



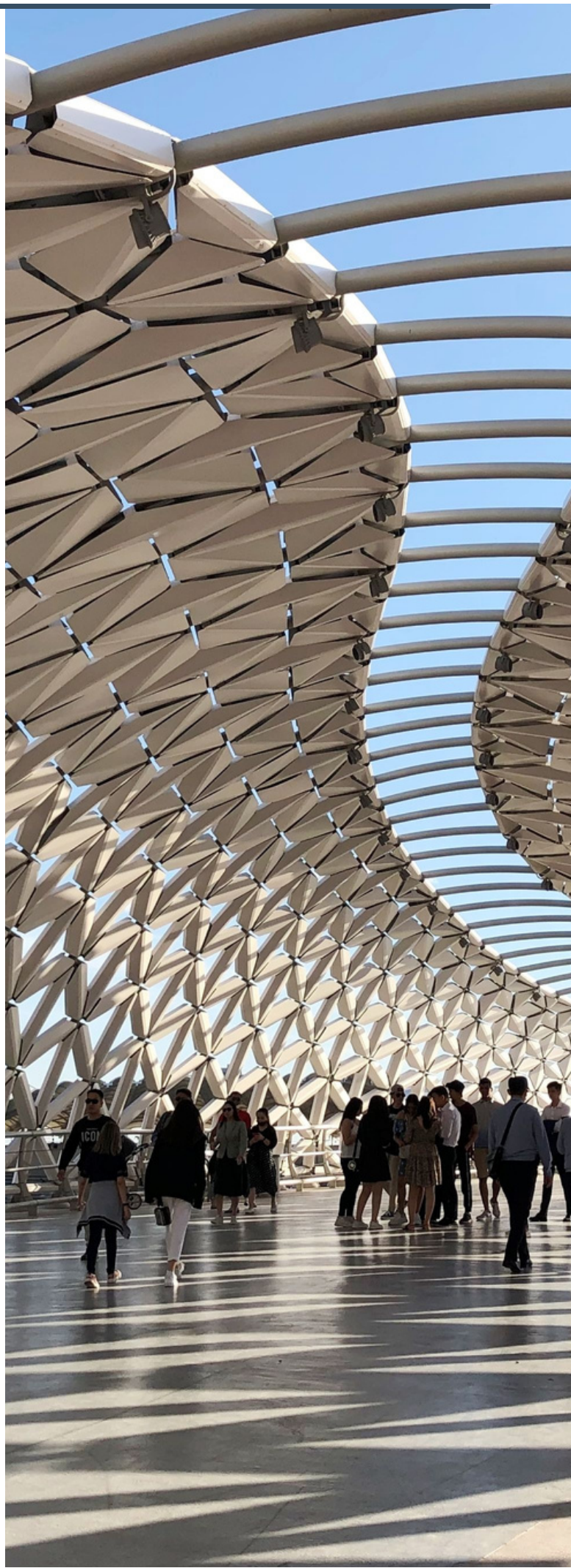
QUARTERLY REPORT

KAZAKHSTAN MACRO & MARKET OVERVIEW

Q1 2023 // NATIONAL BANK OF KAZAKHSTAN

CONTENTS

Credit Ratings.....	3
Inflation & Current Account.....	4
FX Market & Reserves.....	5
GBI-EM Inclusion Progress.....	6
Market Overview	7
Secondary Market Liquidity.....	8
Investor Relations.....	9
Contacts.....	10



S&P REVISED OUR RATING OUTLOOK FROM NEGATIVE TO STABLE

According to credit agencies' evaluations the ratings on Kazakhstan are supported by the country's strong fiscal and external balance sheets, improvements in macroeconomic policy effectiveness, reforms on diversification, enhancements in monetary and fiscal policy as well as improved bank metrics.

In contrast, high dependence on commodities, weak governance and institutions independence, also relatively small banking sector serve as downside factors.

Despite the fact that CPC event risk is still present, significant efforts were made in order to develop 3 alternative export routes to the CPC pipeline, such as through the Baku-Tbilisi-Ceyhan and China.

The country's sovereign rating may be improved with efficient fiscal policy, which will slow down the dynamics of the debt burden and debt service. S&P analysts noted the sustained growth in the non-oil sector would also be supported by measures to attract foreign investment.

S&P projects a 4.1% growth of Kazakhstan's economy this year and approximately 4% in 2023-2026 on average, according to the press service of the country's government. Construction, information and communications, trade, transport, and manufacturing sectors contributed to a 3.2% economic growth in 2022.

S&P Global	FitchRatings	MOODY'S INVESTORS SERVICE
BBB- Stable	BBB Stable	Baa2 Stable

Where we are
TODAY

In medium term we expect INFLATION STABILIZATION

The National Bank of Kazakhstan (NBK) is currently implementing a disinflationary monetary policy based on the principles of inflation targeting. To support this, the base rate has been raised to 16.75%, and according to the inflation forecast, the NBK approached the end of the monetary policy tightening cycle.

The current level of the base rate is considered high enough to stabilize inflation and gradually reduce it over the medium term, as long as it is maintained at current levels for an extended period of time. In the absence of new pro-inflationary shocks, the probability of further tightening of monetary policy is low.

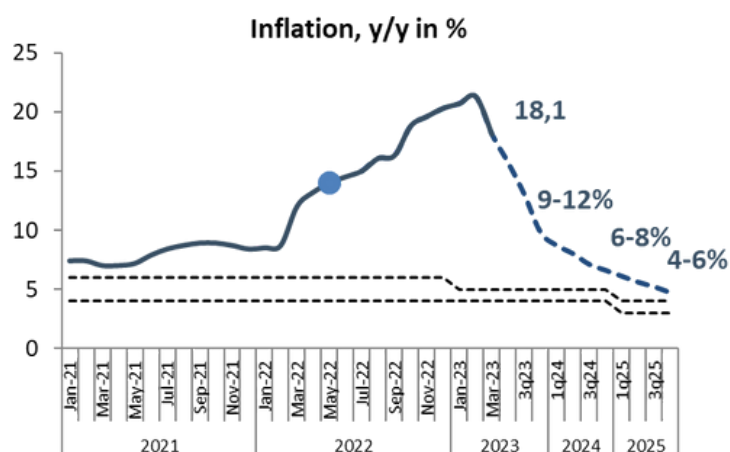
In March 2023, annual inflation decelerated to 18.1% due to the monetary tightening, base effect, slower growth of import prices and stronger exchange rate.

In 2022, the current account recorded a surplus of \$8.5 billion due to high commodity prices. However, in 2023, the current account surplus is expected to decline to \$2.2 billion under the baseline scenario. In 2022, the export of goods increased by 30.9% to \$86.1 billion, mainly due to high commodity prices for oil, metals, gas, coal, uranium, and wheat. In the medium term, the increase in oil production in large oil fields is expected to partially offset the decrease in oil prices.

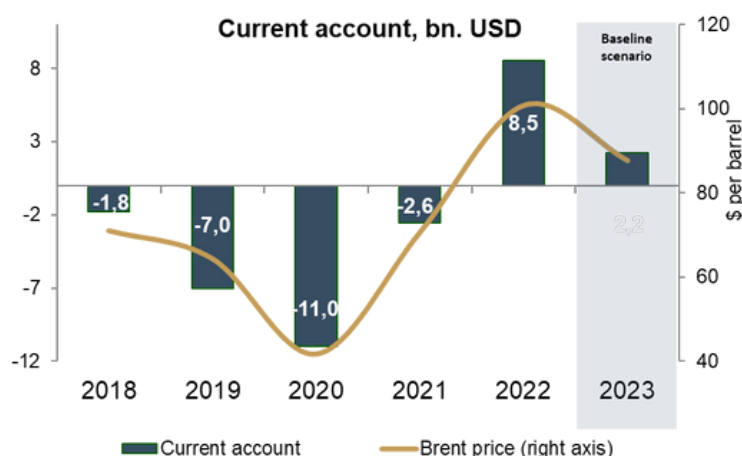
Import of goods rose by 19.7% to \$49.8 billion due to the insufficient domestic production of manufactured goods. In the medium term, the import of goods is expected to remain at a high level due to stable demand from households and businesses financed by personal and borrowed funds, as well as rising fiscal spending.

Despite the high level of imports and the correction of commodity prices, the planned increase in oil production is expected to ensure a current account surplus in the medium term.

INFLATION



CURRENT ACCOUNT



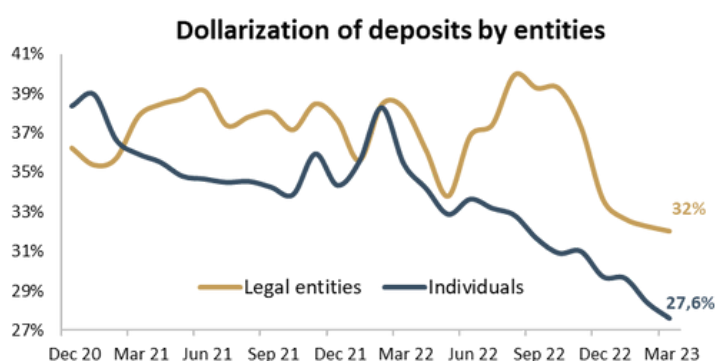
TENGE FLEXIBILITY

Allows to absorb external shocks

FX MARKET & FX RESERVES

<i>mIn USD</i>	2021	2022	1Q2023
FX Reserves	34 378	35 076	36 215
Assets in hard currencies	10 832	14 584	15 091
Gold	23 546	20 491	21 124
Share of gold,%	68%	58%	58%
USD/KZT total volume on KASE	34 678	29 704	7 771
USD/KZT rate	432	463	452
Interventions (net)	-491	-1 394	0
Mandatory FX sales by quasi-sovereign companies*	3 100	5 055	988
Sales from National Fund	-9 604	-4 285	-1 539

*The requirement to sell part of export foreign exchange proceeds by the quasi-sovereign companies has been reduced in February 2023, from 75% to 50%.



As of March 31, 2023, the tenge exchange rate has appreciated by 2.2% year-to-date to 452.70 tenge per US dollar, compared to 462.66 on December 30, 2022. This appreciation can be attributed to foreign exchange sales by exporters, sales from the National Fund, inflow of foreign investments in tenge-denominated government debt and larger quarterly tax payments by exporters.

Exchange rate flexibility is essential for the efficient functioning of the foreign exchange market and both-side volatility together with decreased share of NBK operations indicates for further market liberalization.

The NBK will continue to adhere to a flexible exchange rate regime to maintain the balance and quickly adapt to new economic fundamentals while preserving foreign exchange reserves.

The country's international reserves amount to \$94.5 billion, including \$36.1 billion in foreign exchange reserves and \$58.4 billion in national oil fund assets.

The dollarization rate has decreased to 29.8% as of March 2023, mainly due to anti-crisis measures taken by the NBK, including the increase in the base rate, recommended rates on household deposits, and the Tenge Deposit Protection Program jointly initiated with the government. Among legal entities, the minimum value of dollarization has been reached at 32%, the lowest in the past ten years.



INFRASTRUCTURE DEVELOPMENT INDEX INCLUSION PROGRESS

2018**CLEARSTREAM SETTLEMENT**

The access for investors to local markets was eased by including national currency into the settlement list of Clearstream

2020**DVP**

Since 2020 government bonds denominated in tenge can be settled in Clearstream on DVP basis

2021**J.P. MORGAN PLACED
KAZAKHSTAN "ON THE
RADAR"****2022****KAZAKHSTAN DEBT MARKET
WAS INCLUDED IN THE FTSE
FRONTIER EMERGING MARKETS
GOVERNMENT BOND INDEX**

The inclusion of the country's government securities market in this index indicates the growing interest and attention from international investors

2023**PLANNED: BOOSTING
SECONDARY MARKET
LIQUIDITY**

This year we will concentrate on boosting secondary market liquidity by implementing primary dealers institute and transferring funds managed by the central bank to local professionals

2023**PLANNED: EUROCLEAR
SETTLEMENT**

In 2021 we observed historical highs in foreign holdings of government securities with the total outstanding amount exceeding 2 billion USD (863.1 billion tenge in Oct 2021). Last year was not in favor of EM and KZ in particular and we lost 51% of investments in tenge terms. Nevertheless, there has been an increase in foreign investor interest since January 2023, with non-residents currently holding about 1 billion USD in government securities, or 2.5% of the total outstanding volume of government debt. The majority of funds, 76%, are invested in Ministry of Finance (MoF) bonds, and 24% in NBK notes.

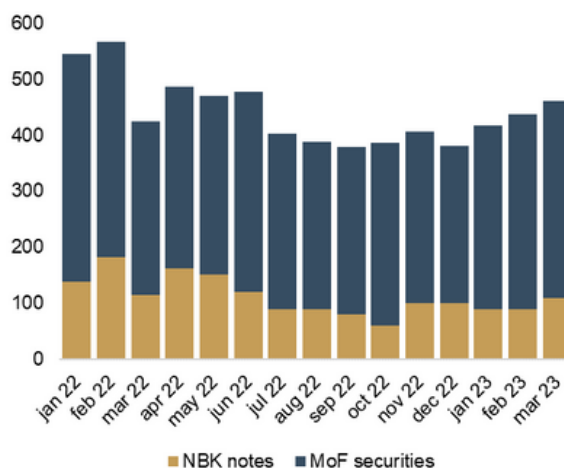
As a result of the joint efforts in 2021, J.P. Morgan index team placed Kazakhstan "on the radar". Approximately 37% of recent J.P. Morgan's respondents (+15% compared to 2022) stated that the Kazakhstan onshore government bond market is accessible and attractive from a relative value and macro perspective, therefore suitable for future consideration for inclusion in the GBI-EM series. Yet, investors mentioned that further development of secondary market liquidity and enhancements in market access are expected.

The banks' share in government securities holdings has gradually increased since the beginning of the year, indicating a resumption of demand from market participants.

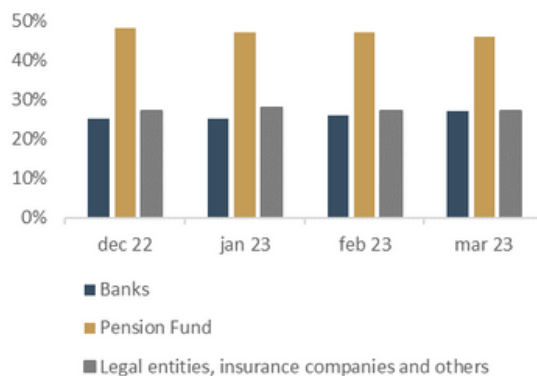
Demand at auctions of the MoF has exceeded supply on average by 2.5 times since the beginning of the year. In 1Q2023, there was increased demand for primary placements of government securities, and a high share of market investors (78,2%) remained. For fixed government securities with a total announced volume of 1,368 billion tenge, 1,167 billion tenge were placed at par, with demand exceeding supply by an average of 2.8 times.

GOVERNMENT SECURITIES MARKET OVERVIEW

Holdings of government securities by foreign investors, bn. KZT



Breakdown of outstanding domestic bonds by holders

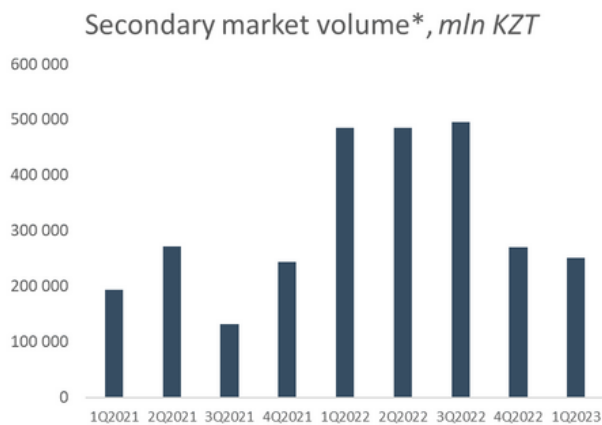


From January we observe
INCREASE IN FOREIGN INVESTORS HOLDINGS



Secondary market LIQUIDITY DOUBLED in 2022, YoY

LIQUIDITY & RECENT DEVELOPMENTS



*Data on secondary market includes only tenge denominated securities of NBK and MoF traded on Kazakhstan Stock Exchange

PLANNED ACTIVITIES

Efforts are underway to actively deploy the settlement infrastructure with Euroclear, with due diligence having already commenced

Transferring assets under NBK's management to a competitive environment in order to promote the development of the local securities market

Introduction of Primary Dealership system

The secondary market liquidity more than doubled last year compared to 2021, with the total volume traded on the secondary market reaching 3.4 billion USD, or about 15 million USD daily. Daily FX volume on OTC and stock exchange combined is close to 300-350 million USD.

In November of last year, NBK collaborated with Bloomberg to launch the E-bond platform for Kazakhstan bonds. Trading is available for the most liquid and traded securities, and counterparties and quotes on OTC are now visible.

To boost secondary market liquidity, it is planned to implement a primary dealer institute and transfer funds managed by the central bank to local professionals.

At this moment, more than 40 market participants have access to primary auctions with no market-making obligations, but the list will be reduced significantly by the end of this year.

As of the beginning of 2023, the NBK managed 9 tenge-denominated funds, totaling 3.6 trillion tenge. This year, it was planned to transfer 7 funds to local professionals, of which 2 have already been successfully transferred and 5 yet to be transferred (1.6 trillion).

It is expected, that transferring funds will contribute to creation of a competitive market for management companies and thus, to the development of the government securities market.

INVESTOR RELATIONS

In January, the NBK partnered with the MoF and JP Morgan to launch a non-deal roadshow in the United States.

In February 2023, NBK and MoF organized a call with investors, in collaboration with Citi Bank UK. The call was attended by 45 PMs and analysts from the top 30 investment firms in the UK and Europe.

On February 20, Citi Bank delivered four panel discussions exclusively focused on Kazakhstan to top investor clients involved in frontier markets. Twelve PMs/analysts from twelve different firms attended these sessions, demonstrating an increasing interest in the Kazakh market.

In March 2023, a delegation from NBK headed by Governor Galymzhan Pirmatov visited London to conduct a series of meetings with investors and brief them on the latest developments in the domestic capital market.

On June 8, 2023, NBK management plans to host a session at the Frontier Markets Fixed Income Conference, which will take place in person at J.P. Morgan in London. The conference will cover a wide range of investors, including sovereign, quasi-sovereign, and private sector corporates. It will also provide an opportunity to host selected 1-on-1 and small group meetings with hard and local currency fixed-income investors.

Additional sources:

- Recent Publications and Press releases
- Monetary Policy Report February 2023
- Kazakhstan: Balance of Payments and External Debt for 9 months of 2022



CONTACTS

For more information, please feel free to contact:

- Nurlan Sailaubekuly - investor relations (Nurlans@nationalbank.kz)
- Ivan Serdyuk - FX Market, FX reserves, government bonds, primary dealers, infrastructure (Ivan.Serdyuk@nationalbank.kz)
- Nurzhan Nurgazin - government bonds and transfer of funds (Nurgazin@nationalbank.kz)
- Rustem Orazalin - inflation, dollarization (Orazalin.RZ@nationalbank.kz)
- Azat Uskenbayev - current account (Azat.Uskenbayev@nationalbank.kz)
- Aliya Ryskeldiyeva - general queries (aliya.ryskeldiyeva@nationalbank.kz)

