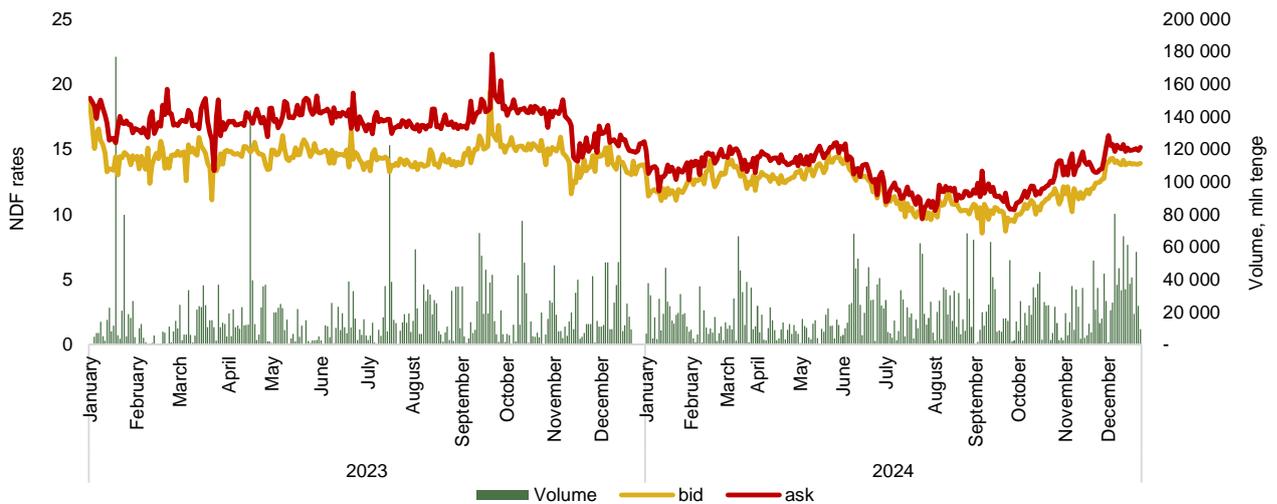
Figure 1.26 Trading volumes in the off-exchange market, bln tenge
USD/KZT currency pair



Source: KASE, NBK computations

The hedging activities of banks have an impact on both onshore and offshore currency markets. Thus, the exchange rate of the tenge against the dollar has generally maintained a stable trend, becoming weaker since mid-2024; this was accompanied by high volumes of purchases by non-residents, amounting to an average of about 31 mln US dollars per day (Figure 1.27).

Figure 1.27 Volumes of trades in the NDF market in 2024, mln tenge



Source: Bloomberg, Refinitiv

Note: NDF rates for 3 months are used. A non-deliverable forward contract is an over-the-counter instrument in which two counterparties agree to deliver the difference between exchange rates at a future date. Under this arrangement, settlement risk is minimized to the amount of exchange rate risk that may arise between the date of agreement and the date of currency delivery. The specified difference is calculated and paid in the US dollars. Most non-deliverable forwards employ the US dollars as the second (base) currency. The most commonly used contracts are with a term of 1 month to 1 year.

1.3 Households

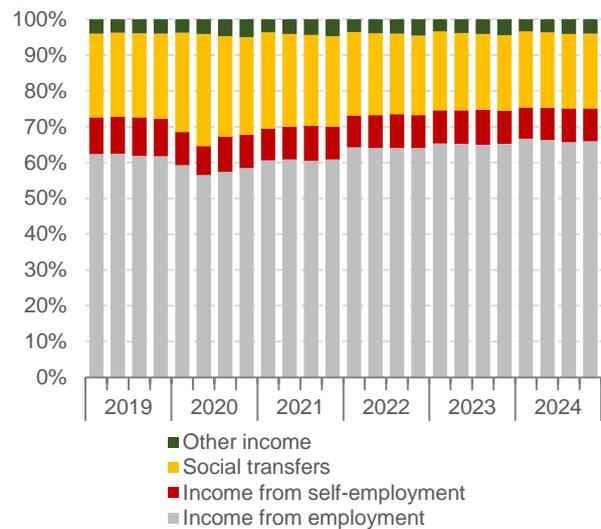
In 2024, the growth of real income of the population recovered and amounted to 3.7% in 2024. Given the increase in the R/P 10% ratio, the growth of real income of the population occurred to a greater extent in the wealthier population strata. The growth rate of household cash income exceeded the growth rate of cash expenditures. This fact contributed to a significant increase in the population's propensity to save, which was also nurtured by the constraining monetary policy of the NBK to stimulate savings of the population and reduce inflationary pressure.

Despite the increase in the propensity to save, the debt burden of the population continues to grow, which maintained consumer demand at a consistently high level during 2024. In the context of high dependence of income on external factors, as well as fiscal stimulus, the risks remain significant.

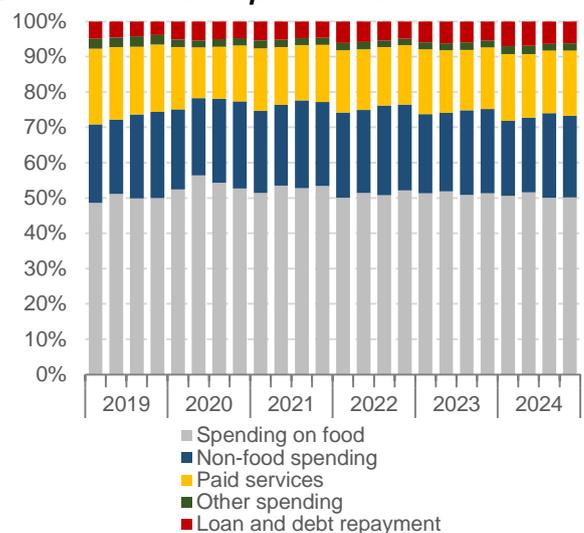
As inflationary pressures continued to ease throughout 2024, real household income recovered and grew by 4.4% y/y in Q4 2024. There were no significant changes in the income structure. Thus, the share of income from employment did not change during the year, remaining at around 65%. The share of social transfers in the income structure continued to decline to 20.7% by the end of the year. In addition, the share of other income increased by 1.2% during the year.

Figure 1.28 The growth of real income in the population's cash income amounted to 4.4% at the end of 2024

Structure of cash income



Structure of cash expenditures



Source: ASPR BNS RK, National Bank computations

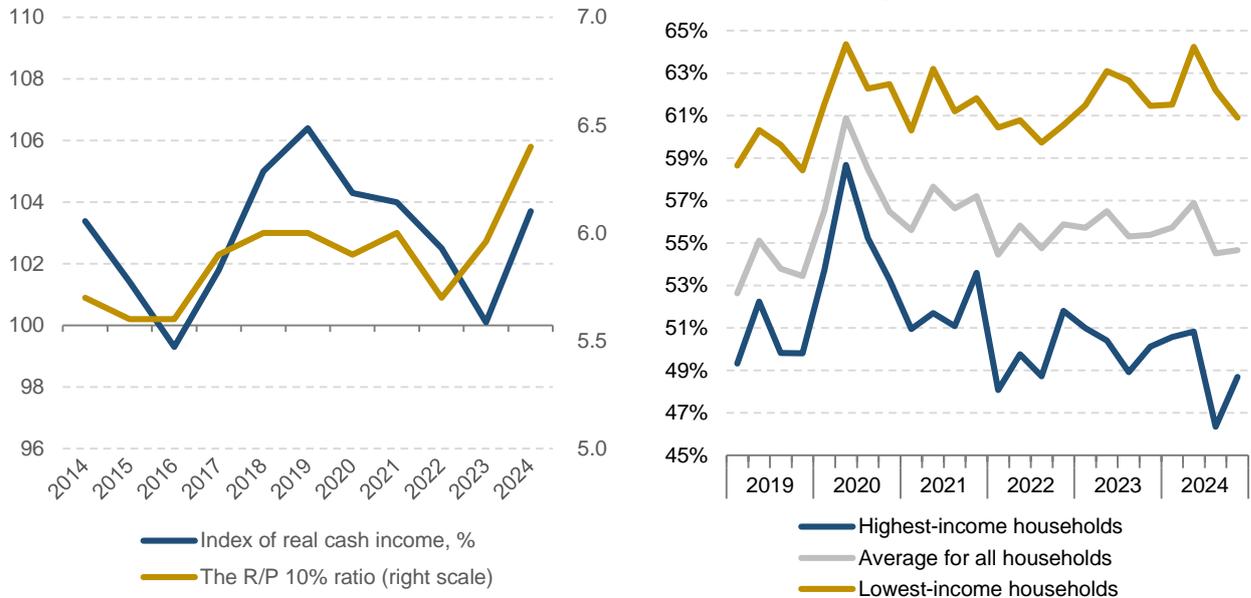
Note: The "other income" category includes income received from property, from renting out housing, interest on bank deposits, lottery winnings, inheritance, etc. The "other income" category includes financial aid, taxes, payments and other payments.

Nominal cash income for 2024 showed an increase of 12.8%. Compared to the corresponding periods of the previous year, the greatest increase was demonstrated by income from direct employment, which increased by 14.4% over the year. Income from self-employment grew at a more moderate rate of 8.8%. At the beginning of the year, there was also an increase in the growth rate of social transfers, which increased by 10.3% and 12.1% in the first and second quarters of 2024 compared to the corresponding periods of the previous year. The share of non-food expenses in 2024 compared to the last year decreased by 3.3%, while the share of paid services increased by 3.6%. The share of food expenses did not change significantly compared with previous periods and amounts to 50.1%.

In 2024, nominal consumer spending grew by 7.6%, driven by the increased spending on paid services, taxes and other mandatory payments, and financial aid to relatives, friends, and alimony. Non-food expenses increased by 4% compared to 2023. Spending on paid services showed the greatest growth in Q4, increasing by 16.5% compared to the same quarter of 2023, and grew by 11.6% overall during the year. This dynamic is largely driven by reforms in the utilities sector. Nominal growth in food expenses in 2024 accounted for 6.1%.

Real income growth in 2024 was 3.7%. Given the increase in the R/P 10% ratio, real income growth occurred to a greater extent in the wealthier population strata. One of the indicators of income inequality is the R/P 10% ratio. This indicator is considered as the ratio of the average cash income of the 10% of the richest population to the income of the 10% of the poorest population. This ratio was fairly stable, but in 2024 there was a significant increase to 6.4, which may reflect the growth of social inequality.

Figure 1.29 *The level of differentiation in the household income is increasing*
R/P 10% ratio and real income of the population **The share of household spending on food in consumer spending**



Source: ASPR BNS RK

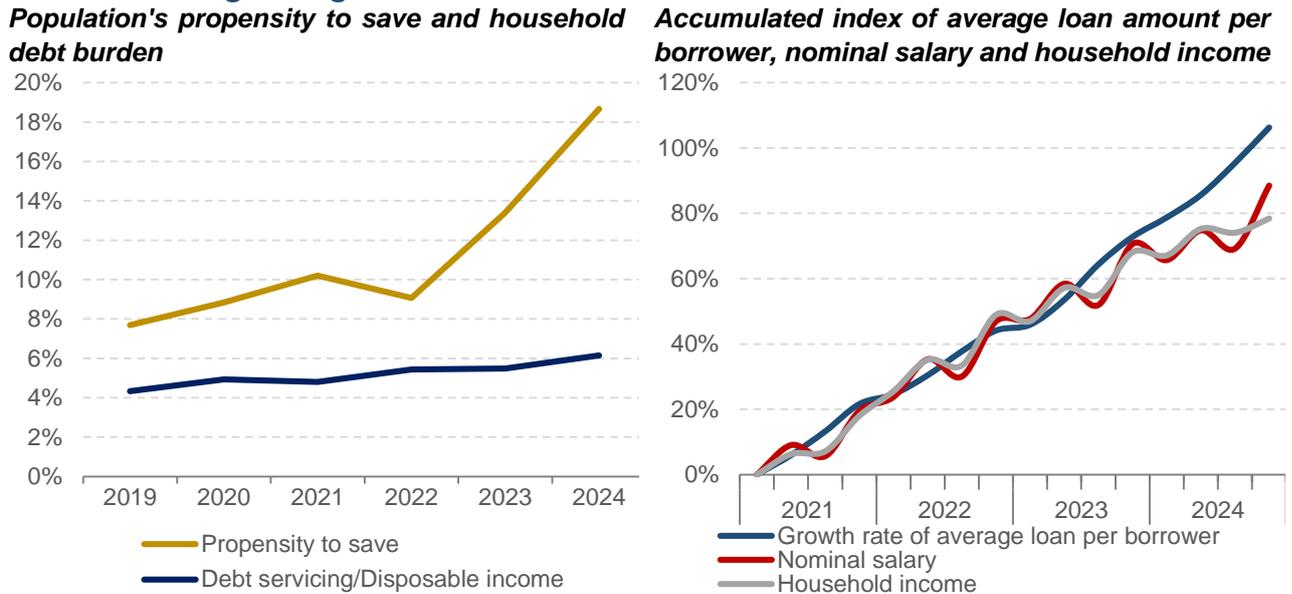
Note: The R/P 10% ratio is calculated as the ratio of the income of the 10% of the population with the highest income to the income of the 10% of the population with the lowest income.

When considering the structure of household spending by income deciles, households with the lowest income are the most sensitive to the level of food inflation. On average, in 2024, they spent up to 62% of their consumer basket on food products, with a peak of 64% in the 2nd quarter of 2024. Thus, this category of people is most susceptible to deterioration in their financial position under unfavorable macroeconomic conditions. The improvement of this indicator in the category of the population with the highest income is also worth mentioning. Thus, in 2020, this category of people spent up to 55% on food needs, but over the next 4 years, this figure dropped to 49%.

Since 2023, the growth rate of the population's cash income has exceeded the growth rate of household cash expenditures, according to the BNS RK. Thus, the estimated indicator of the population's propensity to save has increased significantly from 13% in 2023 to 19% in 2024.

Despite a significant growth in the population's propensity to save, there is also a significant increase in the population's debt burden. Since mid-2023, the growth rate of the average loan has exceeded the growth rates of nominal wages and nominal income. This trend is determined by the ability to redistribute expenses for future periods with the help of debt, which allows a larger share of income to be allocated to savings. However, it is worth noting that without steady growth in real income of the population, this trend carries risks in terms of a potential outflow of deposits of the population in the event of unforeseen shocks.

Figure 1.30 The population's propensity to save is growing, while the population's debt burden is growing



Source: National Bank computations, ASPR BNS RK, Credit Register

Note: Households with the lowest income are households belonging to Decile 1. Households with the highest income are households belonging to Decile 10.

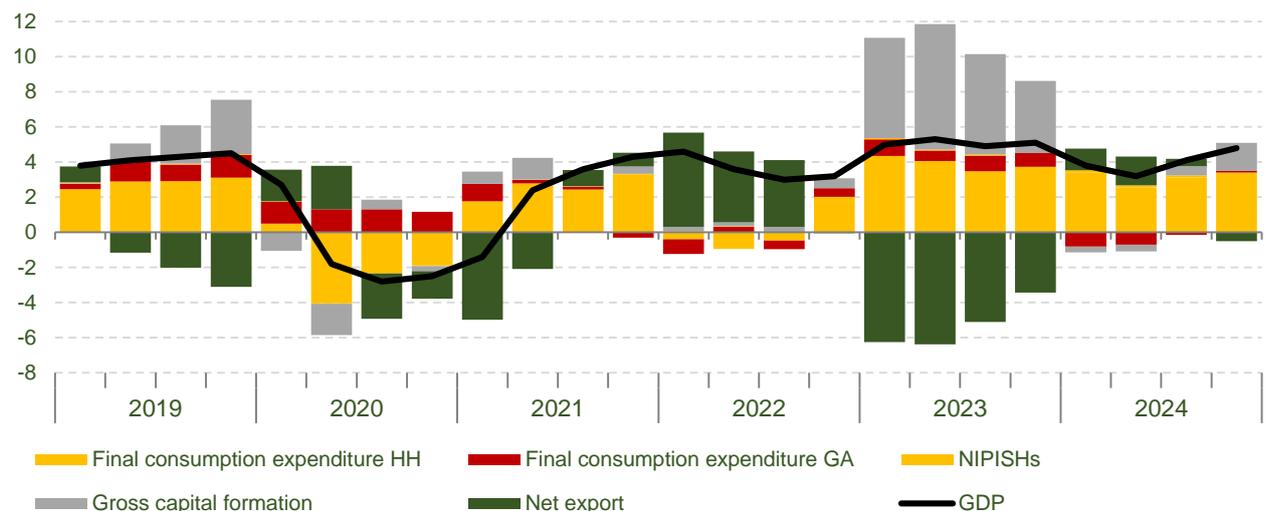
Propensity to save (α) is calculated as: $\alpha = 1 - \frac{\beta}{\gamma}$, where:

β – household consumer spending

γ – disposable household income, i.e. income minus taxes, fines, mandatory payments and financial aid to relatives.

Thus, the growth of the population's debt burden, along with a stimulative fiscal policy, contributed to a consistently high level of consumer demand in the economy. Thus, household final consumption remains as the main driver of economic growth, having accelerated significantly by the end of 2024.

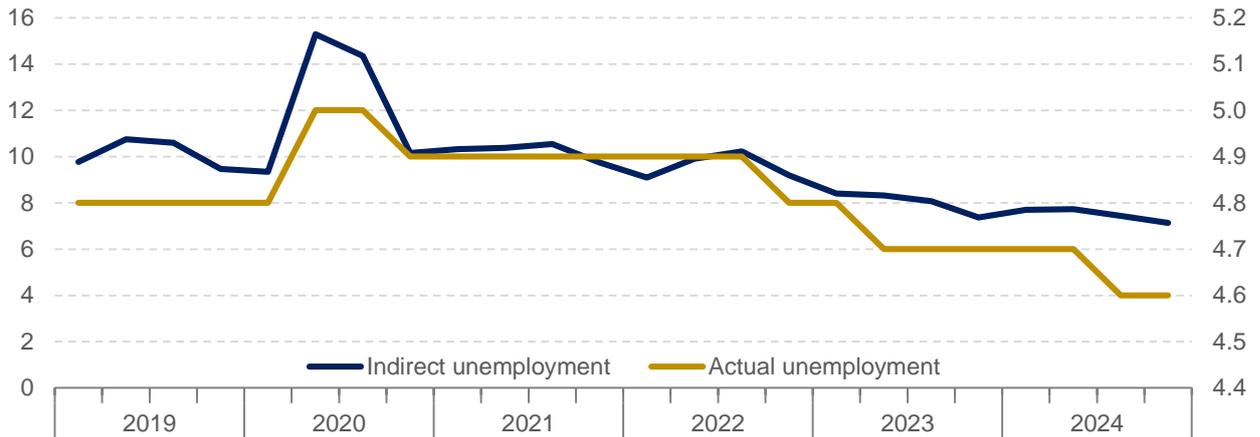
Figure 1.31 Consumer demand remains as the main growth driver for the economy
Contribution by the aggregate demand components to the real GDP growth



Source: ASPR BNS RK, National Bank computations

This trend is also reflected in the dynamics of indirect unemployment, which fell to a minimum of 7.1% in the 4th quarter of 2024. Thus, by the end of 2024, the number of the unemployed as determined according to the ILO methodology amounted to 448.3 thousand people or 4.6%, reaching its minimum values over the past 10 years.

Figure 1.32 The downward trend for unemployment rate is persisting



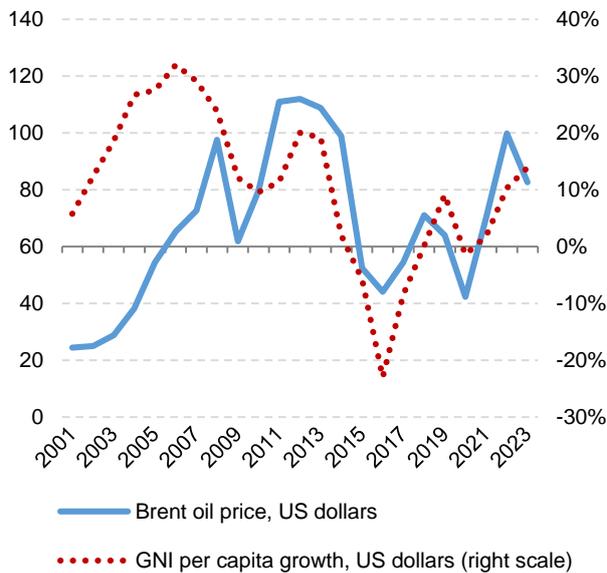
Source: ASPR BNS RK

Note: The level of indirect unemployment includes the unemployed population, part of the economically inactive population, part of the temporarily unemployed and forced underemployment.

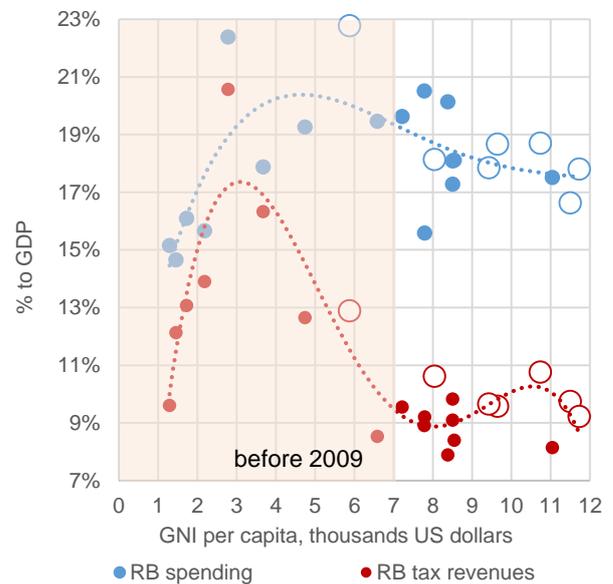
Despite the growth in real income of the population, its level remains largely dependent on external factors, in particular oil prices, as well as fiscal incentives. With the growth of gross national income per capita, tax revenues of the republican budget in relation to GDP decreased in the period from 2001 to 2023. The main gap occurred after the global financial crisis and the gradual reduction of tax rates from 2007 to 2009.

Figure 1.33 Oil prices and high levels of budget spending remain as the main driver of growth in gross national income

GNI per capita growth and oil prices



Expenditures and tax revenues to the RB as % of GDP and GNI per capita



Source: ASPR BNS RK, World Bank, MF RK, National Bank computations

Note: The unfilled dots on the right Figure correspond to periods with oil prices above USD80 per barrel.

The reduction of the tax burden did not contribute to the growth of tax revenues with a relatively unchanged level of budget expenditures. The main driver of growth in gross national income per capita was the high level of expenditures of the republican budget and the high level of world oil prices. Thus, in the environment of high dependence of the population's income on external factors and fiscal incentives, the realization of unforeseen shocks can negatively affect the domestic demand and the ability of the population to service debt.

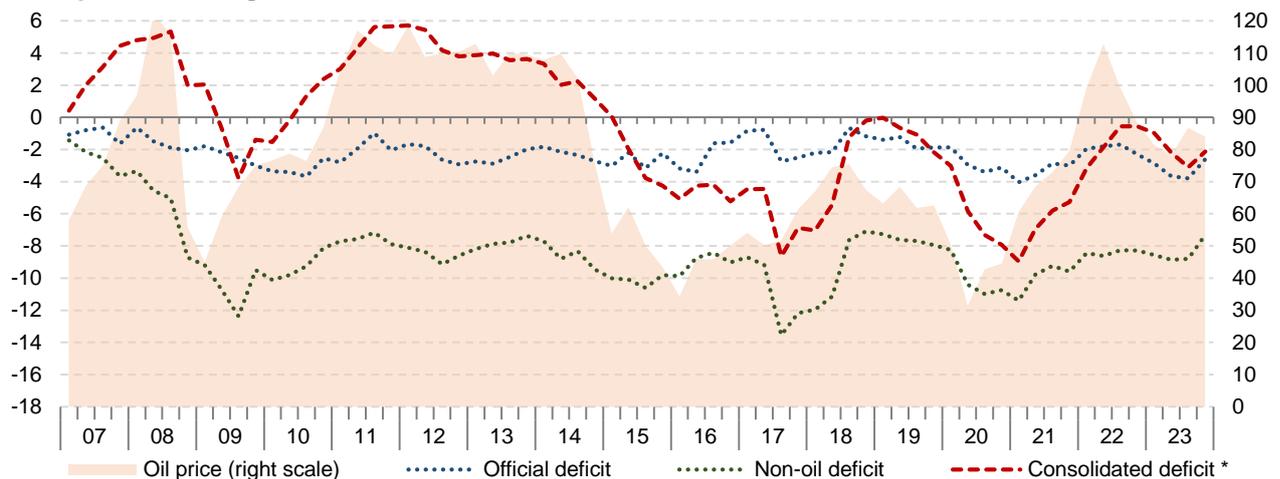
1.4 Fiscal Policy

In 2024, tax revenues of the state budget were significantly lower than the forecast levels, which required additional withdrawals from the National Fund. Non-oil revenues of the republican budget were at average historical levels. However, the forecast for tax revenues and, as a result, the budget expenditure plan was initially too optimistic. According to the results of 2024, tax revenues and expenditures of the state budget were lower than the planned values by 2,005 bln tenge and 121.8 bln tenge, respectively. Due to the increase in withdrawals of foreign currency assets of the National Fund, the government's net financial assets continued to decline, reaching 3 trln tenge or 2.2% of GDP.

The deficit of the republican budget at the end of 2024 amounted to 3.6 trln tenge or 2.7% of GDP, having increased in nominal volume by 17% compared to 2023. The non-oil deficit of the republican budget, taking into account the additional use of foreign exchange assets from the National Fund of the Republic of Kazakhstan in 2024 amounted to 11.5 trln tenge or 8.5% of GDP, having increased by 1.3 trln tenge compared to 2023. Without taking into account the additional use, the non-oil deficit amounted to 10.8 trln tenge or 8% of GDP, which is significantly higher than the threshold values for 2024, which, according to the Concept of Public Finance Management until 2030, amount to 6.1% of GDP.

Figure 1.34 *The non-oil deficit continues to be high*

The republican budget deficit as % of GDP



Source: MF RK, BNS RK, World Bank, National Bank computations

Note: *the oil deficit was calculated taking into account the additional use of foreign exchange assets of the NFRK as the purchase of shares and bonds of the quasi-public sector;

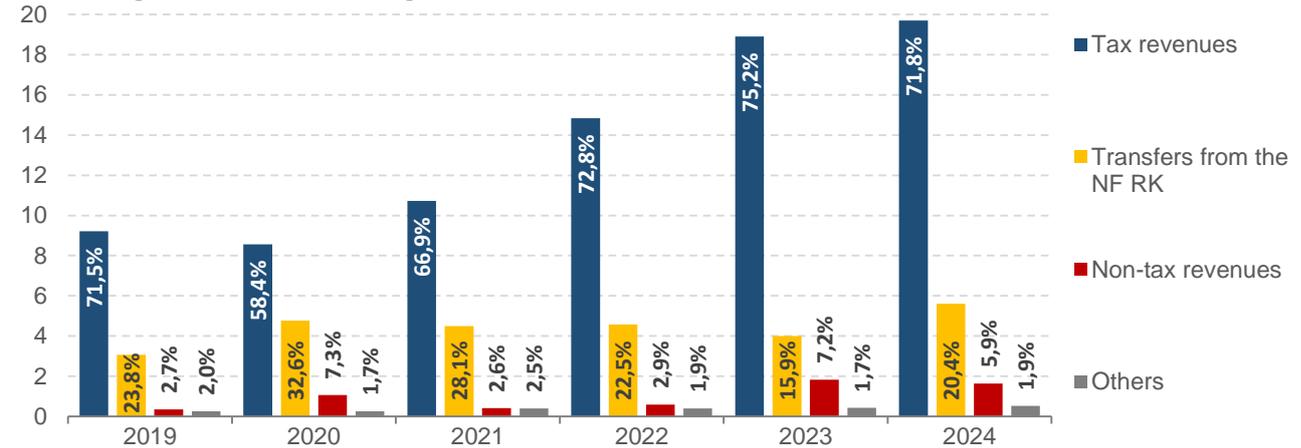
**the consolidated deficit of the RB was calculated as the official deficit minus transfers from the NFRK plus revenues to the NF RK from organizations in the oil sector.

1.4.1 State Budget Revenues

State budget revenues in 2024 amounted to 27.5 trln tenge, an increase of 9% compared to 2023. The largest contribution to the growth of state budget revenues was made by transfers from the National Fund, which in 2024 amounted to 5.6 trln tenge, an increase of 40% compared to the previous year. Target transfers in 2024 were increased from the approved 1.6 trln tenge to 3.6 trln tenge due to non-fulfillment of tax revenues. It is also worth mentioning that in 2024 the National Fund acquired shares of the “NAC Kazatomprom” JSC of 467.4 bln tenge from the “SWF “Samruk-Kazyna” JSC, with proceeds being allocated to the republican budget through dividends.

Figure 1.35 The share of tax revenues in the state budget decreased

State budget revenues, trln tenge



Source: MF RK

Tax revenues to the state budget amounted to 19.7 trln tenge in 2024, an increase of 4.2% compared to 2023. However, it is noteworthy that in 2024, revenues from the CIT RB decreased by 6% and amounted to 3,653.2 bln tenge, and revenues from the VAT went down by 9% and amounted to 5,179.4 bln tenge. The largest contribution to the growth of tax revenues was made by local budget revenues, such as personal income tax – 2.4% or 460 bln tenge, CIT LB – 2.1% or 404 bln tenge, and social tax – 260 bln tenge or 1.4%.

Table 1.6 Tax revenues to the state budget

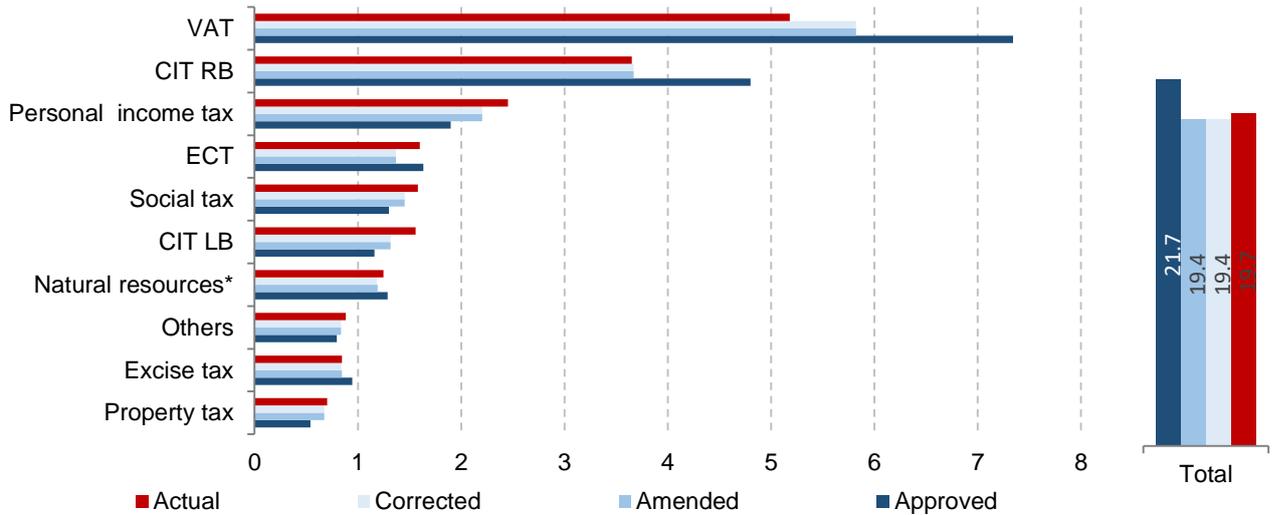
	2022		2023		2024	
	bln tenge	% y/y	bln tenge	% y/y	bln tenge	% y/y
VAT	4 226.4	50.5%	5 674.1	34.3%	5 179.4	-8.7%
CIT RB	2 920.8	39.4%	3 889.6	33.2%	3 653.2	-6.1%
PIT	1 499.7	32.2%	1 992.4	32.9%	2 451.6	23.1%
Export customs duty	1 621.4	58.5%	1 643.1	1.3%	1 598.4	-2.7%
Social tax	1 035.1	23.0%	1 321.3	27.6%	1 579.3	19.5%
CIT LB	1 041.7	42.2%	1 156.1	11.0%	1 560.1	34.9%
Natural resources*	728.6	15.8%	1 066.3	46.3%	1 247.3	17.0%
Others	557.1	-2.5%	840.1	50.8%	884.6	5.3%
Excises	757.3	61.6%	840.2	11.0%	844.9	0.6%
Property tax	455.3	8.2%	489.0	7.4%	701.6	43.5%
Total	14 843.3	38.4%	18 912.2	27.4%	19 700.5	4.2%

Source: MF RK

Note: *Revenues for the use of natural and other resources

The total non-fulfillment of the CIT to the RB and VAT with the approved budget amounted to about 3.3 trln tenge. Taking into account the over-fulfillment of tax revenues of local budgets, the total non-fulfillment of tax revenues of the state budget amounted to about 2 trln tenge.

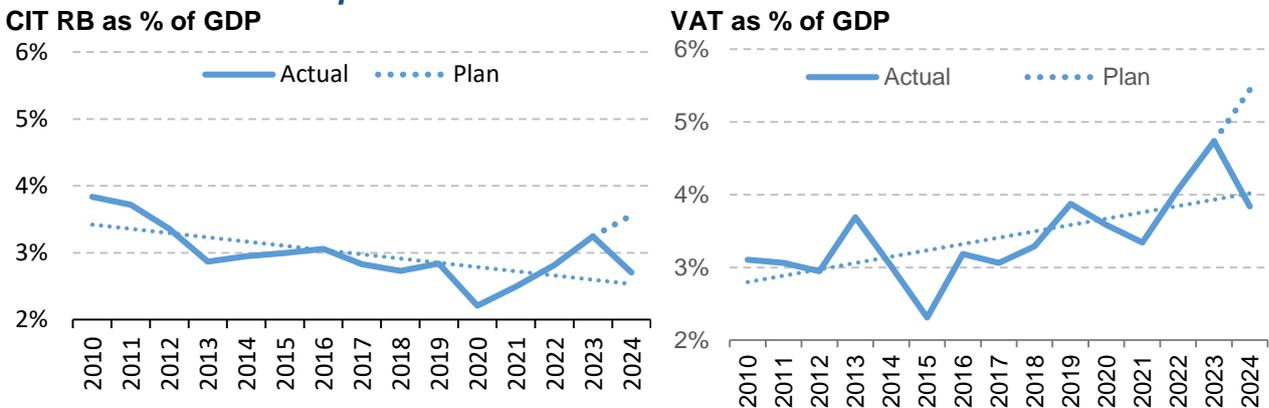
Figure 1.36 Tax revenues from CIT RB and VAT have been much lower than planned
Fulfillment of tax revenues to the state budget in 2024, trln tenge



Source: MF RK

Revenues from the CIT RB and VAT in relation to GDP in 2024 were at the level of trend historical values. The projected level of revenues for 2024 from the CIT RB was 3.6% of GDP, and from VAT 5.4% of GDP, with average values for the previous 3 years of 2.9% and 4.1%, respectively. Thus, the initial plan for tax revenues and, as a consequence, expenditures of the republican budget was overly optimistic, which subsequently led to the need to increase foreign exchange withdrawals from the National Fund.

Figure 1.37 Tax revenues from the CIT RB and VAT in relation to GDP in 2024 returned to their trend path

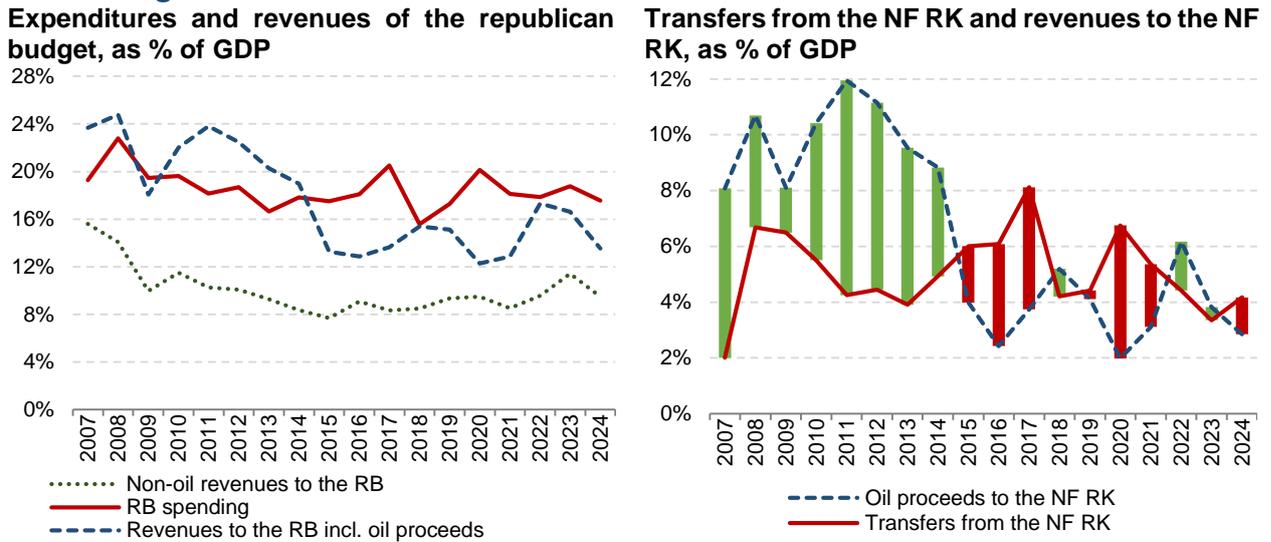


Source: MF RK, BNS RK, National Bank computations

Despite reduction in non-oil revenues of the republican budget in 2024, their level amounted to 12.7 trln tenge or 9.4% of GDP, which is higher than the average values over the past 10 years, which amounted to 9.3% of GDP.

It is worth mentioning that the budget rules for limiting the growth rate of budget expenditures were not applied when revising the republican budget in 2023. Thus, the expenditures of the republican budget in 2023 were increased to 22.5 trln tenge when revising the republican budget, which is by 1.7 trln tenge greater than the thresholds according to the budget rule for limiting the growth rate of expenditures. This subsequently affected the growth of threshold values in the years to follow. Thus, the gap between expenditures and revenues of the republican budget remains significant.

Figure 1.38 A gap between expenditures and revenues of the republican budget remains high



Source: MF RK, BNS RK, National Bank computations

Note: Revenues to the RB including oil revenues are calculated as revenues to the RB minus transfers from the NK PF plus revenues from oil sector organizations. Non-oil revenues are calculated as official revenues minus transfers from the NK PF and ECD. In 2009, the CIT rate was lowered from 30% to 20%. The VAT rate was gradually reduced from 2007 to 2009 from 14% to 12%.

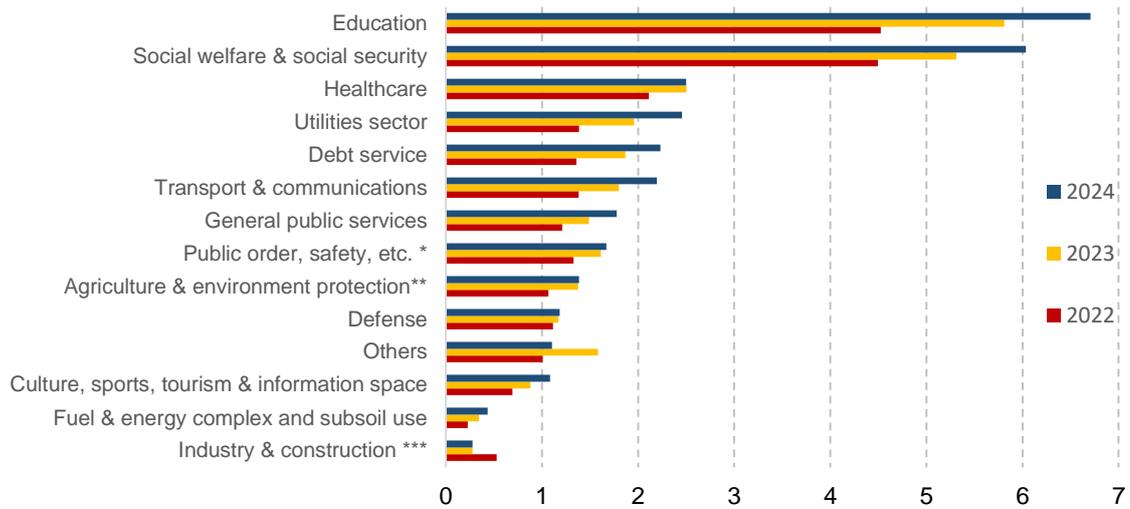
Tax revenues from oil sector organizations in the NF RK equaled 3.8 trln tenge or 2.8% of GDP, decreasing by 16.2% compared to 2023, due to a decline in world oil prices from 82.6 US dollars per barrel on average in 2023 to 80.7 US dollars per barrel on average in 2024. Net revenues in the NF RK in 2024 were negative and amounted to -1.7 trln tenge. Foreign currency assets of the NF RK at the end of 2024 amounted to 58.8 bln US dollars per year, decreasing by 2% from 60 bln US dollars at the end of 2023. At the same time, at the end of 2024, income from management of the National Fund assets amounted to 4.5 bln US dollars, or more than 7.5% per year.

1.4.2 State Budget Spending

State budget expenditures in 2024 amounted to 31 trln tenge or 23% of GDP, an increase of 11% compared to 2023. The largest contribution to the growth of state budget expenditures was made by expenditures on education, social welfare, utilities, and transport and communications. About half of the state budget expenditures are made up of expenditures on education, social security and health care.

Figure 1.39 Education, social security and health care account for about half of the state budget expenditures.

State budget spending by sector, trln tenge



Source: MF RK

Note: Full names of the categories of expenditures of the republican budget:

*Public order, security, legal, judicial, penal activities

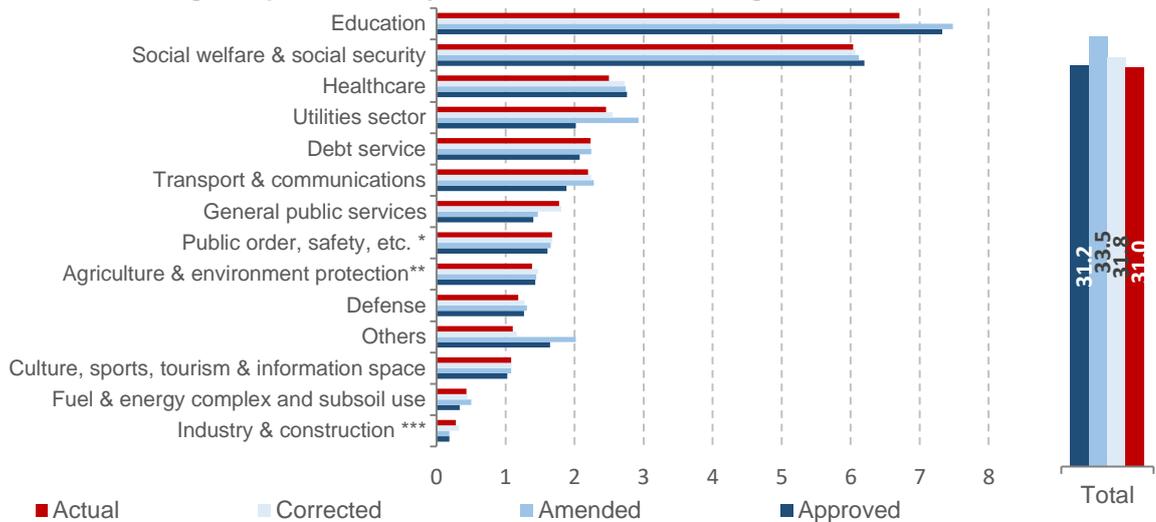
**Agriculture, water, forestry, fisheries, specially protected natural areas, environmental protection and wildlife, land relations

***Industry, architectural, urban planning and construction activities

Given non-fulfilment of the budget tax revenues, state budget expenditures were significantly lower than planned: 121.8 bln tenge below the approved plan, 2,412.3 bln tenge below the revised plan and 750.6 bln tenge below the adjusted plan. The main areas in which the decline was observed included education, social welfare and security, healthcare and expenditures in the “others” category. At the same time, the amount of available budget funds at the end of the year equaled 1,663.9 bln tenge, which were mainly held in local budgets. Thus, the year 2024 clearly demonstrated the need to optimize interbudgetary relations, as well as improve the quality of budget planning and forecasting.

Figure 1.40 State budget spending has been lower than planned

Fulfillment of state budget expenditures by sectors in 2024, trln tenge



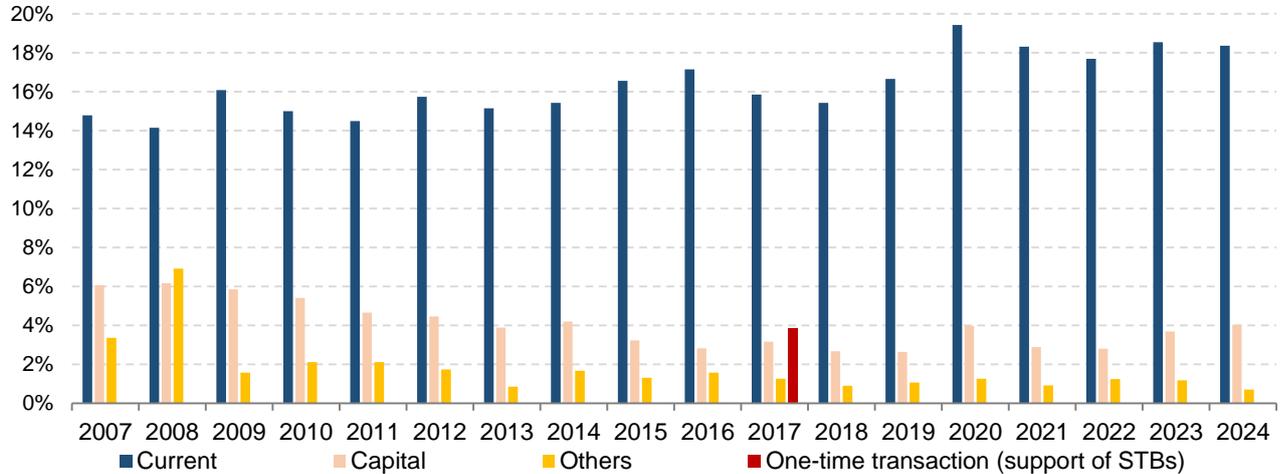
Source: MF RK

In recent years, there has been a significant increase in capital expenditures of the state budget, which in 2024 amounted to 5.4 trln tenge or 4% of GDP. The share of capital expenditures in the state budget in 2024 increased to 17.5%, which has been the highest over the recent 10 years. At the same time, current expenditures remain as the main share

of state budget expenditures, which in 2024 amounted to 24.7 trln tenge or 18.2% of GDP. Thus, over the recent 10 years, the share of current expenditures of the state budget was about 80%.

Figure 1.41 The share of capital expenditures in the state budget has gone up to 17.5%, being the largest figure over the recent 10 years

State budget expenditures in the economic classification, as % of GDP

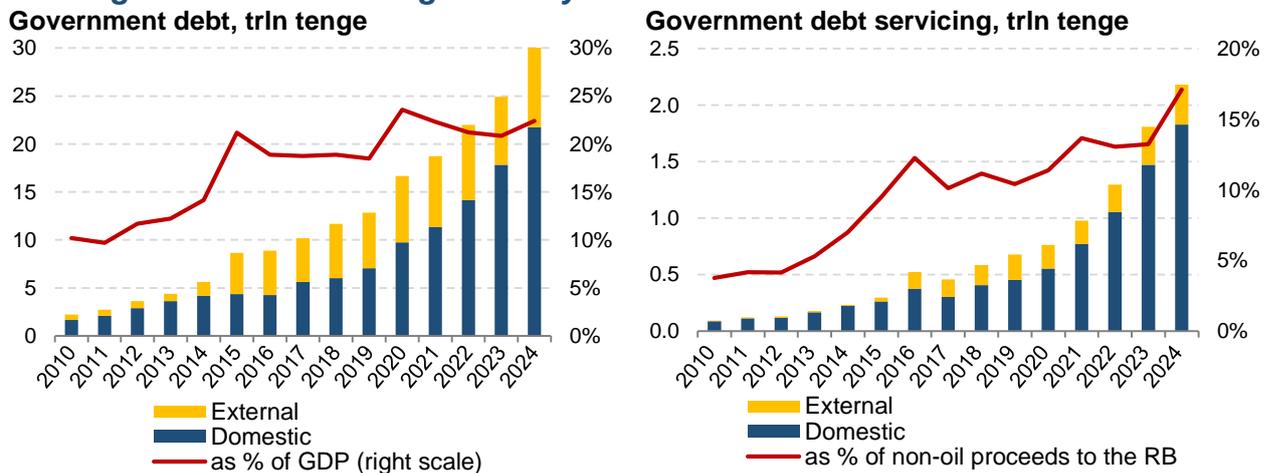


Source: MF RK, BNS RK, National Bank computations

1.4.3 Net Financial Assets

Government debt at the end of 2024 amounted to 30 trln tenge or 22.4% of GDP. The dynamics of government debt remains stable in relation to GDP, but the debt burden on the republican budget has grown significantly. Expenses related to government debt servicing in 2024 amounted to 2.2 trln tenge, an increase of 20.6% compared to 2023.

Figure 1.42 Government debt remains stable relative to GDP, but the debt burden on the budget has increased significantly



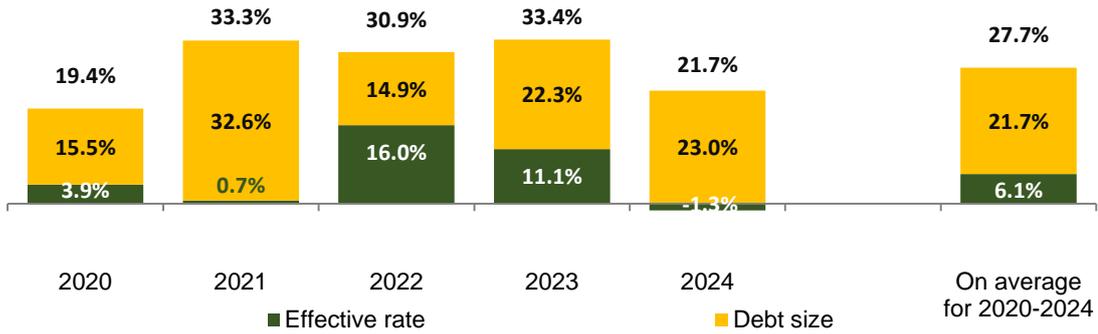
Source: MF RK, BNS RK, National Bank computations

Thus, the costs of servicing the government debt amounted to about 9.2% of the total spending of the republican budget. The ratio of the costs of the government debt servicing to non-oil revenues of the republican budget amounted to 17.1%.

The contribution of effective interest rates to the growth of domestic government debt servicing in 2024 decreased and amounted to -1.3%. Decomposition of the growth of domestic debt servicing shows that the main factor in growth is the increase in the size of the government debt, whose contribution on average over the past 5 years accounted for 21.7%. The main contribution of effective interest rates to the growth of debt servicing was made in 2022 and 2023, when the National Bank's base rate increased.

Figure 1.43 In 2024, the contribution of effective rates to the growth in the domestic government debt servicing decreased

Decomposition of the growth in expenditures related to the domestic government debt servicing



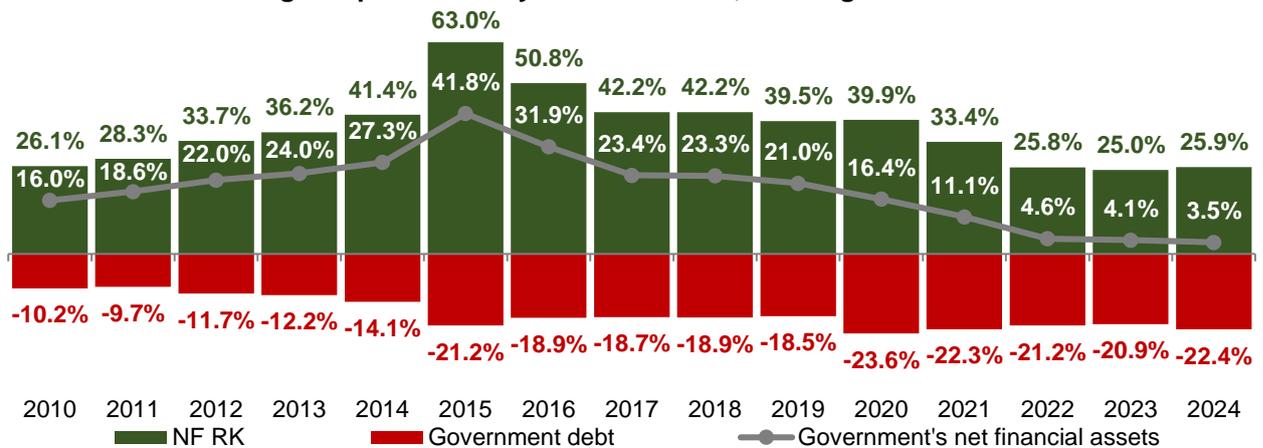
Source: MF RK, National Bank computations

Note: To assess the contribution, the growth rate was estimated as the difference between the logarithms of the variables. The effective rate is calculated as the ratio of debt servicing costs to the debt in the previous year.

By the end of 2024, the government's net financial assets had decreased to 2.2% of GDP. The imbalance of public finances, which is expressed in a high gap between budget expenditures and revenues, covered by the government's net financial assets, leads to a narrowing of the fiscal space. The persisting trend of a high gap between budget expenditures and revenues has led to reduction in reserves, which in turn reduces the long-term sustainability of public finances and creates additional imbalances.

Figure 1.44 The fiscal space is narrowing

Fulfillment of state budget expenditures by sectors in 2024, trln tenge



Source: MF RK, BNS RK, National Bank computations

Note: net financial assets of the Government are calculated as assets of the NF RK minus government debt.

II Government Securities Market

In 2024, the debt burden on the budget has increased significantly. In the limited conditions of the domestic market, the main buyers were market participants represented by STBs, and external loans in the amount of 1.4 trln tenge were also attracted. Despite the lowering of the base rate during the year, the increasing need for debt financing, as well as the deviation from the tax revenue plan, contributed to the growth of interest rates in the domestic government securities market starting from the second quarter of 2024.

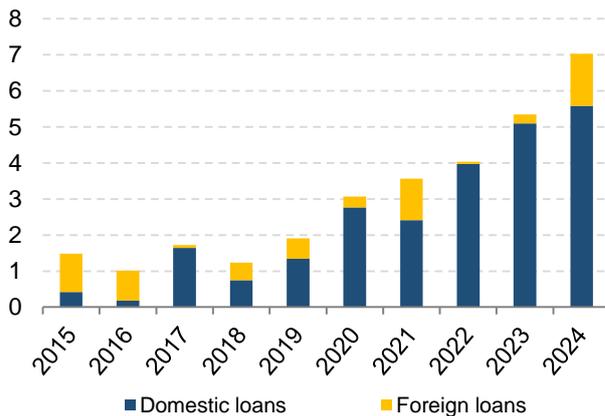
The maturity structure of redemptions of the MF RK government securities remains uneven. In 2025, a peak volume of repayments in the amount of about 3.8 trln tenge is expected, which could potentially increase the burden on the government securities market and the republican budget.

2.1 Public Debt

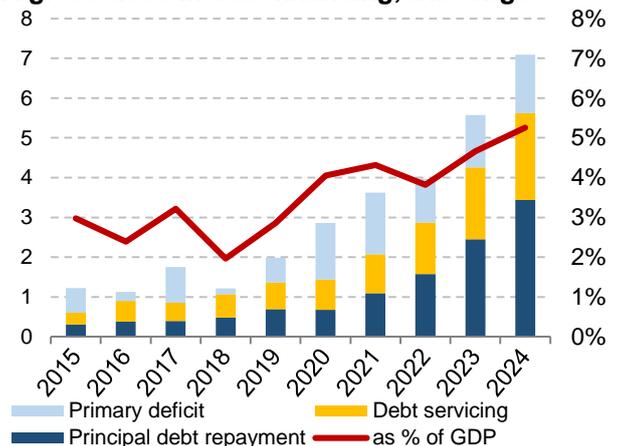
The burden on public debt increased significantly in 2024, with the gross debt financing requirements amounting to 7.1 trln tenge or 5.3% of GDP, an increase of 27% from 4.7% of GDP in 2023. About 48.5% of the requirement is for loan repayment, 30.8% for servicing and 20.7% for the primary budget deficit.

Figure 2.1 *The debt burden keeps growing, having reached 5.3% of GDP*

Raising government debt, trln tenge



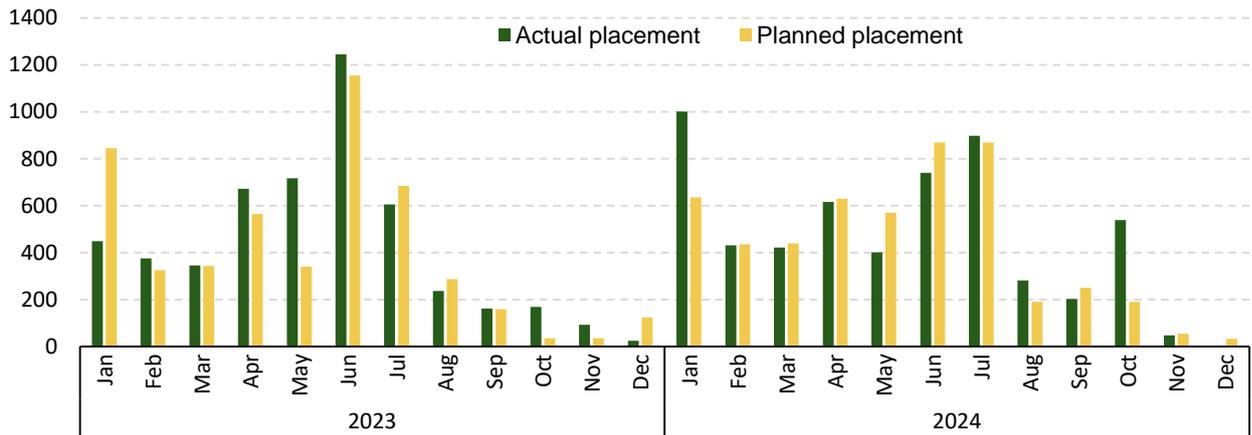
A gross need in debt financing, trln tenge



Source: MF RK, BNS RK, National Bank computations

The increased need in financing was met in large part (5.6 trln tenge) from attracted domestic loans in the form of treasury securities and in a smaller share (by 1.4 trln tenge) from foreign borrowings in the form of loans from international financial organizations and foreign states. In 2024, the Asian Development Bank, the Asian Infrastructure Investment Bank and the International Bank for Reconstruction and Development acted as lenders of external loans.

Figure 2.2 Planned and actual issuance of GSs of the MF RK in 2024, bln tenge

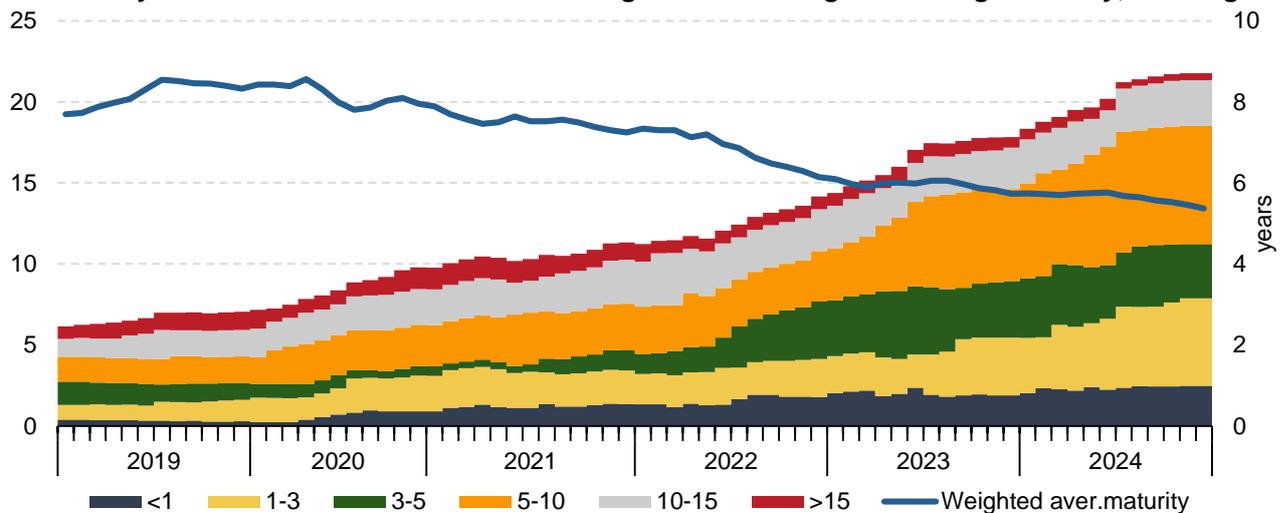


Source: KASE, MF RK, NBK computations

At the end of 2024, the volume of tenge-denominated government securities of the MF RK in circulation amounted to 21.8 trln tenge (72%), and Eurobonds in circulation equaled 8.3 trln tenge (28%). The weighted average maturity of securities in circulation decreased from 5.7 years at the end of 2023 to 5.4 years at the end of 2024. The share of securities with maturity of 5 to 10 years accounted for 33% in 2024.

Figure 2.3 The weighted average maturity of the domestic government debt decreased to 5.4 years

The maturity structure of GSs of the MF RK in tenge and their weighted average maturity, trln tenge



Source: CSD, NBK computations

Note: The left scale shows the portfolio balance in trln tenge, and the right scale – the weighted average maturity (years)

In terms of the holder structure, the UAPF holds 45% of all bonds of the MF RK in circulation, STBs hold 24%, and the NBK clients hold 13%. It is worth mentioning that the structure of bondholders of the MF RK has changed slightly over the past 5 years. Thus, over the past five years, the share of other participants and non-residents has increased significantly, accounting for 10% and 4% at the end of 2024, respectively.

Table 2.1 *The structure of GSs of the MF RK in tenge by holders*

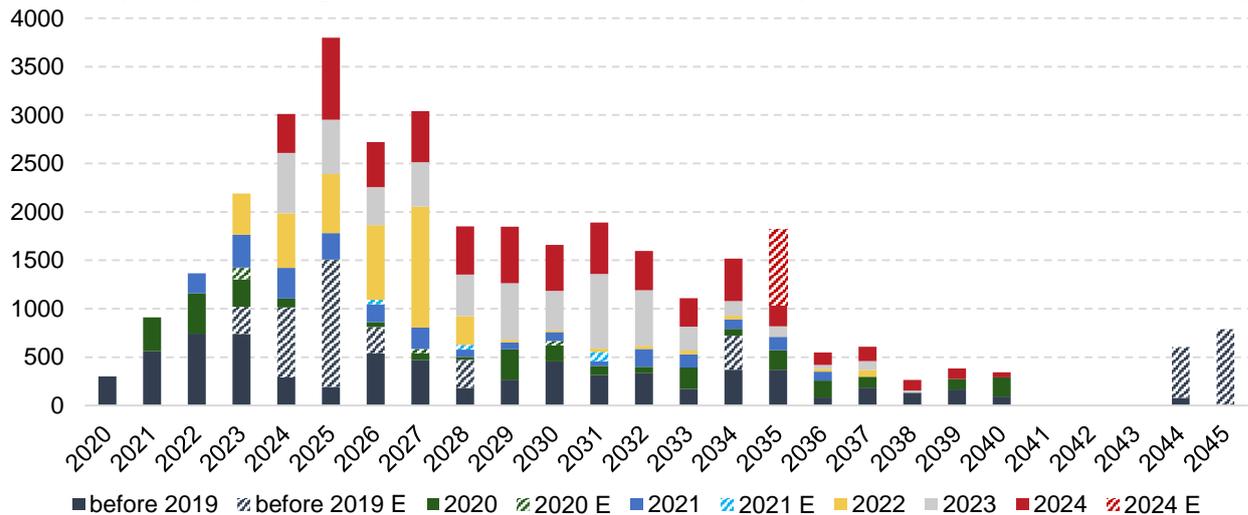
	at 01.01.2019		at 01.01.2025	
	bln tenge	share, as %	bln tenge	share, as %
UAPF	2 883.5	47.8%	9 782.9	45.0%
STBs	1 562.2	25.9%	5 207.2	23.9%
NBK clients	1 060.1	17.6%	2 733.0	12.6%
Others	138.0	2.3%	2 084.7	9.6%
Non-residents	18.3	0.3%	931.7	4.3%
IOs	92.4	1.5%	590.6	2.7%
NBK	276.4	4.6%	432.6	2.0%
Total	6 030.9	100.0%	21 762.6	100.0%

Source: CSD, NBK computations

At the end of 2024, there was an uneven maturity structure of government securities of the MF RK. In 2025, a large repayment of Eurobonds issued in 2015 and denominated in dollars worth 2,500 mln US dollars, is expected. The MF RK did not place Eurobonds in 2022 and 2023, but in 2024 Eurobonds for 1.5 bln US dollars with maturity date in April 2035 were issued.

Figure 2.4 **2025 marks the peak of repayments of the domestic government debt and Eurobonds**

The redemption profile of government securities of the MF RK by the period of distribution, bln tenge

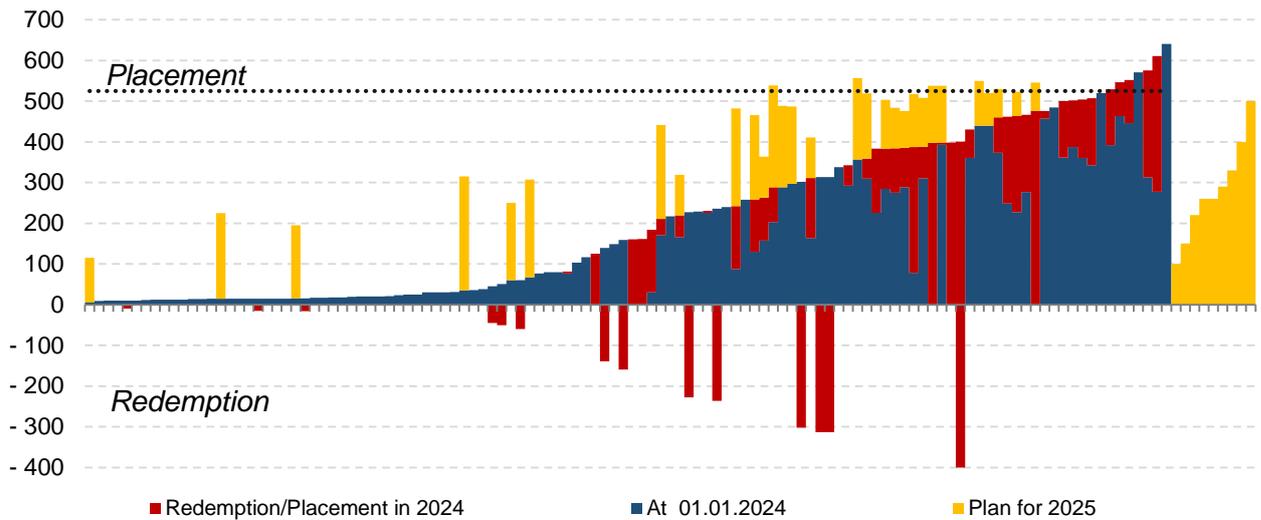


Source: MF RK, CSD, NBK computations

Note: solid fill – tenge securities, patterned fill – Eurobonds, all rates used as of 01.01.2025 from the NBK website

At the end of 2024, there are 102 government securities of the MF RK in circulation denominated in tenge and 12 government securities of the MF RK denominated in foreign currency, while at the end of 2023 there were 109 and 13 securities in circulation, respectively. In 2024, 5 securities were consolidated to the equivalent of 1 bln US dollars (at the end of 2024, 525.11). In 2025, it is planned to consolidate another 7 securities to the equivalent of 1 bln US dollars. A further reduction in the number of securities and an increase in issues at certain maturities should contribute to an increase in liquidity.

Figure 2.5 Additional placements and redemptions of GSs of the MF RK, by unique securities codes, bln tenge



Source: CSD, prospectus of the MF RK, NBK computations

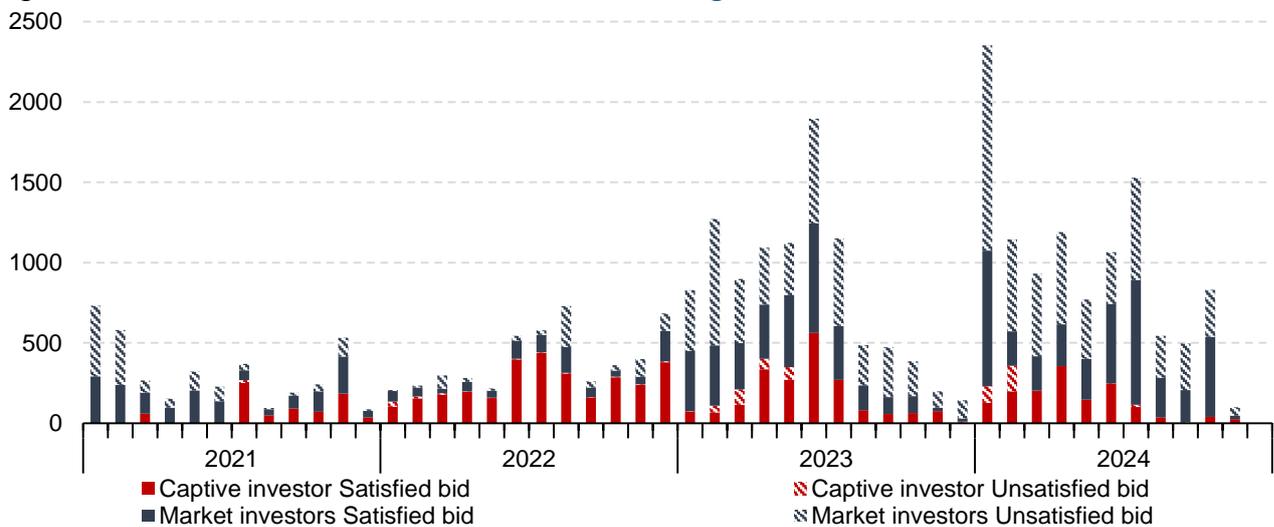
Note: 1) each interval on the X-axis means 1 unique ISIN code of the MF RK security. 2) the dotted line is equivalent to 1 bln US dollars at the exchange rate at the end of 2024 USD/KZT rate is 525.11.

2.2 GSs Microstructure

GSs Auctions

In 2024, the share of market investors increased compared to prior years. Thus, the bulk (73.1%) of all satisfied bids was from market investors.

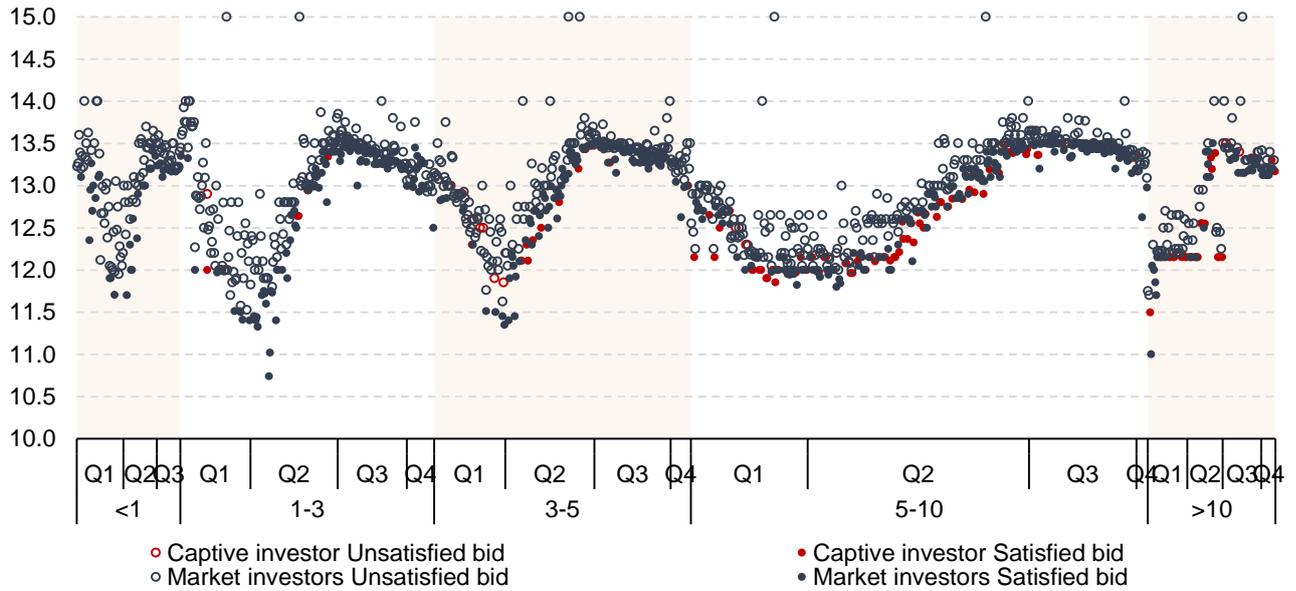
Figure 2.6 Auction of GSs of the MF RK, bln tenge



Source: KASE, CSD, NBK computations

Despite the lowering of the base rate from April 2024, yields on bids in the primary market of government securities grew against the increased need in debt financing and failure to fulfill plans for tax revenues to the republican budget.

Figure 2.7 Bids for auctions of GSs of the MF RK, %



Source: KASE, CSD, NBK computations

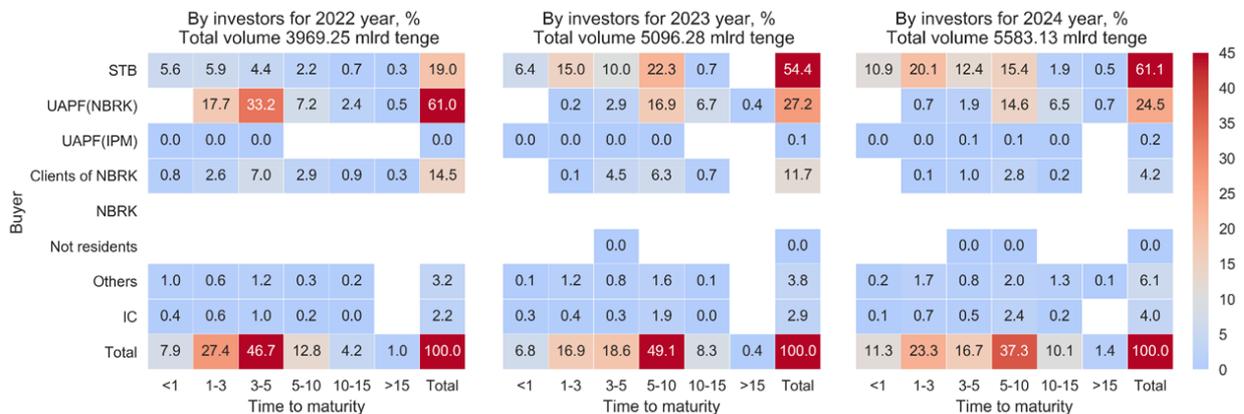
Note: 1) On the X-axis, each interval means a unique reporting day of the bid and the ISIN code for the security, i.e. on one interval on the X-axis, the expected returns submitted in bids for the same security are vertically plotted in terms of satisfied and unsatisfied statuses. 2) Excluding bids for METIKAM and MEUZHKAM securities.

The structure of placements of the MF RK government securities by maturity in 2024 is the same as in 2023. However, bonds with maturity from 1 to 3 years were placed in a larger volume, namely this maturity accounts for 23.3% of the total volume. For the balance, as in 2023, the most frequently placed maturity is maturity from 5 to 10 years (37.3%).

At the end of 2024, the biggest buyers of treasury securities in the primary market of the MF RK securities are STBs, the UAPF (managed by the NBK) and the NBK clients. Thus, in 2024, at the primary auction, they purchased 61.1%, 24.5%, 4.2% of the total volume, respectively. Despite the largest share of STBs in terms of investors, the UAPF is the largest holder of treasury securities. As in 2023, in 2024, the problem of a homogeneous investor base is still current. The share of non-residents in the primary market of the MF RK remains low (almost 0%). Also, pension funds (managed by IPM) have a low share of participation in the MF RK treasury securities market.

Figure 2.8 The share of securities with maturity over 5 years went down from 58% to 49% in 2024

The initial offering of GSs of the MF RK, % of the total volume of transactions a year

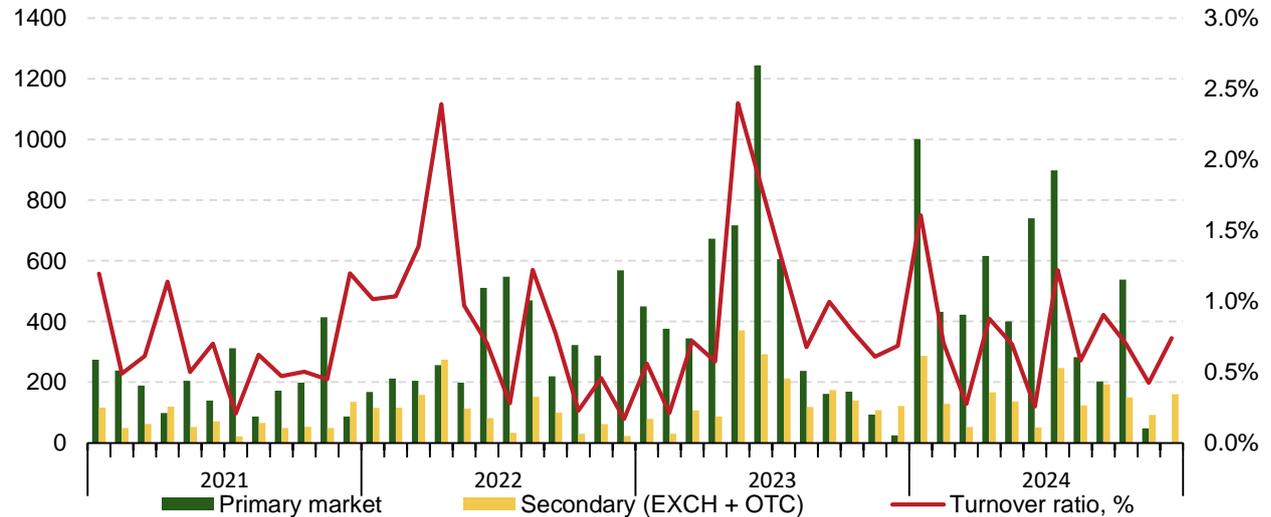


Source: KASE, CSD, NBK computations

Secondary GSs Market

The total volume of the secondary market in 2024 was 1,788 bln tenge, which is by 3% less than its volume in 2023. Reduction in volumes in the secondary market may be caused by the suspension of the primary dealer institution. Low activity in the secondary market is unattractive to a wide investor base and reduces the liquidity of government securities of the MF RK. Liquidity in the secondary market remains quite low with a maximum value of only 1.61% in January 2024.

Figure 2.9 Transactions with GSs of the MF RK, bln tenge



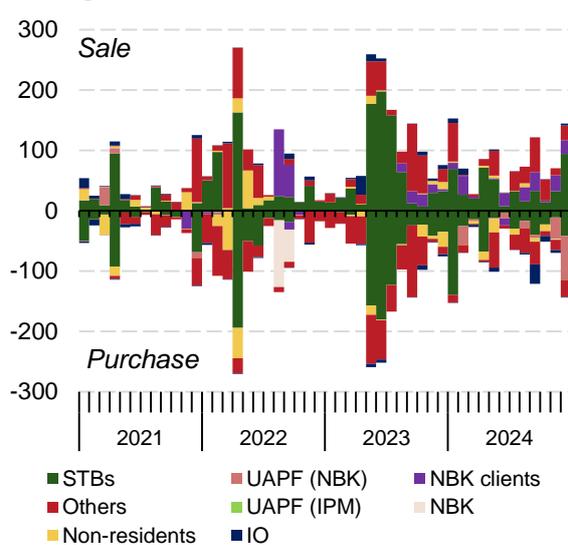
Source: KASE, NBK computations

Note: Turnover ratio (scale on the right) is calculated as the ratio of the turnover of transactions in the secondary market of government securities (on-exchange and off-exchange) to their volume in circulation.

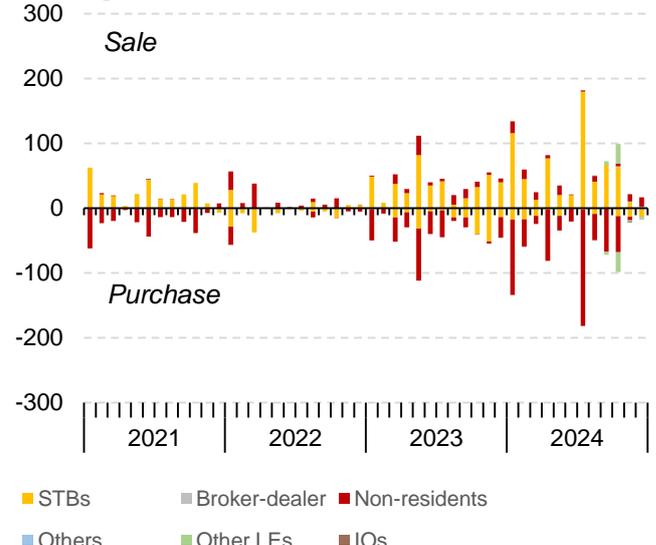
STBs still remain the biggest sellers in the secondary on-exchange market. Thus, transactions where STBs participated as a seller accounted for 46.9% of the total volume of transactions in the secondary market in 2024. For comparison, other large market participants, such as the UAPF (NBK) and the NBK clients, virtually did not sell securities in the secondary market, which explains the strategy of these participants.

Figure 2.10 Secondary market of GSs of the MF RK

Transactions in the on-exchange market, bln tenge



Transactions in the off-exchange market, bln tenge



Source: KASE, CSD, NBK computations

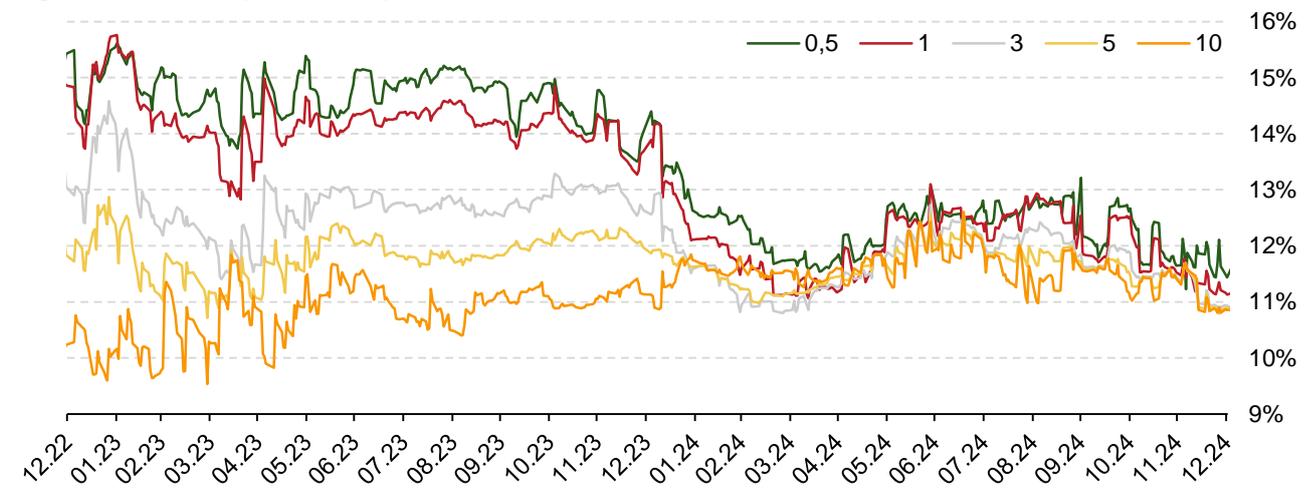
Note: Transactions registered in the AIX are not included in off-exchange transactions

Compared to 2023, the secondary off-exchange market saw an increase in the inflow of non-residents among buyers of the MF RK’s treasury securities. Their volume in 2024 amounted to 641 bln tenge, which is twice the volume in 2023. Thus, in 2024, non-residents bought 80% of the total volume on the off-exchange market, while in 2023 this share was only 62.6%. And honest purchases by non-residents increased by 2.4 times, amounting to 535 bln tenge.

Yield Curve

In 2024, the yield curve remained inverted, with the spread between long-term and short-term yields being significantly lower than in 2023. Despite reduction in the base rate in the first half of 2024, yields in the government securities market grew against a significant increase in the government’s need for debt financing, as well as the failure to fulfill the tax revenue plan. In the context of low liquidity in the government securities market, yields in the market were largely shaped by the imbalance in supply from the MF RK.

Figure 2.14 **Coupon-free yield curve**

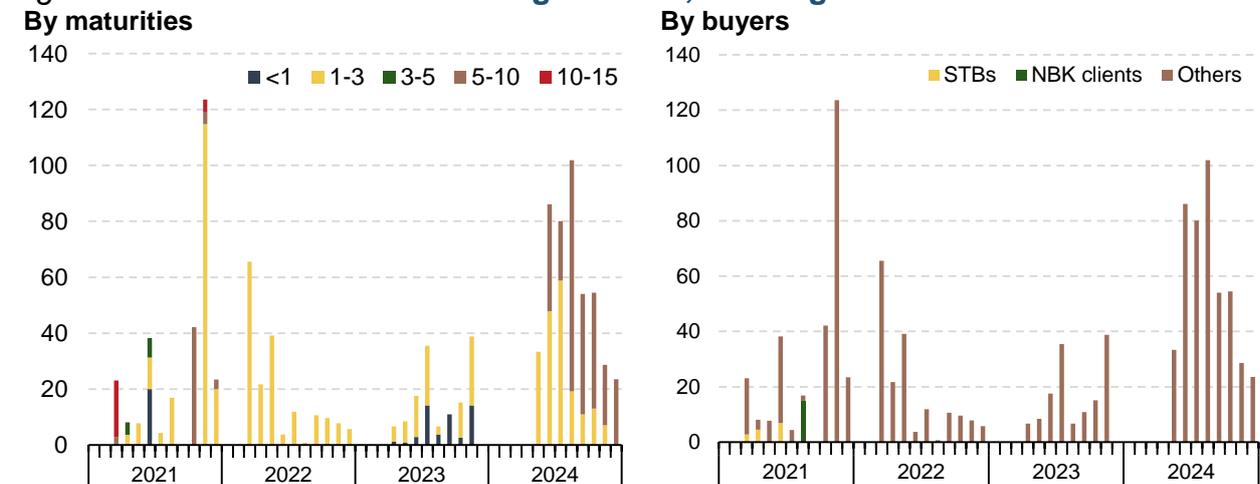


Source: KASE computations, NBK

Local Budget Bonds

The local budget bond market remains small, and the only buyer of local budget bonds is the NMHC “Baiterek” JSC for the purpose of financing the construction of credit and rental housing. The volume of debt obligations of local executive authorities amounted to about 1,309 bln tenge or 4.1% of the total volume of public debt.

Figure 2.15 **Placement of local budget bonds, bln tenge**

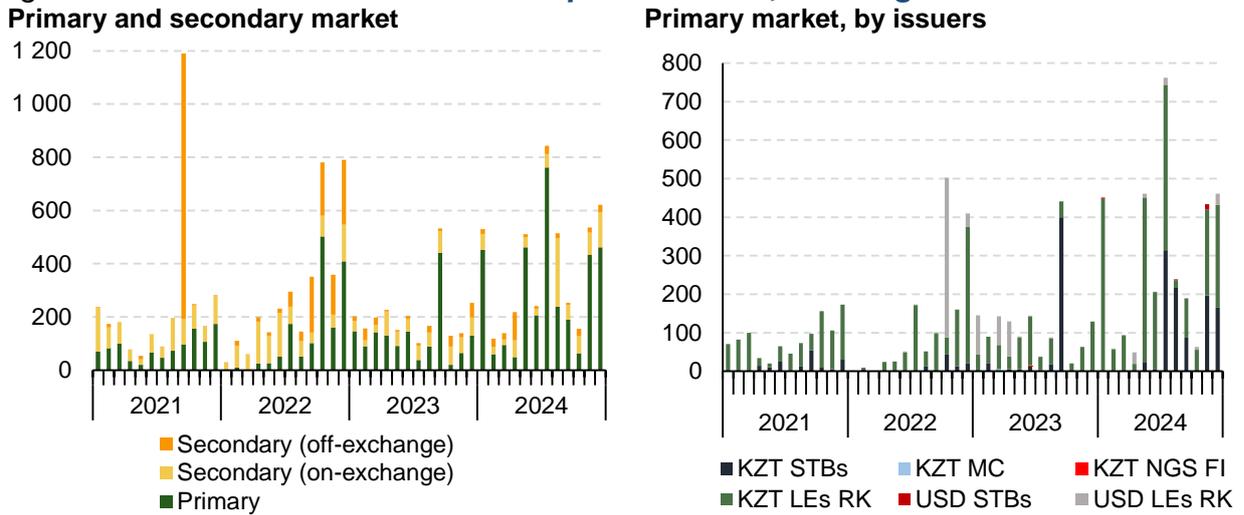


Source: KASE, NBK computations

Corporate Bonds

In 2024, primary and secondary placements of corporate bonds on the KASE were 2.28 and 1.3 times higher than in 2023, respectively. Compared to 2023, the volume of corporate foreign currency bonds placed by microfinance, leasing organizations and collection agencies in the primary market decreased. While the volume of tenge-denominated bonds increased threefold, and the share of the total placement volume was 67%. Placements by STBs increased by 122% in 2024, amounting to 1 trln tenge in the national currency and 18.8 bln tenge in foreign currency.

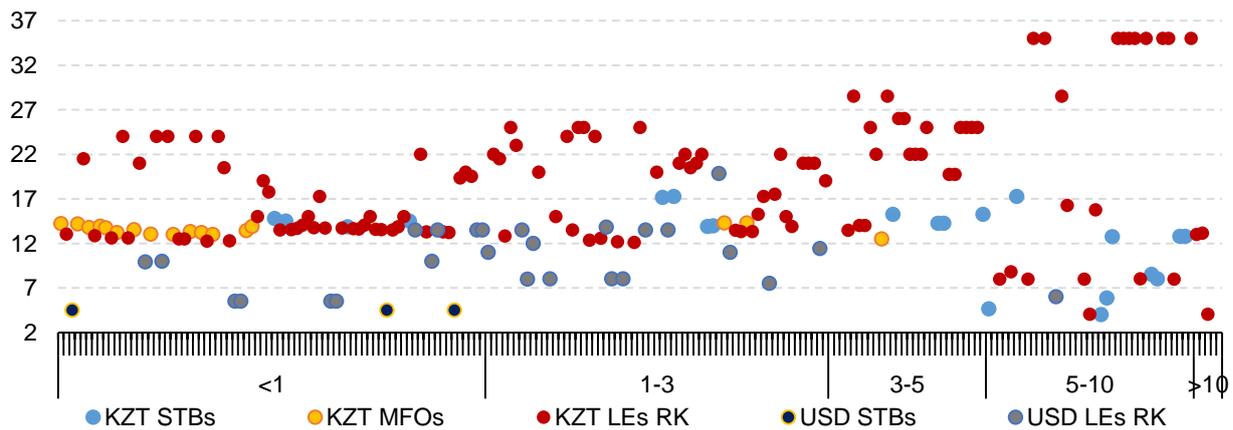
Figure 2.16 Transaction volume of corporate bonds, bln tenge



Source: KASE, CSD, NBK computations

In all maturities, yields to maturity were higher for legal entities of the Republic of Kazakhstan, including microfinance, leasing organizations and collection agencies, which is explained by the higher credit risk of such issuers. Most of the securities issued in 2024 had maturities of up to 1 year and 1-3 years, which shows the need for short-term financing.

Figure 2.17 Transactions with corporate bonds in 2024 by issuers and maturities and yield to maturity, % per annum



Source: KASE, CSD

Note: 1) each interval on the X-axis refers to the ISIN code of the issued security within a certain maturity category; 2) the expected yield to maturity is calculated by the KASE; 3) STBs are second-tier banks, IFOs are international financial organizations, LE RK are legal entities in the Republic of Kazakhstan (except for STBs); 4) corporate bonds traded in net prices are presented; 5) yield to maturity is shown for completed transactions.

III Residential Real Estate Market

The year 2024 marked a steady growth rate of residential property prices as well as recovery in housing affordability to the 2019-2020 levels. In Q3 and Q4 2024, there was an increase in the number of purchase and sale transactions, due to the launch of "Otau" and "Nauryz" government mortgage programs. Most of this activity was concentrated in the cities of Astana and Almaty, where a record number of transactions was observed – 77 and 84 thousand, respectively.

About one sixth of the growth in real GDP was secured by the construction sector, whose development contributed to the growth of residential space commissioned and the number of apartments. The increase in construction activity also contributed to improvement in the provision of housing to the population. In general, along with the boosting activity, housing and construction companies demonstrated increased profitability.

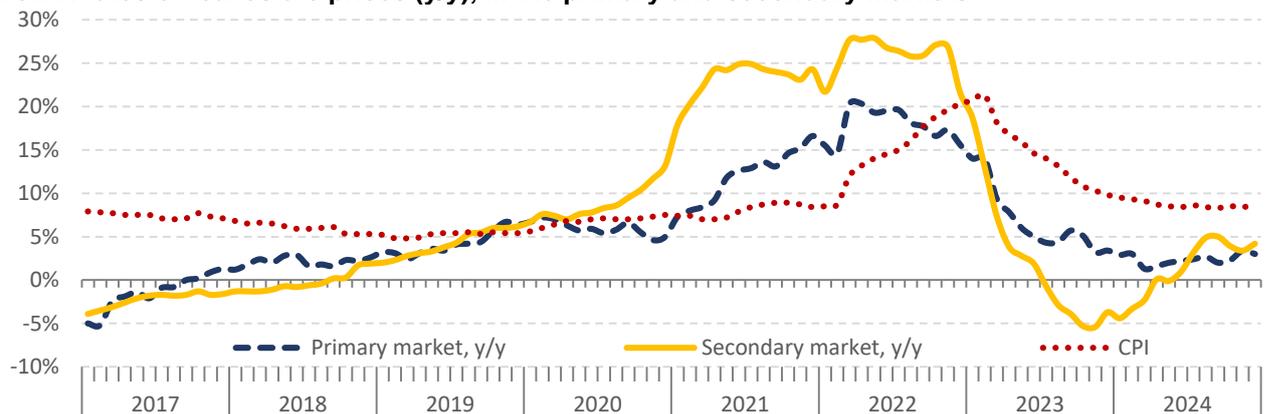
Despite the fact that in 2024 the share of mortgages in the total volume of loans continued to decline, the origination of concessional and market-based mortgage loans went up by 20.1% and 30.4%, respectively.⁴ At the same time, due to the launch of new government mortgage programs, the origination of concessional mortgage loans in the second half of 2024 demonstrated a sharp increase, growing by 69.2% compared to the first half of the year. This led to an increase in the share of loans with an LTV level of 80-90%.⁵ At the same time, the share of loans with an LTV level of <50% increased and the share of mortgage products with an LTV level of 60-70% decreased.

3.1 Activity in the Real Estate Market

Price growth rates in both primary and secondary real estate markets demonstrated steady dynamics. The growth rates y/y in the Republic of Kazakhstan amounted to 3% and 4.2% in the primary and secondary markets, respectively. At the same time, the growth rates of real estate prices remained below inflation throughout 2024.

Figure 3.1 Growth rates of real estate prices remained below inflation

Growth rates of real estate prices (y/y), in the primary and secondary markets



Source: BNS RK

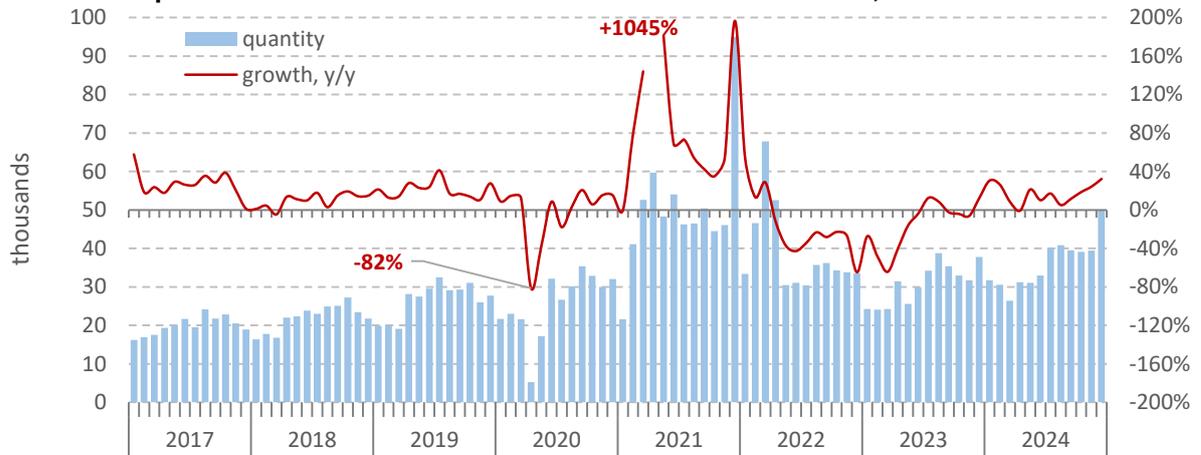
In 2024, there was an increase in the number of transactions compared to 2023. The average number of transactions per month in 2024 was 36.1 thousand, which corresponds to an increase of 16.8% compared to the last year. However, despite the increase versus 2023, the average number of transactions remained below the levels of 2021-2022. It is also

⁴ Market-based mortgage loans are loans excluding the the "7-20-25" program and Otbasy Bank loans.

⁵ LTV is the ratio of the loan amount to the value of the property transferred as collateral to the credit institution.

worth mentioning that the main increase in the number of transactions occurred in the 3rd and 4th quarters of 2024.

Figure 3.2 The second half of 2024 marks an increase in the number of transactions
The number of purchase-and-sale transactions in the real estate market, in thous.



Source: BNS RK, National Bank computations

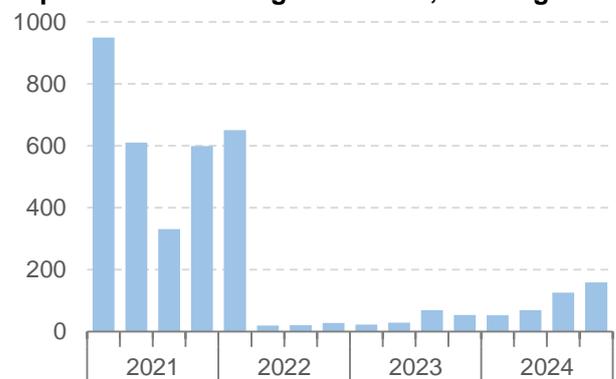
The "Otau" and "Nauryz" concessional programs acted as the main driver of such growth, with additional collection of applications for the programs taking place in September 2024. Thus, the origination of concessional mortgage loans in the second half of 2024 amounted to 832.7 bln tenge, demonstrating an increase of 69.2% compared to the first half of 2024, while the provision of market-based mortgage loans increased by 21.3% only over the same period (from 344.4 bln tenge to 417.8 bln tenge). This trend creates the risk of recurrent crowding out of market-based mortgage loans, as in the period of 2019-2021, and requires further monitoring. In addition to the increase in provision of mortgage loans, the withdrawal of pension savings to improve housing conditions also increased. Thus, in the second half of 2024, 285.3 bln tenge was withdrawn, which is almost by two and a half times more than in the same period of the last year. However, despite the fact that total withdrawals for 2024 amounted to 407.2 bln tenge, this is significantly lower than the levels of 2021-2022.

Figure 3.3 The second half of the year saw an increase in the volume of mortgage loans provided and withdrawals of pension savings

The volume of mortgage loans provided, bln tenge



Withdrawals of pension savings for improvement of living conditions, bln tenge



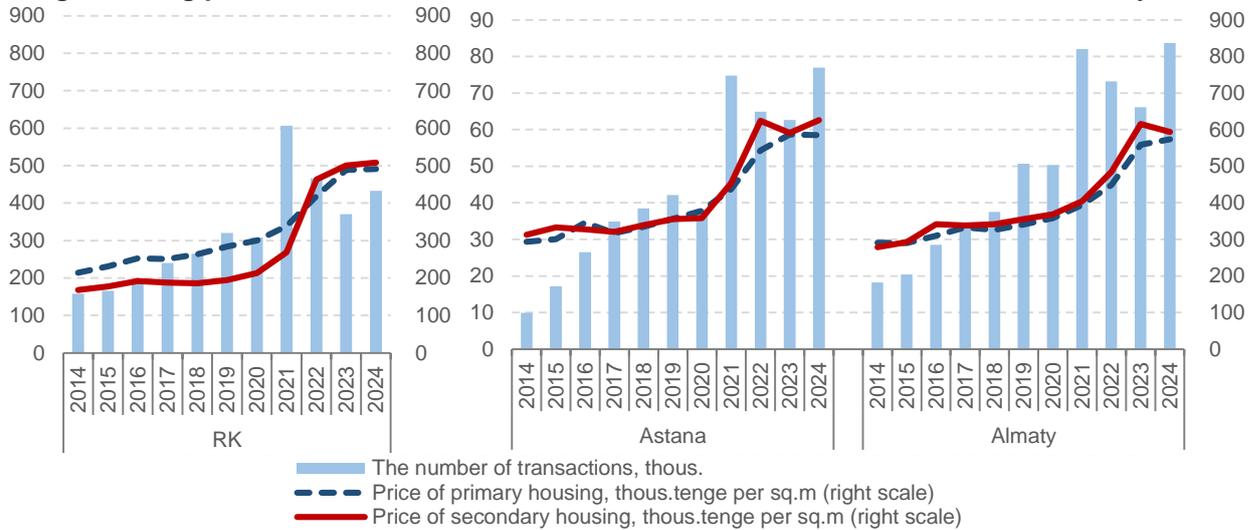
Source: STB reports, UAPF

In 2024, the average price per square meter of primary housing in the Republic, in Astana and Almaty was 490.9, 584.9 and 573.4 thousand tenge, respectively. Prices per square meter of secondary housing in Kazakhstan amounted to 507.7 thousand tenge, in Almaty – 593.6 thousand tenge. The largest gap in average prices between the secondary

and primary markets was observed in Astana, where prices in the secondary housing market amounted to 626.4 thousand tenge on average for 2024.

Figure 3.4 Total number of transactions in Astana and Almaty reached record levels in 2024

Average housing prices and total number of transactions in Kazakhstan, Astana and Almaty

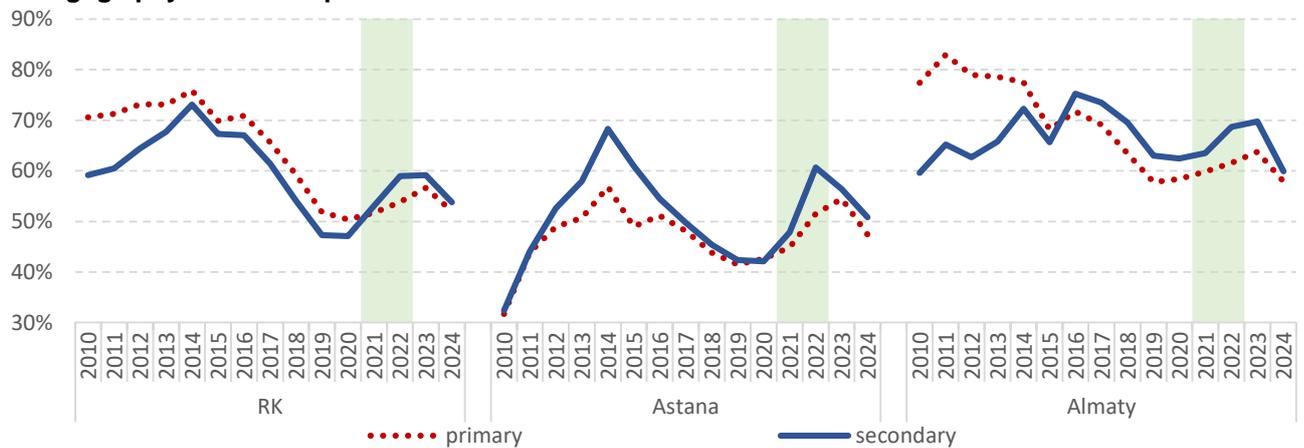


Source: BNS RK, National Bank computations

The largest average number of transactions was observed in the cities of Astana and Almaty, as well as in the Karaganda region – 6.4, 7.0 and 2.8 thousand transactions per month, respectively. Despite the fact that the total number of transactions in Kazakhstan did not exceed the values of 2021-2022, this figure in Astana and Almaty reached record values – 77 and 84 thousand, respectively.

Figure 3.5 In 2024, the trend towards recovering housing affordability continued

Mortgage payment to disposable household income



Source: BNS RK, National Bank computations

Note: (1) The mortgage payment was calculated taking into account the following criteria: average prices for housing units of 54 sq.m., down payment of 30%, average STB rates, term - 20 years. Disposable income is calculated as nominal cash income of households minus taxes, payments and other payouts, current transfers to households. (2) The reviewed period corresponds to the interval of 2021-2022, when surplus pension savings were actively withdrawn. Afterwards, the sufficiency thresholds were significantly increased. (3) Real estate prices were recalculated using monthly BNS RK indices. Real estate prices in December 2024 were used as the starting point for the recalculation.

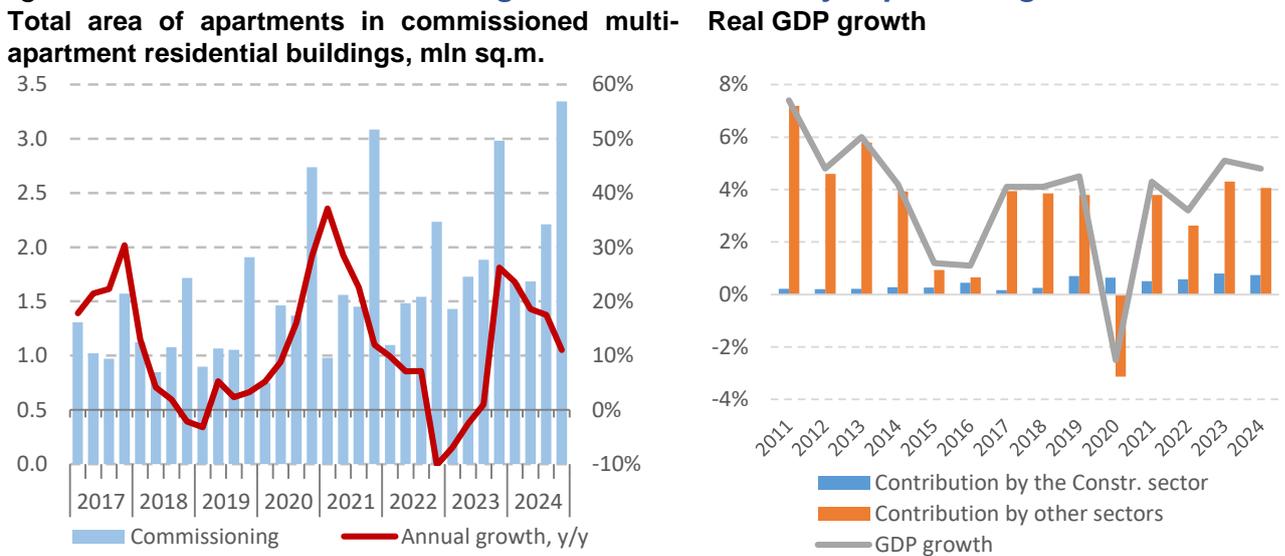
One of the indicators for assessing housing affordability, expressed as the ratio of the mortgage payment to the disposable income of households in the relevant region, indicates an increase in housing affordability in 2024. In general, after decline in housing affordability in 2021-2022 during the active period of the early use of pension surpluses program, there was a trend towards restoring affordability to pre-program levels. Despite the fact that

housing affordability assessments in the primary and secondary markets show a consistent direction, after 2020 primary housing is the most affordable option in all analyzed regions.

3.2 Housing Construction

According to the BNS, in January-December 2024, the total amount of financing allocated for construction of residential buildings amounted to about 3.8 trln tenge, which is 11.8% more than in 2023. 172 thousand apartments were commissioned, which is 7.3% more than last year. More than half of the commissioned apartments were in cities of republican significance: 51.6 thousand in Astana, 24.4 thousand in Almaty, and 12.4 thousand in Shymkent. The total area of apartments in commissioned multi-apartment residential buildings in 2024 reached 8.91 mln sq. m, which exceeds the level of 2023 by 11.1%. On average, the cost of constructing 1 square meter of the total area of a residential building in 2024 amounted to 198.6 thousand tenge, which is by 4.8% higher than last year.

Figure 3.6 The trend for increasing construction activity is persisting

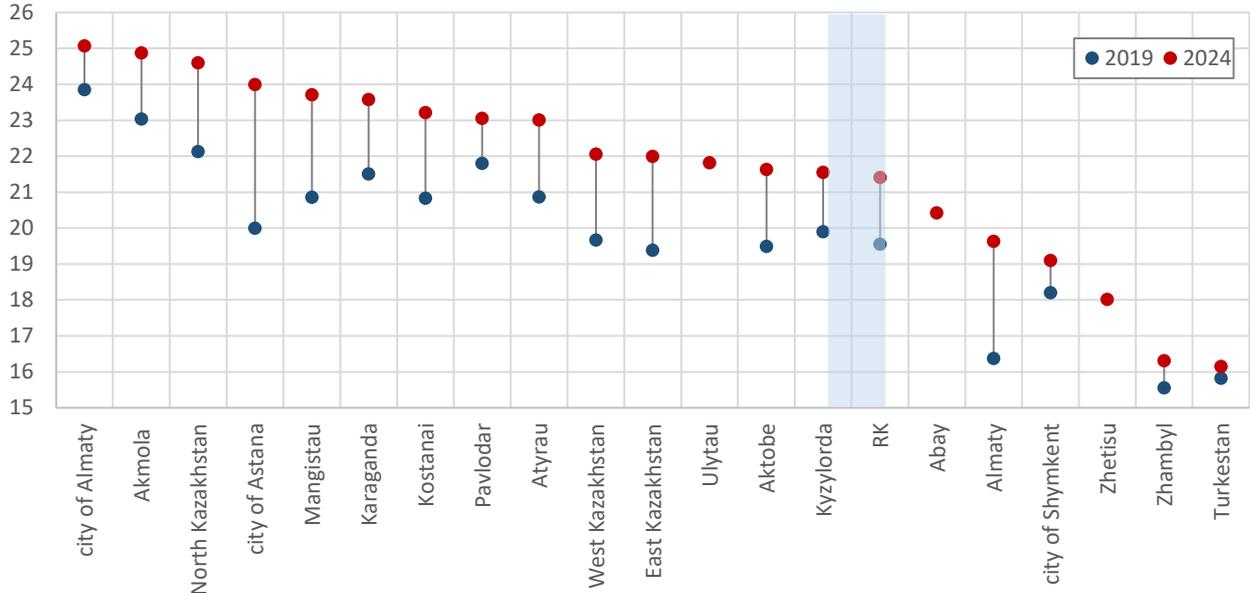


Source: BNS RK, National Bank computations

Note: The real contribution of the construction sector was calculated with the help of the index of physical volume of construction, using the nominal indicators of the construction sector and the GDP of the previous year as baselines.

Real GDP growth in 2024 was 4.8%, slightly below the 2023 figure of 5.1%. The contribution of the construction sector decreased to 0.7% (from 0.8% in 2023), while the contribution of other sectors was 4.1% (4.3% a year earlier). It is worth saying that the construction industry continues to make a significant contribution to the real GDP growth after the introduction of concessional mortgage loan programs in 2018.

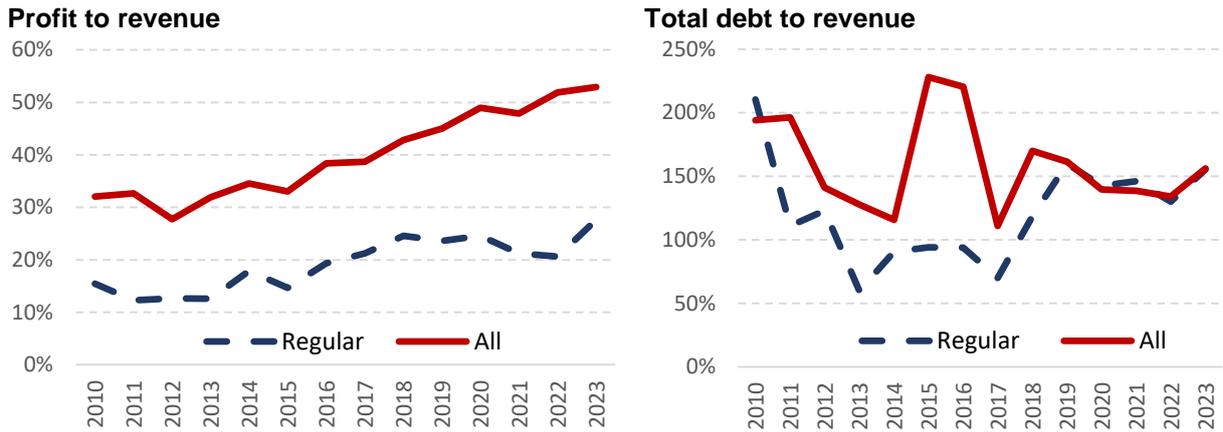
Over a five-year period, the housing provision indicator in the country, estimated as housing stock per capita, increased by 1.8 sq. m. – from 19.6 sq. m. in 2019 to 21.4 sq. m. in 2024. Given the population growth over the same period, this trend indicates that the rate of construction of residential premises outpaced the rate of population growth. Among the regions of Kazakhstan, the top three leaders in housing stock per capita in 2024 were Almaty (25.1 sq. m.), Akmola region (24.9 sq. m.), and North Kazakhstan region (24.6 sq. m.). The regions with the smallest housing stock per capita in 2024 were Zhambyl and Turkestan regions – 16.3 and 16.2 sq. m., respectively. It is noteworthy that both the leaders and regions lagging in this index have not changed since 2019. It is also worth pointing to the 20% increase in housing stock per capita in Astana. In 2019, the volume of living space per person in the capital was 20 sq. m., while in 2024 this figure increased to 24 sq. m. This trend is explained by the increased demand for residential real estate in Astana.

Figure 3.7 Housing stock per capita in 2024 was 21.4 sq. m.**Ratio of housing stock to population of the corresponding region****Source:** BNS RK, National Bank computations

The average profit to revenue ratio of regular companies demonstrated stable growth throughout the analyzed period, with the exception of 2015 (currency shock) and 2020-2021 (Covid). Over a period of 14 years, this ratio almost doubled – from 15% in 2010 to 28% in 2023. It is noteworthy that the average profit to revenue ratio of all housing and construction companies exceeded the values of only regular companies. As for the profit of regular companies, there was a systematic increase throughout the analyzed period. While in 2010, the average profit to revenue ratio of all companies was 32%, at the beginning of 2024 it reached 53%, which indicates the increased profitability of the housing and construction industry.

The average debt to revenue ratio of all housing and construction companies exceeded 100% throughout the analyzed period. The highest values of this indicator were observed during periods of crisis – about 200% in 2010-2011, about 225% in 2015-2016. After 2018, the average debt to revenue ratio of housing and construction companies stabilized at around 150%. Similar dynamics were observed for regular housing and construction companies, but the debt to revenue ratio remained below 100% in the period of 2013-2017. Since 2018, the average debt to income ratio of regular companies has increased, reaching the average values of the entire housing and construction sector.

Figure 3.8 Average profit to revenue ratio of housing and construction companies reaches 53% in 2024



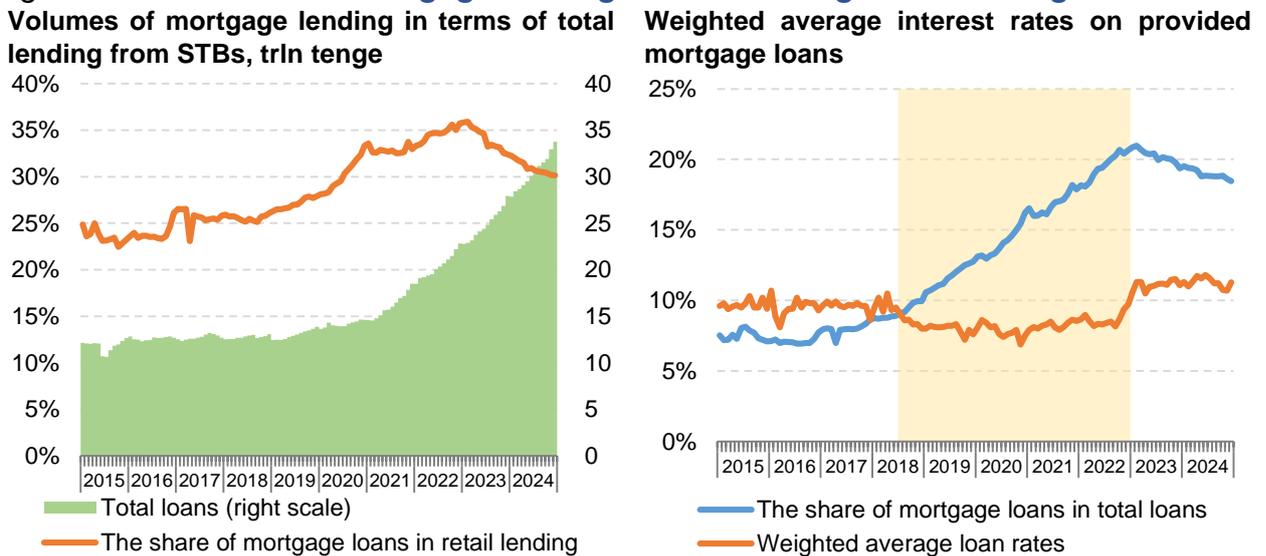
Source: BNS RK, National Bank computations

Note: Regular firms are firms whose unique number of appearances during the analyzed period exceeded 10 times (out of 14).

3.3 Mortgage Lending

The total volume of STB loans under the extended classification continued to demonstrate growth, reaching 33.8 trln tenge in December 2024. At the same time, a downward trend in the share of mortgages in both the total volume of STB loans and the total volume of lending to individuals continued. At the end of the year, this figure was 18.5% and 30.2%, respectively. This trend persisted despite a decline in average weighted rates on mortgage loans in the second half of 2024, which is an evidence of faster growth rates for other loan products.

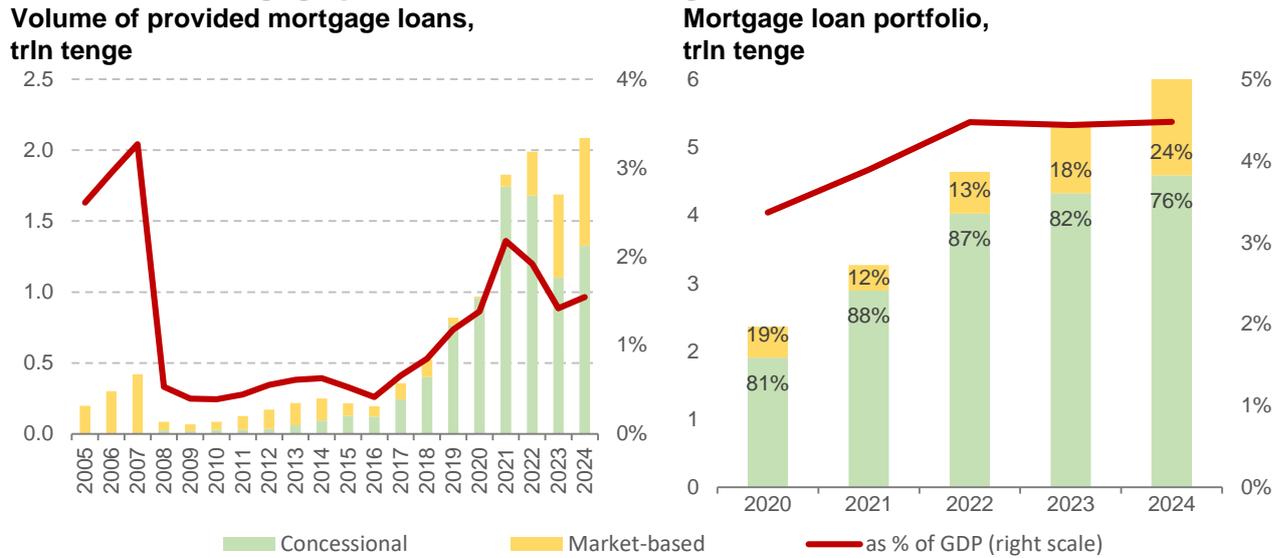
Figure 3.9 The share of mortgage lending in total lending is decreasing



Source: National Bank, BNS RK, National Bank computations

The volume of mortgage loans provided in 2024 amounted to 2 trln tenge, 63.5% of which were provided on preferential terms. At the same time, compared to 2023, the origination of both concessional and market-based mortgage loans increased – by 20.1% and 30.4%, respectively. The faster growth in the origination of market-based mortgage loans also affected the structure of the mortgage portfolio – at the end of 2024, the share of market-based mortgage loans accounted for 24% of the total volume of 6 trln tenge.

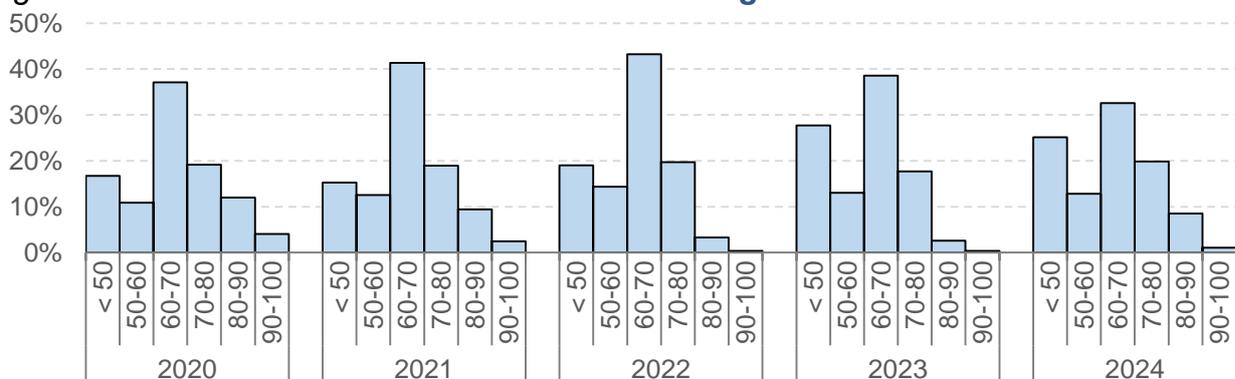
Figure 3.10 The volume of provided market-based mortgage loans as well as their share in the mortgage portfolio continued to grow in 2024



Source: National Bank, BNS RK, National Bank computations

The Figure below shows information on the LTV indicator at the time of loan issuance, broken down by the last 5 years. As can be seen, during the 2020-2022 period, there was an increase in loans with an LTV level of 60-70%, which is explained by the increase in the volume of Otbasyl Bank's interim loans given the current state of concessional mortgage programs, as well as the early pension withdrawal program. After the reduction in the volume of financing of the “7-20-25” program and the raising of sufficiency thresholds in 2022, there was an increase in the share of market programs, where loans with an LTV level of <50% prevail. The share of such loans reached peak values in 2023 (28%) and then slightly decreased in 2024 (25%). In addition, in 2024, loans with an LTV level of 80-90% sharply increased, which is explained by the launch of new government programs – “Otau” and “Nauryz”, whereunder preliminary loans with an appropriate LTV level were originated. However, despite the sharp increase in loans with an LTV level of 80-90%, it should be noted that their overall share remains low (8%). In general, during the analyzed period, there was an improvement in the quality of provided mortgage loans due to an increase in loans with an LTV level of <50% and reduction in the share of mortgage products with an LTV level of 60-70%.

Figure 3.11 LTV distribution at the time of loan origination



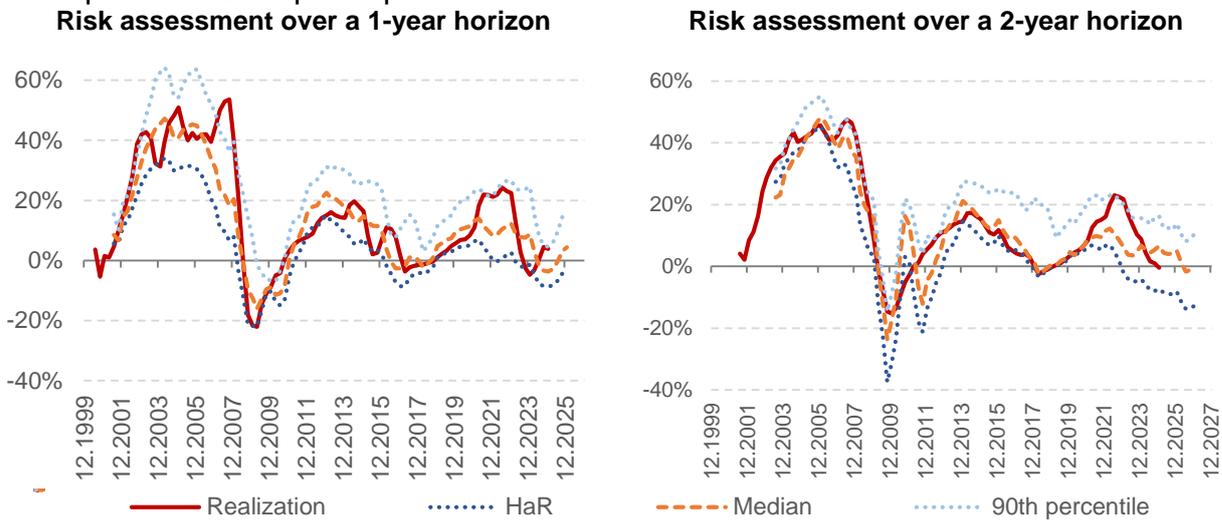
Source: Credit Register, National Bank computations

Box 3.1. House-price-at-risk

House-price-at-risk or (HaR) is a tool to assess downside risk to prices in the residential real estate market. The tool represents the left tail (5th or 10th percentile) in the conditional distribution of the future house price growth rates. In other words, the probability that the house price growth rate will materialize lower than the HaR value is 5% (or 10%). Accordingly, the lower the HaR, the higher the downside risks in the real estate market.

HaR is used to identify fundamental factors that influence the tail risks of the house price growth rates and assess their impact on financial stability. The tool can also be used to monitor and forecast the downside risks to house price growth rates in the future.

The dependent variable in this analysis is the annualized growth rate of the quarterly house price index for h quarters ahead. To determine the sensitivity of the dependent variable in different intervals of the conditional distribution, we calculate the quantile regression at the (10th, 25th, 50th, 75th, 90th) percentiles for 4 and 8 quarters ahead. The list of regressors includes such variables as the ratio of accumulated household mortgage loans to GDP, nominal GDP in dollars year-on-year, and the estimate of “overheating” of prices in the housing market, which is obtained from the cyclical component of the ratio of house prices to GDP per capita.



The Figures above present an assessment of the downside risks in the real estate market in the short and medium term. As can be seen, the dynamics of HaR indicate reduction of risks over a one-year horizon. The most likely explanation is the stabilization of household mortgage loans to GDP, as well as a decrease in the “overheating” of prices in the real estate market. The downside risks to real estate prices over a 2-year horizon demonstrate similar dynamics. The spread between the 10th and 90th percentiles is relatively unchanged, indicating stabilization of the situation in the real estate market.

IV Risks of the Banking and Microfinance Sectors

4.1 Corporate Portfolio Quality

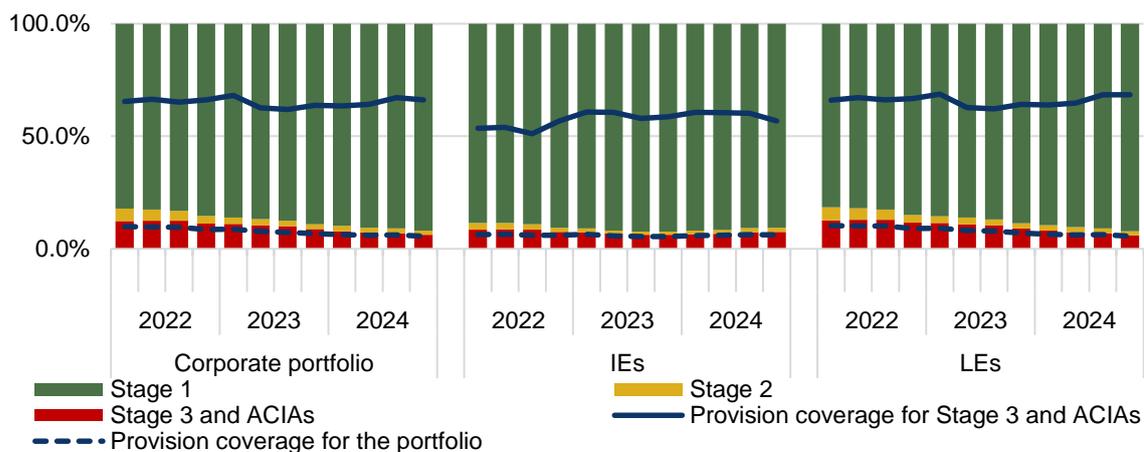
The improvement in the quality of the corporate loan portfolio of banks continued in 2024 – the share of impaired loans of stage 3 under IFRS, including loans 90+ days past due, is decreasing. The coverage for impaired loans of banks with provisions, including loans 90+ days past due, increased by 2.5 pp to 66% in 2024.

The share of stage 2 loans showing the signs of a significant increase in credit risk in the corporate loan portfolio has decreased by 3 times to 1.9% since 2022. The bulk of stage 2 and 3 loans are mainly provided in the national currency. Since 2021, banks have practically not classified loans provided in foreign currency as loans with the signs of a significant increase in credit risk or as impaired loans.

The largest borrowers remain one of the main sources of risk in the corporate portfolio. According to the results of 2024, the top 25 borrowers make up 39% of the corporate portfolio of banks. A significant part of large loans are provided in foreign currency and are often refinanced. Some banks practice providing large loans to companies from one industry, thereby increasing the risk of credit concentration. Maintaining the diversification of the corporate portfolio and improving the quality of loans provided is extremely important for maintaining the financial stability of the banking sector.

In 2024, the corporate portfolio of banks grew by 17.7%, to 14.7 trln tenge (in 2023 – 16.2%). The main share of loans in the corporate portfolio of banks is made up of performing loans – loans of stage 1 according to IFRS⁶, with their share amounting to 92% (Figure 4.1). The share of stage 3 loans, including loans 90+ days past due, has noticeably decreased. Thus, the share of stage 3 loans decreased by 2.5 pp, to 6.2%, the share of loans 90+ days past due decreased from 2.3% to 2.1%. The main volumes of stage 3 loans and loans 90+ days past due on banks' balance sheets are mainly concentrated in the small and medium-sized business segment. Despite an insignificant increase in the share of stage 2 and 3 loans in the individual entrepreneurs' portfolio, the total share of such loans in the corporate portfolio is decreasing owing to loans provided to legal entities.

Figure 4.1 The share of impaired loans is decreasing among borrowers-legal entities whereas it is slightly increasing in the IE portfolio



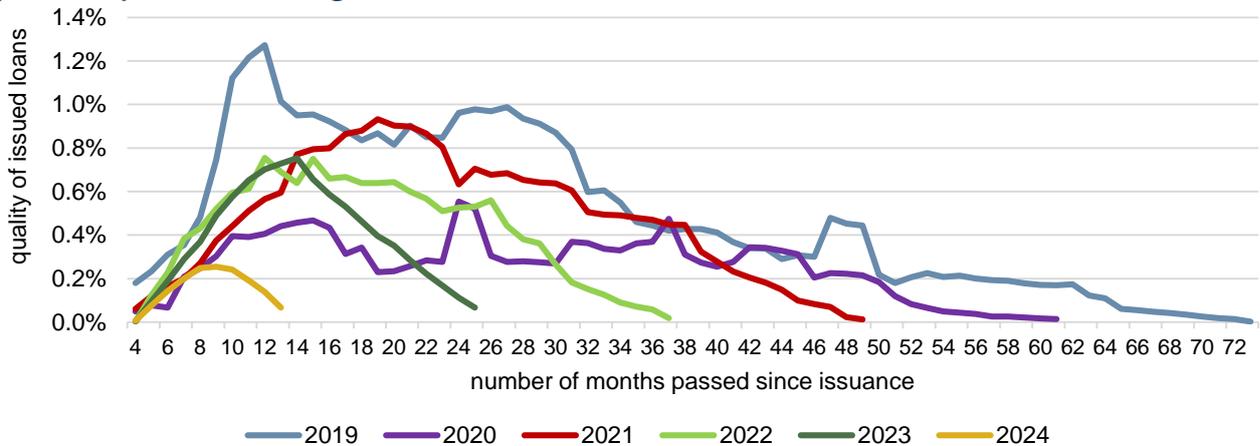
⁶ IFRS classifies loans into three categories by loan quality (risk stages): unimpaired loans without a significant increase in credit risk (stage 1), unimpaired loans with a significant increase in credit risk (stage 2), and impaired loans (stage 3). For analysis purposes, stage 3 loans under IFRS include acquired or created impaired assets (hereinafter referred to as ACIAs).

Source: Credit Register

Note: Quality of loan portfolios according to IFRS: stage 1 includes performing loans, stage 2 includes loans with a significant increase in credit risk, stage 3 includes loans for which the credit risk has already been materialized (impaired).

The quality of loan decisions regarding origination of corporate loans in 2024 has improved significantly compared to prior periods (Figure 4.2). In the analyzed historical period, the maximum value of quality deterioration in the share of loans 90+ days past due is observed among loans provided in 2019 after 1 year, which is driven by the onset of the pandemic in 2020. The largest increase in loans 90+ days past due occurs in 2020, regardless of the year the loan was originated. Starting with loans provided in 2022, the life of non-performing loans is significantly reduced, which may indicate more prompt actions by banks to write off and / or sell problem debt or more effective risk management.

Figure 4.2 Vintage analysis of the corporate portfolio: the life span of problem loans (NPL90+) is decreasing

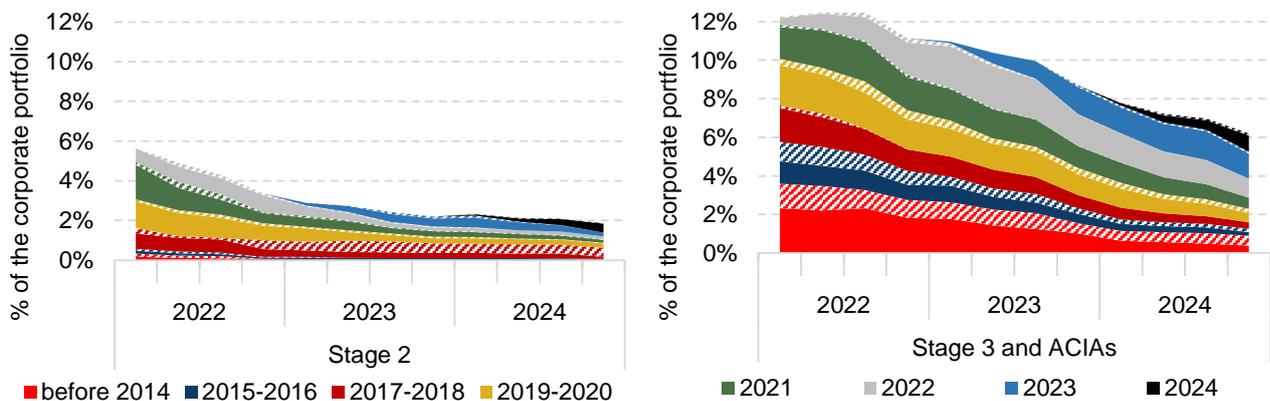


Source: Credit Register

Note: The quality of loan origination is assessed through the share of loans 90+ days past due in the total volume of loans initially provided.

In 2024, the share of stage 2 loans indicating the signs of a significant increase in credit risk decreased in the corporate loan portfolio from 2022 by 3 times, to 1.9%, and the share of impaired stage 3 loans halved (Figure 4.3). The bulk of loans classified as stages 2 and 3 were provided in the national currency. At the same time, a significant portion of foreign currency loans classified as stages 2 and 3 were mainly provided before 2020. Since 2021, loans originated in foreign currency are practically not classified by banks as loans with the signs of a significant increase in credit risk or as impaired loans.

Figure 4.3 A significant portion of foreign currency loans of stages 2 and 3 was originated before 2020



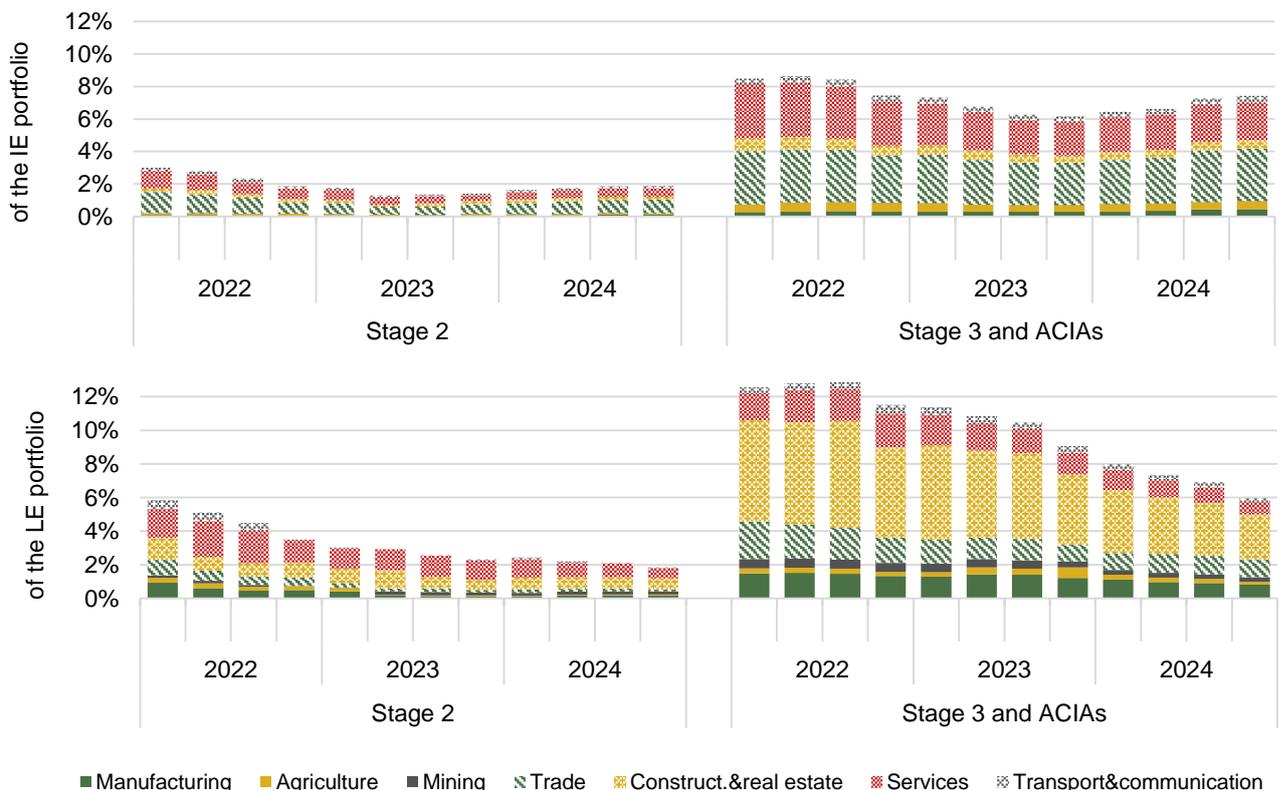
Source: Credit Register

Note: The patterned fill corresponds to foreign currency loans

In the banking sector as a whole, the coverage of provisions for impaired loans formed to cover losses in accordance with IFRS remains stable, having increased by 2.5 pp in 2024, to 66% (Figure 4.1). The median provisioning ratio for impaired loans among banks is 63%. In some medium-sized and small banks, stage 3 reserve coverage is significantly lower than average levels, which vary from 9% to 30%. At the same time, banks with less conservative loan provisioning have a share of blank loans in stage 3 of less than 16%. This trend may indicate that these banks rely on the loan security factor when assessing possible losses, which depends on the quality and complexity of implementation, including possible risks of overvaluation and illiquidity of collateral. Stage 2 loan coverage with reserves in 2024 increased from 15.3% to 21.7%. Meantime, the reserve coverage ratio of the entire corporate portfolio decreased from 6.6% to 5.5%.

In terms of industries, at the end of 2024, the corporate portfolio of banks is concentrated in the services (28%), trade (24%) and manufacturing (22%) sectors. At the same time, almost half of loans in the individual entrepreneurs' portfolio of banks is provided to entities engaged in trading activities (45%). Reduction in the share of stage 3 loans in 2024 in the corporate portfolio was mainly driven by a decrease in impaired loans to the construction industry⁷, and stage 2 loans went down due to the services sector. The riskiest loans on the balance sheets of banks (stages 2 and 3) among loans to individual entrepreneurs and legal entities remain mainly in the trade and construction sectors, respectively (Figure 4.4).

Figure 4.4 Reduction in the shares of riskiest assets occurs owing to loans provided to LEs



Source: Credit Register

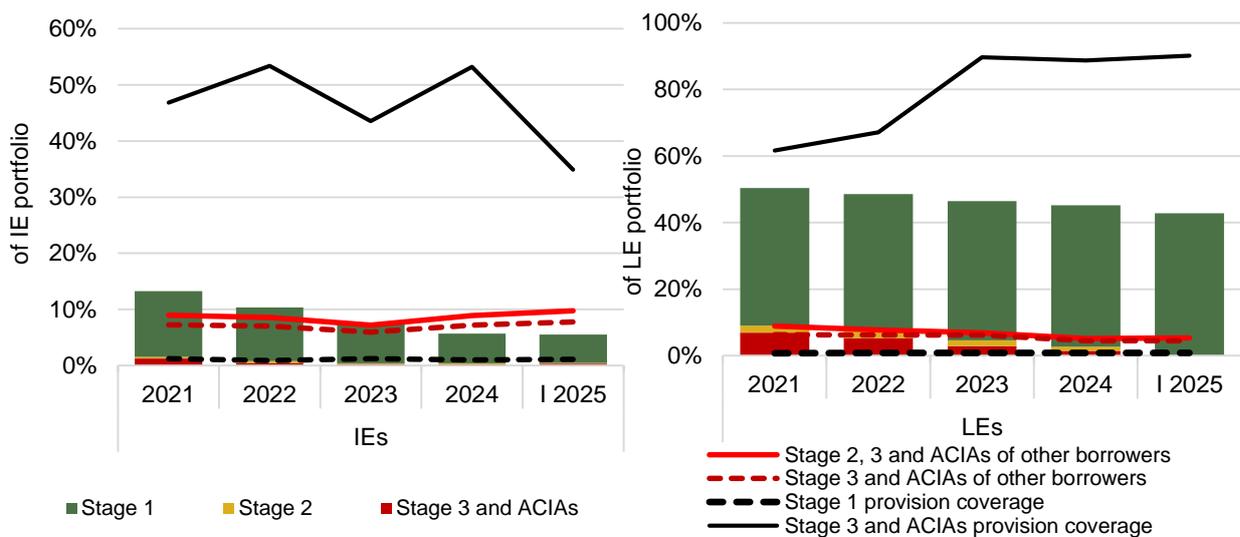
Banks still may face moderate credit concentration risks in the event of a default by a large borrower or large borrowers from one industry. The vulnerability of the banking sector

⁷ Including real estate transactions

to the 25 largest borrowers, although gradually decreasing, remains high for the corporate portfolio (Figure 4.5). Thus, at the end of 2024, loans from the 25 largest borrowers of each bank in terms of portfolios of legal entities and individual entrepreneurs in total account for 39% of the banks' corporate portfolio. The coverage of stage 3 provisions for the top 25 loans is high, but the coverage for stage 1 loans is at 1%. Over the past 5 years, banks have changed the industry focus of their largest borrowers. While at the end of 2019 among top 25 borrowers loans to the construction industry were dominating⁸, starting from 2021, the focus had been shifted to the manufacturing industry. Reduction in the origination of large loans to construction companies is probably caused by the increased risks of this industry, and the growth in the share of the manufacturing industry in the portfolio of the top 25 bank borrowers is more likely stemming from government programs to support non-resource industries.

The quality of loans to largest borrowers has been steadily improving since 2021 (Figure 4.5). The overall level of stage 2 and 3 loans among the 25 largest bank borrowers in 2024 decreased to a minimum of 0.4% and 2.7% for individual entrepreneurs and legal entities, respectively. Moreover, while in 2021 half of all impaired loans in the banking system among business entities fell on the top 25 largest borrowers of each bank⁹, by the end of 2024 this figure dropped to 20%. At the same time, the share of stage 2 loans of the top 25 borrowers during the period from 2021 to 2024 increased from 44% to 58% of all stage 2 loans of the corporate portfolio.

Figure 4.5 Concentration of the top 25 borrowers is decreasing and their quality is improving



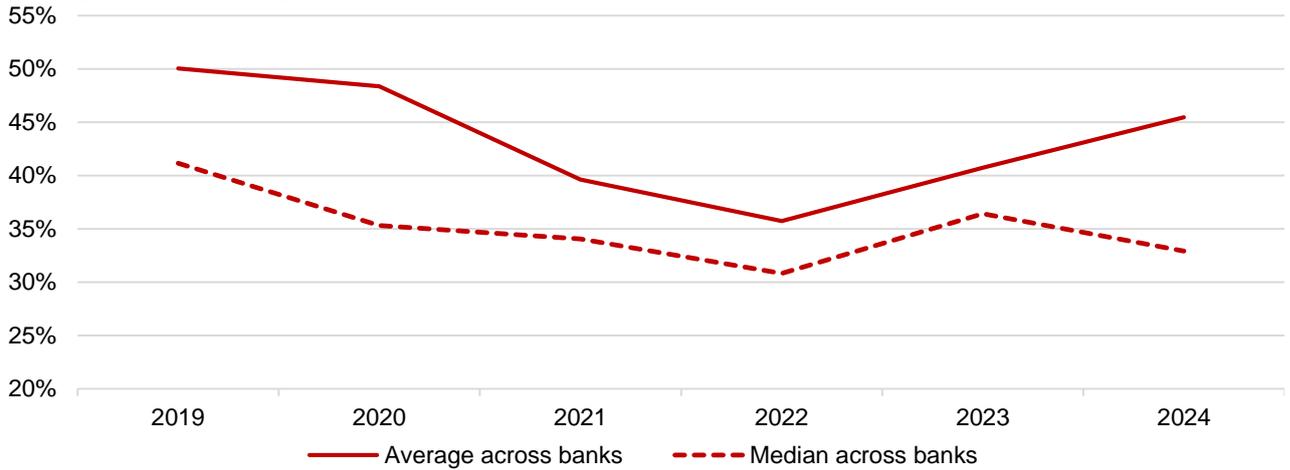
Source: Bank reports, Credit Register

Despite the improvement in the quality of loans in the portfolio of large bank loans, the relevance of the risk of credit concentration remains. At the same time, since 2020, many banks have sought to lend more to small and medium-sized businesses, including offering them online credit products. The most active decline in loan concentration is observed mainly among individual entrepreneurs (Figure 4.5).

⁸ Including real estate operations

⁹ 25 largest borrowers among individual entrepreneurs and legal entities in total

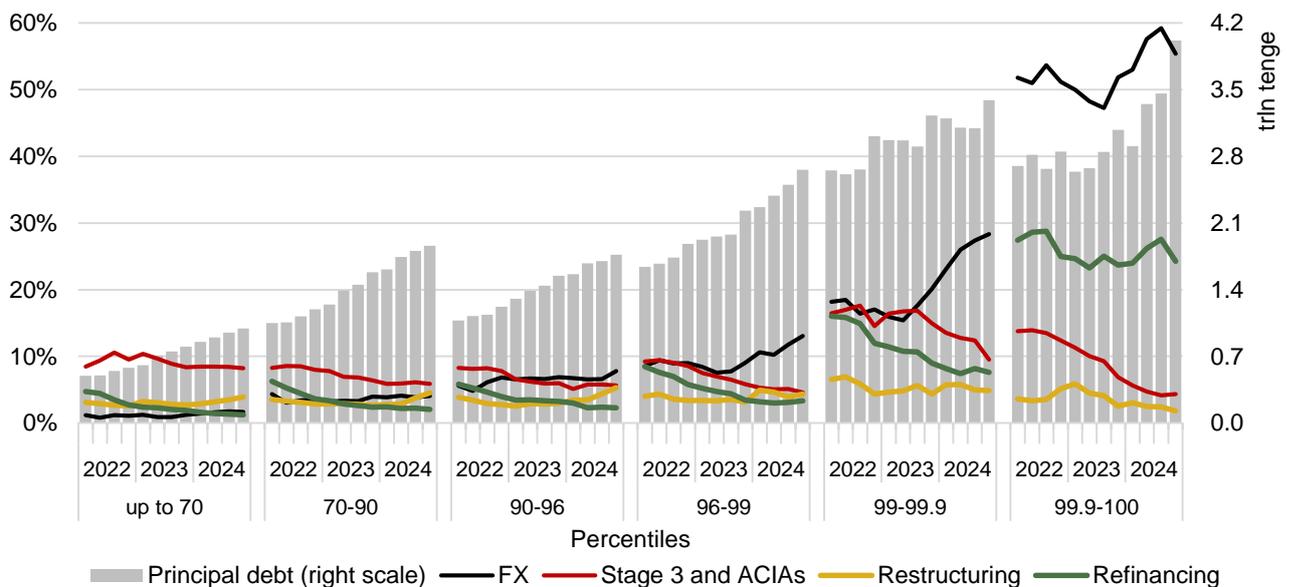
Figure 4.6 The ratio of the top 3 borrowers' principal to capital of banks increases on average after a long decline



Source: Credit Register

Over the recent 2 years, the ratio between principal debt and regulatory capital of three largest borrowers of each bank has increased by 9 pp on average, to 45% (Figure 4.6). At the same time, for half of banks in 2024 this ratio did not exceed 33% (median). Such difference in average values is largely explained by a more significant increase in credit concentration in the corporate portfolios of individual banks. Thus, the total principal debt of the three largest borrowers in five medium and small-sized banks by assets by the end of 2024 exceeded half of their equity. The persisting high risk of credit concentration of banks when providing large loans to companies from the same industry is also noteworthy. Thus, at the end of 2024, the top 3 largest borrowers in three medium-sized banks represent one industry, including manufacturing, financial or trading activities.

Figure 4.7 The largest bank loans are more dollarized and are refinanced more frequently



Source: Credit Register

The analysis of the distribution by principal debt at the level of loan agreements in the corporate portfolio of banks reveals other important features of large loans, among which the high level of their dollarization stands out (Figure 4.7). At the end of 2024, half of the corporate portfolio falls on 1% of the largest loans by principal amount, which account for

1.8% of the total number of agreements in the corporate loan portfolio (31.4 thousand). Dollarization of the largest bank loans has increased significantly over the past 3 years. There is an observation that by the end of 2024, 55% of the debt under loan agreements above the 99.9th percentile was issued in foreign currency, the share of these loans in the corporate portfolio is 27% by principal debt and 0.2% of the total number of agreements.

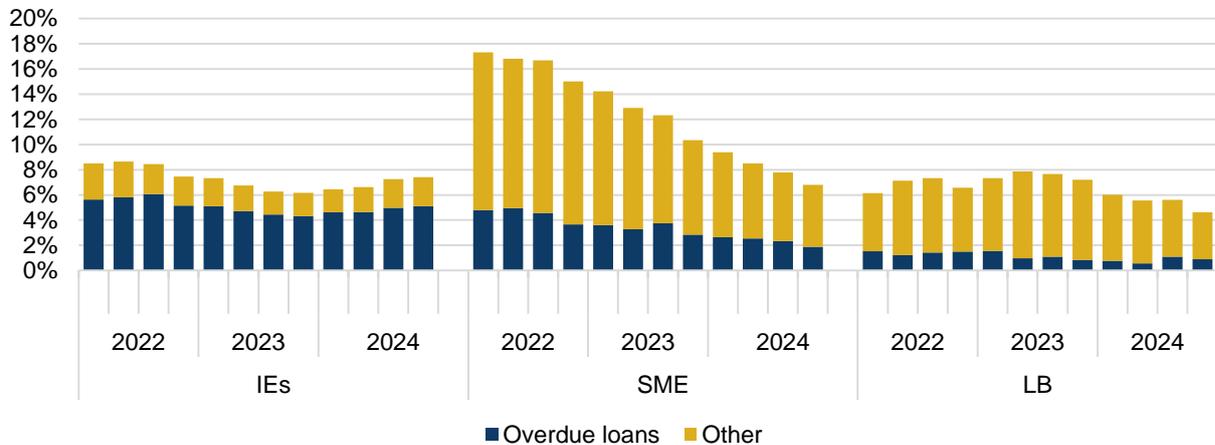
The largest loans in the corporate portfolio are subject to refinancing more frequently (Figure 4.7). Loans of this size are often provided for a longer term than loans of a smaller volume. Given the long tenor and large size of the debt, large borrowers are interested in refinancing the debt on more favorable terms and constantly monitor interest rates. Debt refinancing becomes especially relevant during the periods of declining interest rates in the market. Thus, at the end of 2024, 24% of debt under loan agreements above the 99.9th percentile was refinanced.

Box 4.1 Extension of the Definition of Non-Performing Loans

The IMF and the World Bank, following the results of the Kazakhstan Financial Sector Assessment Program, conducted in 2023, recommended to bring the definition of non-performing loans in Kazakhstani practice in line with international standards, also by including the full amount of stage 3 loans under IFRS 9. At the end of 2024, the regulator extended the concept of non-performing loans (NPL)¹⁰ from loans 90+ days past due up to stage 3 loans including ACIAs. At the same time, in order to smooth out the effect on banks from the change in the definition of non-performing loans, the new definition was extended to loans provided from January 1, 2024 only. At the time of introduction of the new definition of NPL, the share of such loans in the corporate portfolio of banks was 0.9% (Figure 4.3).

Figure 4.3 Stage 3 loans under IFRS reflect credit risks more precisely than loans 90+ days past due

Structure of corporate portfolio by bank portfolios in terms of shares of stage 3 loans



Source: Credit Register

Impaired loans of stage 3 more accurately reflect the credit risks in the loan portfolio compared to loans 90+ days past due. The structure of stage 3 loans, in addition to cases of breach of contractual terms such as overdue payment for more than 60 days, also includes events related to the borrower's creditworthiness, such as significant deterioration in the financial position, forced debt restructuring, bankruptcy proceedings

¹⁰ Resolution of the Board of the National Bank of the Republic of Kazakhstan dated December 28, 2018 No. 317 "On the establishment of factors affecting the deterioration of financial position of a bank and a bank conglomerate, a branch of a non-resident bank of the Republic of Kazakhstan, as well as approval of the Rules for approving an action plan providing for early response measures, and the Methodology for determining factors causing the deterioration of financial position of a bank (bank conglomerate), a branch of a non-resident bank of the Republic of Kazakhstan" – the relevant amendments regarding the new definition of non-performing loans shall come into effect from January 19, 2025.

initiated, or other events affecting the impairment of the loan according to internal bank methods. Thus, the share of stage 3 loans significantly exceeds the share of loans 90+ days past due in the corporate loan portfolio of banks (*Figure 1*). Thus, the share of impaired loans in the portfolio of individual entrepreneurs is approximately one and a half times (1.44) higher than the share of loans 90+ days past due. At the same time, a large difference in these indicators is observed in the loan portfolios of SMEs and LBs, where the main volumes of impaired corporate loans are concentrated, not classified as loans 90+ days past due.

4.2 Retail Portfolio of Banks

In 2024, the retail portfolio of banks continued to grow. Unsecured consumer loans still are the main growth driver. There is a shift in borrower behavior – more and more borrowers are taking mortgage loans and car loans. The quality of retail loans remains high. At the same time, in 2024, the level of provision coverage for stage 3 retail loans went down to 54%, despite the growth in the volume of provisions, as overdue debt grows faster than reserves. Residential mortgage loans have been showing growth since mid-2024 given the government programs offered and the availability of pension withdrawals. In these conditions, reduction in the average mortgage loan amount indicates a further expansion of the coverage of borrowers by this type of loan.

The car lending segment is showing rapid growth: the portfolio volume in 2024 increased by 53.8% and reached 2.8 trln tenge, and its share in the retail portfolio was 13.7%. Along with growth, risks also increase. The volume of stage 3 loans in this segment reached a record-high 179.7 bln tenge, and their share of loans grew to 6.4%. The quality of loans provided in 2021-2023 is declining especially quickly. Regulatory easings on the DSTI, stimulating the growth of car loans, may lead to the accumulation of risks in this portfolio.

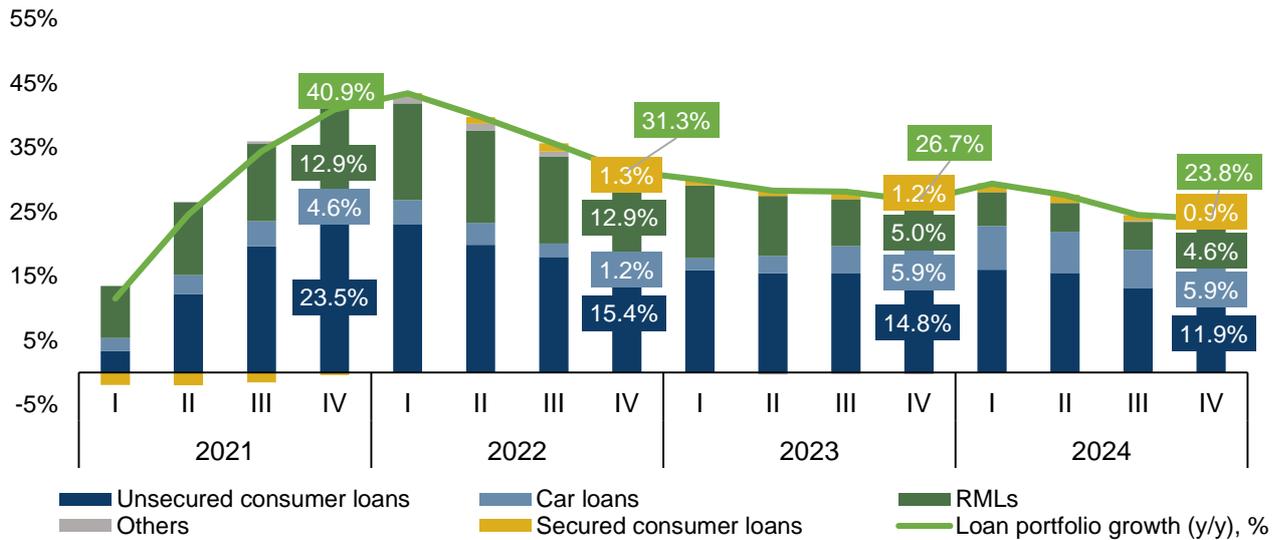
At the end of 2024, the volume of the retail portfolio reached 20.7 trln tenge (2023 – 16.7 trln tenge) with an annual growth of 23.8%, which is slightly lower than the figure of 26.7% in 2023 and the peak value of 40.9% in 2021 (*Figure 4.8*). Despite a slight slowdown in the growth rate of the retail portfolio, the absolute growth volumes of the retail portfolio continue to increase: 4 trln tenge in 2024 against 3.5 trln tenge in 2023. It is worth mentioning that in 2024, the regulator took a number of measures to curb the growth of this segment in order to minimize the risks of the retail portfolio of banks (*Box 4.2*).

In 2024, the largest contribution to the growth of the retail portfolio (11.9%) was made by unsecured consumer loans, although their share decreased compared to 14.8% in 2023. The contribution of car loans gradually decreased to 5.9% during 2024, maintaining the level of the previous year. At the same time, the contribution of mortgage lending reached 4.6%, continuing to decline from 2022 (12.9%).

In 2024, the structure of the retail portfolio was mainly comprised of unsecured consumer loans (52.1%) and residential mortgage loans (28.7%) (*Figure 4.9*). The share of car loans continued to grow during the reporting period and reached a historical maximum of 13.7%. Secured consumer loans (4%) and other loans (1.4%) continue to remain insignificant in the structure of the retail loan portfolio. Demand for car loans remains consistently high, including due to regulatory easings in terms of the debt service to income ratio (DSTI) for new cars¹¹ and a wide range of concessional dealer programs.

¹¹ According to the Resolution of the NBK Board No. 170 of September 13, 2017 “On the establishment of regulatory values and methods for calculating prudential standards and other mandatory ratios and limits, the size of bank capital and the Rules for calculating and limiting the open currency position”, the DSTI is not

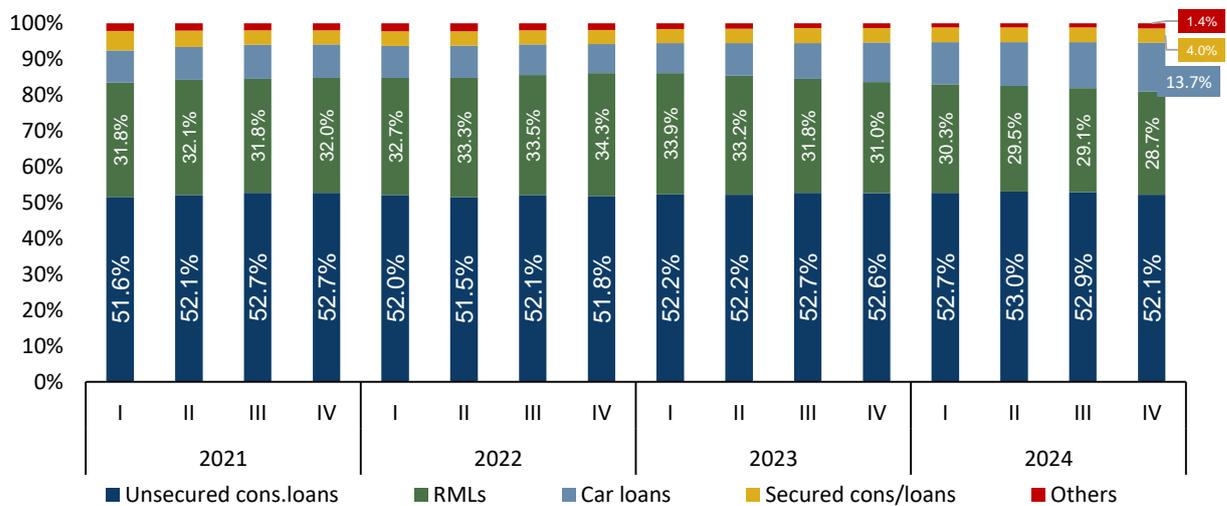
Figure 4.8 In 2024, the growth of retail loan portfolio has been declining. Unsecured consumer loans continue to make the largest contribution



Source: Credit Register

Note: (1) RMLs include mortgage and home loans; (2) “Others” include loans provided for the purposes of construction, shared participation in housing construction, refinancing of a home loan, etc.

Figure 4.9 In 2024, the share of unsecured consumer loans remains high, and the share of car loans is growing



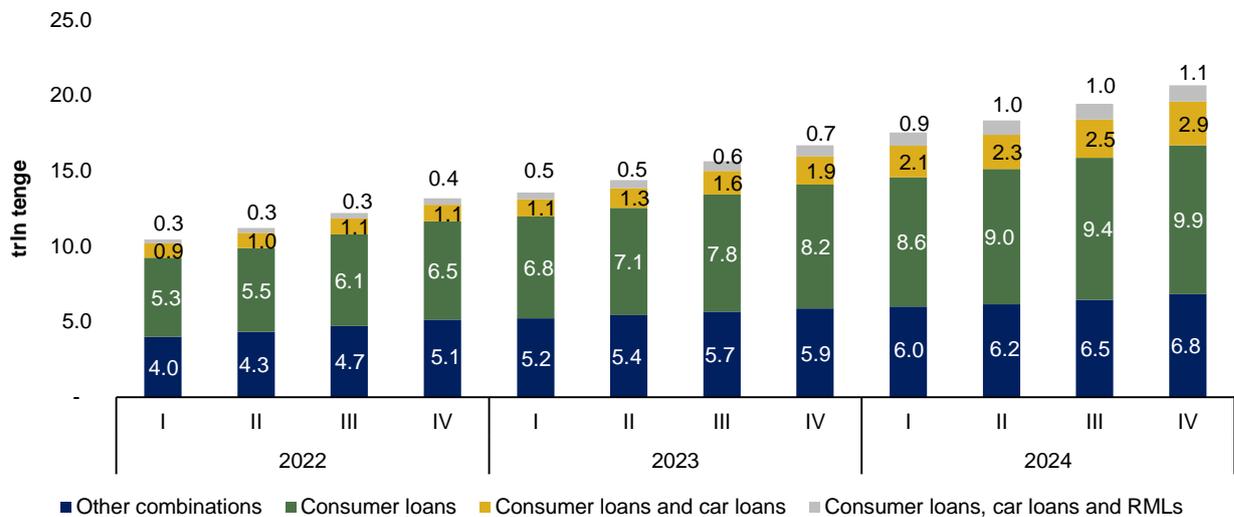
Source: Credit Register

Consumer loans continue to dominate in the retail loan portfolio, despite the diversification of loan products. At the same time, the share of borrowers with a long-term debt burden, including large liabilities under RML loans and car loans, is gradually growing. Thus, the portfolio of consumer loans among borrowers who have only this type of loan increased from 6.5 trln tenge in 2022 to 9.9 trln tenge in 2024, maintaining leadership in terms of volume (Figure 4.10). The main increase occurred in 2023–2024, by approximately 1.7 trln tenge annually. The debt of borrowers with consumer loans and car loans grew even faster: the volume increased by 2.6 times (from 1.1 trln tenge to 2.9 trln tenge) over the

calculated when providing a loan in the period from April 1, 2024 to December 31, 2024 inclusive for the purpose of acquiring a new vehicle, secured by a pledge of this vehicle

specified period. In addition, the portfolio where borrowers also have an additional mortgage loan is growing at a rapid pace. The portfolio volume in this category almost tripled — from 0.4 trln tenge at the end of 2022 to 1.1 trln tenge by the end of 2024.

Figure 4.10 Consumer loans still represent the main type of debt among borrowers



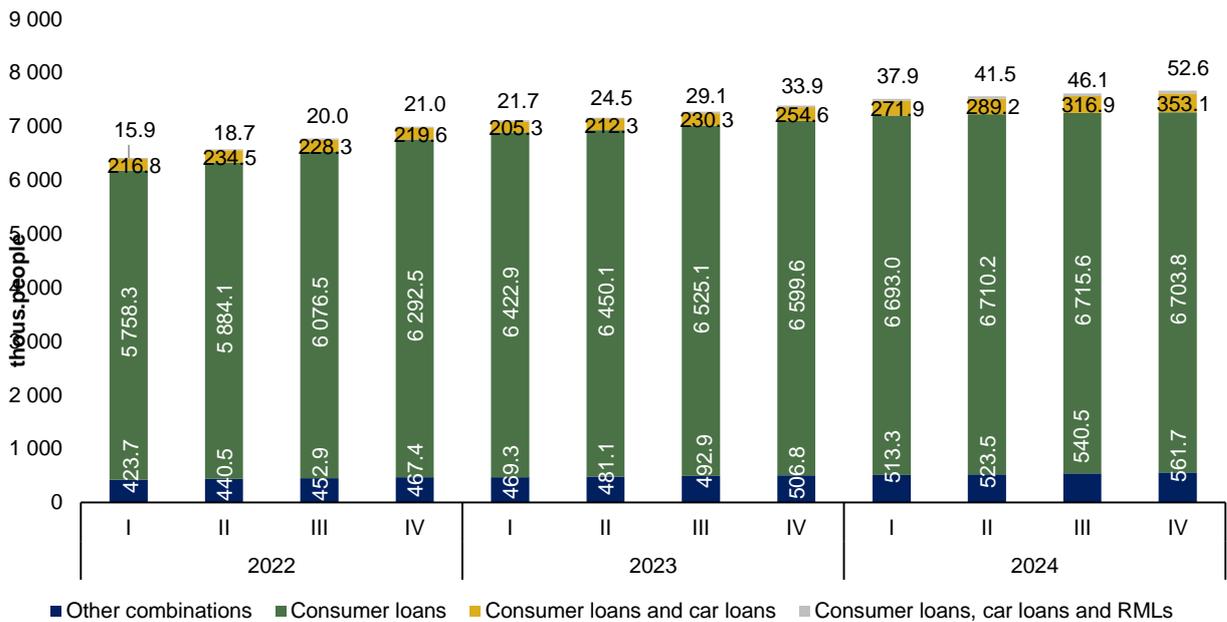
Source: Credit Register

Note: (1) Consumer loans — the borrower has only this type of loan; (2) Consumer loans and car loans — the borrower has consumer loans and car loans; (3) Consumer loans, car loans, and RMLs — the borrower has all three types of loans; (4) Others — all other possible combinations of loans the borrower has.

Since 2022, there has been a moderate increase in the number of borrowers with exclusively consumer loans. The number of such borrowers increased from 6.3 mln people at the end of 2022 to 6.6 mln at the end of 2023 and to 6.7 mln at the end of 2024 (*Figure 4.11*). The absolute increase was about 411.3 thousand people or +6.5% over three years. At the same time, the growth rate is declining: if in 2022 and 2023 the growth was stable, in 2024 the increase was only 104.2 thousand people or 1.6% compared to the previous year. This may be an evidence of gradual achievement of the maximum level of penetration of this type of loan product among the population, despite their continued dominance in the number of borrowers.

The number of borrowers taking hybrid types of loans (consumer + car loans and/or mortgage loans) is growing significantly faster. The number of borrowers with consumer loans and car loans increased from 216.8 thousand people at the beginning of 2022 to 353.1 thousand people at the end of 2024 — an increase of 136.3 thousand people, or +62.8%. The growth was especially dynamic in 2023 and 2024: +35 thousand people (+15.9%) and +98.5 thousand people (+38.7%), respectively. At the same time, the portfolio of borrowers who also have a mortgage loan is increasing. In 2024, the number of such borrowers increased from 33.9 thousand people to 52.6 thousand people (+ 55.1%), and since 2022 their number has increased almost 3 times (+ 150.6%). Despite the small share, the rapid growth of the population simultaneously servicing mortgages, car loans and consumer loans creates the potential for increasing credit risks in the medium term. Although consumer loans remain as the basis of the retail portfolio, the increase in long-term debt burden with large payments requires enhanced monitoring of borrowers' solvency by banks.

Figure 4.11 Consumer loans are still the main choice among borrowers, despite the increase in other loans

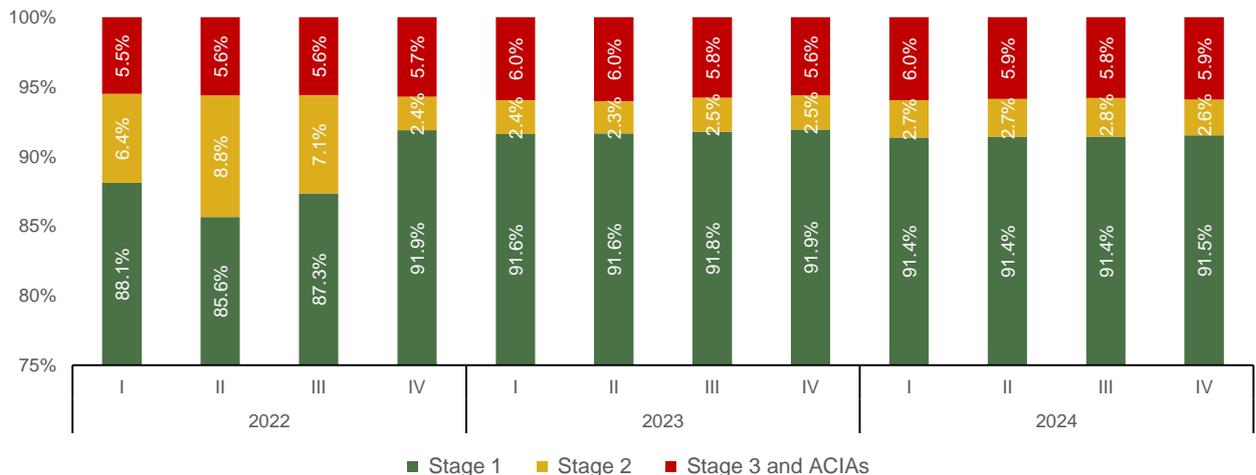


Source: Credit Register

Note: (1) Consumer loans — the borrower has only this type of loan; (2) Consumer loans and car loans — the borrower has consumer loans and car loans; (3) Consumer loans, car loans, and RMLs — the borrower has all three types of loans; (4) Others — all other possible combinations of loans the borrower has.

The quality of retail loan portfolio at the end of 2024 remained at a high level. The share of stage 1 loans under IFRS 9 was virtually unchanged — 91.9% in 2023 and 91.5% in 2024 (Figure 4.12). At the same time, the share of stage 2 loans has stayed at 2.5% for the past 2 years. The share of stage 3 loans in the retail portfolio has shown growth — from 5.6% in 2023 to 5.9% in 2024.

Figure 4.12 The share of stage 3 loans in the retail portfolio remains low, mainly due to the high growth rate of the portfolio itself



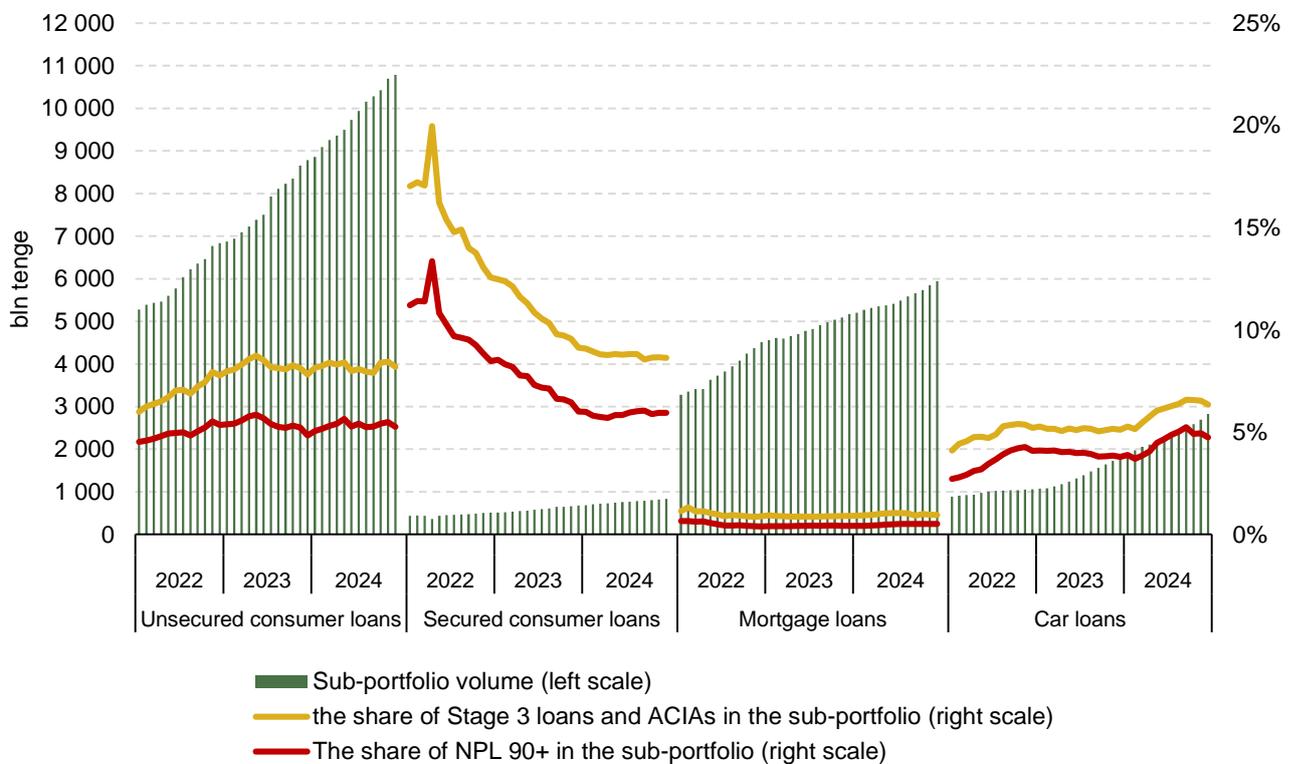
Source: Credit Register

Note: (1) Stage 1 — loans without a significant increase in credit risk, for which, in accordance with IFRS 9, expected losses are calculated for 12 months; (2) Stage 2 — loans with a significant increase in credit risk, but without the signs of default, for which, in accordance with IFRS 9, expected losses are calculated for the entire term of the asset; (3) Stage 3 — problem (non-performing) loans with the signs of default, for which, in accordance with IFRS 9, expected losses are accounted for the entire term of the asset; (4) ACIAs (provisions for doubtful and controlled liabilities) — reserves created by banks to cover expected credit losses within the framework of IFRS 9 requirements.

According to the results of 2024, the volume of unsecured consumer loans increased from 8.8 trln tenge to 10.8 trln tenge compared to 2023. At the same time, a slowdown in its annual growth rate to 22.7% was observed compared to 28.6% in 2023. The share of stage 3 loans in this segment increased to 8.2% compared to 7.8% in 2023; in absolute terms, the volume of unsecured stage 3 loans reached 882.8 bln tenge (in 2023 — 686.7 bln tenge) (Figure 4.13).

The growth rate of the secured consumer loan portfolio also decreased to 23.1% compared to 31.1% in 2023, in absolute terms the portfolio volume increased to 830.8 bln tenge and continues to retain its insignificant position in the retail portfolio. At the same time, the volume of stage 3 secured consumer loans increased to 71.7 bln tenge (in 2023 — 61.6 bln tenge), and the share of stage 3 loans itself went down from 9.1% in 2023 to 8.6% in 2024.

Figure 4.13 *The share of stage 3 loans in the car loan segment increased, while in other retail lending segments it remained at the same level*

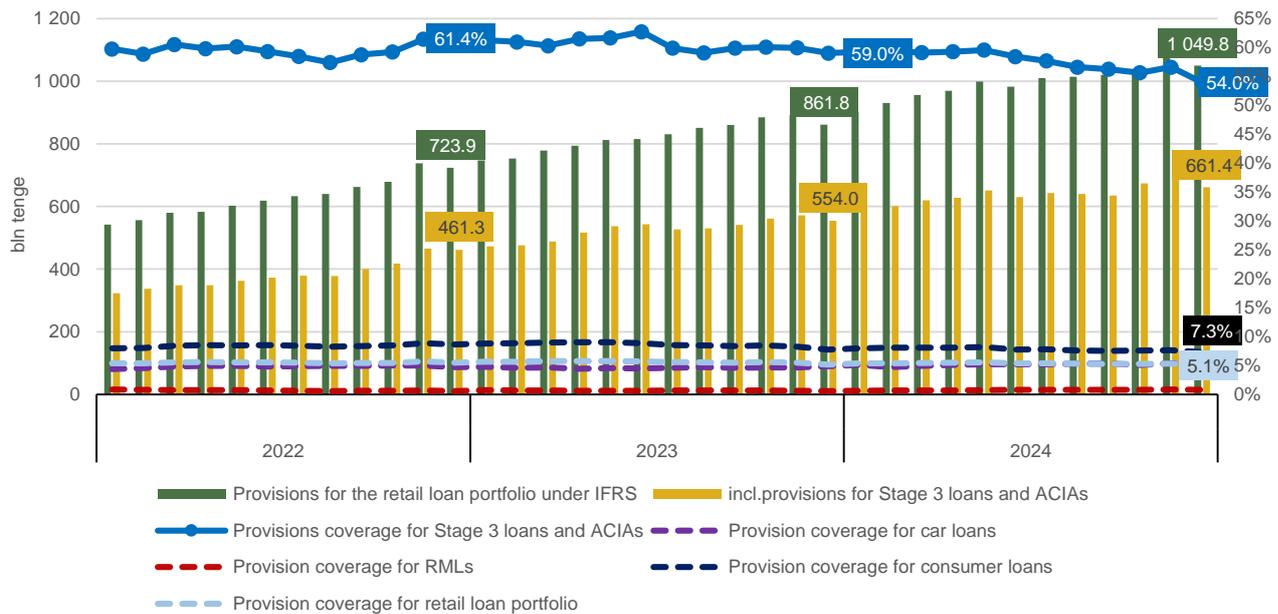


Source: Credit Register

Note: (1) Stage 3 — problem (non-performing) loans with the signs of default, for which, according to IFRS 9, expected losses are accounted for the entire term of the asset; (2) NPL90+ — loans 90+ days past due

The total volume of provisions for the retail portfolio in 2024 increased to 1,049.8 bln tenge, and provisions formed for stage 3 loans increased to 661.4 bln tenge. Despite the growth in the volume of provisions, the coverage level of stage 3 loans decreased to 54% in 2024, while in 2023 it was 59%, and in 2022 — 61.4% (Figure 4.14). Reduction in the coverage level indicates that the rate of growth of overdue debt is outpacing the rate of reserve formation, which potentially increases the vulnerability of the banking sector to deterioration in asset quality in the future. At the same time, the provision coverage for consumer loans is 7.3%, which is higher than for the entire retail portfolio (5.1%) and for other types of lending. This shows that banks continue to maintain a conservative approach to consumer loan provisioning.

Figure 4.14 With the overall growth of provisions in the retail portfolio, provision coverage of stage 3 loans decreases



Source: Credit Register

Risks in the Residential Mortgage Loan Portfolio

Banks' RML portfolio keeps growing both due to the government support and market mechanisms. The portfolio is ramping up, the number of borrowers is increasing, the participation of market-based mortgage loans is expanding, while maintaining the high quality of loans.

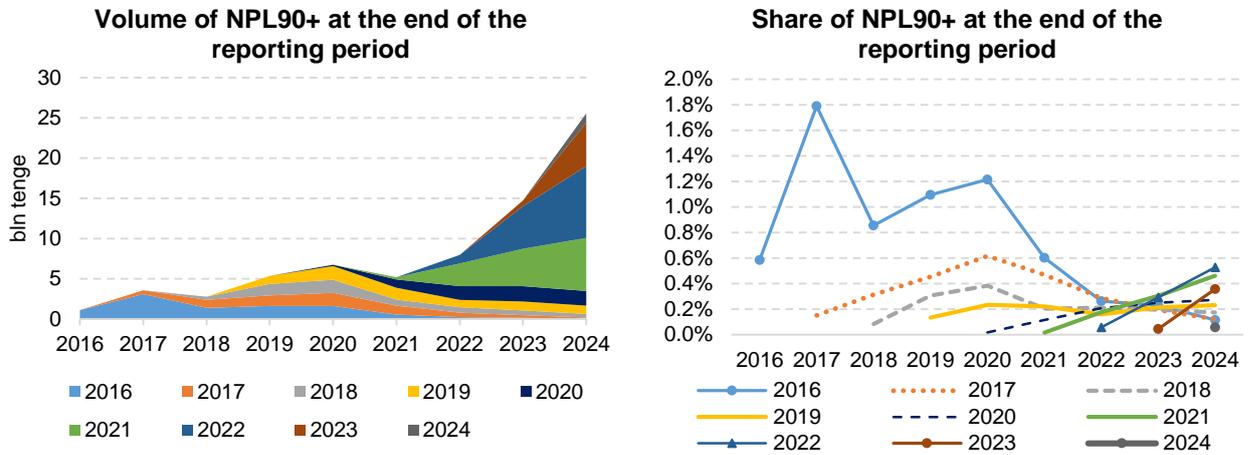
The growth rate of RML portfolio increased slightly in 2024 and amounted to 14.9% (2023 – 14.5%). The volume of RML expanded to 5.9 trln tenge, and its share in retail lending contracted to 28.7% by the end of 2024 (30.9% by the end of 2023) (Figure 4.13). The quality of RMLs remains at a consistently high level — over the past few years, the share of stage 3 loans has been declining and reached 0.9% in 2024, and the share of NPL90+ was 0.6%. It is worth mentioning that the active period of growth in mortgage lending in 2021 and 2022, supported by the continuation of concessional government housing programs and the possibility of using people's pension savings to improve living conditions, was reflected in deterioration in the quality of loans in these periods (Figure 4.15). Thus, loans originated in 2021 have an NPL90+ level of 6.6 billion tenge, and loans originated in 2022 — 8.9 billion tenge as of the end of 2024. At the same time, the share of NPL90+ among these loans still remains low at 0.5%.

In the second half of 2024, RML portfolio demonstrated an increase in the pace of origination and the number of issued loans. Since June 2024, monthly volumes of disbursements increased from 137.1 bln tenge to a record-high 246.6 bln tenge in December 2024, and the number of provided loans reached 9 thousand loans, compared to 4.4 thousand loans at the end of the first half of 2024 (Figure 4.16). Meantime, the average amount of one loan decreased to 27.7 mln tenge, which indicates the expansion of mortgage loan availability to a wider range of borrowers by income level. For comparison, in 2023, the volume of origination in peak months was about 172.2 bln tenge with 5.45 thousand loans, and in 2022 — 200 bln tenge with the number of transactions of about 5 thousand.

Thus, over two years, the market has grown significantly in both quantitative and structural indicators, demonstrating demand in this segment. Such portfolio growth is associated with an increase in the withdrawal of pension savings in the 3rd and 4th quarters of 2024, as well as with the supply under the “Otau” and “Nauryz” government mortgage

lending programs. At the same time, market-based mortgages are also growing, which in 2024 increased from 69.2 bln tenge in December 2023 to 114.2 bln tenge at the end of 2024 (+ 65%). Especially rapid growth was observed in the second half of the year.

Figure 4.15 Mortgage loans provided in 2021 and 2022 have the highest volumes of NPL90+



Source: Credit Register

Note: (1) excluding loans provided before 2015; (2) NPL90+ – loans 90+ days past due according to bank reports

Figure 4.16 Mortgage loans demonstrate a steady growth in 2024



Source: Credit Register

Risks in the Car Loan Portfolio

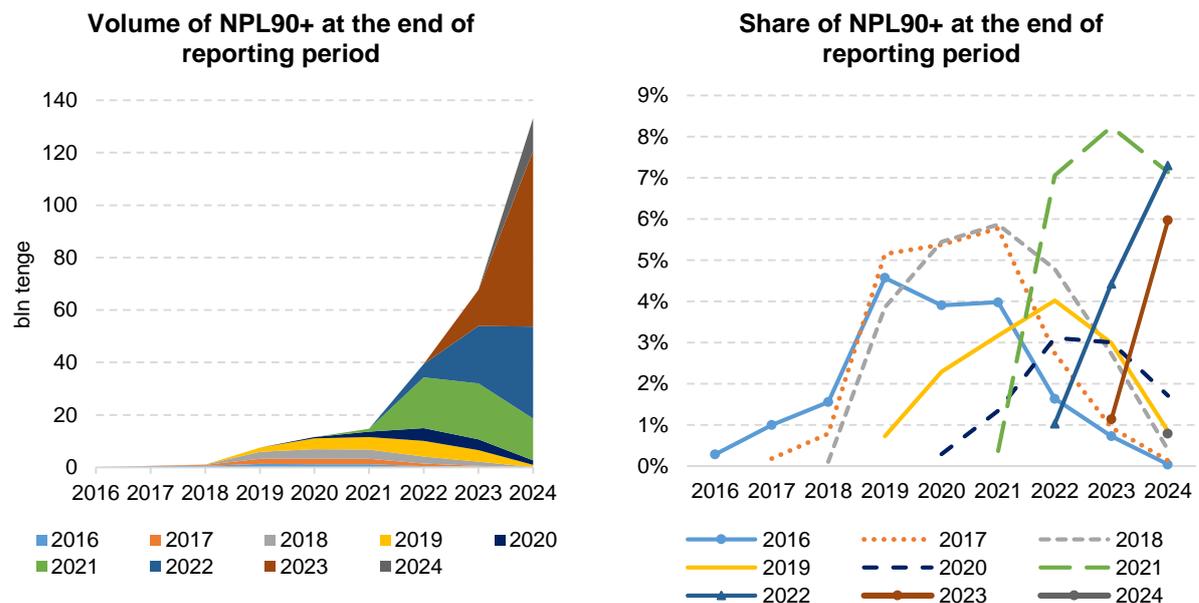
Given active expansion of car loans, problem debt increased. The easing of requirements to borrowers and aggressive promotion of car loans by sellers and banks lead to accelerated portfolio growth and increased risks in this segment.

The growth rate of car loans in 2024 slowed down and accounted for 53.8% (2023 — 73%). Car loans ramped up to 2.8 trln tenge, and their share in retail lending increased to 13.7% by the end of 2024 (in 2023 – 11%) (Figure 4.13). Car loans continue to demonstrate high growth rates compared to other segments of the retail loan portfolio. At the same time, the share of stage 3 loans in the car loan portfolio increased to 6.4% (2023 — 5.1%). In

2024, the volume of stage 3 loans among car loans reached an all-time high of 179.7 bln tenge. Thus, the rapid growth of car loans is accompanied by an accelerated accumulation of credit risks and deterioration in the quality of loans provided before.

According to the results of 2024, the majority of NPL90+ in car loans relate to loans originated in 2021–2023 (*Figure 4.17*). The largest volume of NPL90+ as of the end of 2024 was observed among loans provided in 2023 — 67.1 bln tenge, among loans provided in 2022 — 35 bln tenge, and loans provided in 2021 — 16 bln tenge. In the meantime, the NPL90+ level is growing rapidly among loans provided in these periods: for loans provided in 2023, the indicator increased from 1.1% to 6% per year; for loans provided in 2022 — from 1% to 7.3% in two years; for loans provided in 2021 — from 0.37% to 7.1% in three years.

Figure 4.17 Car loans provided in 2021—2023 have the highest volumes of NPL90+



Source: Credit Register

Note: (1) excluding loans provided before 2015; (2) NPL90+ – loans 90+ days past due according to bank reports

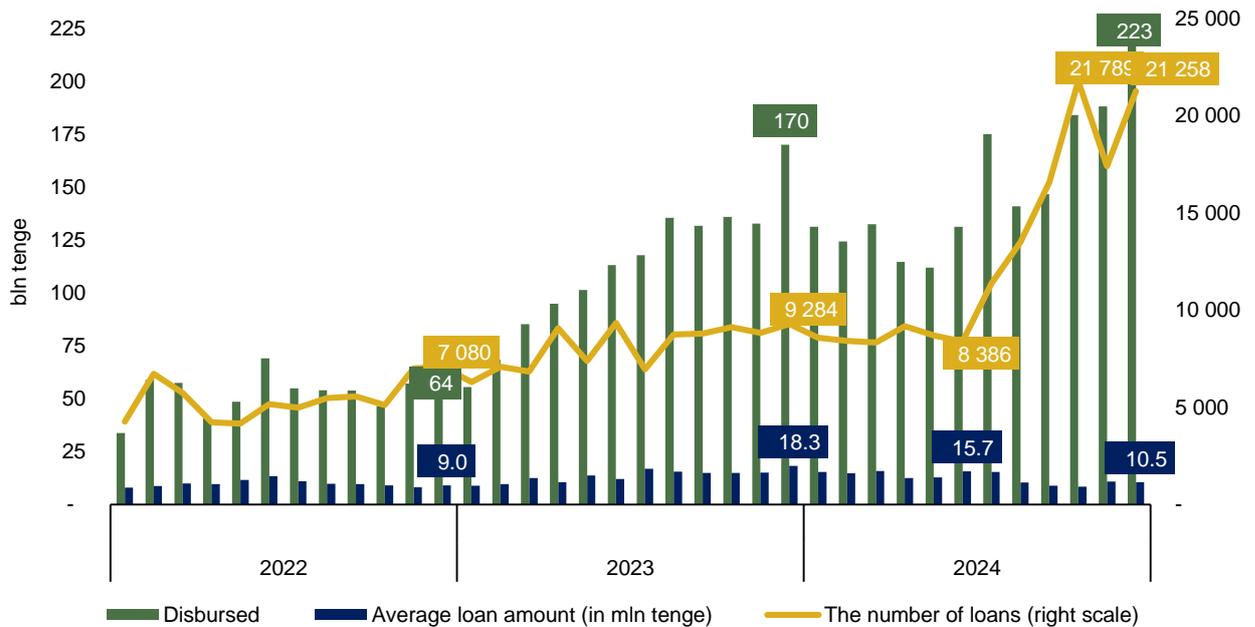
In the period from 2022 to 2024, the car loan segment demonstrated stable growth both in terms of the volume of funds disbursed and the number of loan agreements signed. However, despite the overall positive dynamics, the volume of disbursements decreased from 170 bln tenge in December 2023 to 112 bln tenge in June 2024. A possible reason for the decline was the expansion of the DSTI aimed at limiting the credit burden of the population (*Box 4.2*). In December 2024, the volume of originated car loans reached 223 bln tenge, showing growth compared to mid-year figures (*Figure 4.18*). The number of car loans also showed an increase over the specified period. The sharp rise in the second half of 2024 is especially noticeable — in the last quarter, the number of provided loans exceeded 20 thousand every month. This trend may be the evidence of an increase in the consumer demand for cars. At the same time, during 2024, an average loan amount decreased. While at the end of 2023 the average loan amount was 18.3 mln tenge, by June 2024 it had decreased to 15.7 mln tenge, and by the end of 2024 — to 10.5 mln tenge.

Results of the bank survey for the 3rd and 4th quarter of 2024 show that the demand for car loans is growing steadily¹². This is largely due to active marketing promotion by partner car dealerships, as well as the appearance of promotional offers, partially subsidized

¹² Quarterly analytical publication of the NBK "Bank Lending Survey"

by these partners. An additional incentive for the growth in demand was the development of digital solutions in the field of car loans. At the same time, the exclusion of the requirement to calculate the DSTI for loans for the purchase of a new motor vehicle secured by the same vehicle, could contribute to the growth in the volume and in the number of car loans in the second quarter of 2024 (Box 4.2). In the context of heightened demand and an increase in the share of approved applications due to easings in the DSTI calculation, the car loan segment demonstrated significant growth.

Figure 4.18 Car loans show steady growth, reflecting strong consumer demand for cars



Source: Credit Register

Box 4.2 Regulatory Measures Adopted in 2024

In 2024, several key changes to the AFR and NBK regulations regarding consumer lending have been adopted and implemented in Kazakhstan:

- From April 1, 2024, the NBK’s Resolution No.170¹³ tightened the procedure for calculating the debt service to income ratio (DSTI) of borrowers; it limits the total amount of loan payments at 50% of the borrower's income. The extending of the requirement to all borrowers and all loans, with the exception of housing construction savings, excluded three indirect criteria from the income assessment (utilities, purchases in online stores, and the existence of property). This is aimed at preventing loans from being provided to individuals without sufficient income to service the loans. At the same time, from June 12, 2024, an amendment was made to the Resolution No. 170 not to extend DSTI to loans provided against collateral of a new car until December 31, 2024.
- In August 2024, a joint resolution of the AFR and NBK¹⁴ lowered the maximum effective interest rate on unsecured bank loans from 56% to 46%.

¹³ Resolution of the Board of the National Bank of the Republic of Kazakhstan dated September 13, 2017 No. 170 “On the establishment of regulatory values and methods for calculating prudential standards and other mandatory ratios and limits, the size of the bank's capital and the Rules for calculation and limits of the open currency position”

¹⁴ The joint Resolution of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market dated August 16, 2024 No. 62 and the Resolution of the Board of the National Bank of the Republic of Kazakhstan dated August 19, 2024 No. 45 “On setting maximum amounts of annual effective interest rate”

- According to the AFR’s Resolution No.61¹⁵, the maximum amount of unsecured bank loan is limited to 2200 MCI (about 8.1 mln tenge In 2024), and that of an unsecured microloan — to 1100 MCI. At the same time, secured bank loans do not have limitations in terms of amount.
- According to the AFR’s Resolution No.55¹⁶, to obtain a loan or microloan over 1000 MCI (about 3.7 mln tenge in 2024), from September 1, 2024, the consent of the spouse is required; this is aimed at increasing responsibility when applying for large loans.

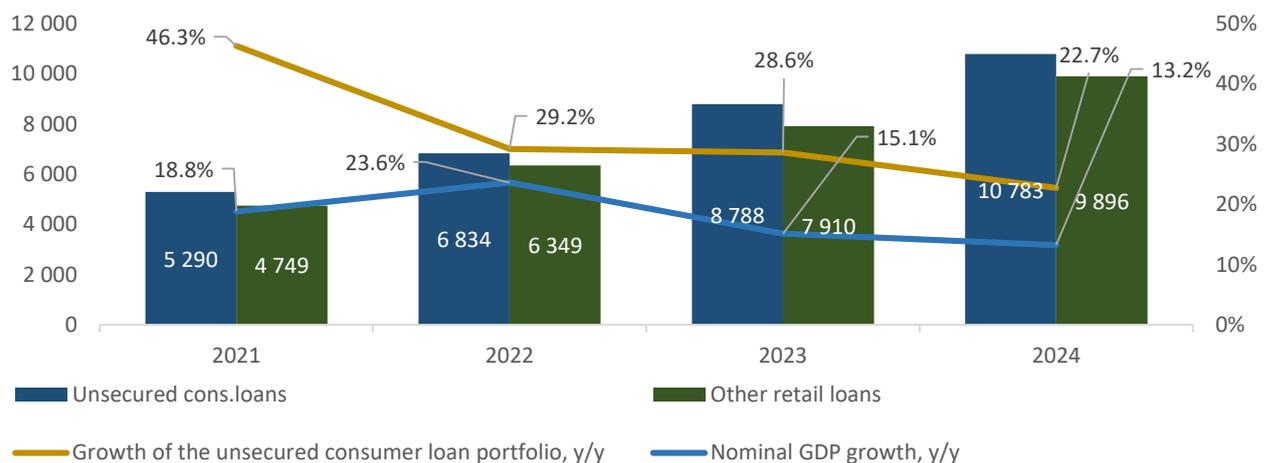
4.3 Unsecured Consumer Loans

The growth rates of the portfolio of unsecured consumer loans in 2024 slowed down, while the absolute growth of the portfolio remains at the level of 2023. The main share of growth falls on borrowers with a total loan amount of 1 mln tenge and above. As the amount of debt increases, the share of borrowers with a high debt burden ratio also increases. Stage 3 loans under IFRS are concentrated in the group of borrowers with a debt amount of "1 mln - 5 mln" in banks with the highest share of unsecured consumer loans.

As of the end of 2024, the portfolio of unsecured consumer loans (hereinafter referred to as UCL) reached 10.8 trln tenge. Although the growth rate of the UCL portfolio in 2024 remained high, its dynamics have slowed down compared to prior years. Thus, the UCL portfolio grew by 22.7% against an annual growth of nominal GDP of 13.2% (Figure 4.19). The absolute increase in the principal debt under UCL in 2024 amounted to 1,995 bln tenge, which is comparable to the level of 2023 (1,954 billion tenge). Maintaining similar growth rates for two consecutive years is an evidence of stable demand for this type of loans from the population.

Figure 4.19 Growth rates of the UCL portfolio have slowed down, while absolute portfolio growth remains at the 2023 level

Dynamics of UCL compared to the GDP dynamics



Source: Credit Register, BNS RK

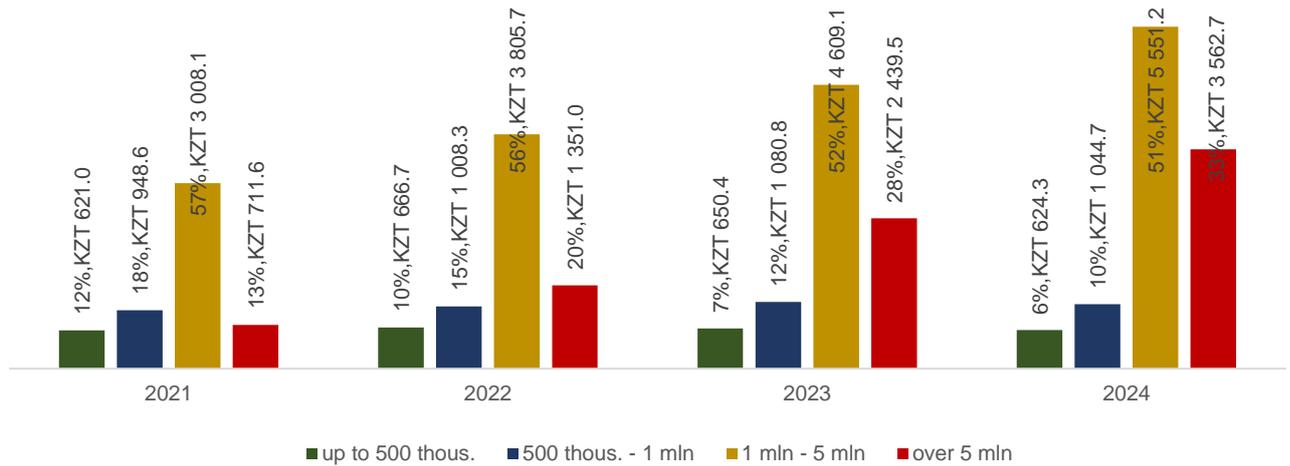
¹⁵Resolution of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market dated August 16, 2024 No. 61 “On approval of the requirements to the amount of bank consumer loan and consumer microloan”

¹⁶ Resolution of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market dated August 16, 2024 No.55 “On approval of the Rules for receiving the consent of a spouse for the provision of a bank loan or microloan to an individual, the minimum size of a bank loan or microloan, according to which the consent of the spouse is necessary for the provision of bank loan or microloan to an individual”

At the end of 2024, the bulk of UCL is concentrated among borrowers with a total principal debt of over 1 mln tenge, which accounted for 84% of the banks' UCL portfolio (Figure 4.20). At the same time, the largest amount of principal debt in the UCL portfolio falls on the segment of borrowers with a total debt of “1 mln - 5 mln” in the amount of 5,551 bln tenge.

Figure 4.20 The borrowers with a total sum of loans from 1 mln tenge or more account for a major share in the UCL portfolio

Loan portfolio volumes by groups, based on the debt amount (billion tenge) and arranged by years



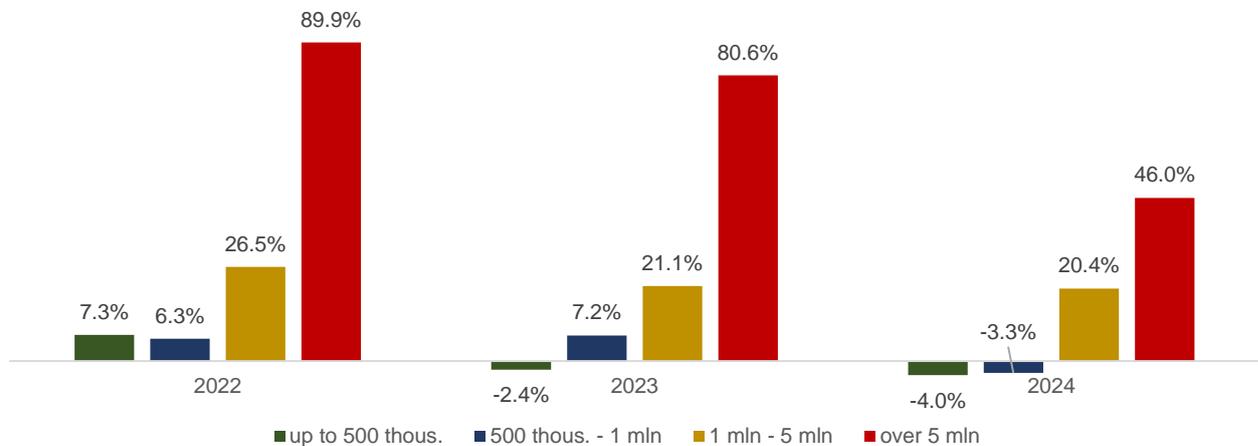
Source: Credit Register

Note: Groups based on the debt amount were determined by adding up the debt balance on all effective UCLs of a borrower as at the end of each year

At the same time, despite the absolute increase in the group of loans over 5 mln tenge, its growth rate in 2024 decreased by 2 times – from 80.6% in 2023 to 46% in 2024 (Figure 4.21). It is worth mentioning the first reduction in three years of the group of loans “1 mln - 5 mln” and the continued decline in the growth rate of the UCL portfolio in the “500 thousand - 1 mln” group.

Figure 4.21 The portfolio of segments with a total debt amount from 1 mln tenge is increasing, while their growth rates are decelerating

An annual growth of segments of the UCL portfolio by debt groups

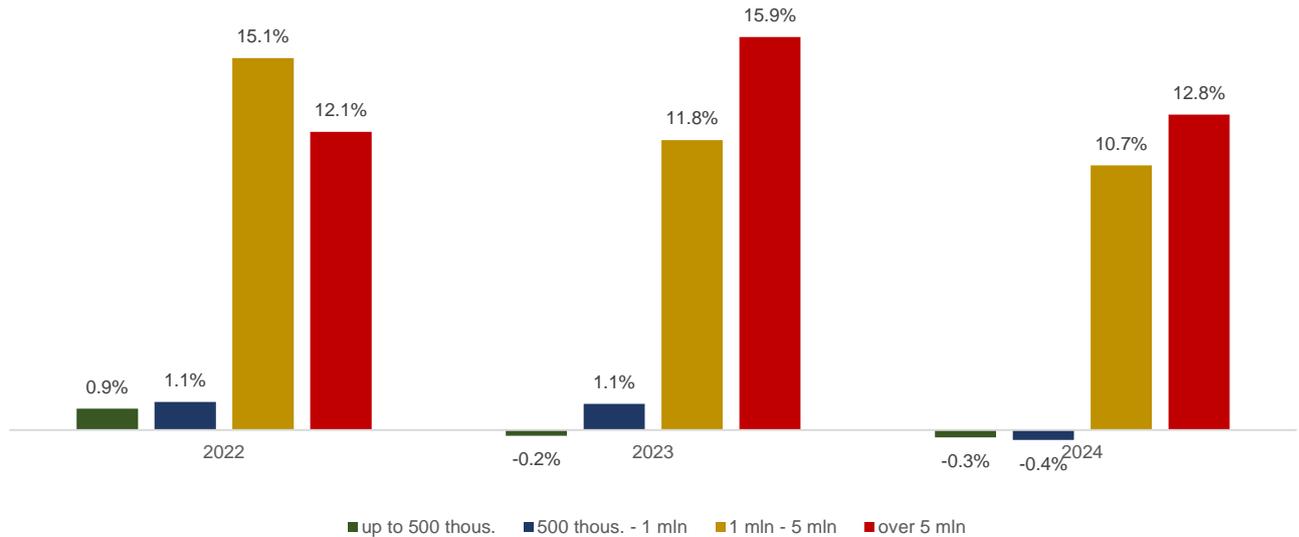


Source: Credit Register

In 2024, the contribution of groups by the debt amount to the growth of the UCL portfolio was demonstrating divergent dynamics (Figure 4.22). During the reporting year, UCL portfolio grew at the expense of borrowers with a total debt of over 1 mln tenge. At the same time, the contribution of the group with a total loan amount of up to 1 mln tenge slightly decreased. The contribution of the group of loans with an amount from 1 to 5 mln tenge to UCL's growth was 10.7%. The largest contribution of 12.8% was made by the segment from 5 mln tenge.

Figure 4.22 In 2024, the UCL portfolio had grown owing to the borrowers with the total loan volume exceeding 1 mln

The contribution to the UCL growth, by debt groups

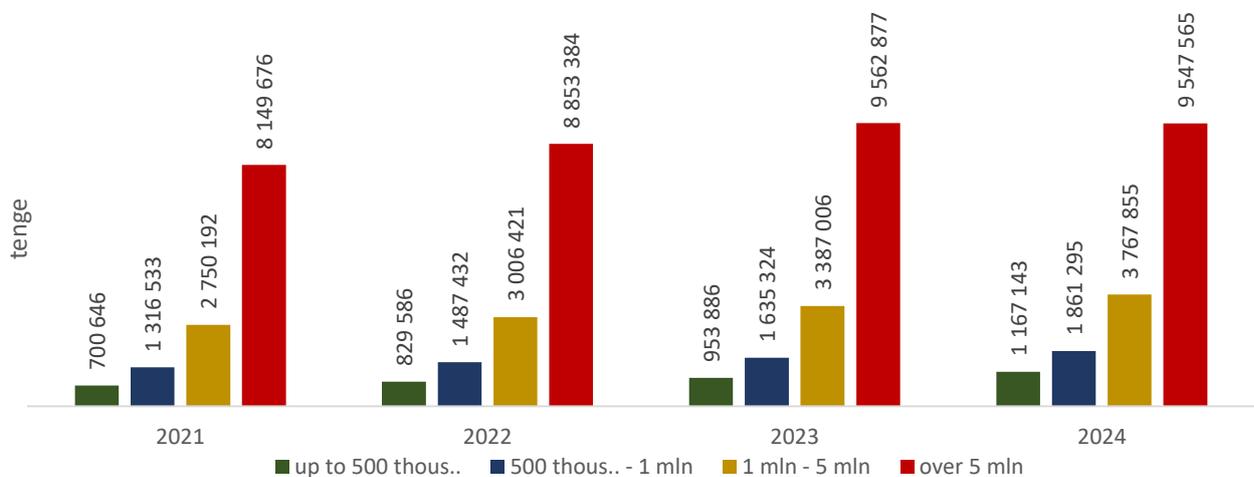


Source: Credit Register

The total amount of debt in the UCL portfolio, on average, per borrower, broken down by groups based on the debt size, in 2024 remained at the 2023 level (Figure 4.23).

Figure 4.23 The loan portfolio in the segment of borrowers with the debt amount over 5 mln tenge is growing due to the number of their loans

The total debt amount per one borrower

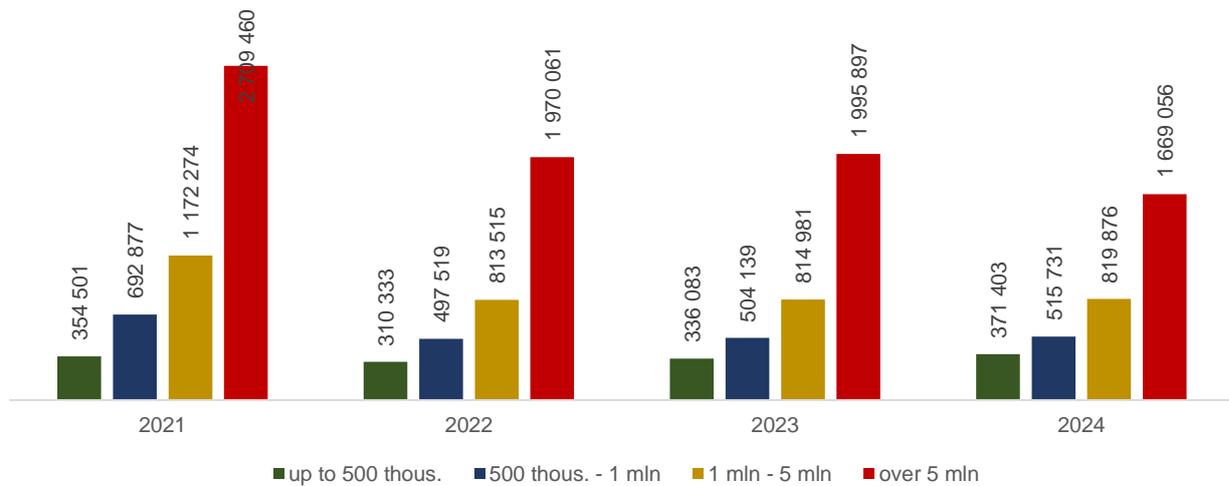


Source: Credit Register

In the group of borrowers with a total debt of over 5 mln tenge, the average loan amount per borrower decreases compared to prior periods (Figure 4.24). This decrease is stemming from the fact that borrowers increased their total debt due to the number of new loans. This resulted in that an average principal debt amount per borrower remained unchanged, but an average loan amount of a borrower had decreased. Therefore, the growth of the UCL portfolio was realized owing to those borrowers who increased their total debt due to the number of loans, and also moved from one group to another because of an increase in the loan amount (for example, from the “1 mln - 5 mln” group to the “more than 5 mln” group).

Figure 4.24 An average loan amount of a borrower is decreasing in the group of borrowers with a total debt amount from 5 mln tenge

An average debt amount per one loan of one borrower

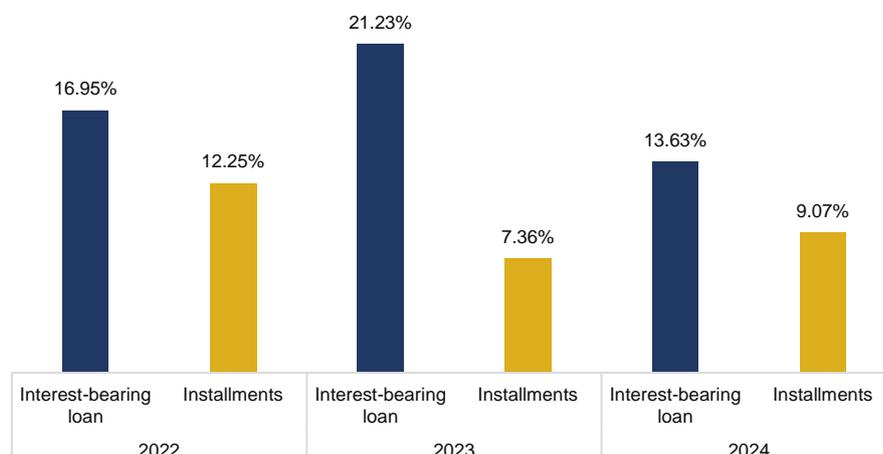


Source: Credit Register

In terms of loan types based on the interest rate, the main contribution to the growth of UCL portfolio in 2024 has been made by interest-bearing loans (Figure 4.25). At the end of 2024, 14 pp of the 23% growth in the UCL portfolio consists of interest-bearing loans, in 2023 this figure was 21 pp. This trend is ongoing from 2022, where the main contribution to the growth was secured by interest-bearing loans.

Figure 4.25 Over the recent 2 years, the growth in the UCL portfolio has mostly been influenced by interest-bearing loans

The annual growth of UCL by loan types based on the interest rate



Source: Credit Register

Note:

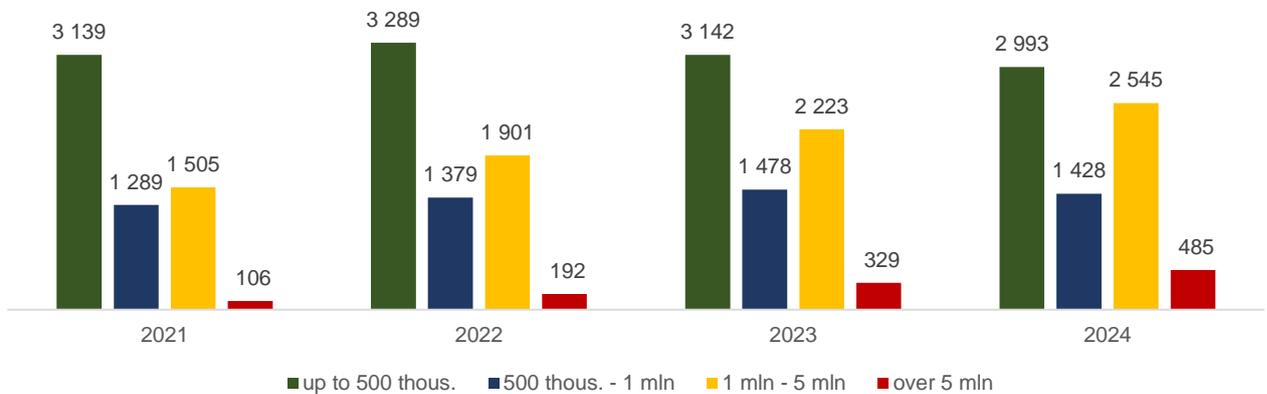
1) *Interest-bearing loan means loans that are not “installment plans” as defined above, which means a loan in which the borrower undertakes to pay an amount of interest on the borrowed funds in addition to the principal amount of debt (the principal amount of the loan).*

2) *Loans classified as installment plans include cases in which the object of lending is consumer goods and services (except for motor vehicles), the purpose of lending is indicated as acquisition/purchase, there is no collateral, the type of lending is a loan, and the interest rate is less than 1%. Credit cards with an interest rate of less than 1% are also included in the installment plan category.*

At the end of 2024, the total number of UCL borrowers amounted to 7.45 mln people. At the same time, the number of borrowers with a total debt from 1 mln to 5 mln tenge and over 5 mln tenge increased and equaled 2,545 thousand and 485 thousand individuals, respectively (*Figure 4.26*). Such continuous growth of both borrowers and principal debt in the segment of total debt over 1 mln tenge indicates a further increase in the debt burden per borrower.

Figure 4.26 The number of borrowers with a total debt amount of “from 1 mln to 5 mln tenge” and “5 mln tenge and more” has increased

Number of borrowers by groups by debt amount and arranged by years



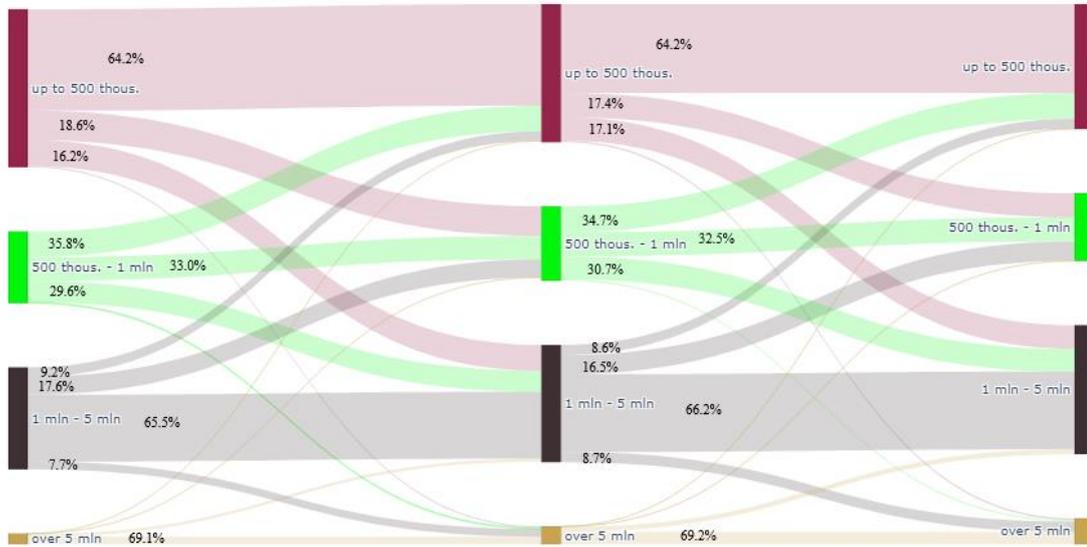
Source: Credit Register

An analysis of the transition of borrowers between groups by the amount of debt in 2024 shows that borrowers are increasingly moving to categories with higher debt, or remaining in their group (*Figure 4.27*):

- 17.1% borrowers from the “up to 500 thous.” group moved to the segment of “1 mln – 5 mln”;
- 8.7% borrowers from the “1 mln – 5 mln” group increased their debt to “over 5 mln”;
- 69.2% remained in the “over 5 mln” group, having retained their existing debt burden.

Such dynamics suggest that more and more borrowers are faced with the need to increase their unsecured borrowing volumes, which could indicate both a decline in real income and the increased dependence on borrowed funds

Figure 4.27 The major share of borrowers in the group of “up to 500 thous.” remains in the same group



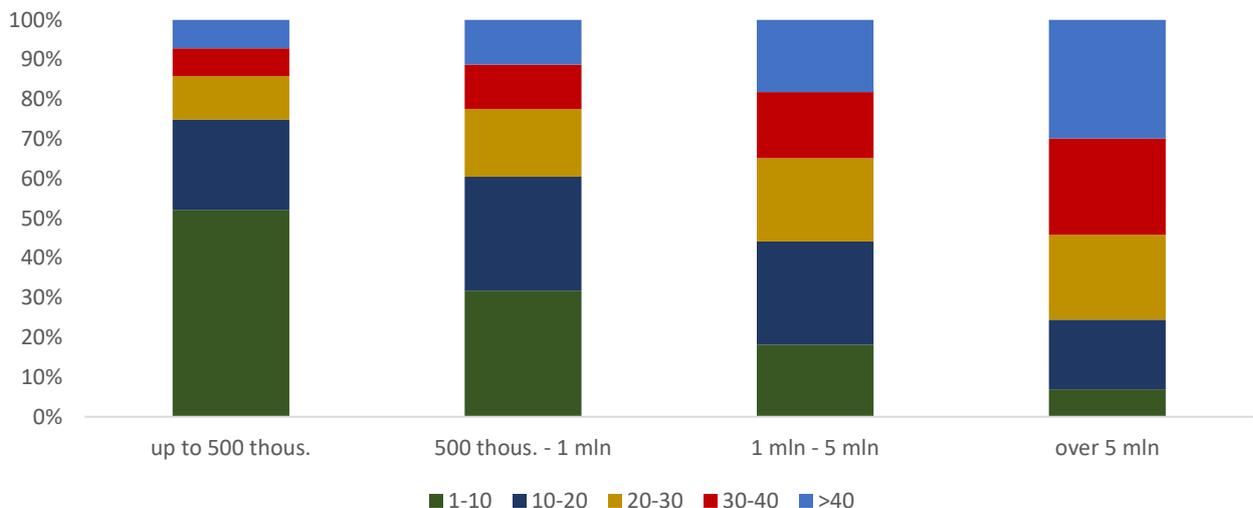
Source: Credit Register

Note: The Figure shows borrower transitions between groups from the end of 2022 to the end of 2023 and from the end of 2023 to the end of 2024.

An analysis of the distribution of borrowers by the level of debt burden based on the DSTI depending on the loan amount shows that in the group with the smallest loan volume (up to 500 thousand), borrowers with a debt burden of up to 10% prevail, while among borrowers with loans over 5 mln, there is a significant increase in the share of those who spend more than 30% of their income on debt servicing (Figure 4.28). The segment with a debt burden above 40% increases especially sharply, which is an evidence of potentially heightened credit risks for borrowers with large loan amounts.

Figure 4.28 As the debt amount is growing, the share of borrowers with a high debt burden is increasing

The distribution of borrowers by the level of debt burden (DSTI) depending on the loan amount



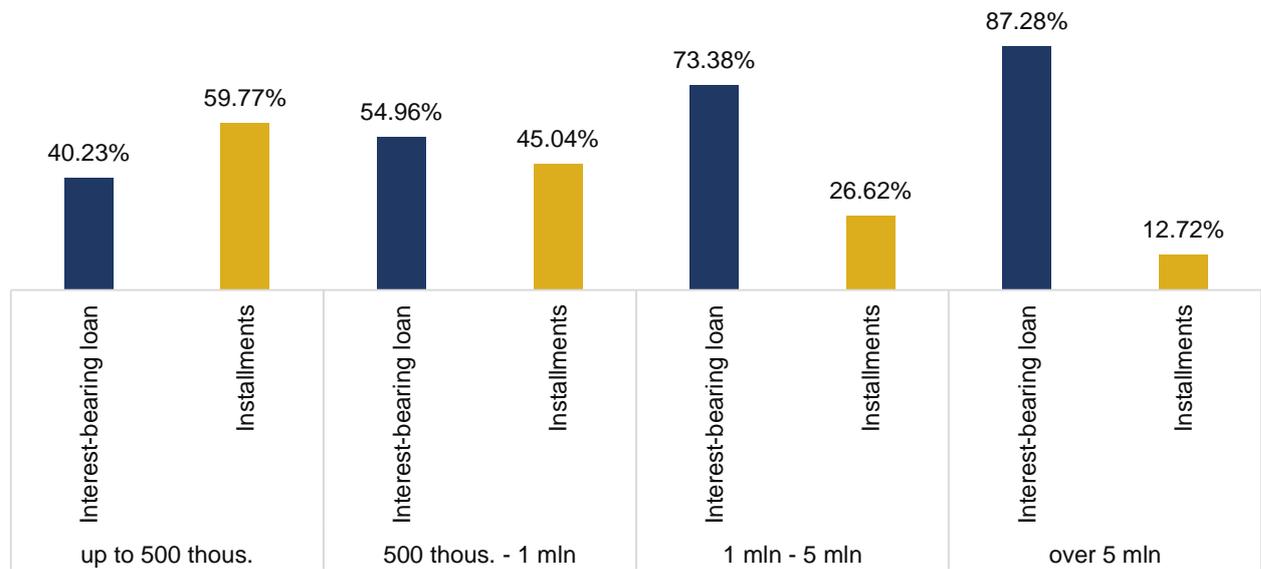
Source: Credit Register

Note: The borrower's debt ratio is calculated as the ratio of the monthly payment on all outstanding loans of the borrower, including the amounts of overdue payments on all outstanding loans, and the average monthly payment on the borrower's new debt to the average monthly income of the borrower over the past 6 months.

It is important to consider not only the level of the debt burden itself, but also the terms on which loans are provided. One of the key factors affecting the borrower's debt burden is the presence or absence of interest on the loan. In the group of borrowers with a debt of up to 500 thousand tenge, 60% of loans are “installments”, and 40% are interest-bearing loans. In the next group (500 thousand - 1 mln), there is a predominant share of interest-bearing loans (55%) (*Figure 4.29*). In the “1 mln - 5 mln” category, the share of installments decreases to 27%, while 73% of loans are originated as interest-bearing loans. In the largest category (over 5 mln), the share of installments is only 13%, and the overwhelming majority (87%) is an interest-bearing loan. Thus, the higher the total debt of the borrower, the less often loans are provided at a zero rate.

Figure 4.29 The higher a borrower's total debt, the less frequently interest-bearing loans are provided

The share of loans, by groups, based on the loan volume and the loan type depending on interest rate



Source: Credit Register

Note:

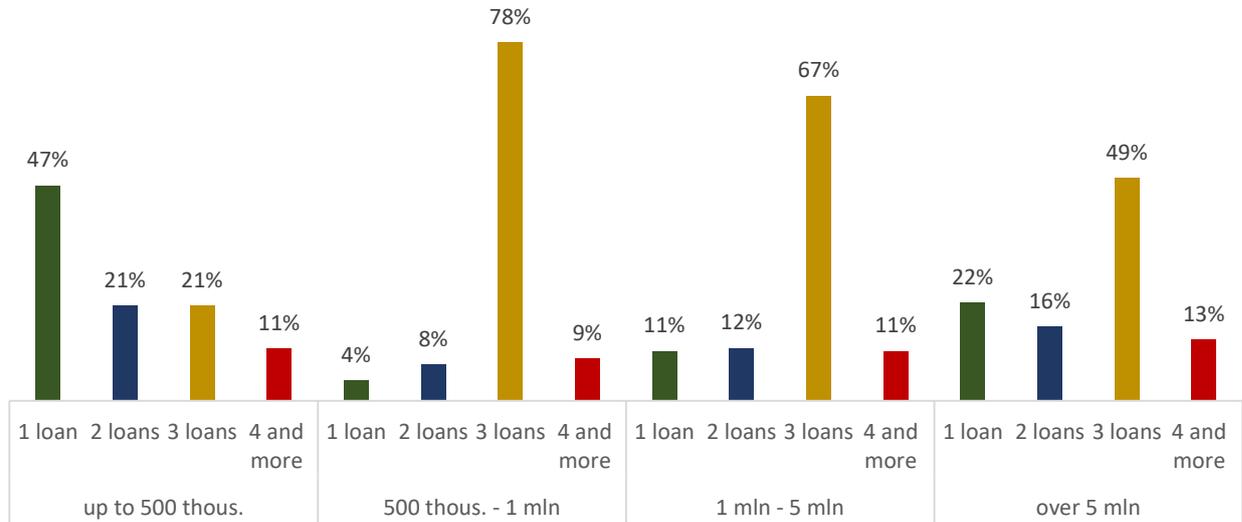
- 1) *Interest-bearing loan means loans that are not "installment plans" as defined above, which means a loan in which the borrower undertakes to pay an amount of interest on the borrowed funds in addition to the principal debt of the loan (the principal amount of the loan).*
- 2) *Loans classified as installment plans include cases in which the object of lending is consumer goods and services (except for motor vehicles), the purpose of lending is indicated as acquisition/purchase, there is no collateral, the type of lending is a loan, and the interest rate is less than 1%. Credit cards with an interest rate of less than 1% are also included in the installment plan category.*

As the total debt under UCL increases, so does the number of loans per borrower (*Figure 4.30(a)*). In terms of the number of loans held by borrowers in all groups arranged by the loan amount, borrowers with four or more loans have the smallest share, no higher than 13%. The group of loans from 500 thousand to 5 mln tenge has a high share of borrowers with three loans.

If we consider not only UCL, but also all retail loans, a different situation is observed. Most borrowers when broken down by debt groups have 4 or more loans, and from the group “up to 500 thousand” to “more than 5 mln” the share of borrowers with “4 loans or more” increases and reaches 73% of all borrowers in this group (*Figure 4.30 (b)*). Thus, the high share of borrowers in the group “4 or more loans” in the largest debt groups proves the trend that the debt burden increases due to an increase in the number of loans.

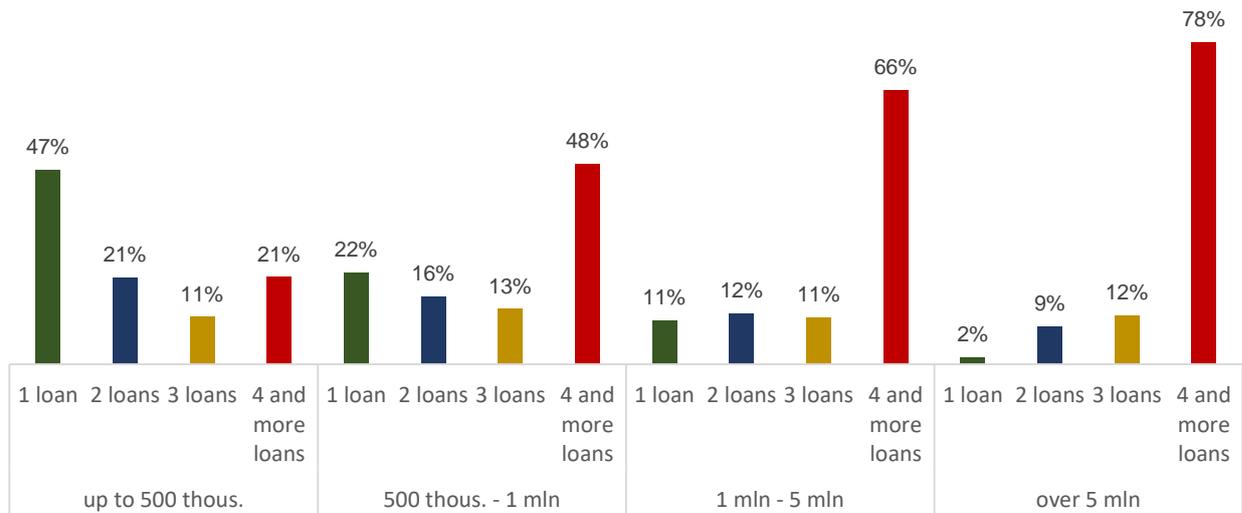
Figure 4.30 (a) Borrowers with a small total debt on UCL (up to 500 thous. tenge) most often have only one loan

The distribution of borrowers in terms of UCL quantity depending on the loan amount



Source: Credit Register

Figure 4.30 (b) Borrowers with a large total debt typically have 4 and more retail loans
Distribution of borrowers by the quantity of retail loans depending on the loan amount



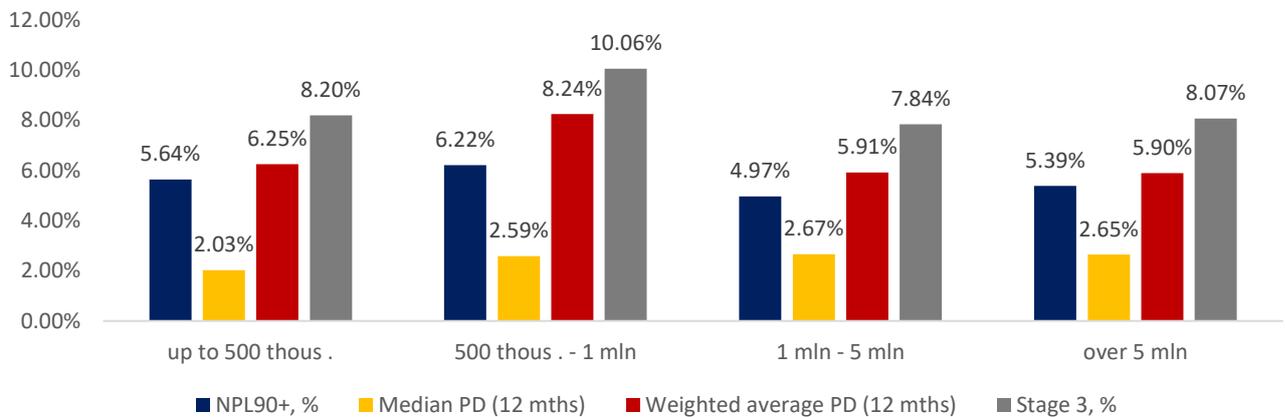
Source: Credit Register

A high share of the loan portfolio in the segment over 1 mln tenge, as well as a high total amount of unsecured loans per borrower, requires banks to conduct a qualitative assessment of the financial condition and solvency of borrowers with large debts. At the end of 2024, the level of non-performing loans in UCL remains low. According to STB estimates, the credit risk levels of this portfolio at the end of 2024 remain moderate. Thus, the highest levels of the average weighted PD over a 12-month horizon are observed in the segments with a loan amount from 500 thousand to 1 mln tenge. Meantime, the median PD values do not exceed 3%.

All risk metrics, except for the “Median PD (12 months)”, show an identical distribution of problem loans. Thus, a high share of problem loans is located in the debt group of “500 thous. – 1 mln” (Figure 4.31).

Figure 4.31 The proportion of borrowers with non-performing loans in UCL segments does not exceed the weighted average probability of default according to STB estimates.

The probability of default and non-performing loan ratio by the loan size group



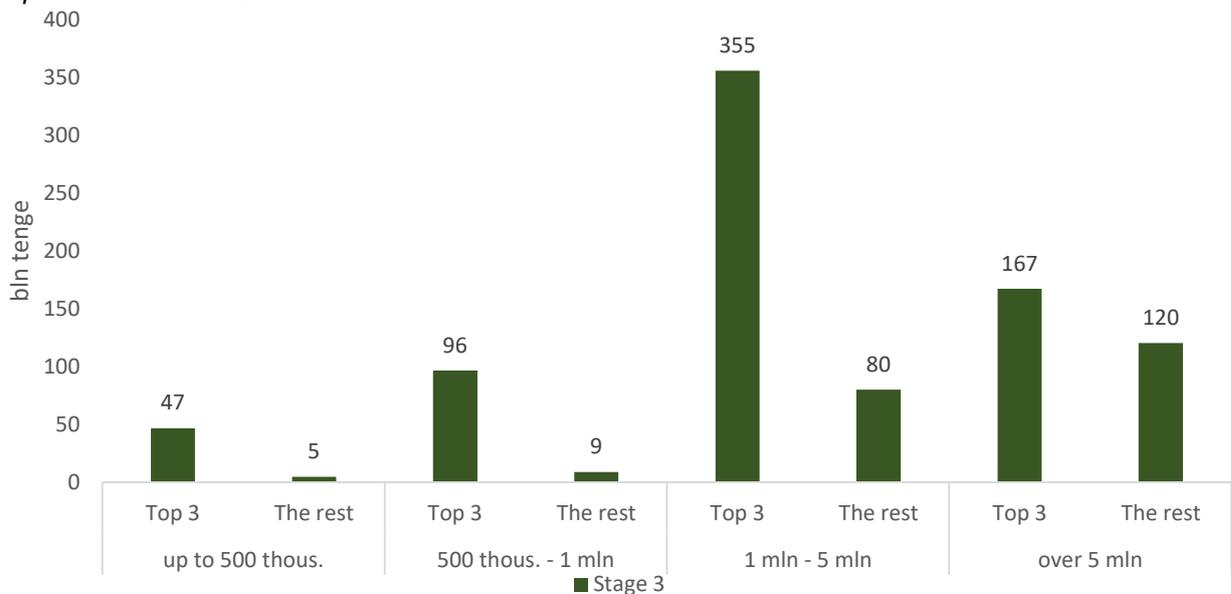
Source: Credit Register

Note: Each loan has a corresponding probability of default (PD 12 months), calculated by the bank independently in accordance with its own internal methodology for credit risk assessment.

Given the significant share of the borrower segment with a total debt of over 1 mln tenge, the bulk of stage 3 loans is concentrated in this group (Figure 4.32). At the same time, in all groups by debt amount, the bulk of stage 3 loans belongs to 3 large banks with the largest share of UCL in the retail portfolio. The largest volume of stage 3 loans in these banks is observed in the “1 mln - 5 mln” group, while for the rest of the banks, the bulk belongs to the “more than 5 mln” debt group.

Figure 4.32 The bulk of stage 3 loans are from the 1mln–5mln borrower group in banks with the largest shares in the UCL portfolio

The share of debt volume and stage 3 loans by bank groups based on the loan portfolio volume and borrower groups based on debt volume



Source: Credit Register

Note: Banks (17 banks) with the UCL portfolio on their balance sheets are divided into 2 groups based on the size of their loan portfolio as of 01.01.2025:

- 1) Top 3 – 3 banks with the largest volume of UCL in the retail portfolio;
- 2) Others – other banks in the UCL portfolio.

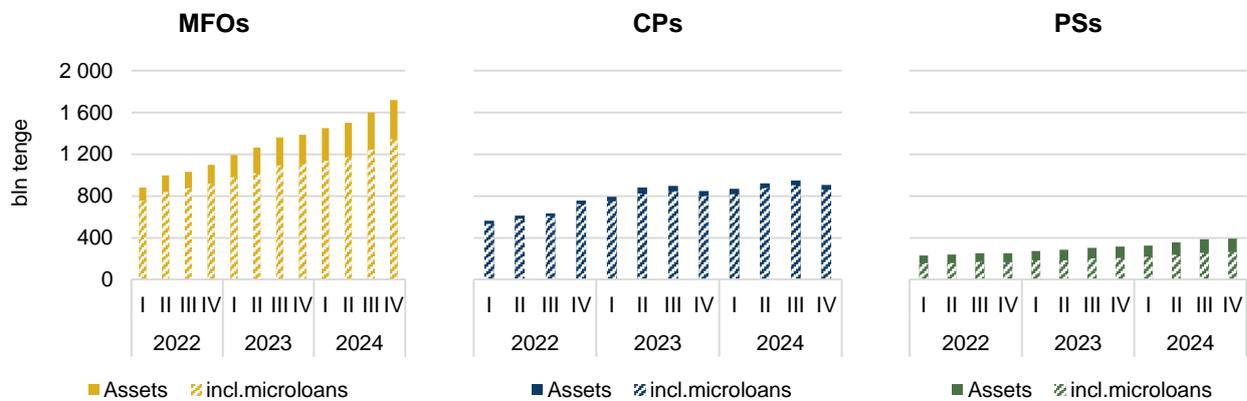
4.4 Microfinance Organizations

A noticeable increase in assets, as well as the number of borrowers and loans, shows the persisting positive dynamics in the development of microfinance activity in 2024. At the same time, the loan portfolio quality in the microfinance segment has slightly deteriorated. Tightening of certain regulatory requirements has led to a decrease in the share of consumer microloans, including PDL loans¹⁷. Given the dynamic development of the segment, as well as changes in legislative norms that ensure the possibility of transformation into a bank, some large MFOs have begun to actively work on transforming into banks.

Total assets of organizations engaged in microfinance activities (OEMFA) continued to show significant growth and increased by 18.4% during 2024 to 3,016.1 bln tenge. In particular, MFO assets increased by 24.1% (to 1,718.8 bln tenge), assets of CPs – by 6.9% (to 905.8 bln tenge), and those of PSs – by 24.2% (to 391.5 bln tenge). Traditionally, the increase in OEMFA assets was ensured by the growth in the volume of microloans. Thus, in 2024, the microloan portfolio ramped up by 16.8% and amounted to 2,467.8 bln tenge: in MFOs – by 21.5% (up to 1,345.2 bln tenge), CPs – by 7.3% (up to 858.1 bln tenge) and PSs – by 28.6% (up to 264.5 bln tenge). For comparison, total assets of STBs during the analyzed period expanded by 19.7%, up to 61.6 bln tenge, the loan portfolio – by 21.2%, up to 35.4 bln tenge. Thus, OEMFA account for about 6.5% of the segment of lending provided by financial institutions¹⁸.

Figure 4.33 High growth dynamics of assets and loans¹⁹ originated by OEMFAs persisted during 2024

Book value at the end of the corresponding quarter



Source: National Bank

In 2024, the number of loans and the number of borrowers in OEMFA continued to grow. It is worth mentioning the relatively fast growth rate of the number of loans compared to the number of borrowers (Table 4.1). Therefore, such dynamics are reflected in the ratio of an average number of loans per one borrower.

¹⁷ Short-term loans for up to 45 days in the amount of up to 45 MCI (in 2024, 3,692 tenge).

¹⁸ OEMFAs and STBs.

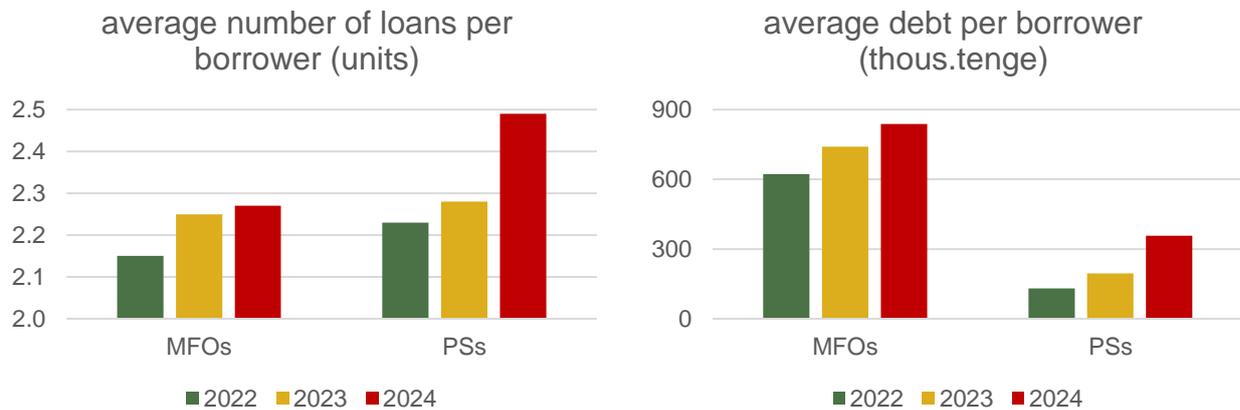
¹⁹ Minus impairment reserves.

Table 4.1 The number of borrowers and loans of all OEMFA types increased in 2024

OEMFA type	Growth in the number (y/y)	
	Borrowers	Loans
Microfinance organizations	10.1%	11.1%
Credit partnerships	1.6%	2.2%
Pawnshops	3.1%	12.8%
Total OEMFAs	9.7%	11.7%

Source: SCB

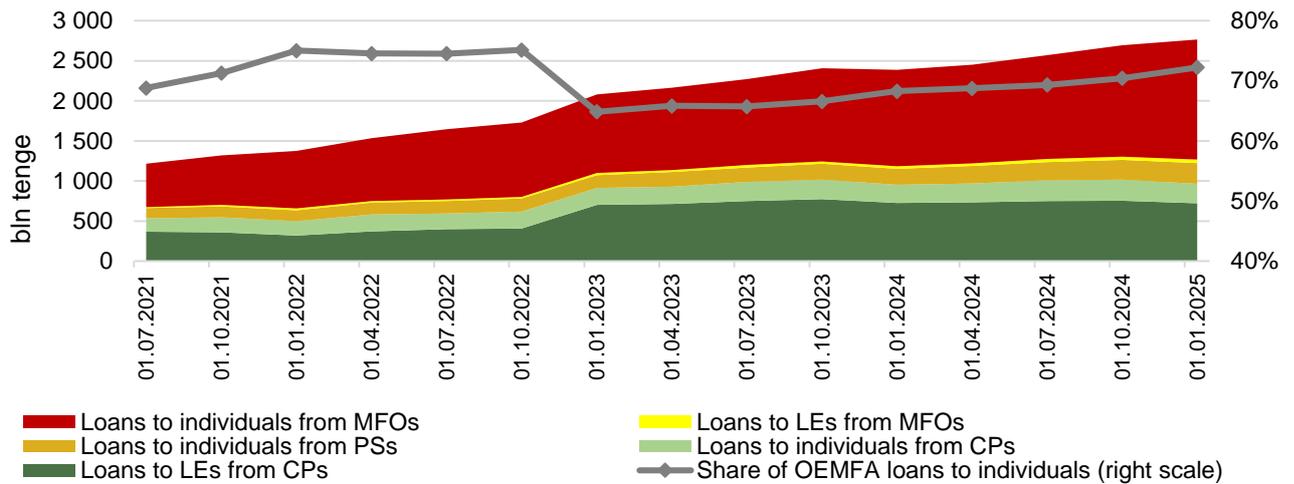
As of January 1, 2025, there were 2.7 loans per borrower on average across all OEMFAs, including: MFOs – 2.3; CPs – 1.9; and PSs – 2.5. The growth in the number of loans per borrower in 2024 across all OEMFAs indicates an increase in the number of microloans that are serviced in parallel in MFOs and PSs (Figure 4.34). The persistence of growth dynamics of the average number of loans per borrower points to a further increase in the debt burden of the population, since the bulk of such borrowers come from MFOs and PSs, which focus on lending to individuals.

Figure 4.34 An average number of loans and average debt per borrower of MFOs and PSs increased in 2024

Source: SCB

The share of retail loans in the OEMFA portfolio during 2024 increased by 5.1 pp and amounted to 73.4% (Figure 4.35). This growth has largely resulted from active growth of the MFO portfolio, which accounted for 70.7% of the total volume of loans to individuals as of January 1, 2025. MFO microloans to individuals also include loans to individual entrepreneurs, which accounted for 13.2% of the volume of microloans to individuals as of the reporting date. At the same time, the portfolio of microloans to legal entities remained at the level of the previous year. Such dynamics are driven by the prevailing share of CPs (94.1%) in lending to legal entities, with the portfolio decreasing by 1% at the end of 2024.

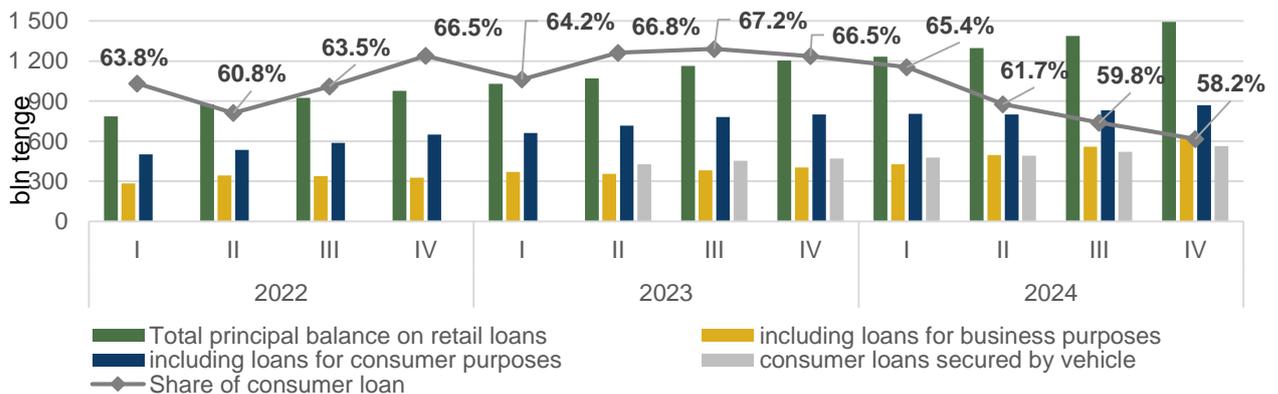
Figure 4.35 Retail loans from MFOs served as the growth driver for the OEMFA microloan portfolio during 2024



Source: National Bank

In the structure of MFO loans to individuals, the share of consumer microloans decreased by 8.3 pp and accounted for 58.2% (Figure 4.36). Such reduction resulted from a number of regulatory measures. In particular, according to representatives of the MFO segment²⁰, the absence of the officially confirmed income of the MFO clients as well as insufficient volume of bank transactions for its indirect confirmation make it more difficult for MFOs to comply with the tightened requirement to the calculation of DSTI (Box 4.3). As a consequence, a number of MFOs have reoriented their resources to lending to individuals for entrepreneurial purposes, including those without official registration of entrepreneurial activity, classified as self-employed, for which DSTI calculation is not required.

Figure 4.36 During 2024, the share of MFO microloans provided for consumer purposes noticeably decreased



Source: National Bank

Note: In accordance with the amendments to the Resolution of the Board of the National Bank dated November 28, 2019 No. 222, from July 1, 2023, the requirements to MFO reporting were expanded in terms of the structure of microloans provided (including the addition of a criterion for the type of collateral)

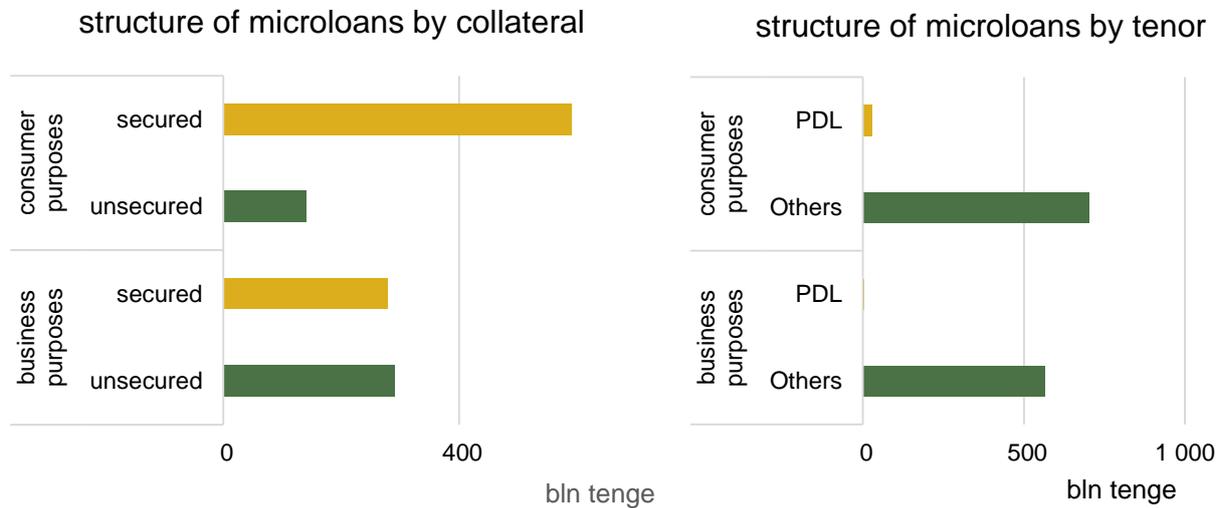
As of January 1, 2025, 81% of MFO's consumer microloans portfolio is made up of collateral-backed microloans. In particular, 64.8% of consumer microloans are secured by motor vehicles, with car loans accounting for the bulk of the volume. To stimulate the

²⁰ As part of a quarterly survey of banks on lending based on the results of the fourth quarter of 2024, (<https://nationalbank.kz/ru/news/predydushchie-publikacii-opros/rubrics/2088>) meetings were held with individual large MFOs, whose assets account for more than 50% of the assets of all MFOs.

development of the domestic auto industry, in the second quarter of 2024, the AFR reduced the risk-weighting of consumer microloans secured by motor vehicles from 150% to 100%, which allowed MFOs to free up additional capital. In turn, collateral-backed microloans account for only half of the business microloan portfolio (*Figure 4.37*).

Figure 4.37 In the structure of MFO microloans to individuals, loans with a tenor over 45 days and loans secured with collateral constitute the main volume

Book value as of 01.01.2025



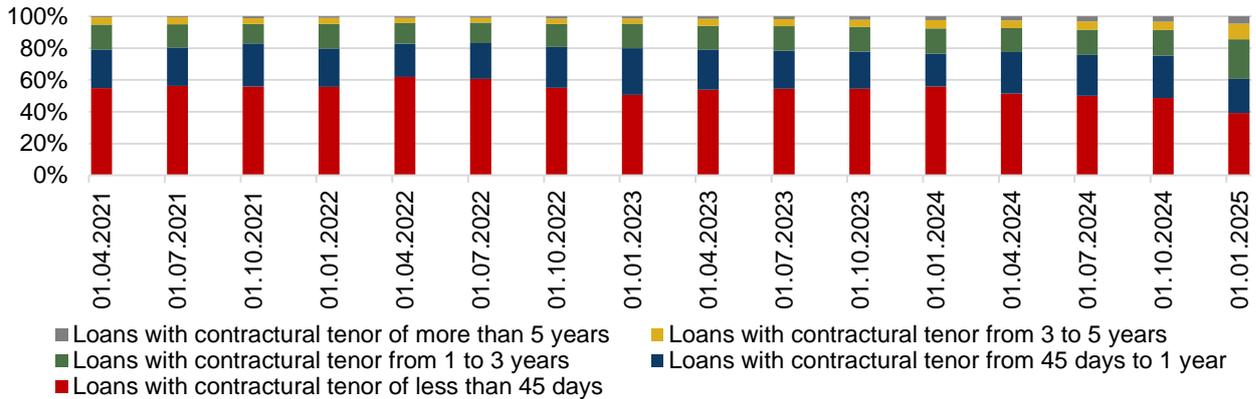
Source: National Bank

In turn, as a result of tightening requirements to PDL loans, including a reduction in the annual effective interest rate (AEIR) cap, the share of such loans has decreased to 4% of the total volume of consumer microloans and to 1% of microloans provided for business purposes. For comparison, at the beginning of 2024, these figures were 21% and 4%, respectively. At the same time, it is necessary to take into account some changes in terms of the signs for determining PDL during 2024²¹. Moreover, the number of MFOs in the PDL segment decreased from 65 to 48 during 2024. Thus, the share of concluded loan agreements with a tenor of up to 45 days went down by 16 pp and amounted to 39% as of January 1, 2025 (*Figure 4.38*).

²¹ In the law on microfinance activities, from June 19, 2024, paragraph 3-1 of Article 4 was excluded, which classified PDL loans as microloans with a tenor of up to forty-five calendar days, in an amount not exceeding **fifty times** the monthly calculation indicator. At the same time, by a joint resolution of the Board of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market dated August 16, 2024 No. 62 and the Resolution of the Board of the National Bank of the Republic of Kazakhstan dated August 19, 2024 No. 45, microloans with a tenor of up to forty-five calendar days are separately classified, in an amount not exceeding **forty-five times** the monthly calculation indicator.

Figure 4.38 The share of loan agreements with a tenor of up to 45 days (PDL loans) decreased during 2024 due to a number of regulatory measures.

By the number of loan agreements



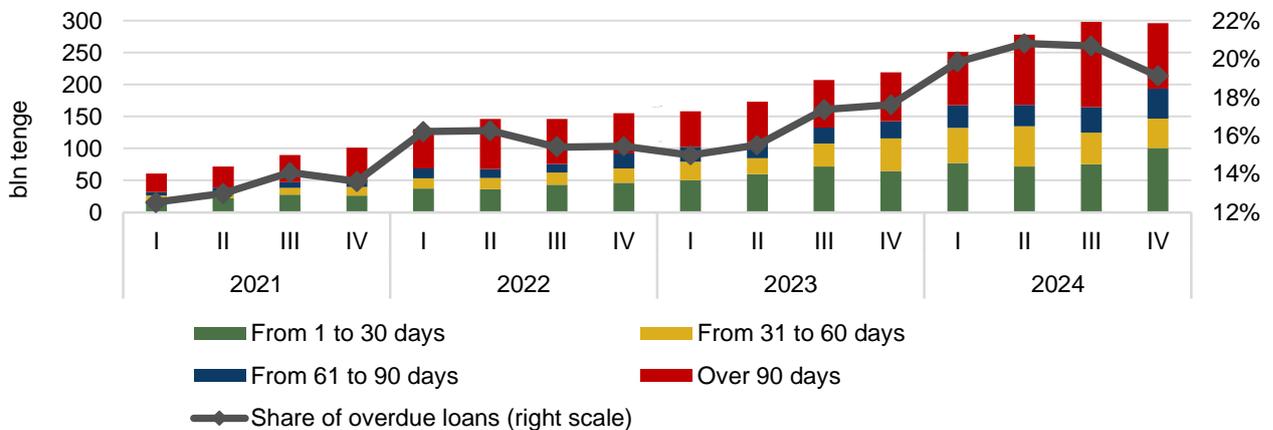
Source: SCB

Note: National Bank evaluation

As a result of reduction in the share of short-term loans, the average tenor of loans increased. Thus, the average tenor of loans provided by MFOs during 2024 increased from 6 to 14 months, while the average weighted maturity of the portfolio for the remaining term for the specified period was 25 months, which is one month more than the previous year's figure.

The quality of the OEMFA loan portfolio deteriorated in 2024, largely due to the MFO segment. Regulatory tightening, including the imposition of a moratorium on the sale of problem loans to collectors from July 1, 2024 to May 1, 2026, led to an increase in the share of overdue loans of MFOs. In addition, from May 1, 2026, OEMFAs can sell problem loans after two years have passed since the borrower became 90+ days past due. As a result, MFOs began to carry out their own measures to resolve problem loans, which slightly improved the quality of the portfolio by the end of the year. Their own resolution measures also include engaging collectors as an external operator to receive agency services. Thus, despite some recovery in the quality of the MFO loan portfolio, the share of overdue loans during 2024 increased by 1.5 pp to 19.1% (Figure 4.39). The ongoing growth in the share of overdue debt is an evidence of increase in credit risk in the MFO segment.

Figure 4.39 The share of overdue loans in the total volume of loans provided by MFOs increased during 2024



Source: National Bank

The share of overdue loans in the total volume of loans provided by MFOs increased during 2024:

- *the lack of tools and procedures for a comprehensive and transparent assessment of borrower risk in most MFOs*, including the level of his/her solvency;
- *increased risk appetite of MFOs due to tighter regulatory requirements that lead to increased reserves and additional costs related to loan resolutions, potentially reducing MFO profits and motivating them to offset costs through aggressive lending policy*²²;
- *growth in debt burden*, including an increase in the average number and volume of loans per borrower, which complicates their servicing and increases the likelihood of default. In this case, it is necessary to take into account the non-regulated activities of credit brokers, which provide the opportunity for credit shopping²³, allowing DSTI requirements to be bypassed and increasing the borrower's debt burden;
- a specific feature of the MFO's client base – borrowers with a higher level of credit risk.

In turn, during the fourth quarter of 2024, there is an increase in the share of loans past due for up to 30 days by 1.3 pp to 6.5%, despite a noticeable decrease in NPL90+ from 9.2% to 6.6% over the specified period. This trend may indicate that the lack of possibility of direct sale of problem loans motivates a number of MFOs to restructure or write off such loans off their balance sheet and, in the case of recovery, to recognize such loans back in the balance sheet. Such actions by MFOs reflect the poor quality of credit decisions made. Timely supervision and effective assessment of MFO activities require the need to track the fact of loan restructuring or write off the balance sheet through reporting. The practice of restructuring and writing off assets can temporarily smooth out credit risk indicators. As a result, there remains a relatively high probability of the borrower's recurring delinquency.

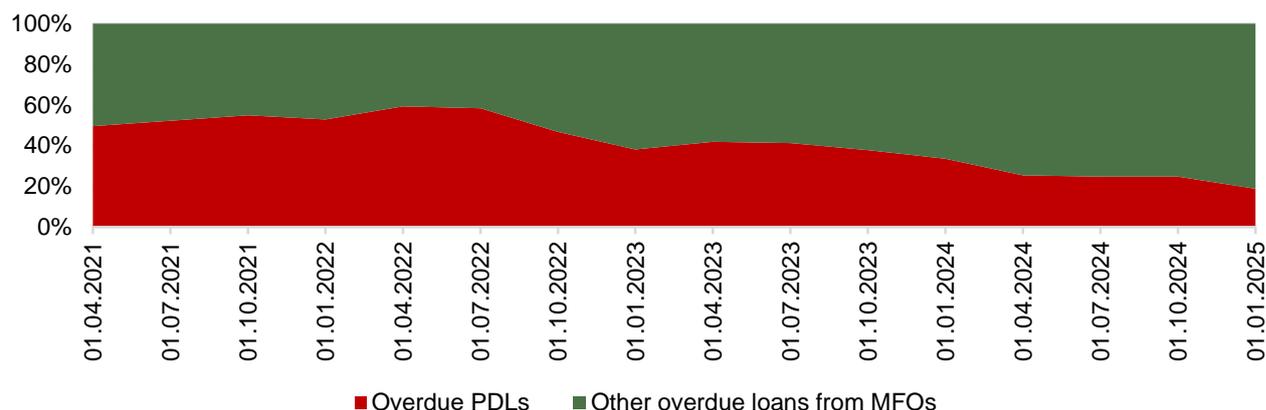
The portfolio quality structure of the five largest MFOs, which account for 57% of the segment's portfolio, is somewhat different. Thus, the share of total overdue debt of these MFOs of their microloan portfolio in 2024 increased from 9.7% to 9.9%, and NPL90+ – from 4.1% to 5.1%. A lower level of total overdue debt, with their main share falling on NPL90+, shows a relatively transparent portfolio and moderate risk appetite of such MFOs. Thus, low portfolio quality of small participants, as well as the low quality of MFO credit decisions, increases credit risks of the segment as a whole.

In the lending survey, a number of MFOs pointed out some influence of third parties that provide services to borrowers to form various schemes for writing off a loan or obtaining bankruptcy status for solvent clients, artificially worsening the quality of the portfolio. In addition, some large MFOs in the car lending segment mentioned a long-term deterioration in the quality of loans for a number of borrowers due to the presence of a significant price gap between the primary and secondary markets for motor vehicles, which led to an overestimation of the cost of motor vehicles at the time of purchase and reduced possibility of selling them in the secondary market at such price, which brings down the interest in the timely fulfillment of their obligations under car loans. At the same time, according to such MFOs, the peak of overestimation and, as a result, becoming delinquent, was at the beginning of 2024 and a gradual recovery in the quality of their portfolio is spotted. In addition, MFOs highlight an increase in cases of fraud, when a borrower applies for a car loan in his own name instead of another person in order to receive a fee for mediation. As a result, the borrower ends up with a car loan without the car itself and without remuneration for the service, which leads to his/her refusal to fulfill his/her obligations under the loan and, as a consequence, the emergence of overdue debt.

²² MFO segment's net profit for 2024 decreased by 13.8% despite microloan portfolio growth of 16.8% over the period.

²³ Credit shopping is the concurrent registration of several loans in different financial institutions, including through the platform of a credit broker. The lack of online data does not allow MFOs to instantly track the real current debt burden of borrowers.

Figure 4.40 The share of overdue loans with a contract tenor of up to 45 days in the total volume of overdue debt on MFO microloans has significantly decreased in 2024



Source: SCB

Note: National Bank evaluation

The noticeable narrowing of the PDL segment also affected the share of overdue debt on these loans in the structure of all MFO microloans with overdue debt. Thus, the said share decreased by 14.9 pp to 18.7% during 2024 (Figure 4.39). At the same time, the loan portfolio quality in the PDL segment itself significantly worsened because of the overdue debt of up to 90 days. Thus, the share of all overdue debt (from 1 day or more) among such loans during 2024 increased by 17.1 pp to 61.1%, and the NPL90+ level – by 2 pp to 12.7%.

In turn, in 2024 the share of overdue loans in CPs increased by 3.7 pp to 6.7%, while for PSs, on the contrary, this indicator in the specified period decreased by 5.9 pp to 24.3%.

The level of OEMFA provisions in accordance with IFRS at the end of 2024 amounted to 10.3% of the total volume of microloans, which covers 72% of all NPL90+ (including MFO – 85.9%, CPs – 9.9%, and PSs – 5.8%). A relatively low reserve coverage in CPs is explained by the low level of credit risk inherent in the activities of CPs, while in PSs all loans are secured by collateral.

During 2024, most MFOs complied with the prudential standards set by the AFR. As of January 1, 2025, 9 MFOs out of 214 did not comply with the prudential standards (including 1 MFO – the minimum amounts of registered capital and equity, 9 MFOs – the limit 24 on the share of NPL90+ in the total amount of the loan portfolio).

Concentration in the microfinance segment remains high. As of January 1, 2025, the five largest MFOs accounted for 63.4% of the total microloan portfolio, while for CPs and PSs this figure was 52.1% and 49.2%, respectively. At the same time, a number of large MFOs have begun to actively transform themselves into banks. To prepare for operational capabilities, individual MFOs are actively developing joint projects with banks on current and card accounts (credit cards), through which online loans are provided. The potential transformation of such MFOs (which account for 28.5% of assets and 27% of the loan portfolio of the entire segment) into banks will reduce the concentration of the portfolio on large participants in the microfinance segment and change its current product and industry structure. A significant share of the portfolio of these MFOs is occupied by microloans to the self-employed for entrepreneurial purposes, while the bulk of lending by other MFOs is comprised of consumer microloans. Consequently, their potential transformation into banks will increase the concentration of the MFO segment in consumer lending, in particular in the areas of car loans and unsecured short-term microloans.

²⁴ The Resolution of the Board of the NBK dated November 14, 2019 No. 192 “On approval of prudential standards and other mandatory ratios and limits for an organization engaged in microfinance activities, and the methods for their calculation.”

Box 4.3 Improving the Regulation of Microfinance Activities

In order to ensure financial soundness and stability of the financial market, protect the borrower from excessive debt burden, and ensure transparency in the MFO segment within the framework of the law on minimizing risks in lending²⁵, a number of the following regulatory changes were made in 2024:

- a ban on providing microloans not related to entrepreneurial activity to individuals with NPL90+, as well as accrual of interest after 90 days of delinquency on previously received consumer microloans;
- limiting the maximum amount²⁶ for unsecured consumer microloans to 1 100 MCI;
- setting requirements for MFOs to obtain a mandatory consent from spouses²⁷ when providing a microloan in excess of 1000 MCI;
- reducing the maximum values of AEIR²⁸ on microloans from 56% to 46%, and setting the maximum size of AEIR on PDLs: less than 0.3% a day but no more than 179%;
- establishing the obligation for MFOs to provide information on received applications for microloans to credit bureaus in real time;
- extending the requirement regarding the calculation and maximum value of DSTI to all microloans granted to borrowers for the purchase of goods, works and services not related to the implementation of entrepreneurial activities. Previously, this requirement applied only to unsecured consumer microloans to individuals;
- reducing the list of criteria for legitimate sources of income to calculate a borrower's income²⁹;
- limiting the sources for calculation of DSTI for individuals under 21 years of age, only on the basis of official income, certificate from place of work and scholarship.

In addition, the AFR has begun work on the implementation of risk-based supervision, in particular, a risk-based supervision methodology has been approved to determine the intensity and type of supervisory processes depending on the degree of exposure to risks of the MFO's activities, whereunder:

- approaches to identifying MFO risks have been revised;
- risk identification tools and assessment methods have been expanded;
- additional criteria and indicators of exposure of activities to risks of supervised entities have been introduced (credit risks, operational risks, sustainability risk;
- reputational risks, etc.).

²⁵ The Law of the Republic of Kazakhstan dated June 19, 2024 No. 97-VIII amending certain legislative acts of the Republic of Kazakhstan on minimizing risks in lending, protecting the rights of borrowers, improving the regulation of the financial market and enforcement proceedings.

²⁶ The Resolution of the Board of the AFR No. 61 of August 16, 2024 "On approval of the Requirements to the amount of a consumer bank loan and consumer microloan".

²⁷ Resolution of the Board of the AFR dated August 16, 2024 No. 55 "on approval of the Rules for obtaining the consent of a spouse to provide a bank loan or microloan to an individual, the minimum amount of a bank loan or microloan for which the consent of a spouse is required to provide a bank loan or microloan to an individual".

²⁸ Joint Resolution of the Board of the AFR dated August 16, 2024 No. 62 and the Resolution of the NBK Board dated August 19, 2024 No. 45 "On determining the maximum amounts of the annual effective interest rate".

²⁹ Resolution of the NBK Board dated November 28, 2019 No. 215 "On approval of the Rules for calculation and the maximum value of the debt ratio of a borrower of an organization engaged in microfinance activities".

V Risks of Liquidity, Funding, Dollarization, Foreign Exchange and Interest Rate Risks

Liquidity risks in the banking sector remained at a moderate level, owing to a significant stock of highly liquid assets (HLA). HLA continued to grow and accounted for about a third of banking sector assets. The main driver of HLA growth was the tenge component. There was a redistribution of liquidity during the year: banks placed excess tenge liquidity in deposits with the National Bank as the volume of issued notes decreased. The analysis showed that the banking sector is generally resilient to a moderate outflow of deposits, but under an extreme scenario, a significant portion of banks may violate the liquidity coverage ratio.

In 2024, the share of truly term deposits increased, having a positive effect on the sustainability of bank funding, but the dominance of short-term liabilities still remains a challenge. The analysis revealed the dependence of Kazakhstani banks on wholesale funding, which makes them vulnerable to market shocks.

The risk of concentration of funding is moderate. Half of the banks have sufficient liquidity reserves to cover the outflow of the largest depositors. Dependence on the public sector is decreasing.

The level of dollarization has decreased. Large depositors still prefer to keep a significant part of their funds in foreign currency, despite the general decrease in the level of dollarization in all deposit groups.

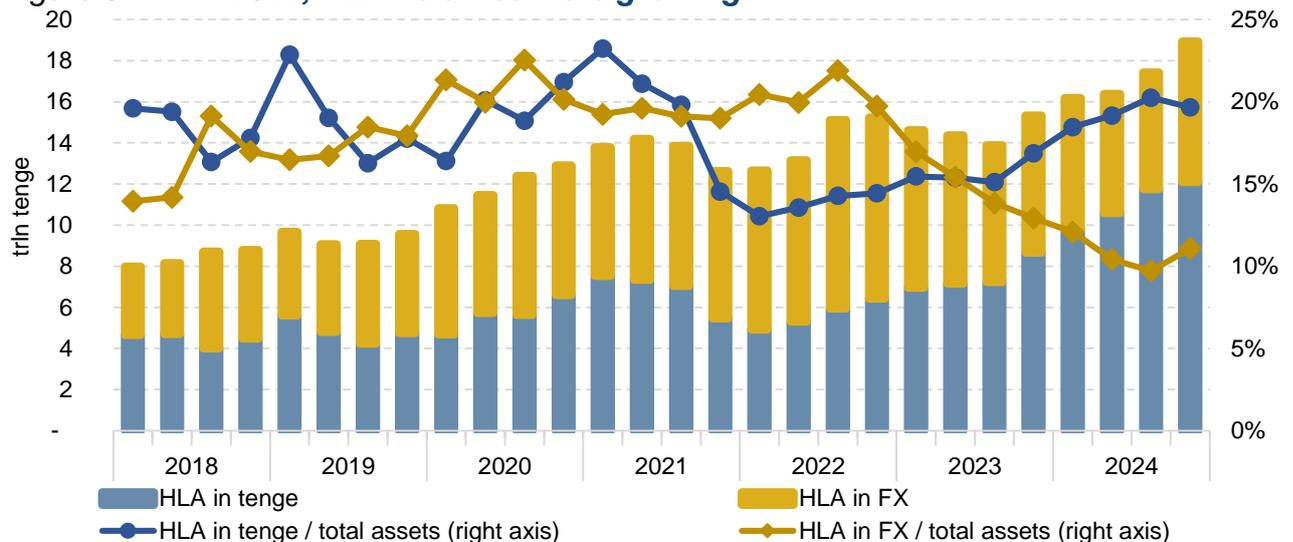
The currency risk of the banking sector was at an acceptable level. The net currency position in the system was close to neutral in most periods and all banks complied with prudential standards for compliance with open currency position limits.

In 2024, banks continued to be highly profitable at fairly stable levels of interest margin and interest spread.

5.1 Liquidity Risks

In 2024, the level of highly liquid assets (HLA) remained high. By the end of the year, the HLA volume reached 18.9 trln tenge, which amounted to 30.7% of total assets (Figure 5.1), which is an evidence of a significant liquidity reserve in the banking system and its ability to absorb potential shocks.

Figure 5.1 In 2024, HLA volumes were growing

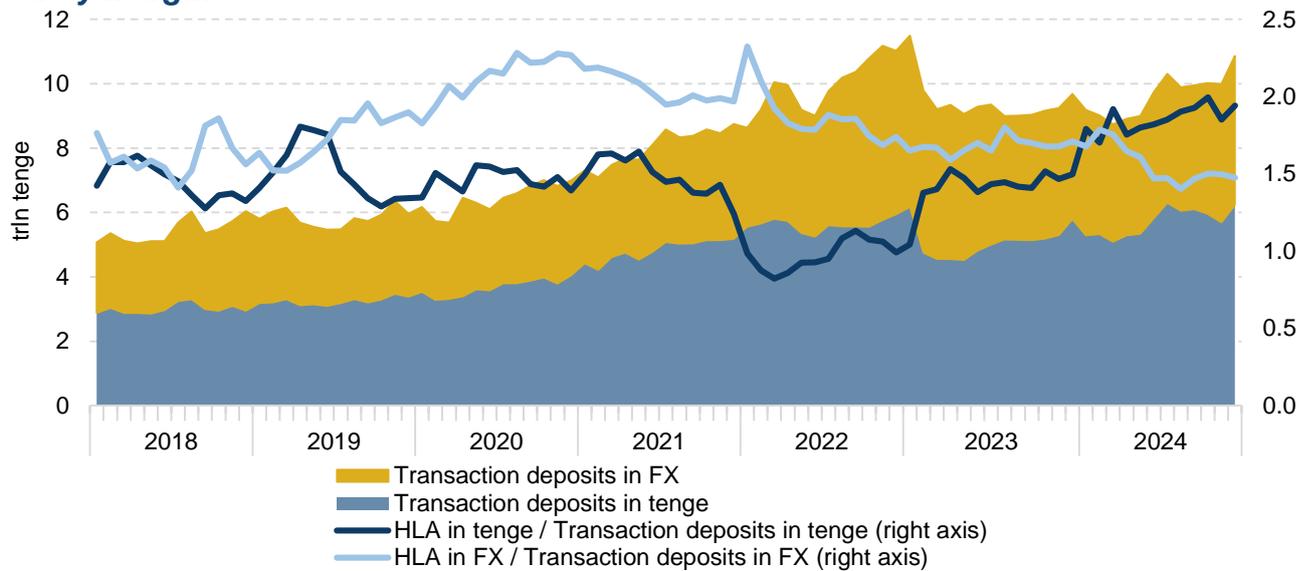


Source: STB reports

Note: HLA include cash, precious metals, correspondent accounts, interbank deposits and government securities (excluding encumbered ones). Data as of the end of the quarter

The volume of HLA in the tenge increased by 39.4%. HLA in foreign currency expanded by 2.6% and in the third quarter of 2024 reached an all-time high in relation to total assets – 10%. During 2024, the total HLA of the banking sector provided sufficient reserves to cover transaction accounts of individuals and legal entities as the most sensitive to the outflow of liabilities items. The excess of HLA over transaction accounts was observed both in the tenge (by 1.9 times) and in foreign currency (by 1.5 times) (Figure 5.2), which indicates the capacity of the banking sector to absorb potential liquidity shocks in the event of an outflow of funds from the most volatile accounts.

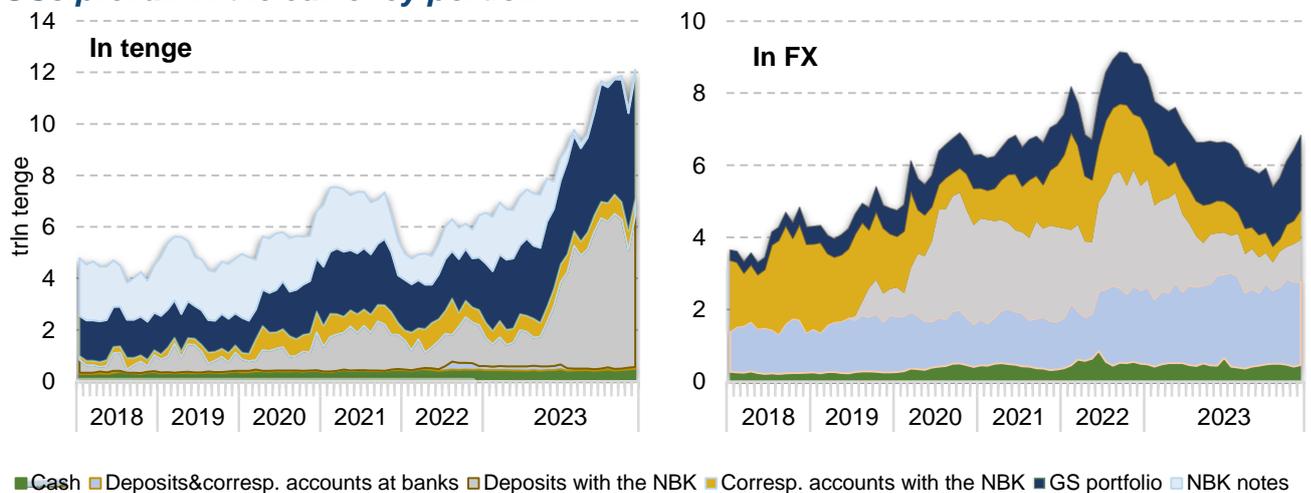
Figure 5.2 The existing HLA level of banks covers transaction accounts with a safety margin



Note: transaction accounts include current accounts and demand deposits of individuals and legal entities, including interbank correspondent accounts

The HLA allocation structure has undergone some changes. The banks placed the bulk of tenge liquidity on deposits with the National Bank (48%); this was driven by gradual reduction in the volume of notes issued by the National Bank, which were previously one of the main instruments of liquidity absorption. Along with deposits in the National Bank, the tenge liquidity was also placed in government securities (40%) (Figure 5.3).

Figure 5.3 NBK deposits and GSs are prevailing in the tenge portion, and deposits and correspondent accounts with foreign banks and foreign currency-denominated GSs prevail in the currency portion



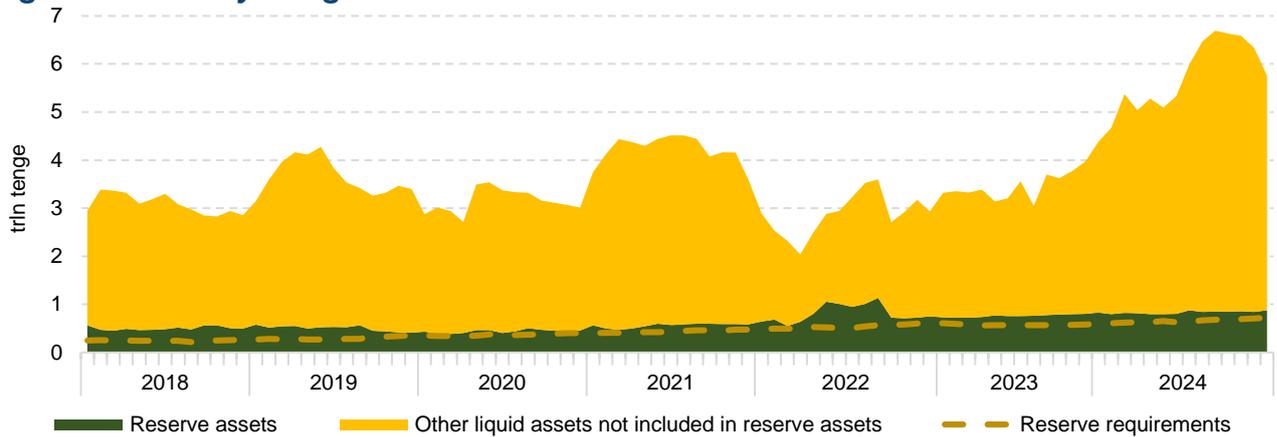
Source: STB regulatory reports

Note: HLA include cash, precious metals, correspondent accounts, interbank deposits and government securities excluding encumbered ones. Data as of the end of the month

Excess liquidity in foreign currency was mainly placed by banks in deposits and correspondent accounts in foreign banks (34%) and in government securities in foreign currency (30%). At the same time, it is necessary to mention the continuing reduction in the placement of foreign currency liquidity in deposits (17%) and correspondent accounts (12%) of the National Bank.

In 2024, the tenge liquidity continued to demonstrate the growing surplus (*Figure 5.4*). Banks continued to meet minimum reserve requirements with a safety margin, indicating that liquidity levels remained high.

Figure 5.4 Banks kept complying with minimum reserve requirements with a significant safety margin

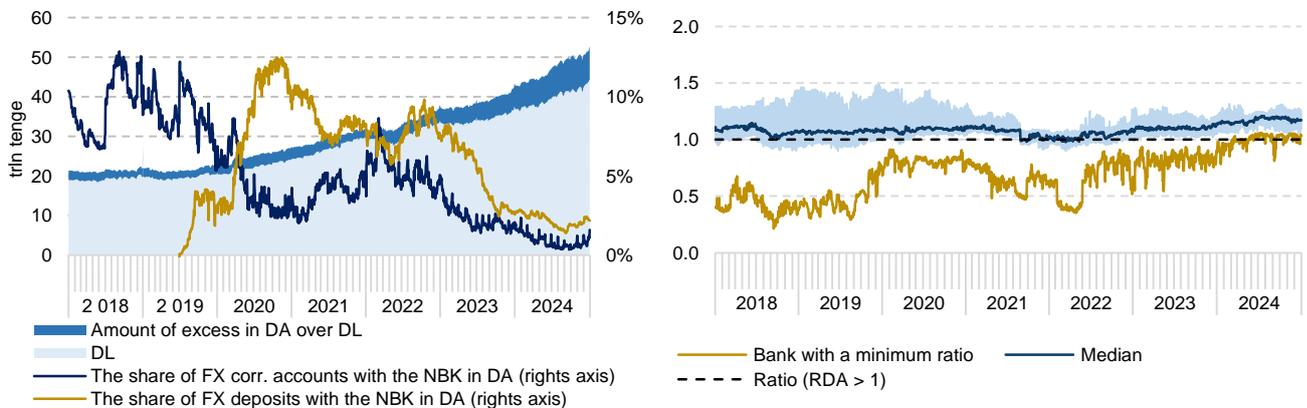


Source: STB data

Note: reserve assets – average balances of funds in the national currency on banks’ correspondent accounts with the NBK and cash (cash on hand, money in transit, ATMs, terminals) within 50% of the minimum reserve ratio for the determination period. Reserve requirements – the minimum amount of funds that banks are required to maintain on a correspondent account in the national currency with the NBK. Data on the minimum reserve requirements, reserve assets and claims on the NBK is shown as monthly average

By the end of 2024, the volumes of cash on hand and funds in tenge on accounts with the National Bank significantly exceeded the reserve requirements, amounting to 880 bln tenge at the required level of 719 bln tenge. At the same time, the tenge liquidity, placed mainly in deposits with the National Bank, exceeded reserve requirements by 6.8 times.

Figure 5.5 A. Shares of FX bank corresp. accounts and deposits with the NBK were decreasing B. Most banks comply with the DAR



Note: DA – domestic assets, DL – domestic liabilities, which are calculated as the sum of average monthly amounts of subordinated debt, issued bonds, excluding Eurobonds, domestic liabilities to residents of Kazakhstan and a part of equity. DAR – domestic assets investment ratio (≥ 1). Interquartile range (light blue area in the graph) – banks included in the 2nd and 3rd quartiles.

During the reporting year, the shares of foreign currency correspondent accounts and foreign currency deposits with the National Bank continued to decrease in the structure of domestic assets and reached 1.6% and 2.8%, respectively (*Figure 5.5.A*). Virtually all banks complied with the DAR ratio (*Figure 5.5.B*). Reduction in the foreign currency component in bank assets has a positive effect on the banking system resilience against foreign exchange risks.

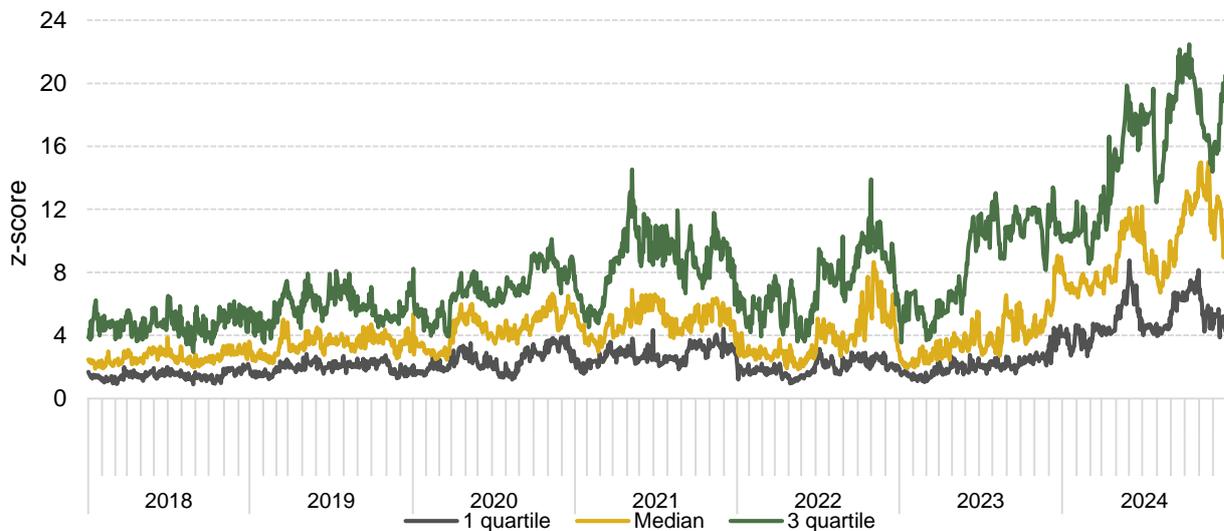
Analysis of the liquidity ratio based on the daily data showed that banks have a sufficient level of money in correspondent accounts and deposits with the National Bank, necessary to cover the one-day standard deviation in the volume of bank deposits (*Figure 5.6*). This ratio reflects the ability of the banking system to quickly respond to short-term fluctuations in the volume of deposits by means of available liquid assets.

The dynamics of the time series from 2022 to 2024 shows a steady growth in the median values of the ratio, which indicates an increase in the overall level of liquidity in the banking sector. The major growth is observed in 2024, which is an evidence of accumulation of a liquidity cushion.

At the same time, high differentiation between groups of banks remains. Thus, banks from the lower quartile (1 quartile) demonstrate reduced coverage levels (below 8 Z-score in certain periods), which may indicate relatively high liquidity risks for this group of banks.

The banks from the upper quartile (3 quartile) are still the most stable, their figures in 2024 consistently exceed 16 Z-score. This points to the presence of a significant liquidity reserve and strong ability of these banks to withstand possible stress situations in the deposit market.

Figure 5.6 *The level of the most liquid resources of STBs is sufficient to cover one standard deviation on deposits in most banks*

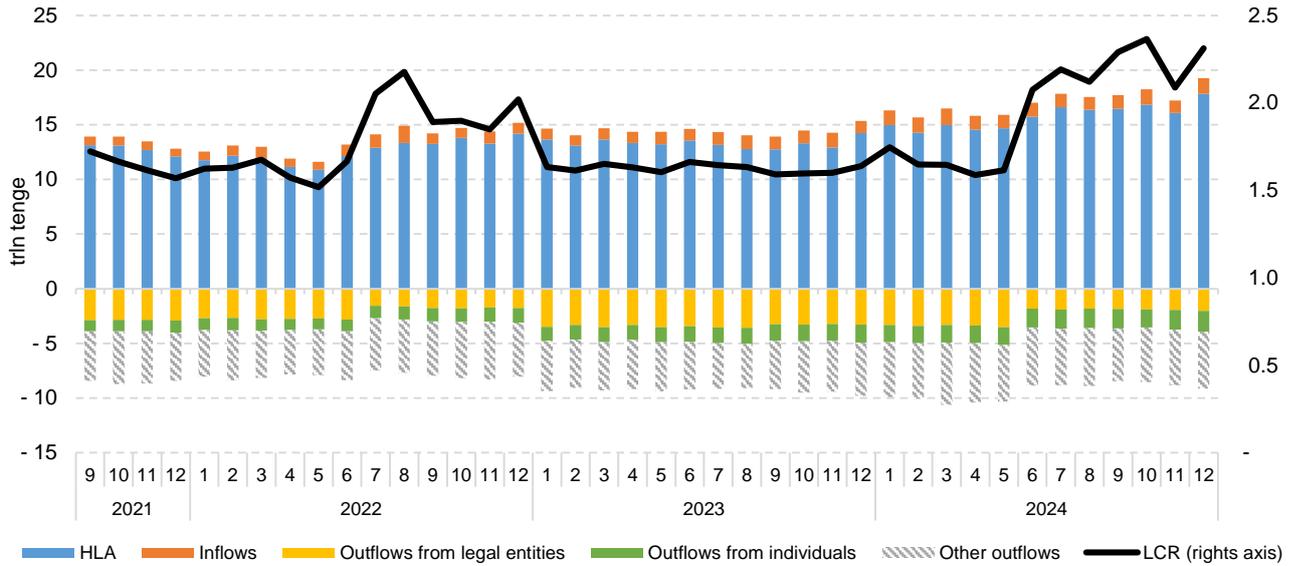


Source: STB reports

Note: the adequacy ratio of basic liquid assets is calculated as the ratio of monetary items of liquid assets of banks (cash in hand, precious metals, funds in correspondent accounts and deposits in the NBK/STBs) and the standard deviation of deposits during 3 months (using a sliding window) calculated per day (Z-score). The data has a daily frequency

In the second half of 2024, changes were made to prudential regulation aimed at stimulating lending to the real sector of the economy. In particular, amendments were made to the calculation of such ratios as LCR and NSFR. Thus, in the LCR, the outflow ratio for deposits of legal entities was reduced from 40% to 20%. In the NSFR, the ratios of available stable funding for deposits of legal entities with the possibility of unconditional early withdrawal and term deposits of non-financial organizations were changed, which allowed banks to increase the volume of stable funding sources accepted for calculation, thereby facilitating compliance with the NSFR. These measures are temporary and are valid until the end of 2025.

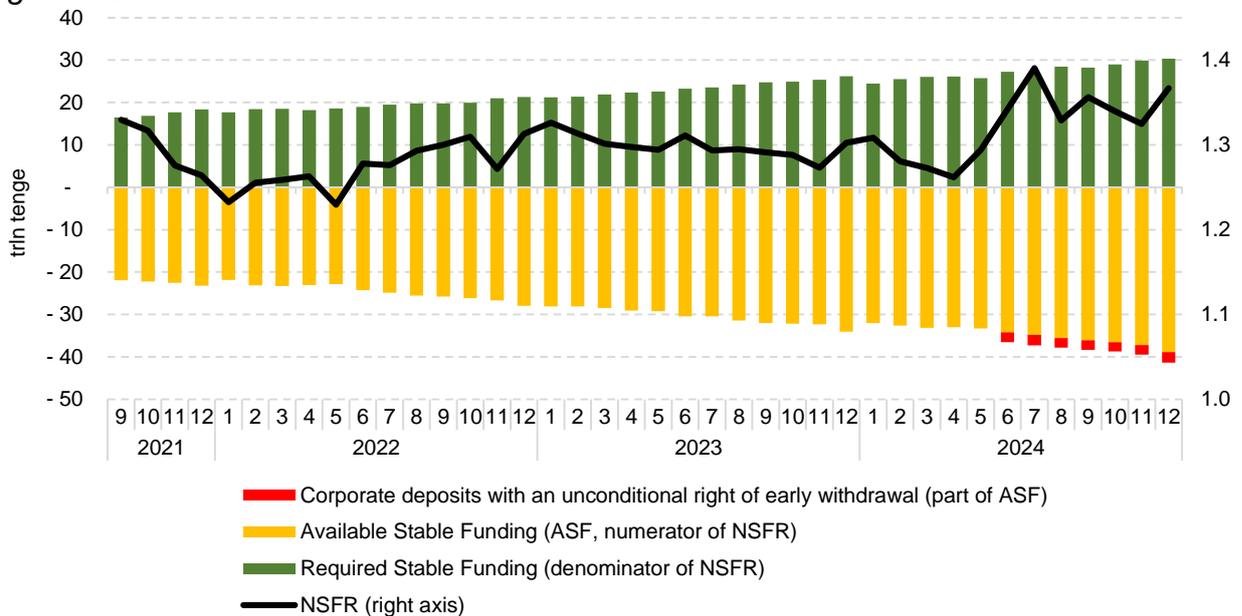
Figure 5.7 **LCR structure**



Source: STB reports

An analysis of the LCR structure shows that before the introduction of regulatory easing, the average value of deposits falling under the item with a reduced outflow rate was about 3.4 trln tenge, which corresponded to 35% of the total volume of estimated outflows on banks' liabilities (9.7 trln tenge). After the amendments came into force in the second half of 2024, the average value of this item decreased to 1.9 trln tenge (22% of total outflows). Thus, the decline in the outflow rate led to a reduction in the total volume of estimated outflows under the LCR, which had driven an increase in the regulatory ratio, which reached 2.19 by July 1, 2024 (Figure 5.7).

Figure 5.8 **NSFR structure**



Source: STB reports

In addition, the inclusion of the item “deposits of legal entities with the possibility of unconditional early withdrawal” in the calculation of the NSFR has been extended with the established ratio of available stable funding at 50% (Figure 5.8). As a result, the increase in average NSFR values to 1.4 was secured.

It is assumed that the lowering of liquidity requirements can contribute to the increase in the availability of credit resources for legal entities and SMEs. However, despite the effect

from adopted regulatory easing, it is advisable to monitor their effectiveness and assess the impact on liquidity and funding risks in order to ensure financial stability.

It is worth mentioning that the current regulatory practice in Kazakhstan already sets the minimum LCR value at 0.9, which is lower than in international practice (1).

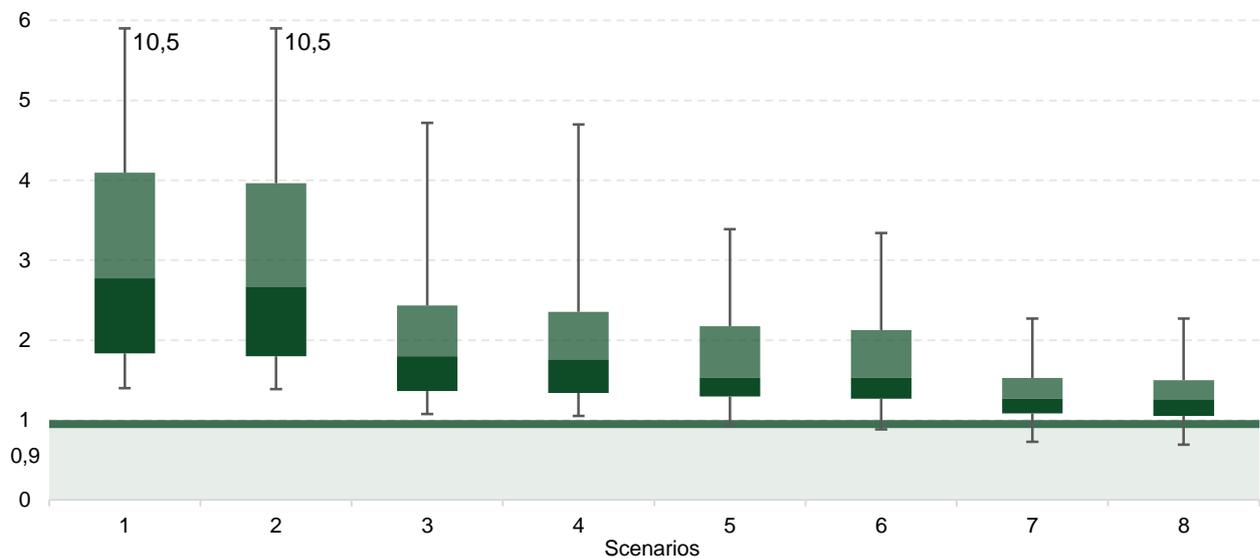
Analyzing the Banking Sector Sensitivity to Liquidity Risks

To assess the ability of banks to withstand a potential outflow of deposits in terms of liquidity risks, a sensitivity analysis was conducted based on the IMF methodology used in the framework of financial stability assessment.

Two main types of shock were modeled: moderate and extreme, which include both individual scenarios in the form of reduction in the discount on highly liquid assets, increased outflow rates on deposits of individuals and legal entities, and their combinations.

Under the moderate scenario, the values of LCR below the standard level of 0.9 are achieved only in the case of a hypothetical realization of outflows of deposits of individuals and legal entities by a relatively small number of banks (*Figure 5.9*).

Figure 5.9 *Bank liquidity stress testing under the moderate scenario*



Source: STB reports

Note: Scenarios:

1 – actual;

2 – Discount (a 15% reduction in the value of GSs included in the calculation of HLA);

3 – an outflow on individuals (an increase in the outflow rates on deposits of individuals by 15% and 40% for stable and less stable deposits);

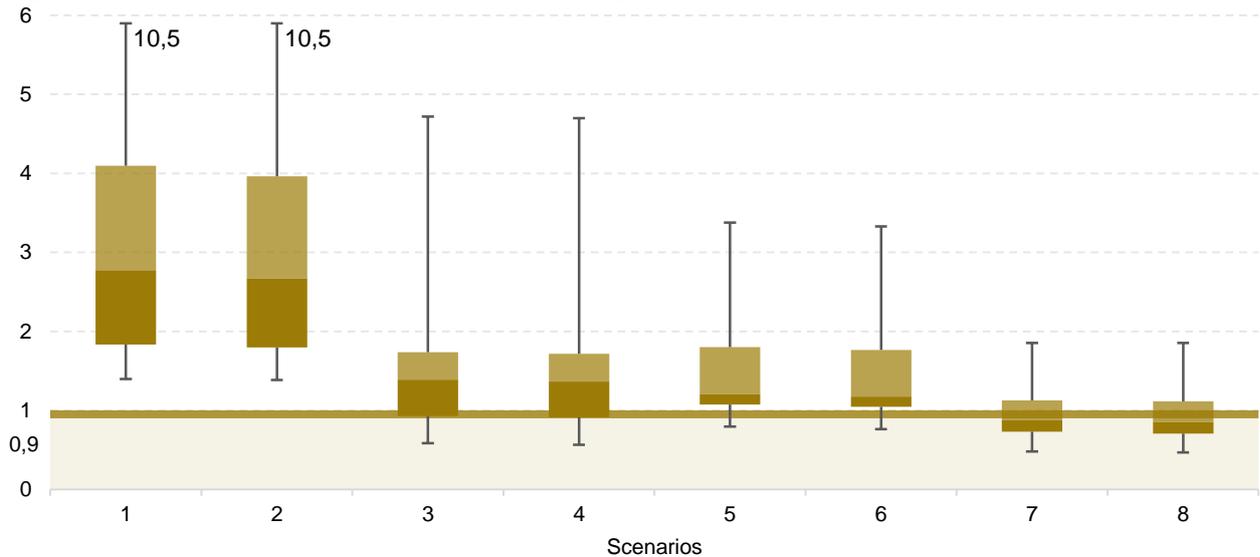
4 – an outflow on individuals + Discount;

5 – an outflow on LE (from 30% to 75% on deposits of various groups of LE);

6 – an outflow on LE + Discount;

7 – an outflow on individuals + an outflow on LE;

8 – an outflow on individuals + an outflow on LE + Discount

Figure 5.10 Bank liquidity stress testing under the extreme scenario

Source: STB reports

Note: Scenarios:

- 1 – actual;
- 2 – Discount (a 15% reduction in the value of GSs included in the calculation of HLA);
- 3 – an outflow on individuals (an increase in the outflow rates on deposits of individuals by 35% and 70% for stable and less stable deposits);
- 4 – an outflow on individuals + Discount;
- 5 – an outflow on LE (from 70% to 90% on deposits of various groups of LE);
- 6 – an outflow on LE + Discount;
- 7 – an outflow on individuals + an outflow on LE;
- 8 – an outflow on individuals + an outflow on LE + Discount

The results of the analysis of the banking sector sensitivity to liquidity risks revealed that under an extreme shock with higher rates of outflow on deposits of individuals and legal entities, more than half of the banks violate the statutory value of LCR. However, some banks demonstrate a significant reserve of LCR, which indicates their increased resilience to the modeled stress scenarios and the ability to absorb potential liquidity outflows (Figure 5.10).

5.2 Funding Risks

At the end of 2024, an increase in the share of truly term deposits was observed, which has a positive effect on reducing funding risks. The level of concentration of the largest sources of funding in the banking sector liabilities remained stable. Dependence on the public sector continues to decrease. Risks associated with funding from non-residents, despite some volatility of such funding, remained manageable

Sustainability of Funding

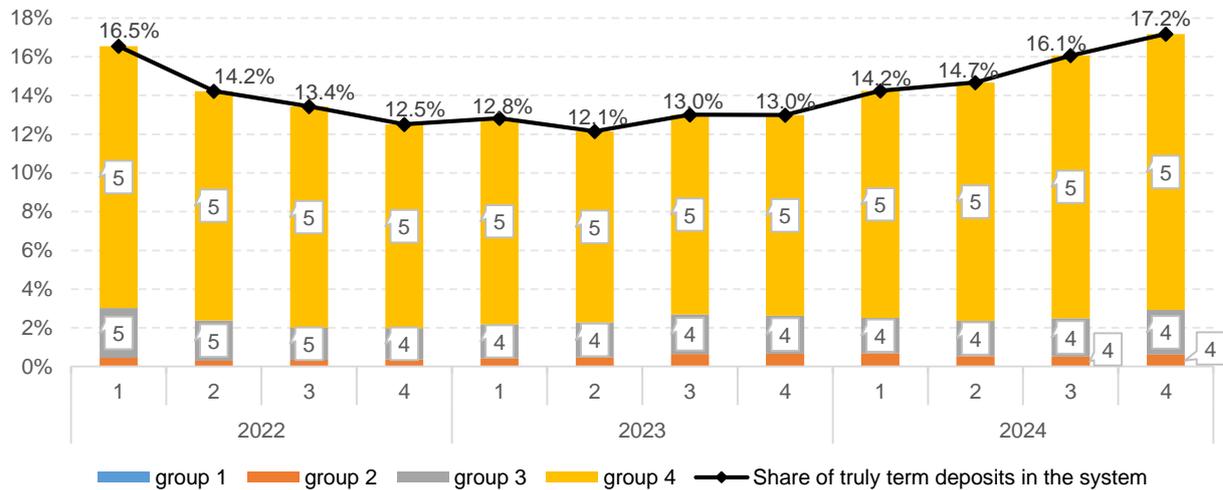
Effective liability management is critical to financial stability. Ensuring the transformation of maturity of assets and liabilities is a key function of the banking system. To maintain stable lending to the economy, it is important to minimize risks and create a sustainable funding base, in which long-term liabilities should play a predominant role.

Deposits form the basis of credit institutions liabilities, accounting for 81% of the total volume of the banking sector liabilities at the end of 2024. In this connection, the persisting dependence on short-term deposit resources determines the limited stability of funding.

In 2024, the share of truly term deposits in tenge in the banking sector increased by 4.2 percentage points, reaching 17.2%, which helps reduce funding risks, allowing banks to better forecast inflows and manage assets and liabilities.

An analysis of the structure of truly term deposits in tenge revealed that their bulk (14.2% out of 17.2%) is concentrated in five large and medium-sized retail banks (*Figure 5.11*). It was this group that demonstrated an increase in the share of term funding in 2024, indicating that the increase in term deposits was not systemic, but occurred mainly in a limited number of banks. Thus, the continued dominance of short-term liabilities and the need to improve the sustainability of funding remain as crucial tasks for the banking sector, playing a key role in reducing liquidity risks.

Figure 5.11 Decomposition of the share of truly term funding in tenge



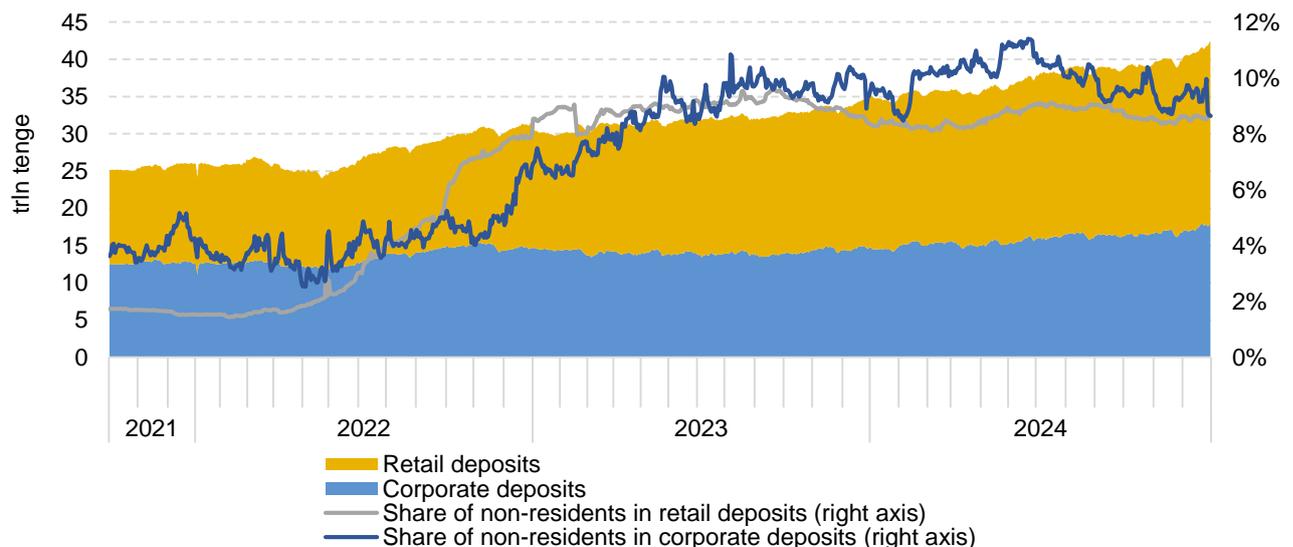
Source: KDIF

Note: the values inside the histogram represent the number of banks

In the first half of 2024, the growth of non-term funding was accompanied by an increase in the share of non-residents in deposits of legal entities in the banking sector. In the second half of the year, funds of non-residents, on the contrary, decreased, as a result, the share of non-resident deposits in total deposits reached 8.7%.

(*Figure 5.12*).

Figure 5.12 The growth in the share of funds of non-residents in bank accounts slowed down



Source: STB reports

In Kazakhstan, a significant stock of highly liquid assets and a relatively low share of non-resident deposits do not create significant risks for the banking system associated with their mass outflow.

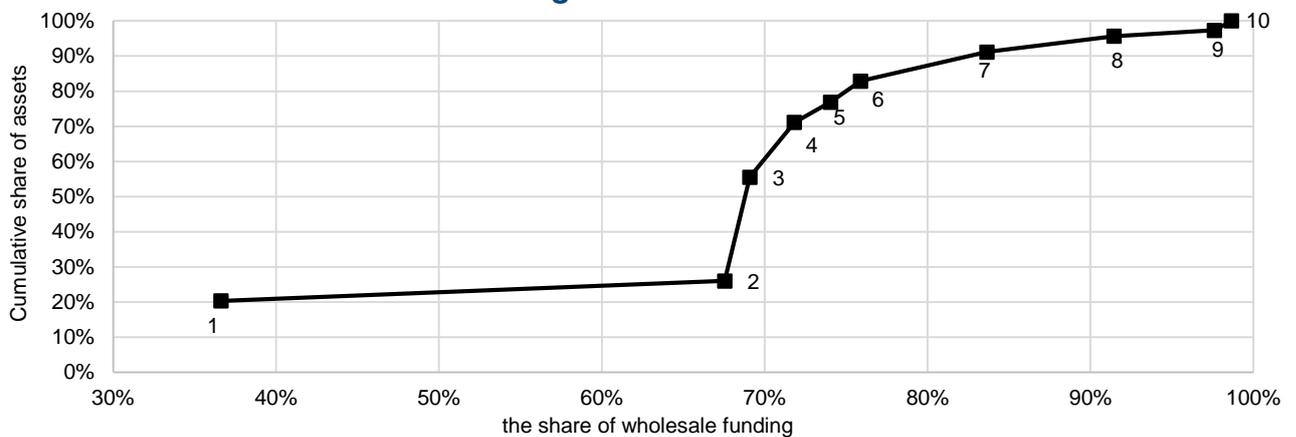
Banking Sector Sensitivity to Funding Risks

As part of the assessment of the banking sector's financial resilience to liquidity risks, an analysis of banks' sensitivity to a possible outflow of wholesale funding was conducted. Wholesale funding is understood as raising funds from large institutional investors, other financial institutions, capital markets and legal entities, as well as deposits of individuals in excess of 50 million tenge.

The first stage of the analysis was to assess the concentration of wholesale funding in the banking sector liabilities as of the end of 2024. To identify the most vulnerable banks, a decile analysis technique was used (dividing banks into 10 groups depending on the share of wholesale funding in their liabilities).

The results showed that only one fifth of banks demonstrate reliance on wholesale funding of less than 50% of their liabilities, while the average share of wholesale funding in the banking sector is 63.6%, which makes a significant part of the banking sector vulnerable to potential market shocks and liquidity crises, since the outflow of wholesale funding can significantly limit the ability of most banks to meet their obligations and maintain operating activities (*Figure 5.13*).

Figure 5.13 A significant part of the banking sector is exposed to an elevated risk of a sudden loss of wholesale funding in the event of unfavorable market conditions



Source: STB reports

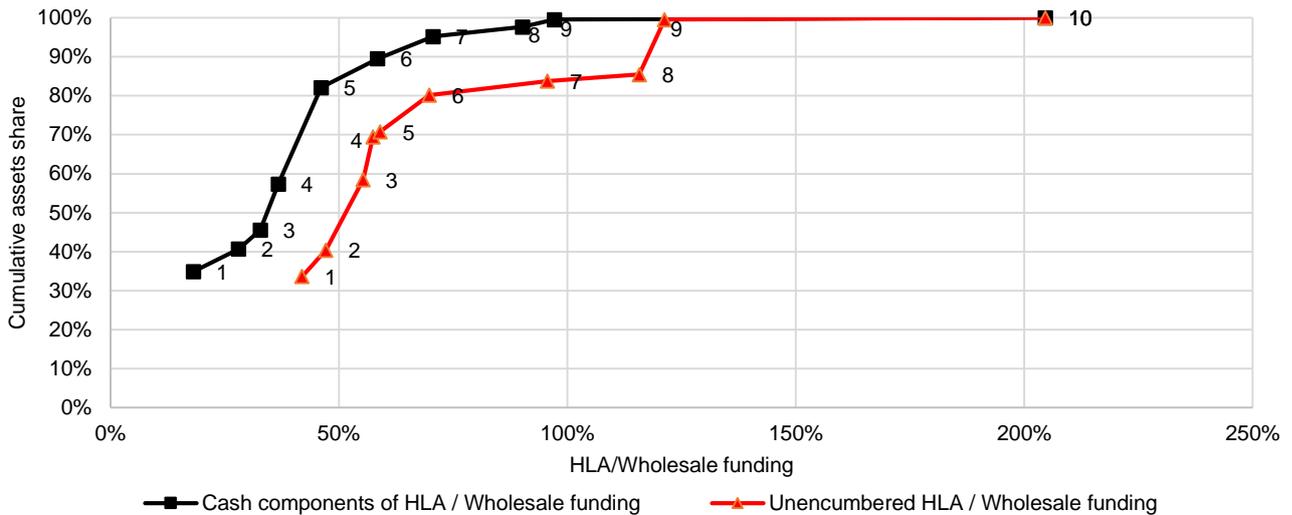
Note: wholesale funding represents liabilities to legal entities in the form of correspondent accounts, deposits and securities issued by banks, as well as deposits of individuals in excess of 50 million tenge. The share of wholesale funding is presented as the ratio of the above-mentioned items of liabilities to total liabilities of banks, excluding capital items.

To further assess the resilience of the banking sector to liquidity risks, an analysis was conducted of the adequacy of coverage for potential wholesale funding outflows with highly liquid assets (HLA). HLA include assets that can be converted into cash quickly and without significant losses.

The analysis showed that if the wholesale funding outflow scenario were to materialize, banks that account for about 82% of the banking system's assets would be able to cover less than 50% of such outflows through HLA cash items (*Figure 5.14*). This highlights the limited capacity of a large part of the banking sector to absorb wholesale funding outflows through its most liquid assets alone. Only a small proportion of the banking sector (18% of assets) has sufficient cash in its HLA to fully absorb potential wholesale funding outflows.

The situation changes when analyzing the sufficiency of all HLA, including cash items, to cover the wholesale funding outflow. In this case, banks that account for about 40% of the system's assets (quantiles 1 and 2) will be able to cover less than 50% of the wholesale funding outflow, which indicates a high liquidity risk category. Banks in quantiles 3 to 7 (about 84% of the banking sector assets) are able to cover from 55.3% to 95.7% of the wholesale funding outflow, which corresponds to a more moderate risk zone. Banks that account for about 20% of assets (quantiles 8 to 10) provide wholesale funding coverage through HLA in full or more and more.

Figure 5.14 Larger banks are able to cover the outflow of wholesale funding in the amount of 50-70%



Source: STB reports

Note: HLA cash items are presented in the form of cash and its equivalent, deposits and correspondent accounts in banks and the NBK. The total volume of HLA includes, in addition to the above-mentioned asset items, government securities and NBK notes minus securities that are encumbered.

It should be noted that an emergency sale of securities may trigger a number of negative consequences, including a decline in market prices of assets, which leads to revaluation of assets and potential losses. Losses on securities recorded at fair value directly affect the bank's capital, reducing its financial stability. In addition, during the periods of market instability, higher discounts (haircuts) are applied when assessing assets, which increases potential losses upon sale. Global experience, in particular, crisis situations in American banks, demonstrates that forced sale of assets in unfavorable economic conditions can significantly weaken the capitalization of banks.

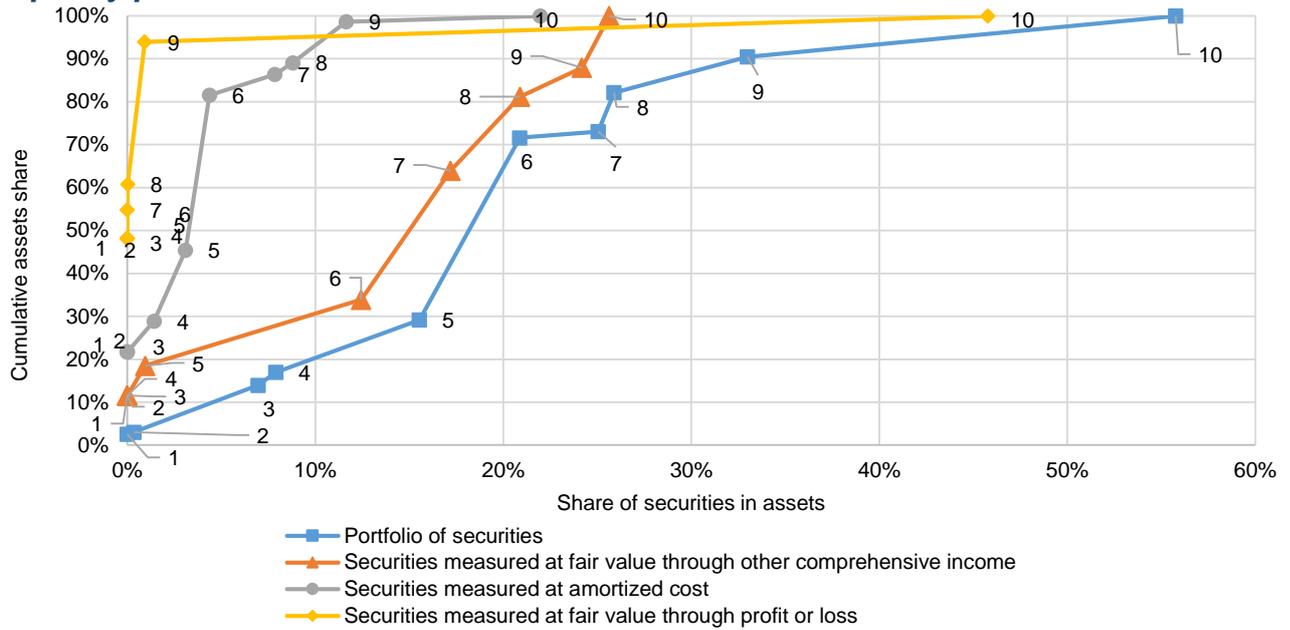
In this context, the structure of GS portfolios in the banking sector assets as at end-2024 had been examined (*Figure 5.15*). The analysis was conducted on the basis of the decile distribution of banks, which made it possible to assess the dependence of the central bank's share in assets on the size of the bank.

The results showed that the share of GSs in assets tends to increase with the size of the bank. For smaller banks, the share of GSs is relatively small, while for large banks, GSs constitute a significant part of assets. This reflects the preference of large banks to invest in more liquid instruments for liquidity management. At the same time, there is a difference in the structure of GS portfolios depending on the accounting method.

The share of GSs recorded at fair value tends to increase in the middle deciles, which may indicate a preference of banks to hold more liquid and profitable instruments in their portfolio. Large banks, on the contrary, demonstrate a tendency to increase the share of GSs accounted for at amortized cost, which reduces the volatility of the portfolio assessment and ensures stability of financial results.

It is noteworthy that, despite potential risks associated with the emergency sale of GSs, the share of securities recorded at fair value is insignificant for most banks. Moreover, the existing requirements to capital adequacy calculation take into account the market revaluation of such securities. In this regard, in contrast to international practice, the risks associated with the recognition of significant losses on GSs in the Kazakh banking sector seem moderate.

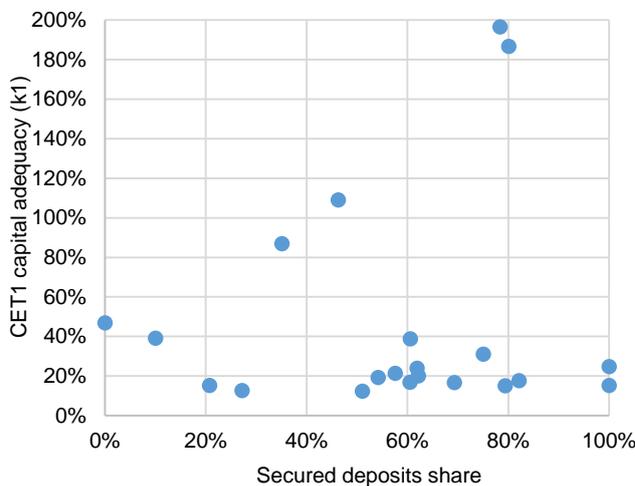
Figure 5.15 Larger banks are pursuing a more conservative strategy in terms of liquidity provision



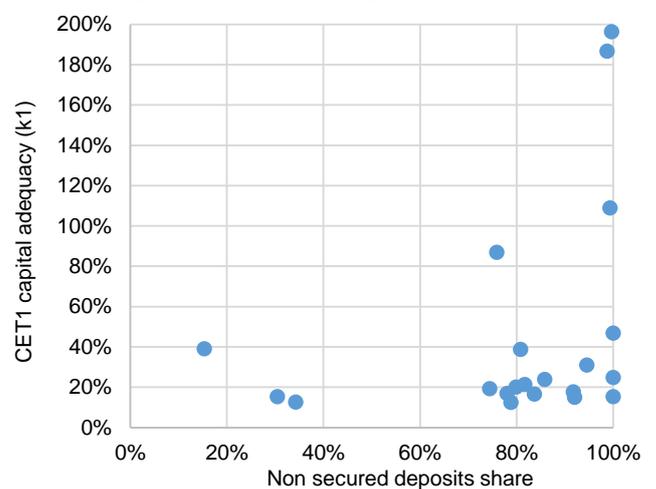
Source: STB reports

Although wholesale funding is traditionally considered more sensitive to outflows than retail deposits, experience shows that panic can trigger mass withdrawals of funds by individuals, which increases pressure on the financial stability of banks. In this regard, an assessment of stability of banks was carried out taking into account the structure of their deposit base and the share of uninsured deposits (Figure 5.16).

Figure 5.16 A. Capitalization and uninsured retail deposits



B. Capitalization and uninsured retail deposits, including deposits of legal entities



Source: STB reports and KDIF

An analysis of the deposit base structure revealed that the share of uninsured deposits exceeding 50% is typical for most banks. However, in large diversified banks, the share of uninsured deposits is in the range of 10-40%. When considering the deposit structure taking into account deposits of legal entities, the share of uninsured deposits in most banks increases to 74-100%.

Box 5.1 Clarification of the role and responsibility of the National Bank and the Agency in the field of macroprudential policy at the legislative level

As part of the Financial Sector Assessment Program (FSAP) implemented in 2023, the IMF recommended to clarify the role and responsibility of the National Bank and the Agency at the legislative level with regard to macroprudential policy. According to current legislation, the National Bank has a mandate to formulate macroprudential policy, which is aimed at reducing systemic risks of the financial system.

Thus, in August 2024, the document entitled “On the Macroprudential Policy of the National Bank of the Republic of Kazakhstan” was published on the official Internet resource of the National Bank, which sets out the vision and approaches of the National Bank to the formulation, implementation and communication of the macroprudential policy.

For the effective implementation of macroprudential policy, it is important to promptly identify and assess potential vulnerabilities. The National Bank monitors a wide range of quantitative indicators – macroprudential indicators – in order to promptly identify systemic risk. These indicators contribute to the informed decision-making on macroprudential policy, including the countercyclical capital buffer. At the same time, the list of indicators is not rigid, the National Bank can calculate additional indicators depending on the analysis being conducted, and also supports the quantitative assessment of risk factors with expert judgment. The National Bank publishes macroprudential indicators on the official Internet web-site of the National Bank on a quarterly basis.

Thus, taking into account the IMF FSAP recommendations and the document "On the Macroprudential Policy of the National Bank of the Republic of Kazakhstan", the National Bank has prepared draft of legislative amendments aimed at strengthening the macroprudential policy mandate of the National Bank. In particular, in accordance with the above-mentioned draft amendments, it is proposed to assign to the National Bank the right to establish macroprudential standards and limits, which are economic restrictions to reduce systemic risks for banks, and to the Agency - the right to supervise their compliance. Approaches to delineating the powers of the National Bank and the Agency in the field of macroprudential policy were agreed with the Agency and also approved by the decision of the Council for Financial Stability of the Republic of Kazakhstan, held on September 23, 2024.

The following instruments have been secured as macroprudential standards in the draft of legislative amendments:

- ✓ countercyclical capital buffer;
- ✓ sectoral countercyclical capital buffer;
- ✓ borrower’s debt ratio;
- ✓ borrower’s debt-to-income ratio;
- ✓ additional macroprudential ratios and limits used in the international banking practice.

Concentration of Funding

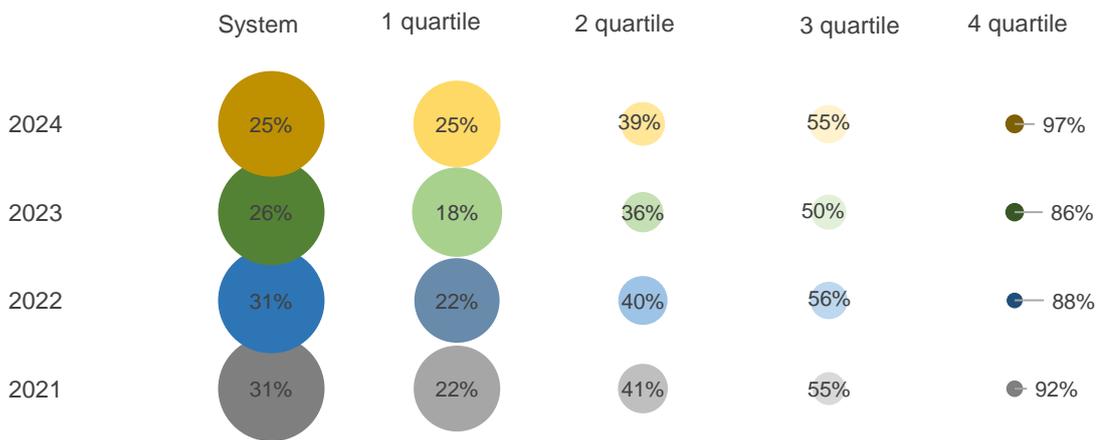
The concentration risk in funding in the banking sector is assessed as moderate. The share of large depositors has decreased slightly, but reliance on them is still most pronounced in small banks. This creates potential vulnerability for individual credit institutions.

An analysis of the banking sector's resilience to the outflow of large deposits showed that one third of banks may experience difficulties with liquidity in the event of such a scenario, which requires constant monitoring of the situation. Dependence on the quasi-public sector continues to decrease, but risks are persisting, especially for some banks.

The share of the largest creditors in the total volume of liabilities of the banking sector went down to 25%. The share of liabilities to the largest creditors decreased in all groups (quartiles) of banks. Small banks remain the most exposed to concentration risk, where the share of largest creditors in liabilities averages 82% (Figure 5.17). This points to a significant vulnerability to an outflow of large deposits and the necessity of strengthened control over liquidity in such banks.

Figure 5.17 **High concentration levels were observed in some of medium-sized banks**

The share of largest creditors in total liabilities



Source: STB reports

Note: the ranking and distribution by quartiles is carried out according to the share of 25 largest creditors for a given bank in the bank's liabilities: 1 quartile – banks with the smallest share of the largest creditors, 4 quartile – banks with the largest share. The area of the circle is proportional to the share of the quartile banks' liabilities in the sector's liabilities. The average share of the largest creditors for the quartile is shown inside the circle

An assessment of banks' ability to withstand large deposit outflows revealed that half of the banks are sensitive to such outflows with partial or complete depletion of liquidity. Withdrawal of foreign currency deposits by the largest depositors will require from 30% to 50% of foreign currency liquidity. The maximum sensitivity is observed among small banks. About one third of banks are sensitive to liquidity risk caused by a high concentration of especially large depositors (Table 5.1). Although half of banks are resilient to outflows of the largest depositors, it is necessary to continue monitoring the liquidity risks associated with the concentration of such funding.

Table 5.1 Concentration risk in deposit-taking

The ratio of deposits to the sum of cash, correspondent accounts at the NBK and GSs

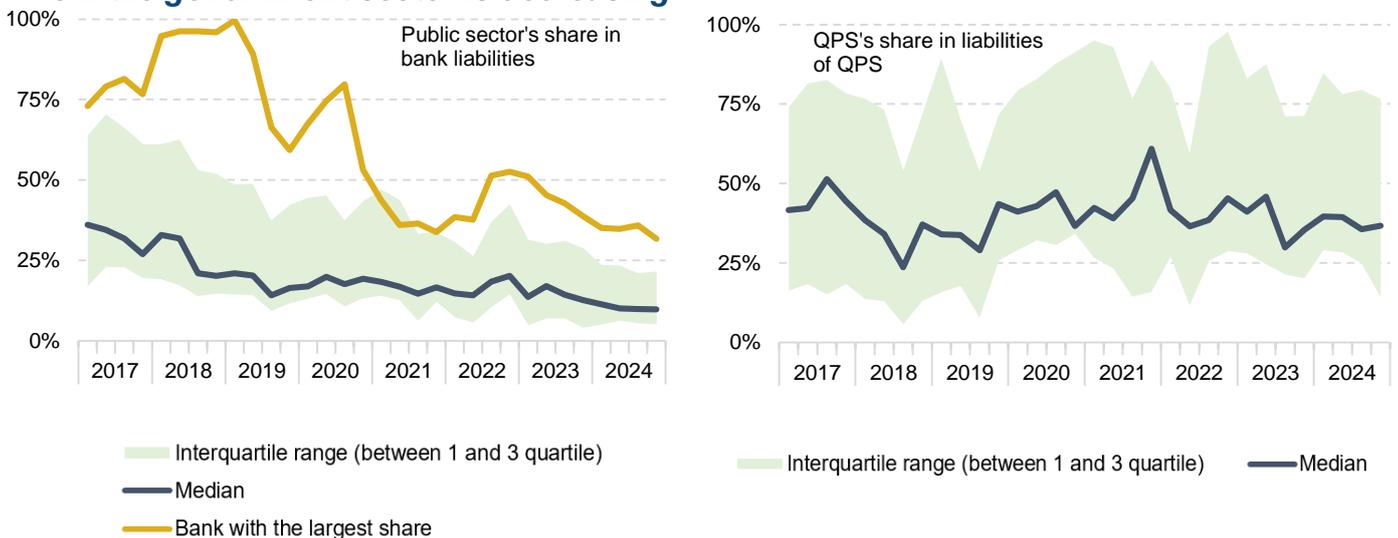
Deposit withdrawal	Min.	25 th percentile	Weighted average	Median	75 th percentile	Max.
TOP-5	0.2	0.4	0.5	0.5	1.1	9.7
TOP-10	0.3	0.5	0.6	0.7	1.4	10.0
TOP-20	0.3	0.7	0.8	1.0	1.8	13.0
TOP-30	0.3	0.8	0.9	1.2	2.1	14.6
Deposit withdrawal, including:						
<i>in the tenge:</i>						
TOP-5	0.1	0.2	0.3	0.4	0.7	9.6
TOP-10	0.1	0.3	0.4	0.5	0.8	9.7
TOP-20	0.1	0.4	0.5	0.7	0.9	10.2
TOP-30	0.1	0.4	0.6	0.7	1.0	10.3
<i>in foreign currency:</i>						
TOP-5	0.0	0.2	0.2	0.3	0.6	1.8
TOP-10	0.0	0.3	0.3	0.4	0.8	2.9
TOP-20	0.0	0.3	0.4	0.5	1.1	4.2
TOP-30	0.0	0.3	0.5	0.5	1.2	4.5

Source: STB reports

Note: if the ratio between deposits of large depositors and the total amount of cash, banks' correspondent accounts with the NBK and the GS portfolio exceeds 1, this indicates that the bank's funds are insufficient in the event of withdrawal of deposits by large depositors

In 2024, the continuing trend towards decline in the banking sector's reliance on funding from state-owned companies is observed, as evidenced by a reduction of the median and a narrowing of the interquartile range.

Figure 5.18 A. In terms of banks, funding from the government sector is decreasing **B. Mainly non-term deposits are attracted**



Source: STB reports, UAPF

Nonetheless, in the structure of liabilities of one of the banks the share of liabilities to state-owned companies still accounts for about one third of its liabilities. (Figure 5.18A). Deposits of the government and quasi-government sectors still serve as the main instrument of fund-raising (Figure 5.18B).

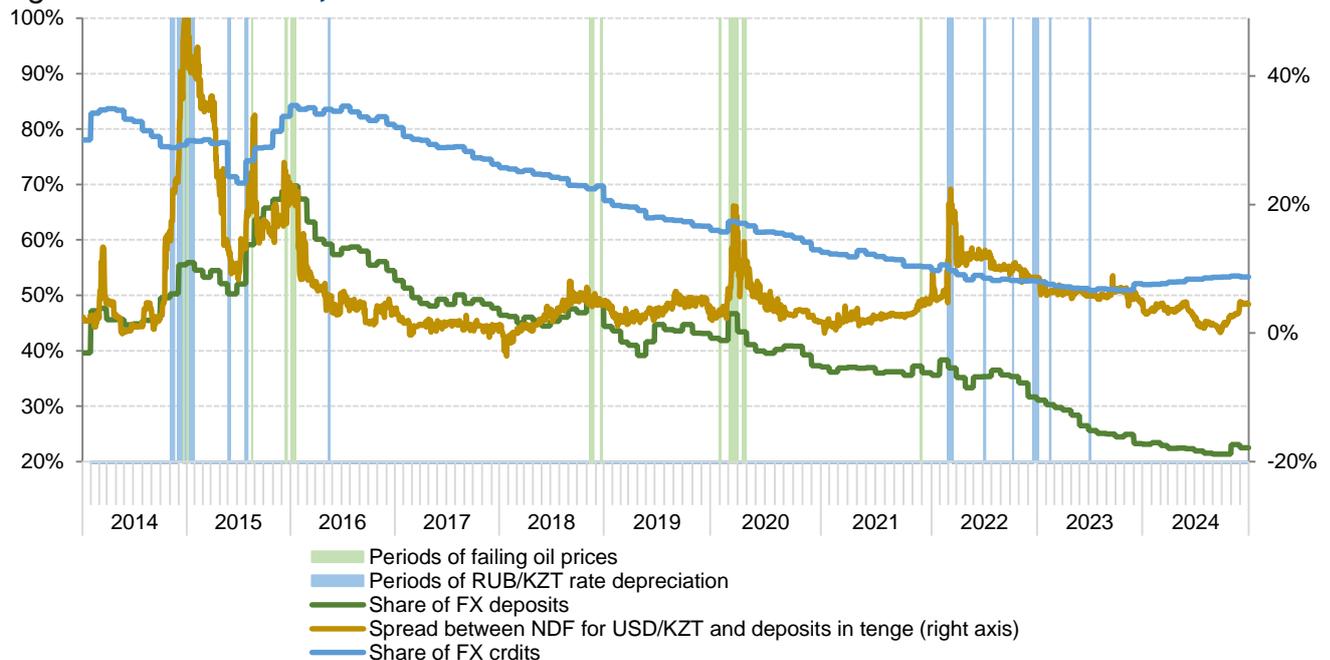
5.3 Risks of Dollarization

Risks associated with deposit dollarization remained moderate in 2024. The overall level of dollarization in banks declined, reaching all-time lows in certain periods. This trend was supported by an inflow of retail deposits and large deposits of legal entities in tenge, which is a positive factor for the stability of the financial system.

In 2024, the process of de-dollarization in the banking sector continued, but its pace slowed down. The levels of foreign currency loans and foreign currency deposits showed a decline, amounting to 8.8% and 22.5%, respectively, at the end of the year. The recent years trend of slowing pace of de-dollarization continues.

During 2024, the spread between the non-deliverable currency forward (NDF) on the USD/KZT pair and the weighted average rates on the tenge deposits gradually narrowed until September, reaching 0.1%. After the tenge weakened, the spread returned to the values at the beginning of the year, amounting to 4.5% by the end of 2024. This dynamic indicates that exchange rate fluctuations affect the attractiveness of the tenge deposits, which must be taken into account when assessing the risks of dollarization. At the same time, the absence of significant periods of volatility in fundamental factors that determine the level of deposit dollarization (*Figure 5.19*), suggests that de-dollarization occurred along with a general strengthening of confidence in the national currency.

Figure 5.19 In 2024, the dollarization level continued to decline



Source: STB reports

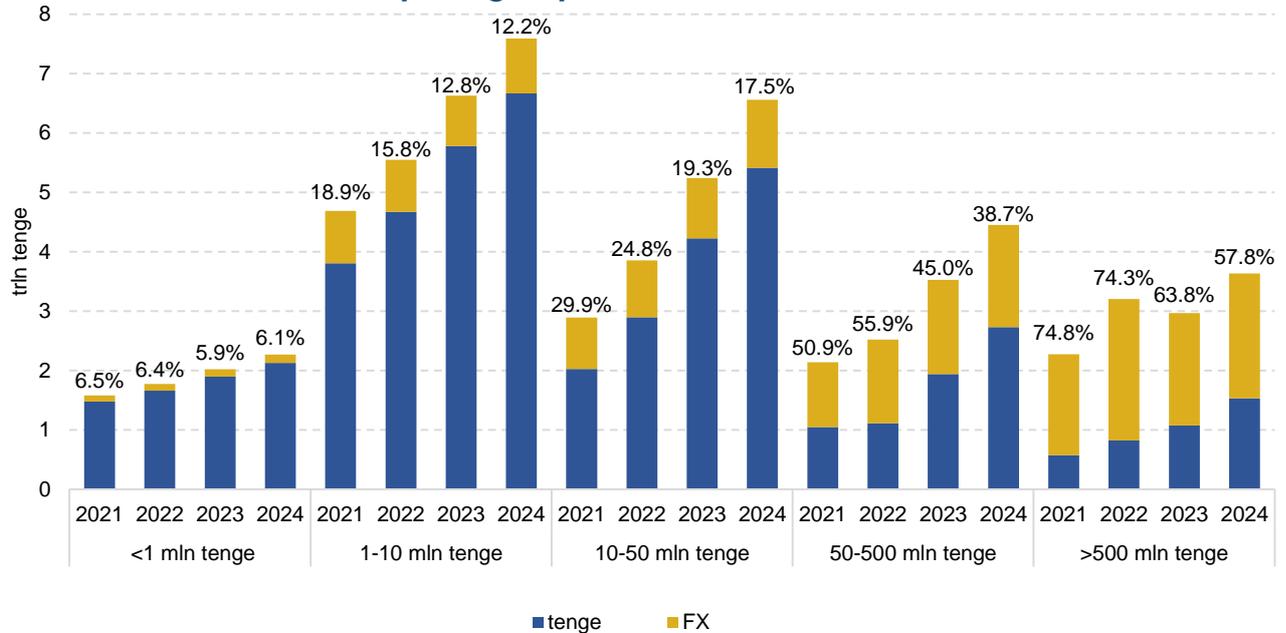
Note: periods of weakening of the RUB/KZT exchange rate – significant periods of depreciation of the ruble against the tenge

The decline in dollarization was achieved mainly owing to the retail sector compared to the corporate sector. Thus, at the end of 2024, the share of foreign currency deposits of individuals decreased from 22% to 20%, while in terms of legal entities, a slight increase in the level of dollarization was observed – from 24% to 26%. This trend may be associated with the specifics of the activities of enterprises focused on foreign economic activity.

In 2024, a positive correlation between the dollarization level and the size of retail deposits persisted (*Figure 5.20*): on accounts over 500 million tenge, the dollarization level reached 57.8%, while on accounts up to 1 million tenge it was only 6.1%. This shows that large depositors are more inclined to keep funds in foreign currency, which may be related to their desire to diversify risks.

In 2024, a decline in the dollarization level was observed in almost all analyzed deposit groups. A slight increase of 0.2 percentage points was observed among deposits up to 1 million tenge. The largest decline was demonstrated by large deposit groups: among deposits from 50 to 500 million tenge (a decrease in the share of foreign currency deposits by 6.4 percentage points) and among deposits over 500 million tenge (a decrease in the share of foreign currency deposits by 6 percentage points). However, despite the decrease, the share of foreign currency accounts in these groups remains high.

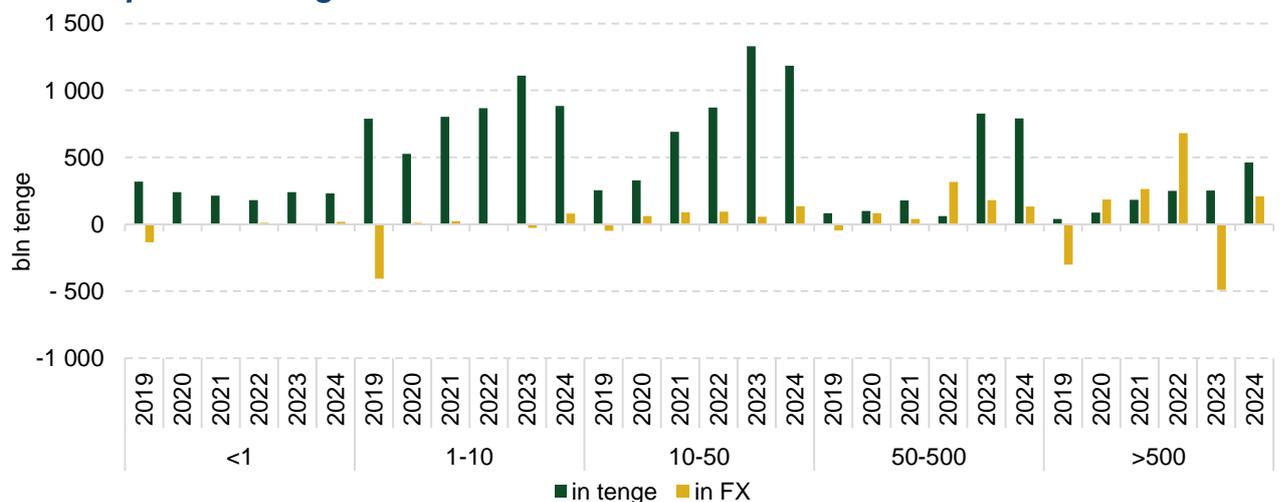
Figure 5.20 The dynamics of dollarization level has demonstrated decline in the dollarization level in all deposit groups



Source: KDIF

In 2024, the net inflow of funds into retail deposits increased by 18.3% (637.9 bln tenge), mainly due to the tenge deposits in the amount of 10 to 50 million tenge. The inflow of funds into foreign currency deposits was observed in all deposit groups, mainly owing to deposits with amounts over 500 million tenge (209.43 bln tenge) (Figure 5.21). Despite the general trend towards de-dollarization, large depositors continue to actively use foreign currency deposits, which must be taken into account when assessing risks.

Figure 5.21 A decline in the dollarization level occurred along with the inflow of retail deposits in tenge

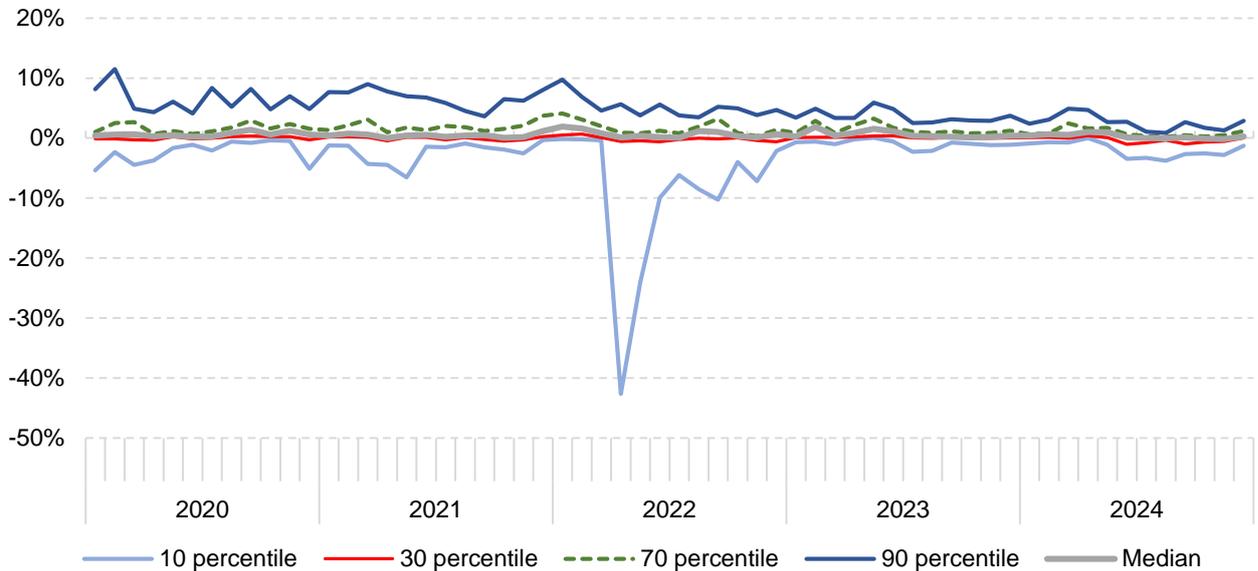


Source: KDIF

5.4 Foreign Exchange Risk

In 2024, the direct foreign exchange risk of the banking sector was at an acceptable level. This was secured by active hedging of currency positions using financial derivatives (FDs), which allowed banks to minimize potential losses from exchange rate fluctuations (Figure 5.22).

Figure 5.22 Net open foreign currency position of the banking sector was not exposed to the impact of foreign exchange risks



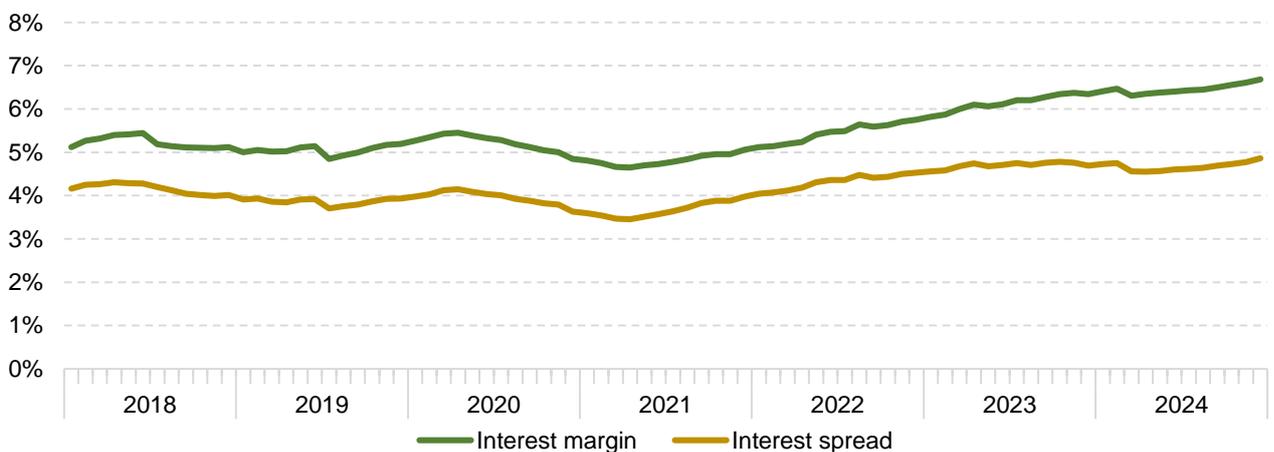
Source: STB regulatory reports

The net foreign currency position in the system in most periods was close to neutral, and all banks complied with prudential standards for the limits of open foreign currency position, which is an evidence of effective management of foreign exchange risk in the banking sector and compliance with regulatory requirements. The absence of significant open currency positions reduces vulnerability of banks to sudden fluctuations in the exchange rate and potential losses. In general, the situation with foreign exchange risk in the banking sector seems stable and does not cause concerns.

5.5 Interest Rate Risk

In 2024, the interest margin and interest spread showed positive dynamics in the banking sector of the Republic of Kazakhstan (Figure 5.23). Expansion of the interest spread indicates that the banks’ capacity to generate interest profit has increased.

Figure 5.23 Dynamics of the interest margin and interest spread

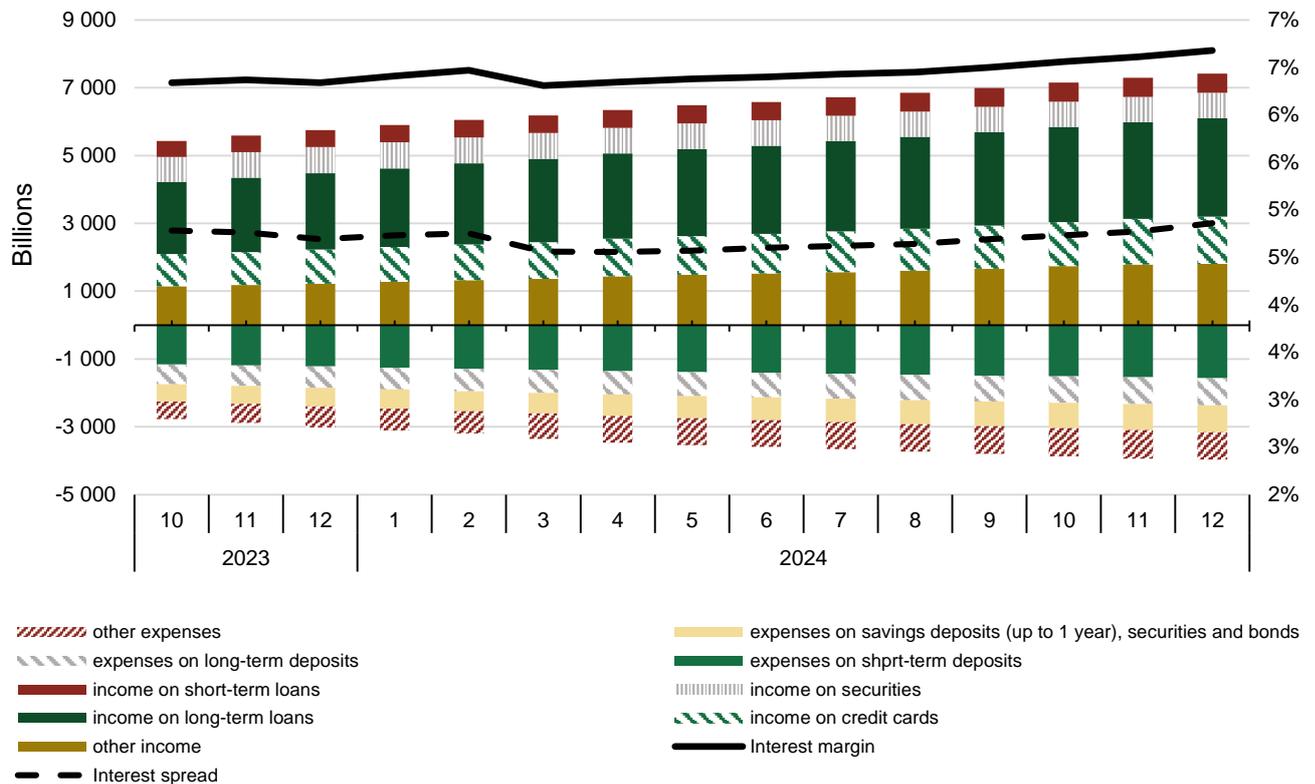


Source: STB reports

This factor, together with an increase in the interest margin, indicates the strengthening of the operational efficiency of credit organizations and their ability to maintain steady profitability, which has a beneficial effect on the stability of the financial system as a whole.

The decomposition of changes in the interest margin demonstrates that its increase is mainly driven by the growth of interest rate income on long-term loans. In turn, interest expenses showed a smaller growth compared to interest income and such growth was mainly associated with an increase in the costs of short-term deposits (Figure 5.24).

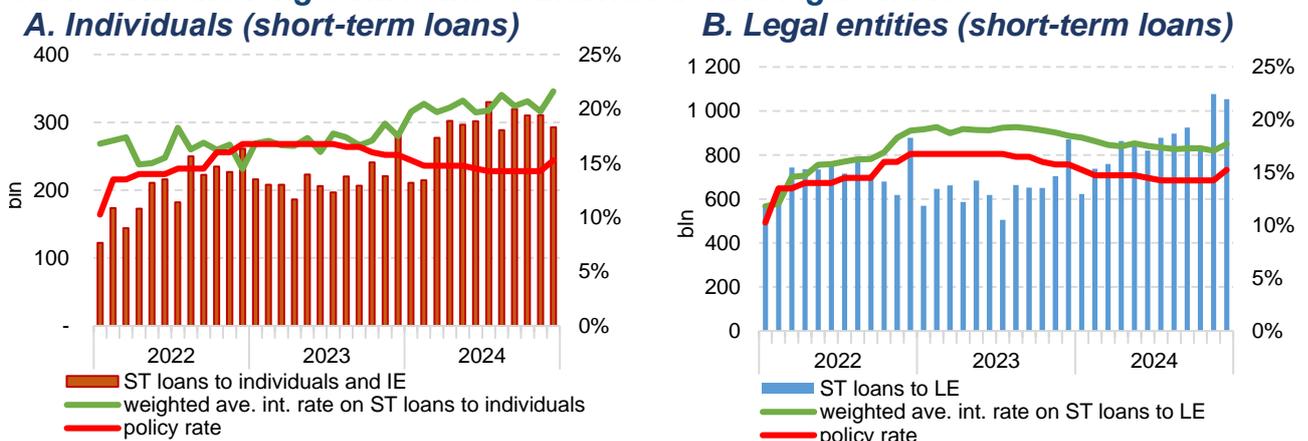
Figure 5.24 Dynamics of interest expense and interest income by account



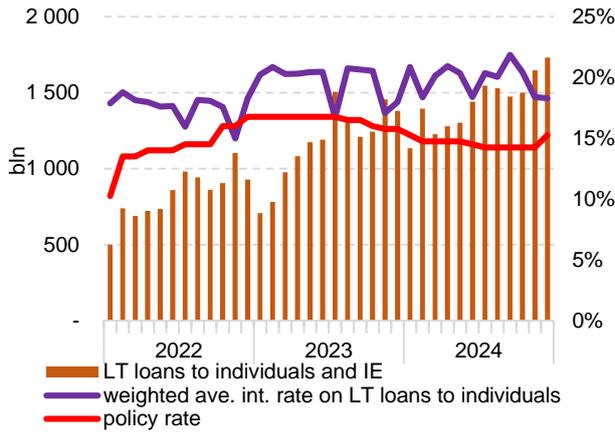
Source: STB reports

The growth of interest income is mainly driven by an increase in lending. At the same time, it should be noted that reduction in the volume of long-term loans provided to legal entities in early 2024 is associated with the suspension of financing within the framework of government concessional lending programs (Figure 5.25).

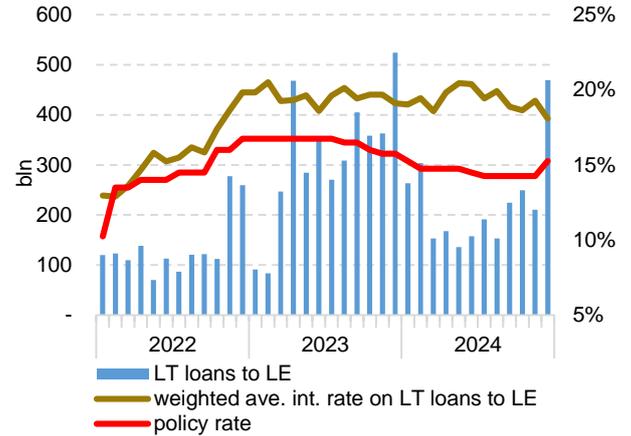
Figure 5.25 The dynamics of weighted average interest rates and the volume of short-term and long-term loans to individuals and legal entities



C. Individuals (long-term loans)



D. Legal entities (long-term loans)

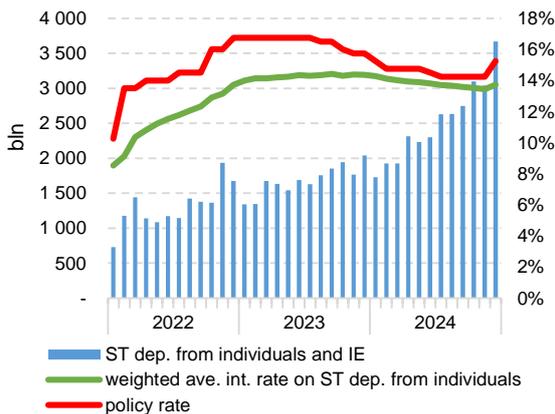


Source: STB reports

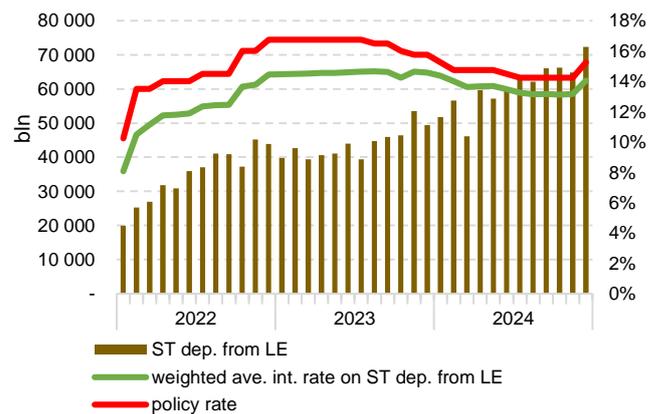
In turn, an increase in interest expenses is mainly caused by the growth in volumes of taken deposits, and not by the rise in the cost of interest rates, which shows the predominance of a quantitative effect over the price effect (Figure 5.26).

Figure 5.26 The dynamics of weighted average rates on short-term and long-term deposits of individuals and legal entities and volumes of attracted deposits

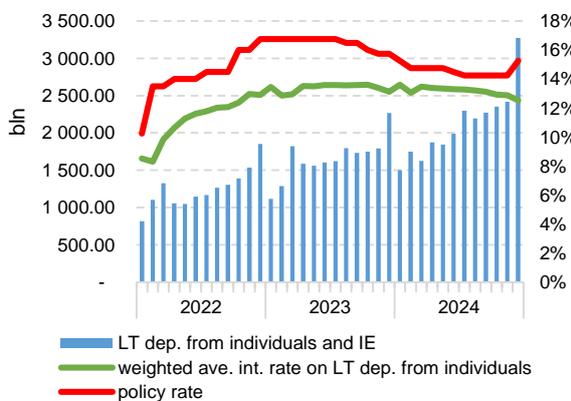
A. Individuals (short-term deposits)



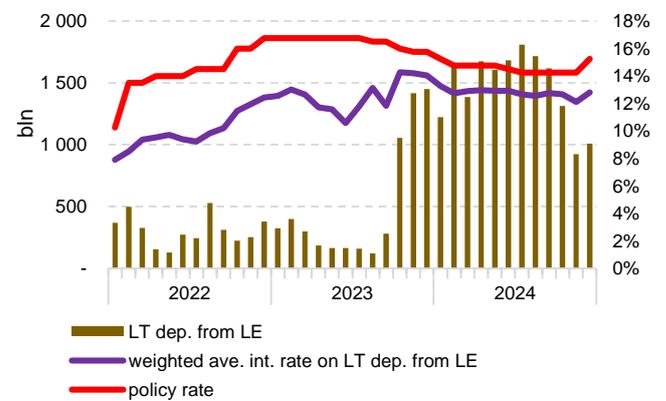
B. Legal entities (short-term deposits)



C. Individuals (long-term deposits)



D. Legal entities (long-term deposits)



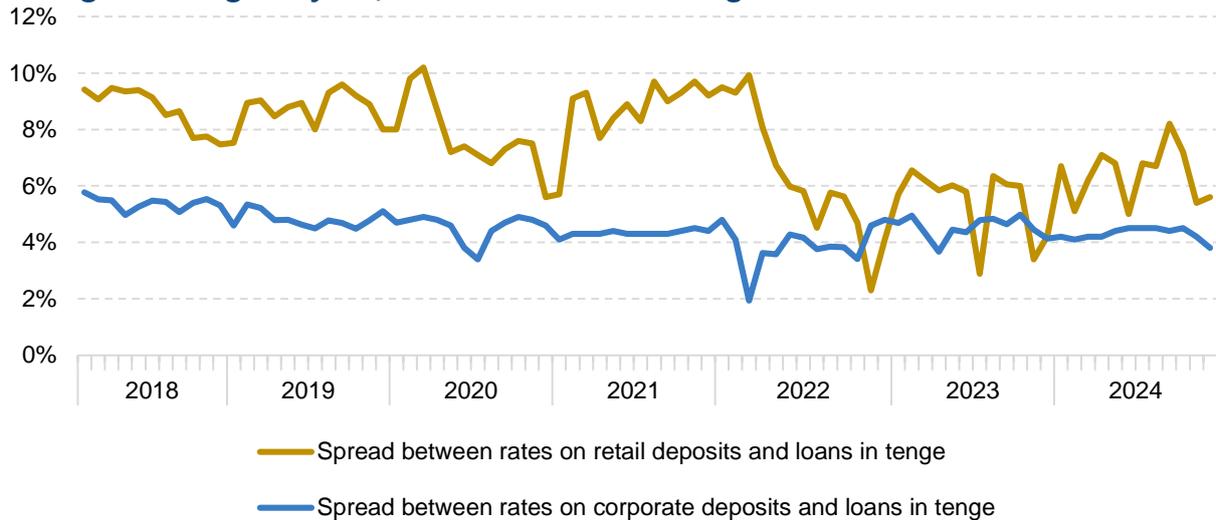
Source: STB reports

An increase in the volume of lending and deposits may be due to factors such as increasing the trust of economic agents to the stability of the banking system, expanding the availability of banking services and digitalization processes. A significant increase in the inflow of long-term deposits in individual banks, observed from the end of 2023 - early 2024,

is associated with an increase in their investment attractiveness. Attractive conditions of accommodation also had a significant impact on the growth of the deposit base, which contributed to the inflow of funds, including placements from organizations of the quasi - state sector.

The spread of interest rates between issued loans and attracted deposits in the corporate segment did not exceed 5%. In the retail segment, due to the high volatility of interest rates on retail lending, the spread was higher, but by the end of the period it decreased to 5.6% (Figure 5.27). A higher spread in the retail segment can reflect higher risks and costs associated with lending to individuals.

Figure 5.27 The spread in the corporate segment had not undergone dramatic changes during the year, with fluctuations being observed in the retail sector



Source: STB reports

Box 5.2 KDIF quits setting the “ceiling” for cap rates on deposits

<p>Statutory “ceiling” on deposit rates (2008-2018)</p>	<p>Cap rates on groups of deposits (since 2018)</p>	<p>Cancellation of cap rates for sound banks + a fee for SR* (since 2024)</p>	<p>Cancellation of cap rates for all banks + reforming the fee for aggressive policy (since March 1. 2025)</p>
<p>Benefits:</p> <ul style="list-style-type: none"> • Depositor protection • Simple control • Restraint of competition <p>Disadvantages:</p> <ul style="list-style-type: none"> • Weak response to the NB monetary policy • Limited flexibility of banks 	<p>Benefits:</p> <ul style="list-style-type: none"> • Transition to a market-oriented benchmark • Flexibility in terms of types of deposits and their maturities <p>Disadvantages:</p> <ul style="list-style-type: none"> • Limited monetary policy transmission onto the deposit market 	<p>*SR - systemic risk</p> <ul style="list-style-type: none"> • Launch of market-based regulatory mechanisms • More conscious and balanced pricing in banks • Banks try to adhere to market approach 	<p>Benefits:</p> <ul style="list-style-type: none"> • Building a healthy competition • Encouraging the development of long-term deposits • Continued liberalization of the deposit market

Since March 2025, the Kazakhstan Deposit Insurance Fund (KDIF) has stopped setting cap rates for deposits of individuals in tenge. This decision is part of a consistent course for the liberalization of regulation of interest rates on deposits of individuals, which became possible by improving the risk management system and enhancing the banking sector stability.

Initially, since 2008, the KDIF had been using a direct restriction of interest rates, the so-called “ceiling”, which was intended to restrain the aggressive deposit policy of

banks. If the “ceiling” was exceeded, banks were required to pay an increased amount of payments to the KDIF reserve to ensure the guaranteed payouts.

The monthly setting of cap rates for groups and maturities of deposits based on market rates in 2018 was the beginning of the KDIF transition to market regulation. Nevertheless, there was a temporary lag between changes in the market conditions and the revision of cap rates, which reduced the effectiveness of transmitting monetary policy signals onto the behavior of banks and depositors.

In this regard, in 2024 an important reform was undertaken: the cap rates were canceled for most banks, with the exception of those that were classified as less than well-capitalized according to the KDIF model. This approach corresponds to international practice — for example, in the United States, interest rate regulation is applied only to those banks that are less than well-capitalized. At the same time, in Kazakhstan, a systemic risk fee was introduced for all banks, which depends on the degree of deviation of the weighted average rates of a particular bank from a market level. This measure is aimed at reducing price overlaps and stabilizing the conditions of competition.

The experience of 2024 demonstrated that banks began to set deposit rates more rationally, focusing on the market environment. As a result, a decision about the following step was taken: from March 1, 2025, the restrictions for less than well-capitalized banks were removed. Thus, all market participants began to follow the same rules.

Nevertheless, the risks of a sharp increase in interest rates, especially from banks with the need for funding, are persistent. In order to minimize potential threats to financial stability, an additional regulatory framework is preserved for such banks: in case of an aggressive policy in attracting money of depositors, they are required to pay an increased fee proportional to the volume of deposits taken and the degree of excess of the weighted interest rates of the bank over the market rate, taking into account the permissible spread.

Thus, instead of the previous system of statutory restrictions, the KDIF is moving to the model in which the market rate becomes a benchmark. This increases flexibility of the deposit policy of banks, contributes to a healthier competition and opens up new opportunities for the development of individual segments of the deposit market. So, for example, deposits with terms of more than a year still account for a small share, but they get an impetus to growth due to freer pricing.

The carried out reform expands the independence of banks in determining their terms and conditions for deposits, providing the necessary balance between freedom and responsibility. The introduction of flexible regulatory tools, such as a systemic risk fee and a differentiated increased charge to be paid by banks with insufficient capitalization, helps to prevent the “overheating” of the market, focusing on the long-term stability of the banking system.

VI Activities of the Council for Financial Stability of the Republic of Kazakhstan

During 2024, the Council for Financial Stability of the Republic of Kazakhstan (hereinafter referred to as the Council) on a quarterly basis considered issues of promoting the stability of the financial system, reducing systemic risks and developing the financial sector stability.

In 2024, five meetings of the Council were held, where the current problems of the financial sector stability, the ways to solve them and promising areas of development were discussed. In particular, the following issues were addressed by members of the Council:

- **implementation of the instructions of the Head of State to attract foreign banks**, where members of the Council discussed proposals regarding the liberalization of banking legislation and creation of attractive conditions for reliable foreign investors;

- **implementation of the instructions of the Head of State to eliminate imbalances between monetary and fiscal policies**. The Council considers proposals for systemic measures aimed at ensuring the balance of budget and the execution of a countercyclical fiscal policy, as well as increasing the role of non-oil deficit in the budget process;

- **approaches to the distinction between the powers of the National Bank and the Agency in the field of macroprudential policy**, whereunder the Council approved the approach to clarify the powers of the National Bank in setting macroprudential ratios and limits, and those of the Agency to monitor and supervise banks' compliance;

- **asset quality review (AQR) and supervisory stress testing**. The Council approved a list of banks for asset quality review (AQR) and supervisory stress testing in 2024, as well as information on fulfillment of individual plans for corrective measures by banks based on the results of AQR;

- **a national macro-fiscal model**, which allows evaluating the dynamics of the National Fund assets, the scale of the fiscal gap and the robust level of non-oil revenues;

- **preliminary conclusions of the Financial Stability Report for 2023**, containing a comprehensive analysis of the financial sector, households, government securities and real estate markets, and other areas;

- **monitoring the countercyclical capital buffer (CCB)** and proposals regarding the introduction of the sectoral CCB;

- **various possibilities for providing liquidity in foreign currency, subject to conditions that would minimize risks for gold and foreign exchange reserves**. The Council approved the proposal to include the foreign currency swap – the provision of the tenge against foreign currency – in the perimeter of the LLR framework, as well as the inclusion of foreign currency assets in the list of acceptable collateral.

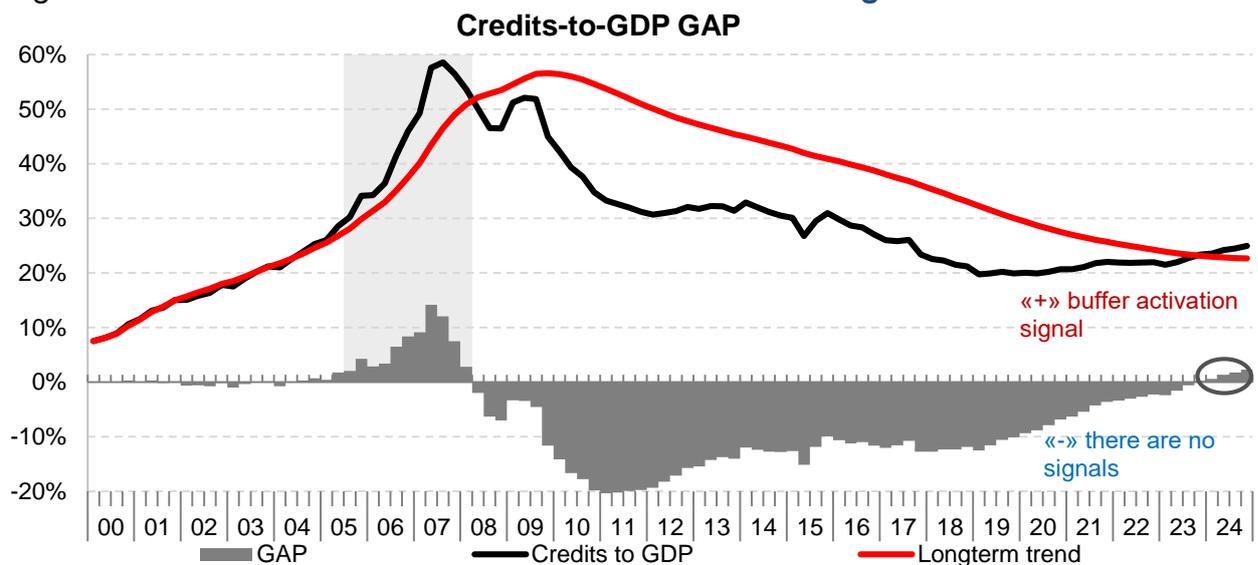
Box 5.3 Monitoring the Ratios of Countercyclical Capital Buffer (CCB) and Sectoral CCB

The National Bank continues to reduce risks associated with the active growth of consumer lending. In particular, the possibility of introducing one of the modifications of the CCB – sectoral CCB – to cool down this lending segment is considered.

Based on the results of the monitoring of the main and additional indicators on the basis of the standard methodology of the Basel Committee on Banking Supervision (the BCBS hereinafter), at the end of 2024 (preliminary data)³⁰, the main indicator of gap-to-GDP amounted to 2.3 pp (Figure 1).

For reference: The main indicator signaling the credit boom period and the need to form a CCB is the ratio between credits to the economy and GDP, namely the deviation of this ratio from its long-term trend (Credit-to-GDP gap). The signal for the start of the formation of the CCB is the excess of the value of the Credit-to-GDP gap of the lower boundary set for it - 2 pp. In case of exceeding the Credit-to-GDP gap of the upper boundary (equals to 10 pp), the value of the CCB is set at the maximum level provided for this tool.³¹ In addition to calculating the main indicator, BCBS recommends calculating additional indicators characterizing the state of development of financial markets and the economy as a whole. It should be noted that BCBS allows a significant level of judgments when making a decision regarding the formation/increase in the CCB. The decision to activate the CCB is brought to the attention of banks 12 months before its enforcement, which gives banks the time to form the necessary stock of capital.

Figure 1. Loans to GDP ratio and its deviation from a long-term trend



Source: STB reports, ASPR BNS RK

However, based on the results of the 4th quarter of 2024, the monitoring of additional ratios showed that the retail lending segment³² is dominating (61.2%) and is growing in volumes (23.9% YoY) (Figure 2). At the year-end 2024, the growth of retail loan portfolio amounted to 25.9%, and that of corporate loans³³ – 11.5%. The main contribution to the growth of the STB's loan portfolio is made by consumer lending (11.6% with an annual increase in the loan portfolio by 20%), which is a sign of the increasing availability of lending and persistent consumer demand.

Outstripping growth rate of retail loans and overdue debt (from 90+ days), compared to the growth rate of nominal GDP, creates risks to financial stability.

³⁰ Preliminary data from the ASPR BNS RK by the GDP production method for the 4th quarter of 2024

³¹ The CCB values as recommended by the BCBS range from 0% to 2.5% of risk-weighted assets

³² The calculation included retail loans excluding loans to individual entrepreneurs

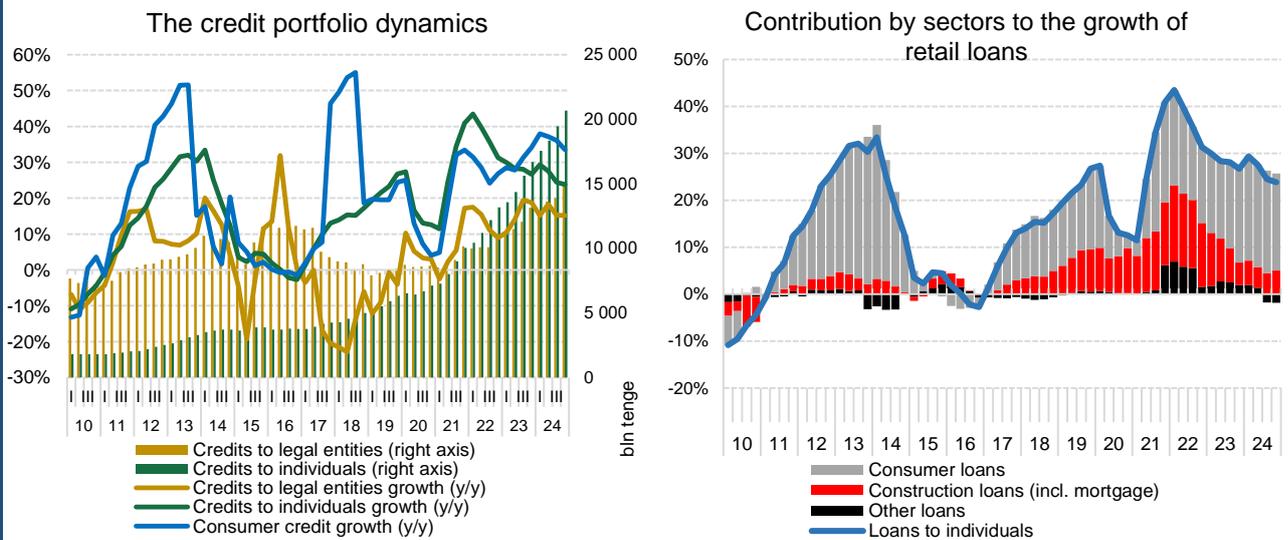
³³ The calculation of corporate loans includes loans to individual entrepreneurs

The National Bank, in defining the sectoral criteria for the “Credit-to-GDP gap” ratio (main indicator) applied the approach similar to that for the standard CCB, taking into account the normalization of appropriate standard deviations. Thus, the normalized value of the indicator of the “retail loans (without IEs) to GDP gap” based on the results of the 4th quarter of 2024 amounted to 6.8%, which corresponds to the establishment of the sectoral CCB at the level of 3.5% of the sum of risk-weighted sectoral assets and contingent liabilities.

At the same time, the normalized value of the “loans to legal entities (including IEs) to GDP gap” amounted to -0.5%, which indicates that there is no need to build up a sectoral CCB for the portfolio of legal entities.

Together with the main indicator, additional indicators are also monitored in order to make decisions on the appropriateness of activation of the sectoral CCB.

Figure 2. Additional indicators of the sectoral CCB



Source: STB reports

Given the divergent dynamics of growth in the segments of the loan portfolio, when retail lending is growing at an accelerated pace and dominates the volume compared to loans to legal entities, the use of sectoral CCB will be justified and appropriate for cooling down the pace of retail lending.