



Monetary Policy REPORT

June 2021



NATIONAL BANK OF KAZAKHSTAN

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Monetary Policy Report is a quarterly publication of the National Bank, which contains the analysis of key macroeconomic factors affecting inflation as well as the forecast of macroeconomic parameters in the short- and medium-term horizon.

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PREAMBLE

On June 7, 2021, the Monetary Policy Committee of the National Bank of the Republic of Kazakhstan made the decision to set the base rate at 9.00% per annum with the interest rate band of +/- 1.0 pp. The decision was made on the basis of a detailed analysis of developments in the foreign and domestic economy, consistency of the projected inflation dynamics with the actual data as well as updated forecasts of key macroeconomic indicators in the medium term.

Despite the retention of restriction measures on fighting the coronavirus pandemic as well as the local virus outbreaks and emergence of new viral strains, the global economy is gradually recovering. To a greater extent, large-scale immunization programs deployed in many countries worldwide are conducive to this fact. The growing global activity due to the increased production and new orders alongside with a progressive recovery in the service sector have been the key for an upward revision of forecasts of international organizations regarding the global economic growth. Thus, the IMF raised its forecast about the global economy from 5.5% (YoY) to 6.0% (YoY for 2021).

Forecasts regarding Kazakhstan's trading partners have been also improved. The EU economy is expected to grow by 4.4% (YoY) in 2021 given the immunization programs and the lifting of restriction measures. The upturn of the Chinese economy will go on; however, the pressure on the economic growth may create the currently observed problems with supplies and the rise in prices of raw materials. According to forecasts, the Russian economy will go up by 3.8% (YoY) during this year. At the same time, the expected growth may be limited by a slow upturn of the mining industry and exports given that the OPEC+ agreement is in effect, and by a slower than expected recovery of the domestic consumption.

At present, world prices of Brent oil are above 70 US dollars per barrel. Fundamentally, prices are supported by the growing demand for oil as a result of immunization conducted by countries and by a more moderate supply of oil from OPEC+ countries given the decision about a gradual increase of oil production in the nearest term. It is expected that after the second quarter of 2021, due to a progressive buildup of oil production in countries outside of OPEC and OPEC+ countries, the oil price will be declining from its current levels. Nonetheless, during 2021-2022 it will be standing around 60 US dollars per barrel.

Taking into account the existing epidemiological situation in the world and forecasts of international organizations, the National Bank revised the price of oil under the baseline scenario and increased it to 60 US dollars per barrel on average in 2021-2022.

In the environment of recovering demand and growing prices in the global commodity markets, inflationary processes accelerate significantly, including in countries-Kazakhstan's trading partners, thus causing intensification of external inflationary pressure on the domestic prices.

Recovery processes in Kazakhstan's economy are under way and are taking a more sustainable form. In March-April 2021, positive economic growth rates were observed after their contraction in January-February. As at the end of January-April 2021, the real GDP growth rates accounted for 0.7% in annual terms. Acceleration of the growth rates was observed in the manufacturing industry, construction, agriculture, information and communication. The start of a massive immunization and the easing of quarantine restrictions both within and outside the country help recovering the branches of the service sector, trade and transport in particular. At the same time, the primary sector continues to make a negative contribution to the GDP dynamics due to limitations on oil production within the framework of the OPEC+ agreement.

The investment activity remains somewhat pent up largely because of reduced investments in the mining sector, which accounts for a significant portion in the investment structure. However, other sectors of the economy including branches of the manufacturing industry, communication and

agriculture, demonstrate positive dynamics of investments supported by the government programs on diversification and digitization. In the dynamics of investments into residential construction, high growth rates are persisting being driven by implementation of government mortgage lending programs and by the withdrawal of a part of retirement savings from the UAPF for improving people's living conditions. These trends are accompanied by the growing investment imports in the first quarter of 2021.

The recovery of consumer demand is nurtured by the growth in prosperity of the population due to the growing real wages in the environment of improving business activity in the sectors of the economy and the increasing budget spending on retirement benefits and student scholarships. At the end of the first quarter of 2021, the rise in real wages of the population accounted for 3.4% in annual terms. Expansion of the consumer demand is also traced in the accelerated dynamics of retail sales, a significant growth of consumer imports, especially of non-food products, and high growth rates of the consumer lending. A positive effect on the demand is exerted by a massive immunization of the population and by the easing of quarantine restrictions.

Given the expansion of aggregate demand, the increased external inflationary pressure and the effect of one-time factors in some commodity markets, internal inflationary processes are accelerating. Thus, in May 2021, the annual inflation accelerated to 7.2%, forming above the National Bank's expectations. A significant rise in prices of non-food products and paid services was partially offset by the disinflation of a food component given a high base of 2020. At the same time, despite deceleration of the annual food inflation to 9.3%, it keeps making a major contribution to the overall price growth. In certain commodity markets, the trend of a rise in prices is persisting, being also driven by the growth in world food prices. A sharp acceleration of the non-food and service component of inflation to 6.7% and 5.1%, respectively, was stemming from appreciation of fuel and lubricants in terms of price and from the increase in electricity tariffs. Along with that, within the structure of non-food products, prices of clothes and footwear continue to go up, which is in indication of a steady recovering consumer demand. A more rapid recovery of demand also reflects on the rise in the cost of certain types of non-regulated services. It is worth mentioning that low growth rates of prices for regulated services serve as a constraint for a higher service inflation. In turn, inflation expectations of the population remain high and are exposed to shocks in certain commodity markets, markets of everyday goods and services in particular.

Higher rates of actual inflation coupled with significant intensification of pro-inflationary pressure in the environment of recovering domestic demand, the continuing rise in prices in the global commodity markets translated into the growing production costs pre-determined an upward revision of short-term inflation forecasts. Thus, according to the National Bank's updated forecasts, in 2021 the annual inflation will be decelerating at a slower pace than it was expected earlier. As at the end of 2021, it will be building around the upper boundary of the target band of 4-6% with a high probability of going above the upper boundary.

Medium-term inflation forecasts were also revised slightly upwards as compared to the prior assessments due to the deferred effect of the fiscal stimulus on the pricing processes. In 2022, the annual inflation will continue decelerating and will be building within the target range. Inflationary processes will be slowing down amidst the weakening external inflationary pressure accompanied by the expectations that inflation in China and the EU will fail to attain its target levels and that the world food prices will be gradually declining.

According to the National Bank's expectations, Kazakhstan's economy will continue to recover faster given more positive forecasts regarding the global economy's growth and the economic situation in the trading partner countries as well as higher scenario-based prices of oil that had been revised driven by the prevailing positive trends in the global oil market.

According to the baseline scenario, in 2021 the growth of Kazakhstan's economy is expected to be at **3.6-3.9%** due to the expansion of positive fiscal impulse given that the budget spending this year was revised upwards. A faster recovery of the business activity in the economic sectors and the growing income of the population will promote the expansion of aggregate demand, which will serve as a growth driver for the economy. At the same time, the recovering imports will be exerting a restraining effect on the GDP dynamics. The recovery of exports in the second half of this year will be driven by the ramp-up of oil production once the OPEC+ limitations are eased and by the increasing external demand for Kazakhstani export products.

Forecasts about the GDP growth for a medium-term perspective were also revised slightly upwards given the deferred effect of positive fiscal impulse. In 2022, the GDP growth rates will accelerate to **4.0%-4.3%**, being nurtured by the persisting positive growth rates of the domestic demand owing to the improving epidemiological situation and expansion of exports once the limitations within the framework of OPEC+ transaction are eased further.

Compared to the previous forecasting round, the risk profile somewhat deteriorated; this is an indication that the risks of inflation deviation from the baseline scenario are at a heightened level. Ineffectiveness and/or a poor coverage with immunization against the COVID-19 worldwide may have a negative effect on the speed of recovery of the global economy and may cause a fall in prices of primary commodities. Among internal risks, the demand-and supply-pull inflation risks can be pointed out, which, if realized, can cause a significant acceleration of inflation both in the short- and medium-term perspective.



I. PROSPECTS OF THE DEVELOPMENT OF THE MACROECONOMIC SITUATION

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1.1. Forecast Assumptions

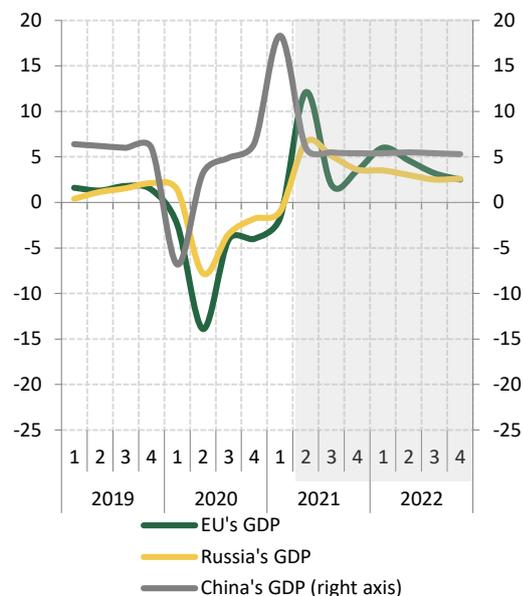
The active policy of countries on immunization and financial support, on the one hand, leads to a more rapid recovery of the global economy, but, on the other hand, increases the probability of realization of risks associated with the accelerated price growth and a possible faster curtailment of stimulus measures in developed countries.

Forecasts of international organizations about the global economy's growth were revised significantly upwards, being furthered by the improving epidemiological situation in the world and by a stronger current economic upturn in a number of large countries due to implementation of the stimulative measures. Meantime, the global economy's recovery may be lengthier in case of a further deterioration of the epidemiological situation in India or other countries where the immunization campaign is slower or is unavailable at all. Alongside with that, a faster recovery of the global economy may be limited by the increased geopolitical tension in the world as well as by resumption of trade wars.

Based on the abovementioned positive factors, the IMF raised the assessment of the global economic growth in 2021 from 5.5% (YoY) to 6.0% (YoY). As before, emerging economies are expected to demonstrate a faster growth compared to developed countries. The assessment for 2022 was also improved, however, a slower growth is anticipated compared to 2021 (the forecast for 2022 was raised from 4.2% (YoY) to 4.4%(YoY)).

Given that at the beginning of the year many European countries extended restriction measures because of the spread of coronavirus as well as due to a slower immunization process, in the first quarter of 2021 economies of the EU member countries were contracting. After the second quarter of 2021, the situation is expected to improve significantly and will be supported by the deployment of immunization programs as well as by the lifting of many quarantine restrictions.

Figure 1. GDP Growth Rates in China, EU, Russia in Real Terms *, YoY, %



Source: Eurostat, National Bureau of Statistics of China, Rosstat, Consensus Ecs.

Nonetheless, many of the European economies as opposed to the USA and China are expected not to reach the pre-crisis production volumes, as minimum, until the beginning of 2022. In connection with the moderate dynamics of economic activity at the beginning of the year, Consensus Ecs. slightly lowered the forecast about the EU economy's growth in 2021 from 4.1% (YoY) (the previous assessment of February 8, 2021) to 4.0% (YoY) (Figure 1). The assessment about 2022 was improved from 4.0% (YoY) to 4.1% (YoY).

The Chinese economy in the first quarter of 2021 given a low base of the last year showed high growth rates. This effect is expected to be exhausted and already from the second quarter of 2021 the Chinese economy will be characterized by more moderate dynamics; now this is evidenced by a sharp deceleration in retail trade, investments and the industrial production. In case if the currently observed problems with supplies and the growing costs of primary commodities persist, the pressure on the economic activity can intensify. Curtailment of financial stimuli on the part of the government that were introduced during the last year as part of fighting with the consequences of the coronavirus pandemic may also serve as an additional constraint. The economic growth will be supported by a further increase in exports given the recovery of the global economy as well as a high investment activity in the country. Consensus Ecs. improved its forecast about China for 2021 from 8.4% (YoY) to 8.7% (YoY) (Figure 1). The forecast for 2022 remained unchanged at 5.5% (YoY).

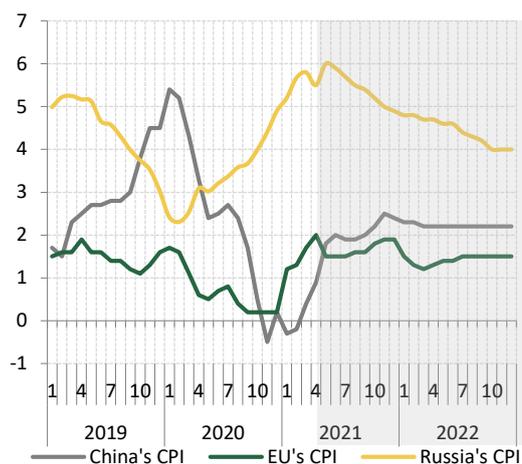
The Russian economy, according to forecasts of Consensus Ecs., in 2021 will grow by 3.1% (YoY) (the previous assessment of January 18, 2021 – a 2.8% growth (YoY)) (Figure 1). The key growth drivers will include higher world prices of oil and an expected strengthening of the investment activity. On the other hand, a projected recovery of the economic activity may be limited by a slow upturn of the mining industry and exports as a result of a slower ramp-up of oil production as part of the updated OPEC+ agreement. The domestic consumption in view of an expected feeble growth of disposable income, including because of the tightening of monetary conditions, can also exert a restraining effect. The risks of declining economic activity are also associated with the geopolitical tension that has resumed recently. In 2022, the Russian economy will come back to its potential levels. The economic growth rates, according to the forecasts of Consensus Ecs., will account for 2.7% (YoY) (the previous assessment of January 18, 2021 – a 2.7% growth (YoY)).

In the EU, due to the currently high prices of fuel, the expected faster recovery of the domestic demand after the lifting of quarantine restrictions as well as due to reduction of the VAT rate in a number of European countries at the end of the last year, the inflation forecast was slightly increased. Inflation is expected to reach its peak in 2021 followed by deceleration in 2022 (Figure 2).

In China, the inflation forecast was also slightly increased. It is expected that because of the effect of the base the largest pressure on consumer prices will be put at the end of 2021. Nonetheless, an anticipated price acceleration will be curbed by more moderate rise in the prices of pork meat compared to the last year due to an increased supply in the market. In 2022, inflation will remain moderate (Figure 2). Producer prices, according to expectations, after reaching their peak in mid-2021, will be gradually declining once the low base effect expires.

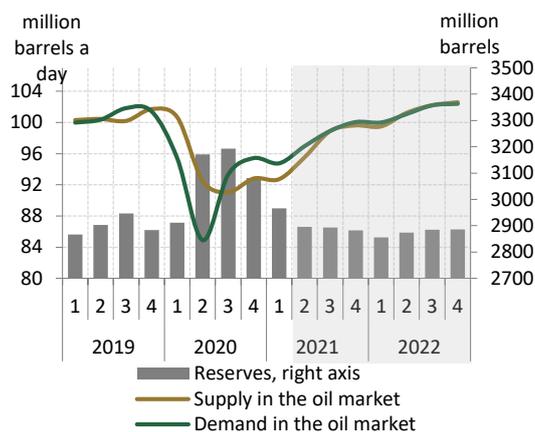
According to the updated forecasts of Consensus Ecs., the consumer inflation in Russia is also expected to accelerate. The projected price growth will be driven by a combination of external factors associated with the rise in world prices of food and primary products as well as by a further depreciation of the Russian ruble against the US dollar.

Figure 2. Inflation in China, EU, and Russia, YoY, %



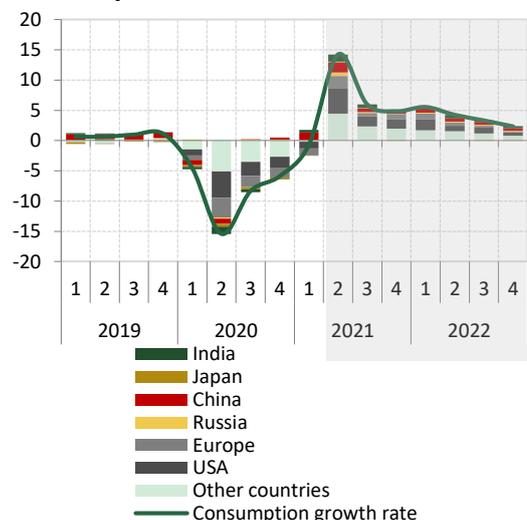
Source: Eurostat, National Bureau of Statistics of China, Rosstat, Central Bank of Russia, Consensus Ecs., European Commission

Figure 3. Dynamics of the Global Oil Market



Source: EIA

Figure 4. Global Oil Consumption, YoY



Source: EIA

The price growth rates, after reaching their peak by mid-2021, are projected to gradually slow down. Nonetheless, in 2021-2022 inflation will be above the target level (Figure 2).

The improving epidemiological situation in the world along with the increased monetary stimuli caused intensification of the global inflationary pressure. This, in turn, increases the risks of a faster than supposed reversal of the interest rate reduction cycle at large central banks.

An active immunization policy in the countries led to a significant improvement of the existing situation in the global oil market and expectations regarding the future development.

According to the EIA's assessments, the demand for oil will be outrunning its supply, as minimum, until the beginning of 2022, which will cause the persisting oil shortage. After the first quarter of 2022, the supply of oil is expected to increase and will correspond to the demand, thus leading to a more balanced oil market (Figure 3).

According to forecasts of international organizations, the global demand for oil this year will go up by 5-6 million barrels a day and will amount to 96-98 million barrels a day (Figure 4). As expected, the lifting of restriction measures against COVID-19 in many countries, resumption of air flights as well as the beginning of summer season will lead to a significant increase in the demand for oil in the nearest term. The main contribution to the growth in consumption is expected primarily on the part of the USA and EU where the level of immunization is approximating 50%. Despite a relatively rapid growth in the demand for oil during the forecasting period, the comeback to the pre-crisis levels may occur by the end of 2021 only.

The global oil production will start to go up at a faster pace closer to the middle of this year (Figure 5). The increase in oil production, first of all, is expected in OPEC+ countries in connection with the made decision on a gradual reduction of limitations. Acceleration of the growth rates of oil production is also expected in the USA, Canada and Brazil.

Alongside with the indicated positive factors, there is a number of risks, which, if realized, may have a negative effect on the current state of the global oil market and its development prospects. Primarily, high incidence rates of coronavirus in India and Asia in general cause a special concern. However, successful immunization worldwide coupled with a seasonal jump in the demand for oil offset this negative effect.

The US administration now is also considering the lifting of a number of sanctions imposed against Iran, which could eventually increase the supply of oil and put a downward pressure on prices.

One more group of risks is associated with a possible appreciation of the US dollar against other world currencies given a faster transition to the interest rate increase cycle that may result in a reduced demand for risky assets including oil.

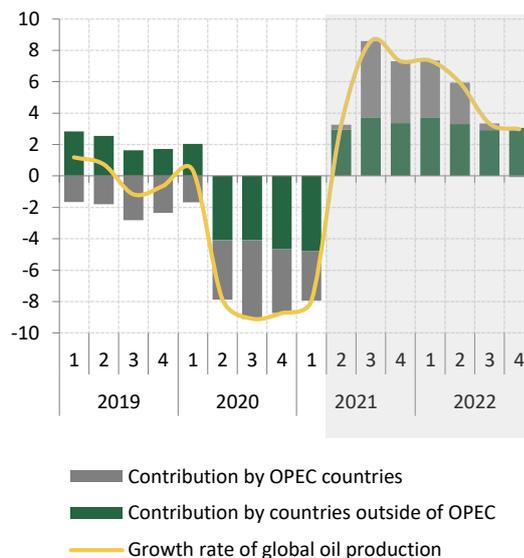
Taking into account the existing epidemiological situation worldwide and projections of international organizations, in designing the macroeconomic forecasts for the period from the second quarter of 2021 to the fourth quarter of 2022 the **National Bank considers three scenario-based options for the economic development: baseline, pessimistic and optimistic.**

Under the **baseline scenario**, Brent annual oil price in 2021 is assumed to make up 60 US Dollars per barrel in the medium term.

Under the **optimistic scenario**, the Brent oil price is expected to be 65 US Dollars per barrel; this will be determined by a steady growth in the demand for oil and the persisting oil shortage.

Under the **pessimistic scenario**, the Brent oil price is assumed to be 50 US dollars per barrel in the medium term, which will be associated with a dramatic deterioration of the epidemiological situation in the world, a longer immunization campaign, the increased volatility in financial markets as well as with imbalances in the oil market.

Figure 5. Global Oil Production, YoY, %



Source: EIA

1.2. Dynamics of Economic Development under the Baseline Scenario

As at the end of the “May-June 2021” forecasting round, expectations about a short-term growth of Kazakhstan’s economy were revised slightly upwards. In 2021, the GDP is expected to increase by 3.6-3.9%. The key factors for increasing the expectations regarding the economic development rates were a high scenario-based oil price (60 US dollars per barrel) and the expansion of positive fiscal impulse given the upward revision of the budget spending this year.

In 2021, the most sizable contribution to the GDP growth is expected on the part of consumer demand. The peak in the growth of household consumption will be in the first half of 2021 followed by a gradual slowdown by end-2021. The growth of consumer demand will be supported by the increasing real income of the population due to a high rise in wages in the public sector branches, the recovering dynamics of labor compensation in the real sector given the business activity revival in the economic sectors and the growing income from social benefits. In 2021, the growth in the people’s income will be also supported by positive fiscal impulse due to the expansion of the expenditure side of the republican budget. An additional contribution to the growth in the household demand will be made by the accelerated growth rates of consumer loans.

Gross formation will be demonstrating positive dynamics in 2021. At present, a number of investment projects are implemented in the manufacturing industry and the government goes on with financing of such programs as “Economy of Simple Things”, “Employment Roadmap”, GPIID and other programs. Alongside with that, vigorous construction activities are underway in the town of Turkestan and large expansion projects are implemented at the KPO and TCO. Implementation of the above projects will be supporting a moderate growth of fixed capital investments in the economy. An additional contribution to the increase in the gross formation will be made by the expansion of investment activity in the residential construction supported by the government mortgage programs and by the withdrawal of a part of retirement savings from the UAPF for improving the people’s living conditions.

The growth rates of government consumption will be moderate due to the weaker dynamics of the growth in labor compensation in the general government and the government’s current expenditures compared to 2020.

Exports will be retaining negative dynamics in the first half of the year and will go to the growth zone from the third quarter of 2021. The recovery of exports will be related to a gradual easing of limitations as part of the OPEC+ on a daily oil production until the end of this year, to the increasing external demand for Kazakhstan’s metals on the part of China, recovery of demand for energy resources by the EU as well as a high scenario-based price of oil.

Given the increasing domestic demand, imports will be demonstrating positive growth rates exerting a restraining effect on the GDP dynamics.

Forecasts about the GDP growth for a medium-term perspective were revised slightly upwards given the deferred effect of positive fiscal impulse on the dynamics of economic activity.

In 2022, the GDP growth rates will slightly accelerate and account for **4.0%-4.3%**. A positive effect on the economic development will be produced by the improving epidemiological situation in the environment of progressing immunization campaign against the coronavirus. In addition, a further easing of limitations of the OPEC+ transaction followed by the completion of agreement of oil producing countries will lead to the increased output of oil and gas condensate as compared to 2021.

This will tell on the acceleration of growth rates of exports and investments exerting an additional upward effect on the dynamics of economic activity. In 2022, positive growth of the consumer demand will be observed in the environment of a persisting increase in real income of the population and the consumer lending. At the same time, a restraining effect on the GDP growth will be exerted by weakly positive fiscal impulse given the reduction in spending on a larger portion of items in the functional structure except expenditures for the social and public sector, debt servicing, and official transfers. However, given an unstable current situation, the budget indicators for 2022 may be revised, thus increasing uncertainty in relation to the fiscal policy's impact on the dynamics of economic activity.

The output gap path as compared to the previous forecasting round was revised slightly upwards. Over a short term, a negative output gap will be actively shrinking given the recovering dynamics of the economic activity. From the second half of 2021, the output gap will enter a weakly positive zone and will be staying around its potential level until the end of the forecasting period.

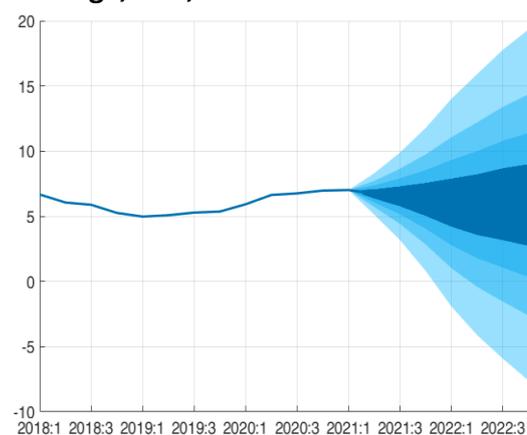
Short-term inflation forecasts were revised upwards (Figure 6).

According to the National Bank's forecasts, inflation in 2021 will continue to gradually decelerate. Nonetheless, given a significant spike in prices of fuel and lubricants and the increased inflation expectations, by the end of 2021 inflation may be building above the target range by 0.4-0.5 pp.

The food inflation is expected to decelerate further, being largely associated with the exclusion of high indicators of 2020 from the calculation and the comeback of monthly growth rates of food prices to moderate figures.

However, the risks of a significant rise in external and domestic prices in certain commodity markets persist.

Figure 6. Inflation, Quarterly Average, YoY, %



Source: BNS ASPR

A disinflation effect of the food price deceleration will be offset by the rising of inflationary processes in the non-food markets. The non-food inflation component is projected to accelerate until the end of 2021, given the rise in prices of fuel and lubricants in the short-term perspective and the increase in prices of durable goods under the impact of growing import prices.

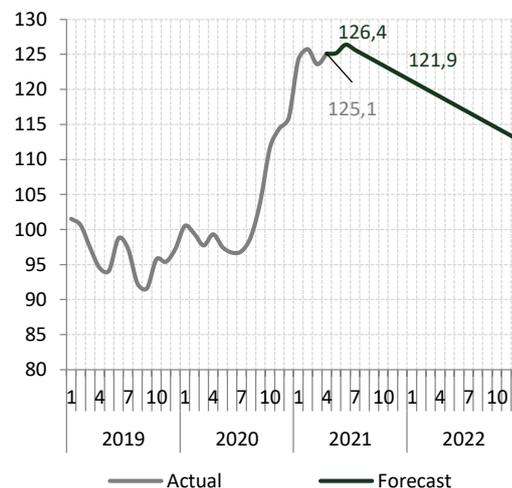
Over a short-term horizon, a moderate rise in prices of paid services is anticipated that will be driven by the existing pricing in the market of regulated utility services. At the same time, it is expected that electricity prices for end users will be growing given the increase in tariffs of energy-producing companies by 15% on average from April 1, 2021.

An additional overall pro-inflationary pressure on goods and services in the consumer basket will be put by the recovering customer spending due to the easing of quarantine measures and the immunization campaign, high inflation expectations as well as by the direct and indirect effect from the rise in prices of fuel and lubricants in March-April 2021 via the growth in the prime cost of goods and services.

In 2022, the annual inflation forecasts are also revised slightly upwards as compared to the assessment a quarter before as a result of the deferred effect of fiscal stimulus on the pricing processes and intensification of the external inflationary background (Figure 6). During 2022, inflation will continue decelerating staying closer to the upper boundary of the target range of 4-6% throughout 2022.

Deceleration of the inflation dynamics will be taking place amidst a feeble inflationary pressure accompanied by the expectations that inflation in China and the EU will not reach its target levels and inflation in Russia will be close to the target levels. At the same time, the disinflationary effect from the price changes in trading partner countries will be less pronounced as compared to the prior assessments. It is assumed that world food prices will be gradually declining after their significant rise in the recent months (Figure 7).

Figure 7. FAO Food Price Index, 2014-16=100



Source: FAO, NBRK's forecast

As compared to the previous forecasting round, forecasts about the FAO Cereal Index have not undergone significant changes (Figure 7). A 6% (YoY) increase in the wheat production in the EU and favorable harvest prospects in the UK, USA and Ukraine will help normalizing world food prices of cereals. However, a slight pro-inflationary effect on the pricing processes in Kazakhstan in 2022 will be exerted by the output gap in the weakly positive zone given the recovering domestic and external economic activity.

1.3. Alternative Forecast Scenarios

Due to the existence of uncertainty associated with the recovery rates of the global economy and relationship between the demand and supply in the global raw commodity markets, in 2021-2022, in addition to the baseline scenario, the National Bank considered alternative scenarios of oil prices.

Under the pessimistic scenario, the average Brent oil price in 2021-2022 is assumed to be at 50 US dollars per barrel.

Realization of this scenario will be driven by deterioration in the global epidemiological situation, by a slower recovery of the global economy in 2021-2022 due to insufficient pace of immunization against COVID-19 and the persisting imbalances in the oil market.

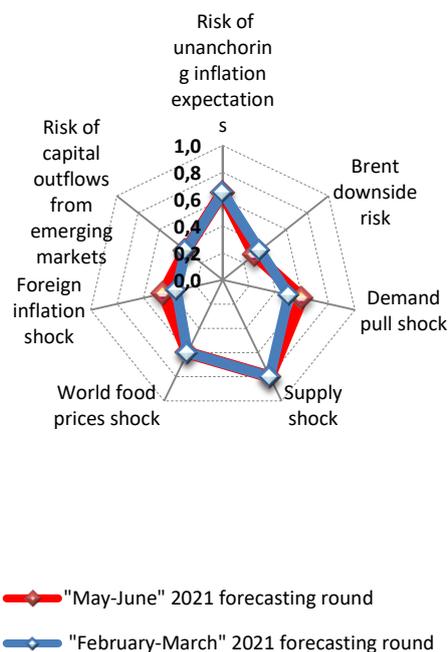
If the pessimistic scenario is realized, the less positive dynamics of the external demand on the part of Kazakhstan's main trading partners (EU, China, Russia) will somewhat curb the path for restoration of exports. A feebler growth in revenues of enterprises in the mining sector compared to the baseline scenario will cause the curtailment of production and investments that would have a negative effect on such sectors as construction, transport, trade and other services and the economy as a whole. The weaker dynamics of real money income of the population (as a consequence of a lower growth of the business activity and a higher inflation) will be somewhat limiting the increase in the consumer demand. Hence, the recovery of Kazakhstan's economy in 2021-2022 as compared to the baseline scenario will be more moderate. **In 2021, the economic growth given a low base of 2020 will account for 3.3%-3.5%, in 2022 – 3.7%-4.0%.**

During 2021-2022, inflation will be building above the target band. A higher inflation path as compared to the baseline scenario will be driven by a weaker tenge and the corresponding growth of inflation expectations.

If the **optimistic scenario** is realized, the path of oil prices is expected to be staying at **65 US dollars per barrel on average in 2021-2022**. Such pricing dynamics will be supported by a faster recovery of the global economy given the lifting of epidemiological restrictions and the corresponding excess of demand over supply in the global oil market. The increase in oil prices and a stronger external demand on the part of the trading partner countries will bring about higher growth rates of Kazakhstan's economy than under the baseline scenario, given higher indicators of the domestic demand and net exports. **The GDP growth will account for 3.8%-4.1% in 2021 and 4.2-4.5% in 2022.**

If the optimistic scenario is realized, inflation will be decelerating at a slower pace compared to the baseline scenario. This will be furthered by stronger dynamics of the exchange rate of the tenge and a smaller external inflationary pressure, mainly given deceleration of **inflation in Russia. In 2021-2022, inflation will enter the target band of 4-6% and will stay within this range until the end of the forecasting horizon.**

Figure 8. Judgment-Based Risk Map of Inflation



Source: NBRK's calculations

1.4. Risks in the Medium Term

As compared to the previous forecasting round, the risk profile somewhat deteriorated, which indicates that risk of the inflation deviation from the baseline scenario may be realized with a high degree of probability. Ineffectiveness and/or incomplete coverage with immunization against COVID-19 worldwide may have a negative impact on the speed of recovery of the global economy and may cause a drop in prices of primary commodities. Among internal risks, risks on the part of inflation of the demand and supply may be pointed out. The influence of these factors can cause significant acceleration of inflation in Kazakhstan (Figure 8).

An active phase of the massive immunization in the world, expectations about the lifting of epidemiological restrictions and adherence to the OPEC+ agreement by the member countries predicated the oil prices at above 60 US dollars per barrel. Hence, the risk of oil price drop below 40 US dollars was revised downwards. However, this risk can be realized in case if the COVID-19 incidence rates go out of control globally (especially in India and South-Asian countries) and in case of an increased supply of oil from Iran given the removal of the US sanctions.

The risk of importing the external inflation from countries – Kazakhstan's trading partners, especially in the short term, has heightened. An explicit inflationary background in the world in the environment of recovering global economy and government stimulus measures can cause acceleration of price growth also in Kazakhstan. Thus, an increasingly significant acceleration of inflation in Russia as the main supplier of import goods may lead to the rise in prices in Kazakhstan. Nonetheless, in the medium-term period, as a result of expected normalization of monetary policy of the Central Bank of Russia, inflation in Russia will come back to its target with a high degree of probability, thus reducing this risk in the medium term. In addition, despite the increasing inflationary pressure in the EU and China, inflation in the EU and China is expected to stand below the targets.

The risk of importing high external food inflation in connection with an ongoing growth of world food prices remains high. Limitation of exports and the increased demand given the attempt of many countries to ensure the food safety alongside with insufficient volume of crops can become the reason for imbalances in the food markets that may also have impact on acceleration of food inflation in Kazakhstan.

The risk of capital outflow from emerging markets to developed countries also remains high. First, the increasingly distinct shift in the global COVID-19 morbidity rate primarily to developing countries (India, South America, and South-East Asia) is an evidence of a less developed healthcare system and insufficient immunization rate compared to developed countries. Second, geopolitical risk intensification and impositions of new sanctions against developing countries are not excluded. Third, a dramatic tightening of monetary policies in developed countries as a consequence of the strengthening inflationary pressure worldwide can cause heightened volatility in the financial markets. These factors may lead to depreciation of currencies in developing countries including Kazakhstan.

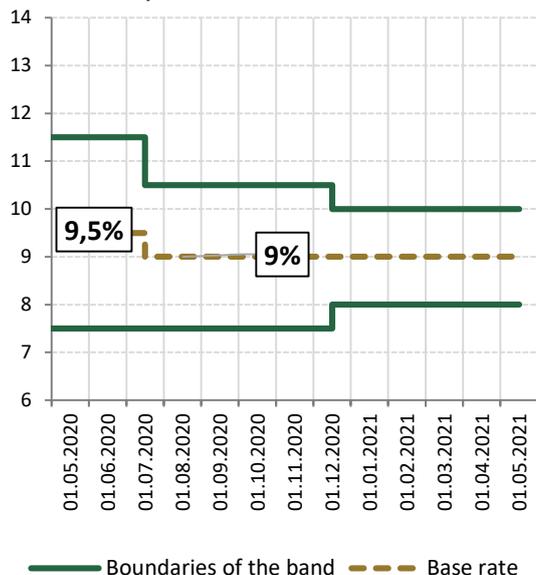
Among internal factors, the risk of inflationary pressure on the part of demand increased as a result of the growing real income of the population and the increasing dynamics of the consumer lending. Upward revision of the budget spending in 2021 and possibly in 2022 can additionally speed up the domestic demand. Given that the rise in prices in certain markets of foodstuffs, fuel and lubricants and electricity is already observed and restriction measures within Kazakhstan and abroad can be enhanced, the risk of acceleration of the supply-pull inflation remains high.

Finally, the risk of unanchoring inflation expectations is already being realized and will remain in the medium-term perspective in the environment of their heavy dependence on the exchange rate dynamics, persistently high food inflation and the observed steep rise in prices of fuel and lubricants.

II. MONETARY POLICY



Figure 9. Base Rate Band in 2020-2021, %



Source: NBRK

II. MONETARY POLICY

2.1. Decisions on the Base Rate

From March through May 2021, the National Bank made two decisions on the base rate. In both decisions, the base rate was retained at 9% (Figure 9).

The decision to retain the base rate made on March 9, 2021, was determined by prevailing pro-inflationary pressure in the economy associated with imbalances in the food markets, with a high degree of uncertainty in the external sector and persisting risks of inflation acceleration. The said risks are related to a high level of inflation expectations and the expected weakening of disinflation effect on the part of consumer demand given a gradual recovery of the economic activity.

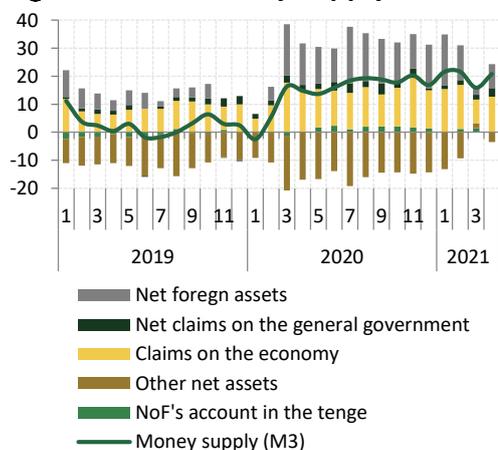
As at end-March and April 2021, despite a minor deceleration of the actual annual inflation to 7%, the effect of a number of pro-inflationary factors continued. In this connection, on April 26, 2021 the National Bank made a next-in-turn decision to retain the base rate at 9%. Major risks of the price growth at the time of the decision-making were associated with the increase in electricity tariffs, a rise in prices of gasoline, specification of the state budget parameters, a continuing appreciation of foodstuffs in terms of price, acceleration of inflation in the trading partner countries and the increased probability of deterioration in the situation with COVID-19 worldwide given the arising problems with immunization.

2.2. Money Supply

The growth rate of the money supply remains high given the increase in gold and foreign exchange reserves and lending to the economy. Despite a slowdown in the growth rates of the reserve money due to a high base of the last year, the money multiplier remains at a stable level.

The money supply retains its high growth despite the deceleration in March 2021 (Figure 10).

Figure 10. Money Supply, YoY, %



Source: NBRK

The main positive contribution to the dynamics of money supply is being made by the growth in gold and foreign exchange reserves given a pre-emptive growth of the portion of gold and its price as well as the increased claims on the economy as a result of the growing credits to the population.

The reserve money slowed its growth rates in annual terms due to the fact that a high base of the last year was excluded from the calculation (a surge occurred in March 2020 as a result of foreign asset revaluation and capitalization of the “Kazakhstan Sustainability Fund” JSC) (Figure 11).

The money multiplier (the ratio of money supply to the reserve money) is being maintained at 2.6 – 2.7, having decreased since March 2020 as a result of a larger expansion in the reserve money as compared to the growth rates of money supply (Figure 11).

2.3. Money Market

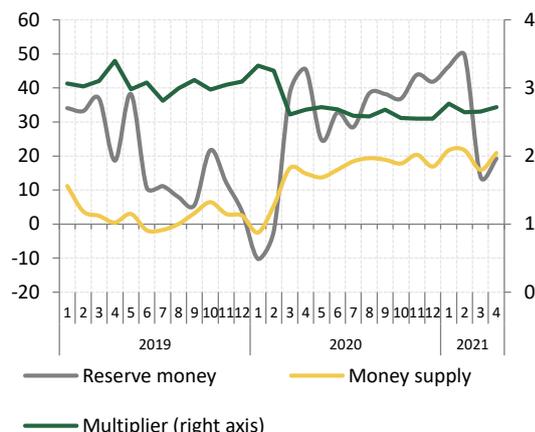
The situation in the money market continued to develop under the impact of liquidity surplus of the tenge. The growth in liquidity withdrawals via deposit auctions was observed.

The NBRK’s operations helped maintaining the operating target within the base rate band. The money market rates were setting within the band with a traditional growth in the periods of tax payments.

The money market continued to function in the environment of liquidity surplus. Excess liquidity is withdrawn via short-term notes, deposits and deposit auctions (Figure 12).

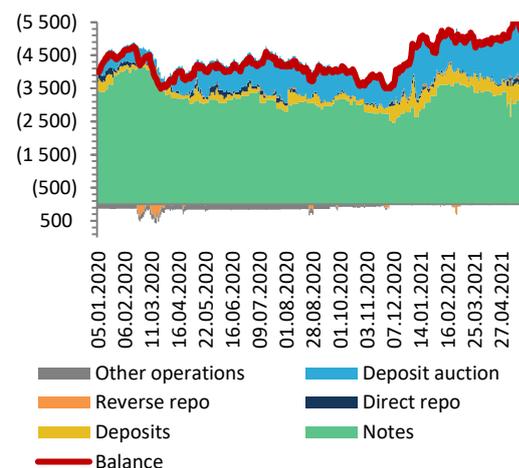
The downward trend on notes continued from the beginning of 2021. The volume of notes went down by 13.7% from February 2021 to end-May. The share of 6-month and 12-month notes declined from 26% to 22%. Along with that, given a high demand against a limited issuance volume, interest rates on the placed notes decreased. Reduction of interest rates furthered the overflow of liquidity from notes to deposit instruments. This resulted in a significant increase in the volume of liquidity withdrawals via deposits. The share of deposit auctions in the structure of the NBRK’s operations in mid-May of this year reached 33%.

Figure 11. Growth of Monetary Aggregates, YoY, %



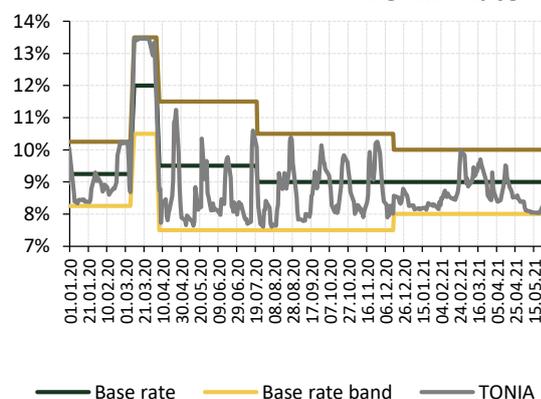
Source: NBRK

Figure 12. Exposure on the National Bank’s Operations, billion tenge



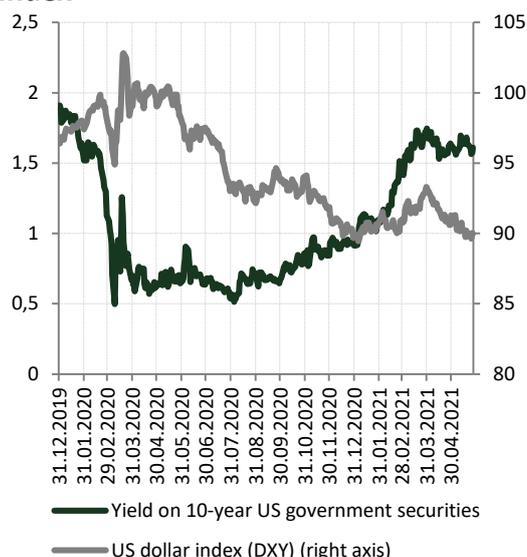
Source: NBRK, KASE

Figure 13. Interest Rate Band and TONIA Rate



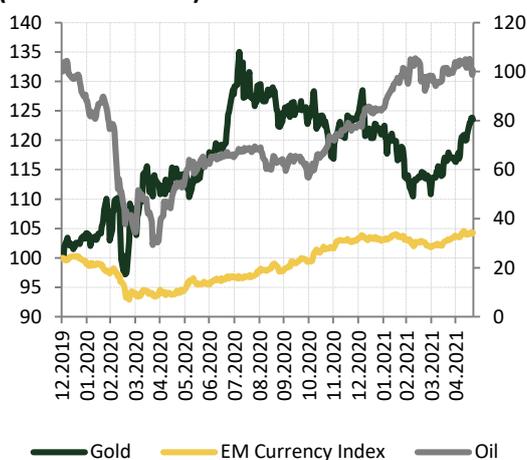
Source: NBRK, KASE

Figure 14. Yield on 10-Year US Government Securities, US Dollar Index



Source: Refinitiv

Figure 15. Dynamics of the Emerging Market Currency Index, and of the Cost of Gold (31.12.2019=100) and Oil



Source: Refinitiv

Short-term increases of the interest rate were associated with a heightened demand for borrowings in the tenge due to the demand for liquidity in the periods of tax payments (Figure 13). Interest rates on swaps demonstrated growth in the periods of increased demand for the tenge liquidity.

2.4. Foreign Exchange Market

In March-May 2021, the exchange rate of the tenge against the US dollar was forming under the influence of mainly unfavorable external conditions. The growing yields on the US treasury bonds and appreciation of the US dollar against the majority of world currencies that was observed in February-March of this year offset a positive effect of oil quotes on the dynamics of the tenge. In April-May of this year, the adjustment of yields on the US government bonds and the corresponding depreciation of the US dollar promoted appreciation of currencies in developing countries including Kazakhstan.

A large-scale immunization worldwide helped improving investor expectations being also supported by the US plans on the fiscal support measures of 4 trillion US dollars.

The recovery of business activity and the growing inflation resulted in the increased inflation expectations in the USA causing the growth in yields on 10-year US treasury bonds and appreciation of the US dollar this March and had a sizable downward pressure on the cost of gold and currencies of developing countries (Figure 14).

Given the discussions about the increase of US tax, stock prices were declining; the demand was gradually shifting to the debt segment resulting in the decreased yield on the US government bonds in April of this year and in depreciation of the dollar. As a result, this April-May, the EM Currency Index has partially recovered (Figure 15).

In the environment of unstable epidemiological situation, oil prices were setting within the range of 61-70 US dollars per barrel (Figure 15).

A negative risk sentiment was putting pressure on the exchange rate of the tenge. If in March of this year, the volumes of new investments into government securities decreased to 17.8 billion tenge versus this January and February (174.2 and 177.8 billion tenge, respectively), this April there was a net outflow on investments of non-residents into government securities of Kazakhstan of 248 million US dollars.

Conversion of assets of the National Fund as part of transfer allocations to the national budget alongside with the sales of a part of export proceeds by the quasi-government sector companies secured a supply of foreign exchange in the stock exchange market.

Under the influence of external and internal factors, the exchange rate of the tenge during March-April 2021 depreciated by 2.9% from 417.09 to 429.02 tenge per US dollar.

In May 2021, given depreciation of the US dollar and the tax payment period in Kazakhstan, the tenge appreciated by 0.2% to 427.98 tenge per US dollar (Figure 16).

During the reviewed period, the National Bank did not conduct interventions.

2.5. Stock Market

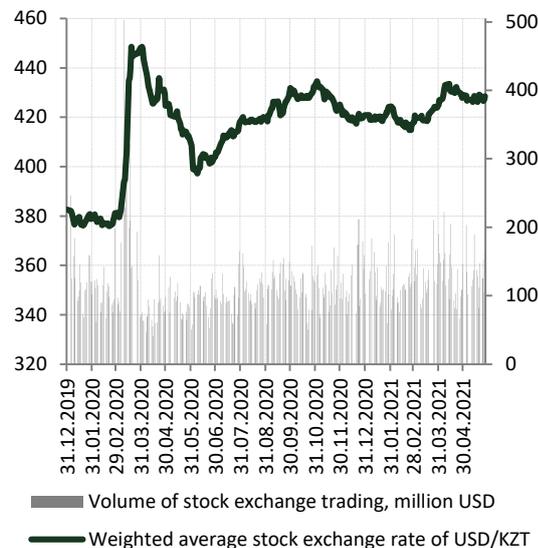
In March-April of this year, the volume of government securities trading was decreasing due to the reduced volumes of placements in the primary market. The risk-free yield curve was demonstrating normalization given the growing demand on the part of market participants.

Performance index on corporate bonds is going down given the retention of eased monetary conditions.

In March-April, Kazakhstan’s Ministry of Finance borrowed 287.4 billion tenge in the primary market, which is nearly two-times less than in January-February of this year (512.8 billion tenge). Mainly, long-term government securities with the yield from 9.2% to 10.6% per annum were issued. Local executive authorities invested into securities worth 31.1 billion tenge in the primary market for the first time this year.

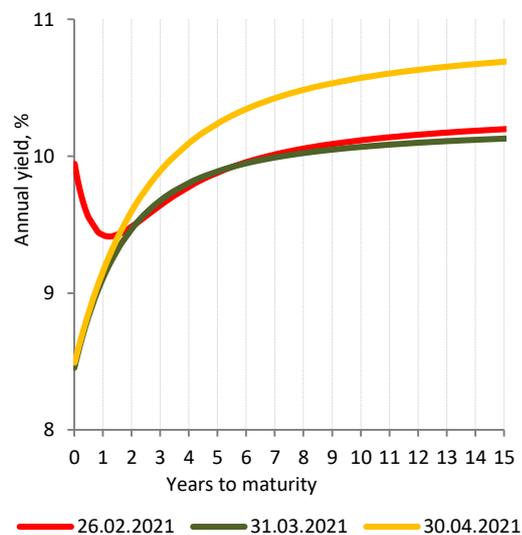
A risk-free yield curve in March-April of this year came back to its normal shape, demonstrating a growing yield along the curve once the time to maturity of securities extended. Along with that, in the segment over two years, the yield curve was staying above the level of this February. Low interest rates in the short term were nurtured by a high demand for short-term securities on the part of market participants given the decreased amount of outstanding securities (Figure 17).

Figure 16. Dynamics of the Exchange Rate of the Tenge and the Trading Volume



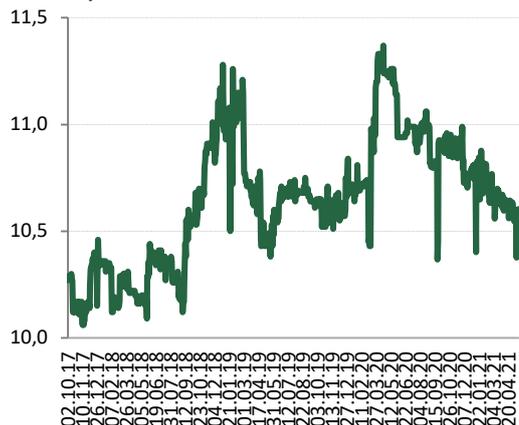
Source: KASE

Figure 17. Change in the Risk-Free Yield Curve, %



Source: KASE

Figure 18. Yields on Corporate Bonds, %



Source: KASE, NBRK

The volume of trading in the corporate bond market during March-April of this year equaled 255.8 billion tenge, which is by 35.2% less than in January-February 2021. The quasi-government sector still occupies the leading position in terms of the placement volumes. Issuers still tend to issue medium- and long-term obligations.

Performance index on corporate bonds has been staying at a low level over the last year due to persistently easing monetary conditions (Figure 18).

2.6. Deposit Market

Deposits continue growing owing to a significant advancement in the tenge deposits. Interest rates on the tenge deposits are decreasing both in the retail and in corporate segments.

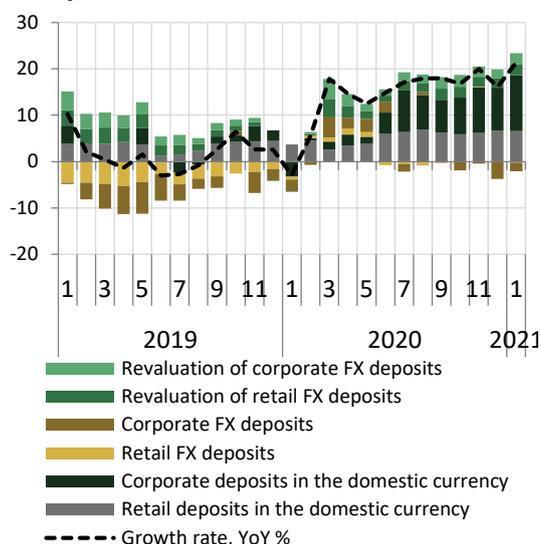
Deposit dollarization (37%) is below the level of the end of 2020 (37.3%), despite some increase in dollarization in March-April of this year due to depreciation of the exchange rate.

This April, the total volume of deposits amounted to 24.0 trillion tenge, having increased by 22% in annual terms. A positive and significant contribution to the growth of the total deposit portfolio was made by the tenge deposits of the population and businesses with an overall input of 20 pp. out of 22.0% (Figure 19). The growth of the tenge deposits has been observed since February 2021, being associated with the inflow of retirement savings to the current accounts as well as with the accrual of government premium on housing accounts at Otbassy Bank.

This April, the effect from revaluation of foreign currency deposits was fully offset in connection with the exclusion of the exchange rate depreciation in March 2020 from the base. However, given volatility in the markets in February-March of this year, the growth of foreign currency deposits of businesses was observed.

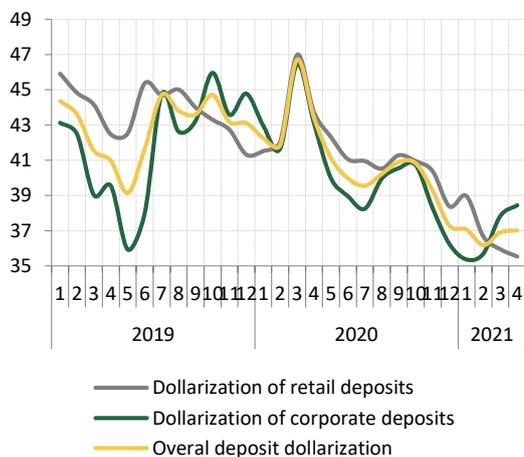
Overall dollarization level decreased slightly from 37.3% in December 2020 to 37.0% in April 2021, having reached the historical minimum since 2013 in February 2021 (36.2%). Dollarization of retail deposits decreased from January to April by 2.8 pp and accounted for 35.5%,

Figure 19. Contribution to the Growth in the Deposit Volume by Components



Source: NBRK

Figure 20. Deposit Dollarization, %



Source: NBRK

and dollarization of the corporate sector deposits increased by 2.2 pp. to 38.4% (Figure 20).

This February-April, interest rates on short-term corporate deposits in the tenge (with maturity less than one month), which account for 85% of all attracted time deposits in the tenge, have stabilized at 7.2%, including interest rates on corporate deposits with maturity from 3 months to 12 months – at 6.9%-7.0% and on long-term deposits (1-5 years) – at 8.0%-8.2% (Figure 21).

From February to April of this year, interest rates on retail deposits in the tenge were demonstrating reduction on all types of deposits: on short-term deposits (from 3 months to 12 months) – from 9.3% to 8.9%, on long-term deposits (1-5 years) – from 9.7% to 9.5% (Figure 22). The largest share in terms of the volume of attracted retail deposits falls on deposits with maturities from 1 to 5 years – 47% of all retail time deposits in the tenge, and with maturities from 3 months to 12 months – 45.2%.

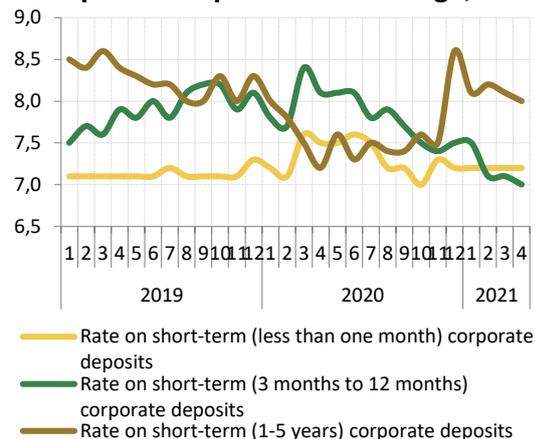
2.7. Credit Market

Credits to the economy keep growing including in the corporate sector. The main contribution to the growth of total loans is being made by the retail sector where consumer and mortgage loans remain as the key driver. The cost of credit resources keeps decreasing.

This April, the loan portfolio of banks grew by 7.5% to 15.1 trillion tenge in annual terms, despite a slowdown in February-March because of a reduction in foreign currency loans to businesses and a partial write off on the people's debt under mortgage loans owing to retirement savings.

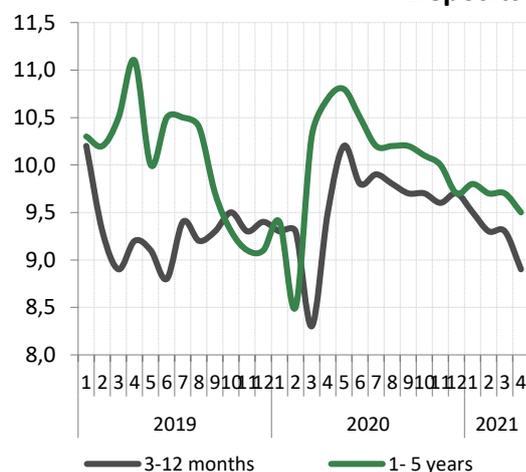
This March-April, the **corporate loan portfolio** increased by 2.4% to 7.2 trillion tenge given a resumption of the business activity and the economy's entry into a positive growth zone. A positive contribution was made by such sectors as the industry, non-production sphere, agriculture and trade.

Figure 21. Interest Rates on Corporate Deposits in the Tenge, %



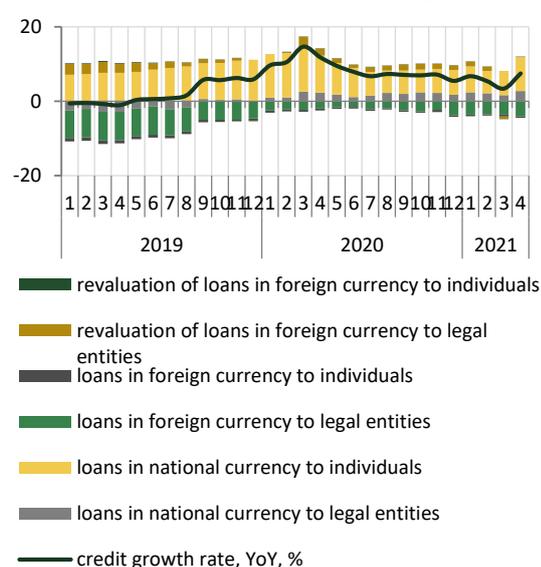
Source: NBRK

Figure 22. Interest Rates on Retail Deposits



Source: NBRK

Figure 23. Credits to the Economy, YoY as %

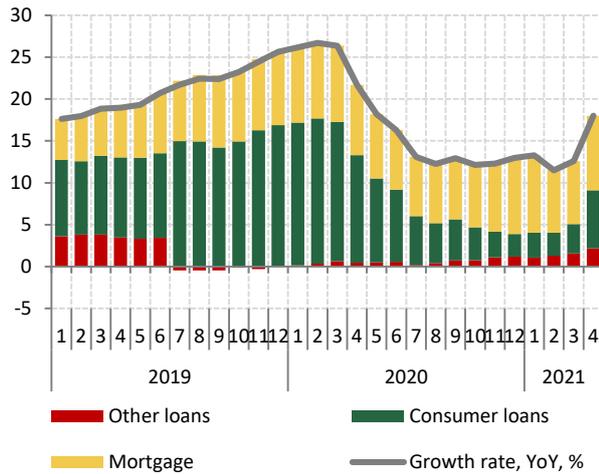


Source: NBRK

The retail loan portfolio has grown by 18.0% to 7.9 trillion tenge over the year. It is important to mention that in addition to the growing mortgage lending, the consumer lending is increasing and is restoring its contribution to the growth of retail loans (Figure 24). This is promoted by the growing income of the population and the demand.

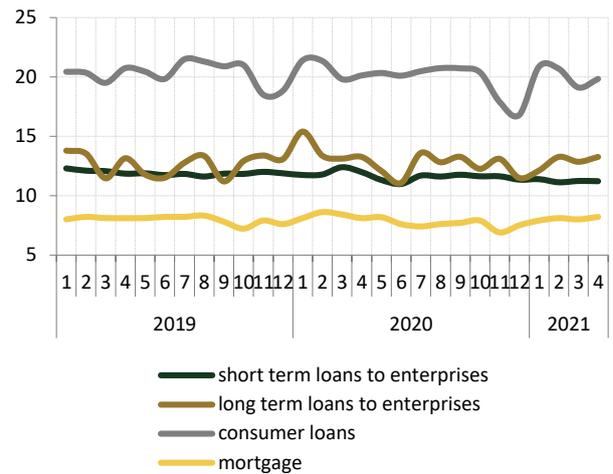
The weighted average interest rate on loans to businesses in the tenge in the short-term segment decreased by 0.8 pp. to 11.2% in April of this year from 12.0% in April 2020. However, the cost of long-term loans did not change standing at 13.3% (Figure 25).

Figure 24. Contribution by Components to the Annual Growth of Retail Loans, %



Source: NBRK

Figure 25. Interest Rates on Loans in the Domestic Currency, %



Source: NBRK



III. MACROECONOMIC CONDITIONS

III. MACROECONOMIC CONDITIONS

3.1. External Sector

At present, the situation in the global economy demonstrates a generally positive development. The process of immunization against COVID-19 is gradually accelerating. Many countries have significantly increased the number of immunized individuals and eased some quarantine restrictions.

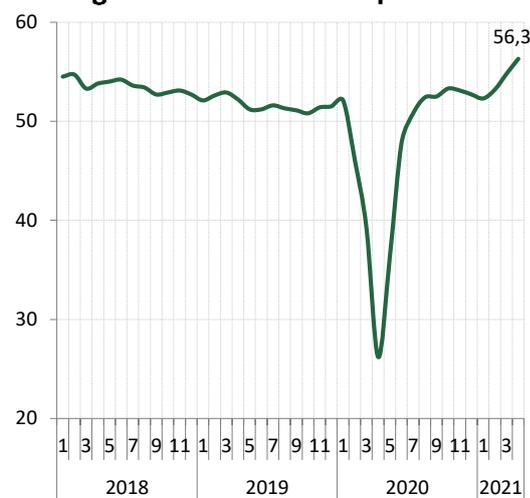
The business activity in the global production sector remains at maximum levels, and the service sphere also shows a positive pattern (Figure 26). In April 2021, the global business activity in the industry given the growing output and new orders went up to 55.8 points (in March 2021 – 55 points). On a country-by-country basis, the business activity continued to accelerate in the USA. In China, after a three-month deceleration, the purchasing managers' index started to accelerate again. In Germany and France, on the contrary, after the lengthy positive dynamics, the growth rates started to slow down. The business activity in the sphere of services also increased and in April 2021 made up 56.6 points (в March 2021 – 54.7 points).

China is a key growth driver among the trading partner countries.

As at the end of the first quarter of 2021, given a low base of the last year, the growth rates of the Chinese economy accelerated to 18.3% (YoY) (the maximum since 1992), being promoted by the expansion in the domestic and global demand as well as by the continuing government support. In turn, in the EU the second wave of pandemic that had emerged at the end of the last year and the associated restriction measures had negatively affected the economic activity in the first quarter of 2021. A negative effect of the pandemic had also reflected on the economic activity in Russia that contracted by 1.0% in the first quarter of 2021 (YoY).

At present, Brent oil prices are close to 70 US dollars per barrel (Figure 27). Fundamentally, prices are supported by a rapid growth in the demand for oil as a result of immunization conducted by countries as well as due to a more moderate supply of oil on the part of OPEC+ member countries given the effective agreement on reduction of oil production.

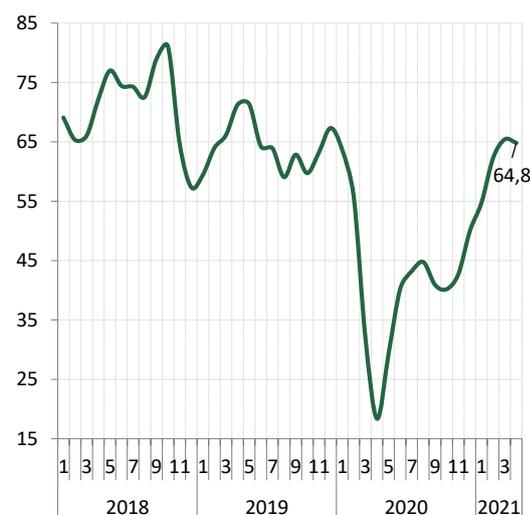
Figure 26. Global Composite PMI



Source: Bloomberg

* – an index value of more than 50 means an increase in the indicator, less than 50 means a decrease, and equal to 50 means its invariability

Figure 27. Brent Oil Price, US dollars (monthly average)



Source: U.S. Energy Information Administration (EIA)

Additional factors supporting the rise in world oil prices have been a high growth of activity in the industry, resumption of air flights and an expectation about a stronger demand for motor fuel due to the beginning of the summer season and the lifting of a number of restriction measures.

Box 1. The Global Food Market Overview

Given the spread of COVID-19 pandemic, a steady price growth has been observed in the global food market among the entire commodity line since mid-2020. The increase in prices of foodstuffs in 2020 was largely caused by a lower supply because of the imposed restriction measures to fight the spread of the virus. At the same time, in 2021 one of the key growth drivers has been a rapidly growing demand for goods, whose recovery has been taking an increasingly steady form. Alongside with that, there is an imbalance in the world food market as a result of a limited supply caused by delays in the supply chains, by the increasing cost of used food staples and a shortage of stocks.

In the environment of appearing imbalance in March 2021 as compared to March 2020, oil-bearing crops appreciated in terms of price by 52.6%, corn – by 50.9%, and wheat – by 19.5% (Figure 1).

Figure 1. Growth Rates of World Prices for Oil-Bearing Crops, YoY

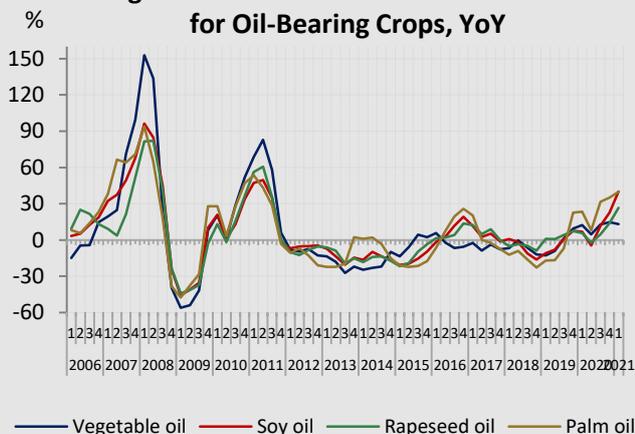


Figure 2. Growth Rates of World Cereal Prices, YoY

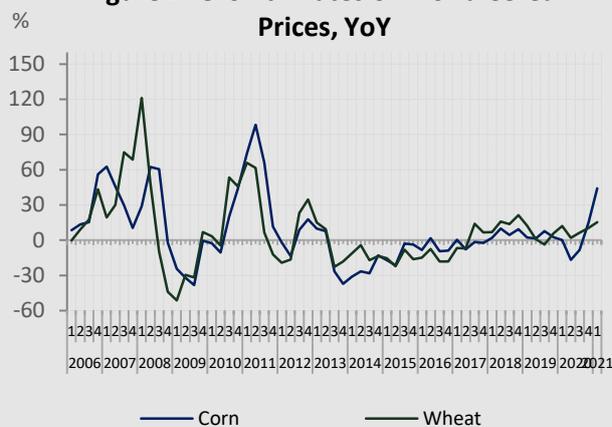


Figure 3. Growth Rates of World Prices for Sugar, YoY

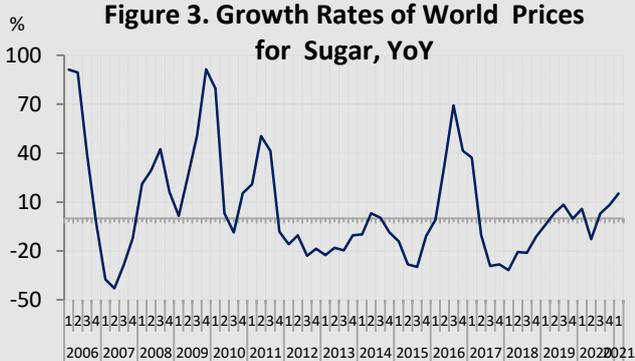
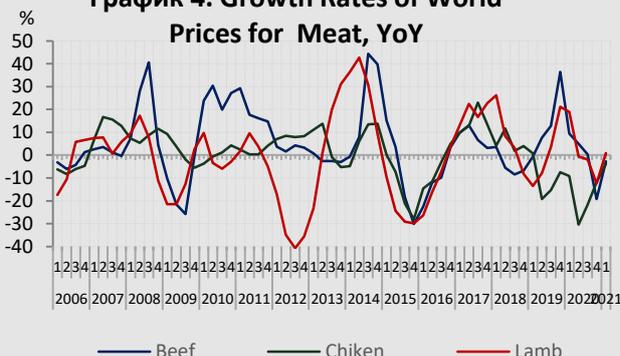


График 4. Growth Rates of World Prices for Meat, YoY



Source: World Bank

Within the structure of **oil-bearing crops**, a faster rise in prices was observed on soy oil (a 40.0% growth in the first quarter of 2021, YoY), palm (a 39.8% growth) and rapeseed oils (a 26.6% growth) (Figure 1). Fundamentally, appreciation of these products in terms of price is explained by reduction of the global supply due to a low yield and strikes as well as by a vigorously growing demand as a result of the increased output of biofuel given the rise in world prices of oil.

Among **grain cultures**, the growth in prices of corn (by 44.1% in the first quarter of 2021, YoY) was caused by active worldwide purchases on the part of China and the Latin America for forage as well as by an expected reduction of crops in Ukraine and the USA (Figure 2). In turn, the rise in world prices of wheat (a 15.5% growth) was driven by the reduced supply in Ukraine, Argentina and the

USA as well as by the growing concerns in connection with the draught in the South America. In addition, an upward pressure on prices was put by the imposed export duties and suspension of export licenses in some producing countries.

Alongside with the oil-bearing crops and grain cultures, the rise in world prices was also observed among prices of sugar (a 15.2% growth in the first quarter of 2021, YoY) (Figure 3). An active demand on the part of importers caused by concerns about contraction of supply from Brazil and France as well as some appreciation of the Brazilian real against the US dollar served as key growth drivers. At the same time, a projected growth of supplies from India and a moderate rise in world prices of oil prevented a faster price growth.

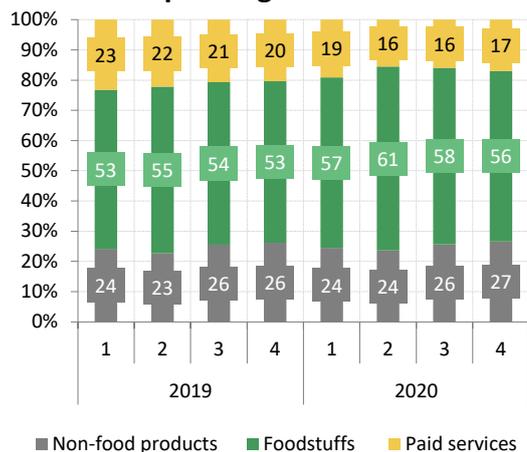
In the global meat market, prices are declining. Thus, world prices of beef in the first quarter of 2021 decreased by 2.8%, and prices of chicken – by 3.9% (Figure 3).

In 2020, prices of meat products were falling due to oversaturation of the market with a supply of meat and because of restrictions caused by the coronavirus pandemic; this resulted in a reduced demand for imports, the economic downturn and reorientation of some countries to the domestic production. From end-2020, prices began to gradually recover, being driven by an active demand on the part of Asia for beef and lamb and the reduced supplies because of the replenishment of a herd and low producer stocks.

In the period of coronavirus pandemic, many exporting countries started to pursue a more active protectionist policy in order to protect their domestic markets. According to the World Bank's assessments, if this policy is continued the supplies of food may drop to 50%, which may result in the additional 15-20% rise in prices on average. Food prices can potentially grow also in case of deterioration of weather conditions in exporting countries, acreage reduction and outbursts of animal diseases in the producing countries.

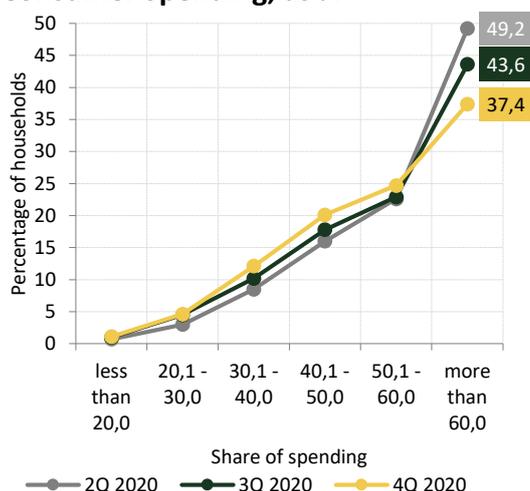
It is worth mentioning that in case of a further growth in world food prices, pro-inflationary pressure on consumer prices within Kazakhstan may intensify.

Figure 28. Structure of Nominal Consumer Spending of Households



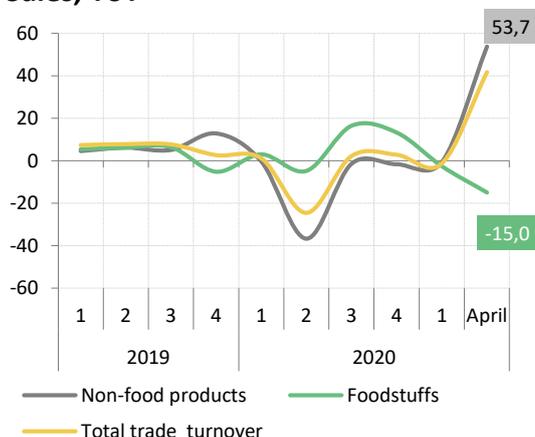
Source: BNS ASPR, NBRK's calculations

Figure 29. Percentage of Household Spending on Food in the Consumer Spending, as %



Source: Fusion LAB

Figure 30. Dynamics of Retail Sales, YoY



Source: BNS ASPR, NBRK's calculations

3.2 Economic Activity and the Domestic Demand

The household consumption, due to realization of the deferred demand in the third quarter of 2020, showed a dramatic recovery. However, in the fourth quarter of 2020, consumption shifted to the downward zone demonstrating an unsteady pattern. Along with that, in the first quarter of 2021 indirect indicators of the consumer demand show that the consumer activity of the population keeps recovering.

In the fourth quarter of 2020, after a significant shift in the periods of tight restrictions, the structure of consumption typical for Kazakhstan began to show recovery. Thus, in the fourth quarter of 2020, the share of nominal household spending on paid services and non-food products in the total consumer spending increased (Figure 28). This trend is also traced in the reduction of the number of households, which used to allocate the larger portion of their consumer expenditures for foodstuffs in the periods of crisis (Figure 29).

Recovery of the structure of consumer spending is accompanied by a significant acceleration of turnover of non-food products. In annual terms, the turnover of non-food products increased by 53.7% in April 2021 (Figure 30). Such dynamics are supported by high growth rates of consumer loans, which increased by 17% in April, and by accelerating rates of non-food imports (a 36.7% growth in nominal terms).

However, the turnover of foodstuffs demonstrates a significant decline that is probably associated with the recovering demand for paid services and non-food products as well as with a high base effect of the last year caused by a roaring demand for foodstuffs in the period when the pandemic began and the state of emergency was imposed in the country. In turn, the food production is growing at a moderate pace. Thus, in the first quarter of 2021, the production growth accounted for 3.3% in annual terms.

In the first quarter of 2021, real per capita income of the population increased by 3.4%. Both the growth on hired labor and increase in revenues from social transfers is observed within their structure (Figure 31).

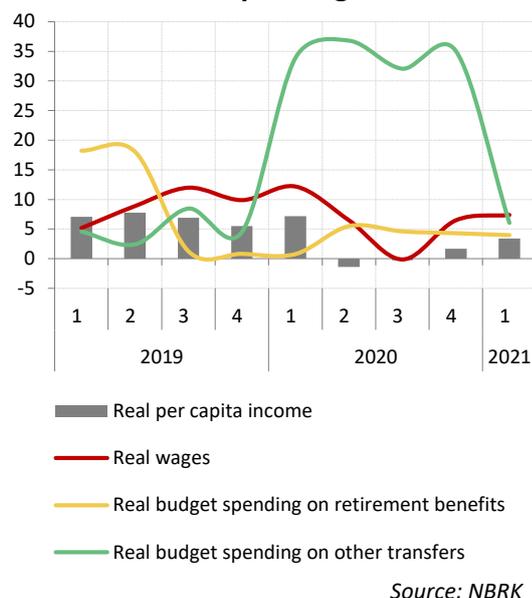
In the first quarter of 2021, real wages of employees accelerated to 7.4%. Such tendency is associated with a two-digit real growth of labor compensation in the public sector and in accommodation and catering services, acceleration in the industry as well as a moderate growth of labor compensation in many sectors of the economy.

At the beginning of 2021, an annual indexation of retirement benefits was conducted, which may be observed based on the dynamics of the national budget spending on retirement benefits. Additionally, the budget spending on other social transfers including student scholarships, subsistence allowances and other social benefits is growing at a moderate pace. Thus, in January-March 2021, the number of recipients of subsistence allowance nearly doubled (from 354.2 thousand individuals to 683.4 thousand individuals), while an average subsistence allowance amount slightly decreased and in the first quarter of 2021 it equaled 11 thousand tenge on average per one recipient.

A gradual improvement of the people’s well-being after the periods of strict lockdowns may be traced by the decreased poverty rate of the population (Figure 32). In the second and the third quarters due to the increase in the numbers of temporary unemployed individuals and the loss of income, the number of households with income below the subsistence level (in the fourth quarter of 2020 it was 34 thousand tenge per capita a month for Kazakhstan on average) was growing. A gradual lifting of restrictions and the declining unemployment rate resulted in the decreased poverty rate in the economy.

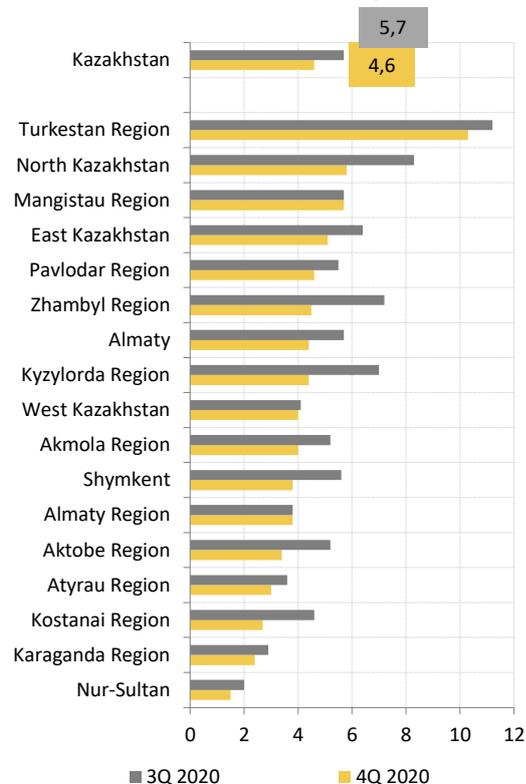
On a region-by-region basis, in the fourth quarter of 2020, more than 10% of households in Turkestan Region were below the poverty line and in other regions the poverty rate does not exceed 6%.

Figure 31. Dynamics of Income of the Population, of Wages and the Budget Spending on Transfers



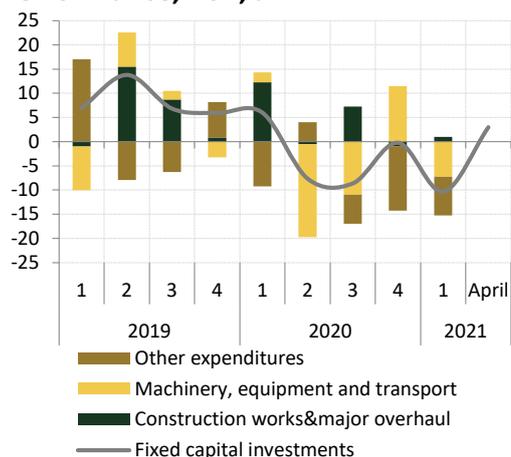
Source: NBRK

Figure 32. Poverty rate of the Population, %



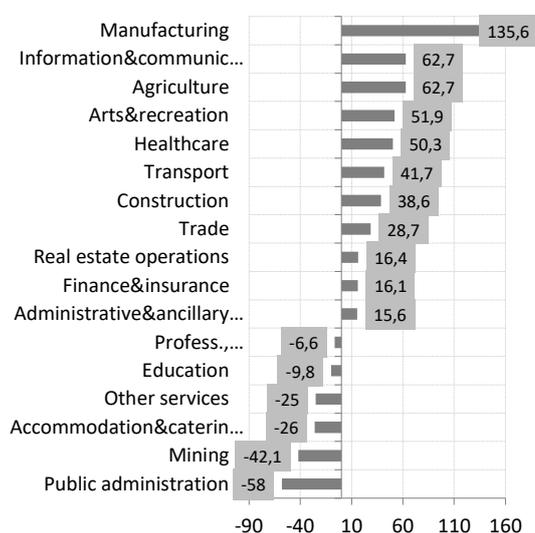
Source: BNS ASPR

Figure 33. Investment Performance, YoY, %



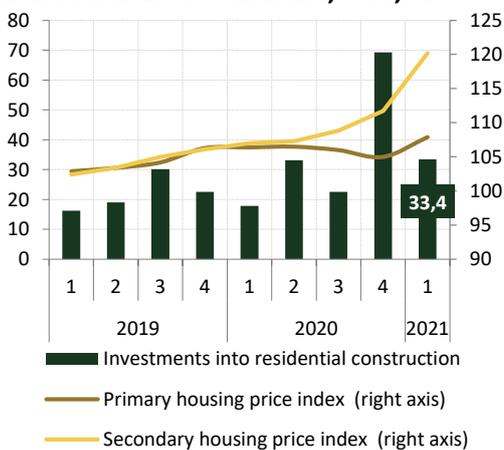
Source: BNS ASPR

Figure 34. Investments by Types of Economic Activities, YoY, %



Source: BNS ASPR

Figure 35. Investments into Residential Construction and Prices in the Real Estate Market, YoY, %



Source: BNS ASPR

In the first quarter of 2021, the investment activity in the economy declined, which is associated with a deepened downturn in the mining industry (a 42.1% decline, YoY).

In terms of the technological structure, the growth was observed only in the works on construction and major overhaul. Investments into machinery and equipment and other expenditures within the structure of investments made a significant negative contribution (Figure 33).

At the same time, excluding the mining industry, the investment activity in Kazakhstan's economy remained in the positive zone. Thus, in the first quarter of 2021, excluding the mining industry, the growth accounted for 4.4% (YoY) in real terms. A significant acceleration of investments was observed in the chemical industry (by 2.3 times), metallurgical sector (by 54.1%), communication (by 62.7%), and agriculture (by 54.8%) (Figure 34).

Investments into residential construction keep retaining high growth rates (Figure 35) that are supported by the implemented government mortgage lending programs and an early withdrawal of a part of retirement savings by the people in order to improve their living conditions. These measures lead to acceleration of residential construction on the one hand, but on the other hand, they put an upward pressure on prices in the primary and secondary real estate market (Figure 35).

Investments into residential construction increased in many regions of the country, except Pavlodar Region (a 30% decline, YoY), Zhambyl (by 21%), Kostanai (by 15%) and North Kazakhstan (by 22%) Regions.

A persisting uncertainty worldwide due to the spread of coronavirus infection and a different extent of immunizations in countries had an impact on the foreign trade activities.

According to preliminary data of the BNS ASPR, in January-March 2021 the foreign trade turnover amounted to 19.7 billion US dollars and decreased by 9.4% compared to January-March 2020, where exports declined by 19.7% (11.5 billion US dollars), and imports increased by 10.5% (8.2 billion US dollars).

The main contribution to the decline in total exports was made by oil exports, which decreased by 36.7% (YoY) (Figure 36). On a country-by-country basis, the fall in the value exports of oil is observed: to India by 49.9% (YoY), to Italy – by 50.6%, to China – by 66.9%, and to the Republic of Korea – by 59% (Figure 37). Given a 10.4% (YoY) reduction in oil production in the first quarter of 2021, exports of oil in kind went down by 11.4% (YoY), namely, to India – a reduction by 32.3%, to Italy – by 29.9%, to China – by 57.7%, and to the Republic of Korea – by 44.7%. At the same time, there is a dramatic increase in exports of oil to Spain – by 2.6 times in the first quarter of 2021 (the share in the total volume of oil exports in kind – 8.2%).

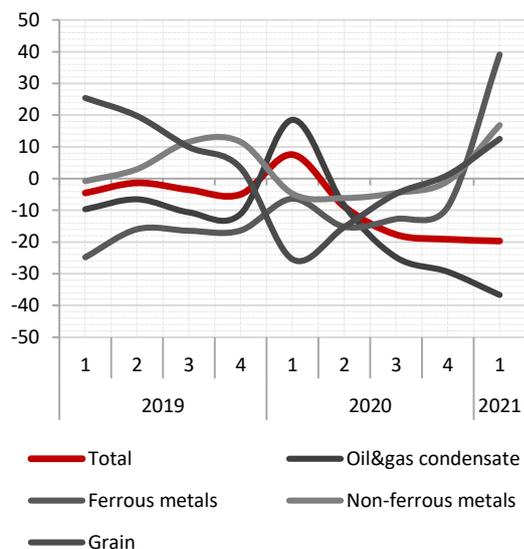
Within the structure of exports of non-ferrous metals in value terms, in January-March 2021 exports of copper increased by 19.2% (YoY), aluminum – by 37%, lead – by 26.3%, silver – by 55.3%, whereas exports of zinc went down by 18.6%. Along with that, exports of copper in kind decreased by 11.7% (YoY) and zinc – by 30.1%, due to the reduction in supplies to China by 24.3% and 27.6%, respectively. At the same time, exports of lead decreased by 11.3%, including to Vietnam – by 43.2%. Alongside with that, exports of aluminum are increasing by 26.5% (YoY), in particular to Turkey by 49.3%.

In the group of ferrous metals and their products, a physical volume of exports of flat-rolled products went up by 31.4% (YoY) owing to a 40.2% growth in supplies to Russia. The growth in exports of ferrous metals in value terms accounted for 84.8% (YoY).

The expansion of imports in the first quarter of 2021 was driven by a dramatic increase in imports from China by 47.4% (YoY) and from the EAEU countries – by 11.8%, including from Russia – by 12%. However, imports of goods from the EU member countries contracted by 10.1% (YoY) in January-March 2021.

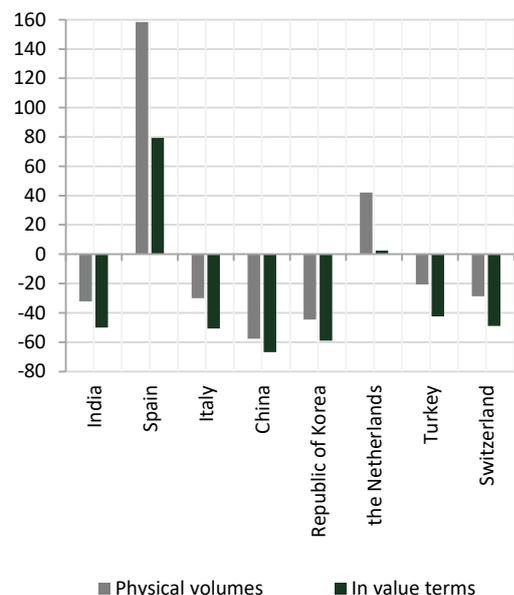
In the group of non-food products, physical volumes of imports of the following items increased – cars (83%, YoY), monitor displays and projectors (34.8%), medications (4.5%), personal care products and cosmetics (14.5%), clothes (two-fold), computing machines (57%), telephone units (14%) and home furniture (25.4%).

Figure 36. Exports by Major Commodity Groups, Cumulative, YoY, %



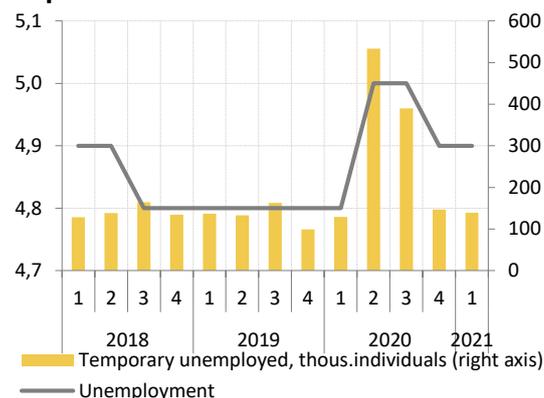
Source: NBRK

Figure 37. Oil Exports on a Country-by-Country Basis, in January-March 2021, YoY, %



Source: BNS ASPR

Figure 38. Unemployment Rate and the Temporary Unemployed Population



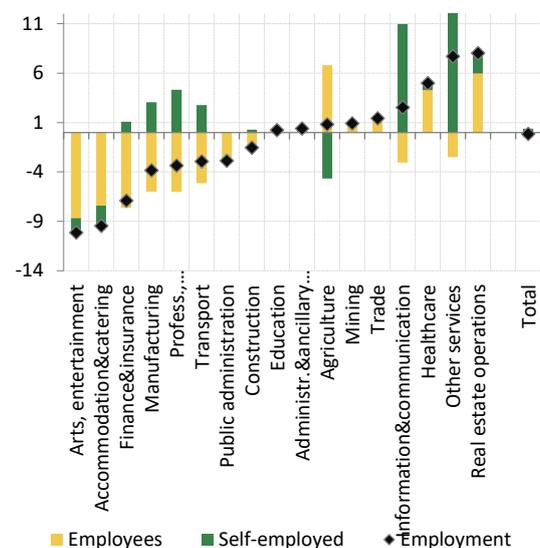
Source: BNS ASPR

Figure 39. People who Applied to the Public Employment Authorities as Job Seekers, Thousand Individuals



Source: BNS ASPR

Figure 40. Contribution of Employment of the Population by Employees and the Self-Employed Individuals by Types of Economic Activities in the First Quarter of 2021, YoY, %



Source: BNS ASPR, NBRK's calculations

Within the foodstuffs structure, the following imports decreased in kind: meat (-17.8%, YoY), milk (-27.6%), vegetable oils and fats (-21.2%), cane and beet sugar (-11.4%) and raw tobacco (-27.1%).

In addition, there is an annual growth in physical volumes of imports of air and vacuum pumps by 2 times, electric transformers – by 52.6%, motor vehicles for cargo transportations – by 34.8% and bulldozers – by 3.1 times.

3.3 Labor Market

In the first quarter of 2021, the situation in the labor market remained stable as compared to mid-2020. The unemployment rate stood at 4.9%, despite the tightening of quarantine measures in some regions of the country in March-April 2021 because of deterioration in the epidemiological situation.

The dynamics of unemployment was developing in the environment of a minor reduction in the labor force (a 0.04% decline) and the growth in the number of unemployed (a 2% growth). The numbers of temporary unemployed population remained at the pre-crisis levels (Figure 38).

The number of individuals who applied to the public employment authorities in the first quarter of this year increased again due to the enhancement of restriction measures in large cities and some regions of the country (Figure 39). In April 2021, the number of individuals who applied to the public employment authorities had nearly approached the period of a significant downturn in the economic activity in the second and the third quarters of 2020.

Within the labor force structure, the employed population decreased by 0.15% in the first quarter of 2021 as a result of a 0.66% downsizing, whereas the numbers of self-employed population increased by 1.5%.

As per the industry-based breakdown, there was reduction in employment in many sectors of the economy. In arts and entertainment and in accommodation and catering services, reduction in employment was accompanied both by a decline in the numbers of employees and the self-employed population (Figure 40).

In the first quarter of 2021, the number of employees decreased in the majority of sectors of the economy,

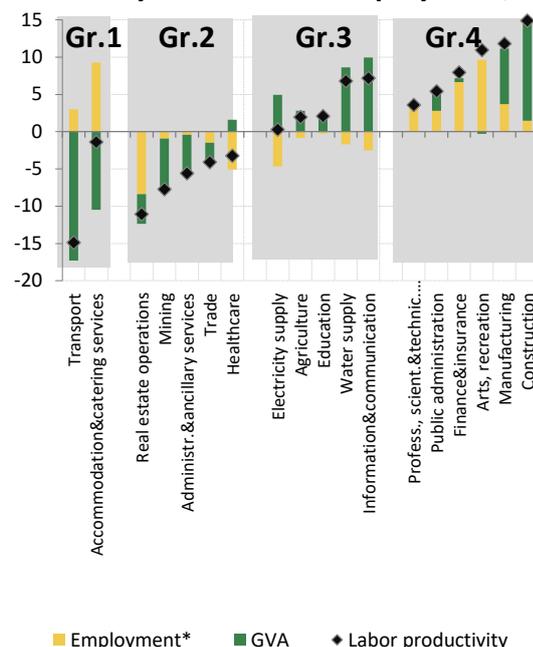
which had generally resulted in the reduced employment in such sectors as finance and insurance, the manufacturing industry, professional, scientific and technical activities, transport, public administration and construction. The growth in employment was observed in healthcare, education, agriculture, trade, the mining industry and information and communication. Along with that, the growing employment in the sectors of information and communication and other services was secured by the accelerated growth rates of the self-employed population. Employees in these sectors decreased and that may indicate a possible overflow from the employee category to the self-employed category.

The labor productivity in the environment of a faster reduction of the added value in the economy as compared to the employment demonstrated negative dynamics in the first quarter of 2021. In the sectors of transport and accommodation and catering services, reduction of the labor productivity stemmed from both contraction in the GVA and employment (Group 1, Figure 41).

In such sectors as real estate operations, the mining industry, administrative and ancillary services and trade a negative contribution to the labor productivity was made by a concurrent reduction in the GVA and by the growing employment in the sectors (Group 2, Figure 41). In the third and fourth groups (Figure 41), the labor productivity was growing in the first quarter of 2021. In the sectors of the third group, the increase in labor productivity was secured by the growing added value; however, the growth of productivity held back a further increase in labor productivity per one employed individual. In the sectors of the fourth group, the growth was supported not only by the increase in added value but also by reduction in employment, which resulted in the increased output per one employed individual.

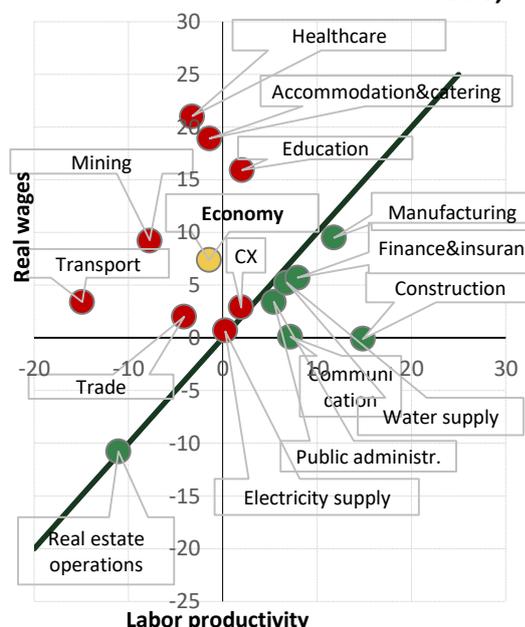
In the first quarter of 2021, accelerated growth rates of real wages in the economy along with the persisting negative dynamics of the labor productivity created pro-inflationary risks on the part of producers. In particular, the growth rates of real wages were significantly outrunning the labor productivity rates in agriculture, transport, the mining industry, accommodation and catering services, trade, education, healthcare and electricity supply (Figure 42).

Figure 41. Labor Productivity by Types of Economic Activities and Contribution by the GVA and Employment, %



Source: BNS ASPR, NBRK's calculations
 *- negative contribution of employment means its growth

Figure 42. Labor Productivity and Real Wages in the First Quarter of 2021, YoY, %



Source: BNS ASPR, NBRK's calculations

Box 2. Big Data-Based Analysis of the Demand for Labor

The official statistics on the labor market from the BNS ASPR are published with significant time lags. Therefore, in analyzing the labor market performance, in addition to the official data, the use of alternative information from open sources became quite popular among economists and analysts; this became increasingly possible with the development of the big data processing technologies.

One of the methods used to process the data from the Internet resources is web scrapping that was applied to analyze the demand in the labor market of Kazakhstan by reviewing vacancies from the largest recruitment service HH.kz. As of May 26, 2021, the data about 15.0 thousand vacancies were collected. Towns presented on the web site were combined according to their regional distribution. Vacancies on the web site were divided into 28 sectors and 28 professional lines (specialization) and were presented broken down by regions of Kazakhstan. The working experience was divided into the following categories: “No experience”, “From 1 to 3 years”, “From 3 to 6 years” and “Over 6 years”.

In their initial processing, the data were filtered as follows: vacancies presented only in one specialization and one sector, and only full-time vacancies (regular job) were left. As a result, 9037 vacancies took part in the survey that do not include public sector employees and the staff of the general government and defense agencies. For reference, according to the data from the BNS ASPR, as at the end of the first quarter of 2021 the expected need for employees in the reporting period equaled 12.1 thousand individuals, including employees in all sectors of the economy.

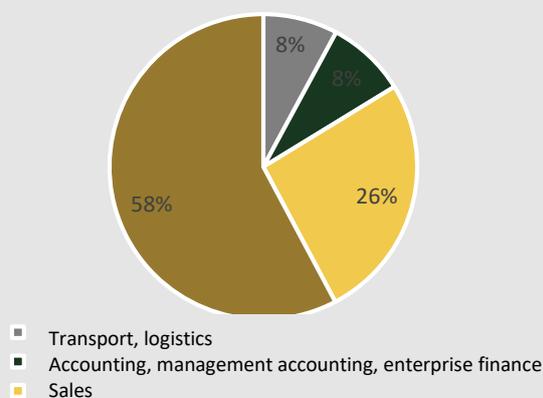
A major portion of vacancies on the platform is presented in such specializations as “Sales”, “Accounting”, “Transport and logistics” (Figure 1); in the industry-based breakdown – trade, construction and accommodation and catering services. A similar picture is shown in the official statistics where 26% of all people employed in the economy are concentrated in these sectors (according to the data for the first quarter of 2021). It is worth mentioning that each fourth vacancy on the platform is in the sphere of sales.

In terms of the working experience, the most popular are the employees with the working experience from 1 to 3 years. Specialists with a longer working record (from 6 years and beyond) are required in such sectors as the “legal profession”, “extraction of raw materials”, and “top management”; in terms of sectors – “finance and insurance”, “the mining industry” and “construction”.

The regions that are least differentiated in terms of sectors are Kyzylorda Region and North Kazakhstan where vacancies are presented only in the sectors of retail trade, production and trading of non-food products/foodstuffs and construction. On the contrary, Karaganda, Aktobe and Akmola Regions belong to the regions with evenly distributed vacancies, apart from the cities of national importance.

The average wage offered by employers on the HH.kz web site is equal to 179.0 thous. tenge, the median and modal wages are equal and amount to 150.0 thous. tenge. However, according to the data from the BNS ASPR, in the first quarter of 2021 an average monthly wage per one employee

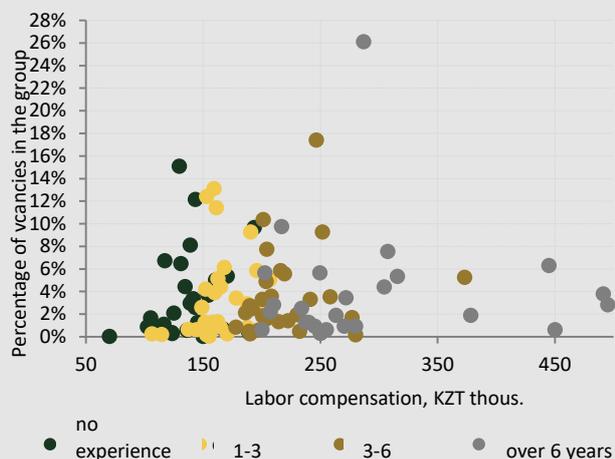
Figure 1. Distribution of Vacancies by Specializations



Source: NBRK's calculations, hh.kz

including small businesses amounted to 200.3 thous. tenge. The median and modal wages of employees calculated by the BNS ASPR based on a one-time survey of organizations in 2020 are slightly different from the data obtained on the platform and equal 169.8 and 142.3 thous. tenge, respectively. The smallest wage offered on the web site is above the minimum wage amount in Kazakhstan and is 50.0 thous. tenge (the minimum wage in 2021 – 42500 tenge).

Figure 2. Distribution of Vacancies by Wages and Working Experience



Source: NBRK's calculations, hh.kz

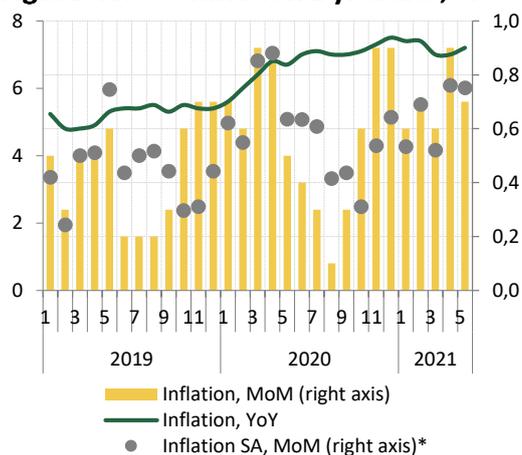
no experience; from 1 to 3 years; from 3 to 6 years; over 6 years

There is a positive relationship between the number of years of the working record and the amount of labor compensation (Figure 2). An average offered wage for vacancies requiring a working experience over 6 years is 294.3 thous. tenge, from 3 to 6 years – 223.0 thous. tenge, and from 1 year to 3 years – 168.6 thous. tenge, while the average offered wage for employees with no experience is 143.9 thous. tenge. It should be pointed out that such specializations as “Construction, real estate, maintenance, and construction design” and “Information technologies”, while having relatively low requirements to the working experience, offer the highest amount of labor compensation.

Thus, the use of big data processing tools for analyzing the situation in the labor market

enables to have a deeper insight into the existing state of things, and the demand and supply in the labor market. In doing so, a regular collection of such data will provide an opportunity to monitor changes and trends in the market, to analyze the factors of unemployment in Kazakhstan as well as to forecast its dynamics.

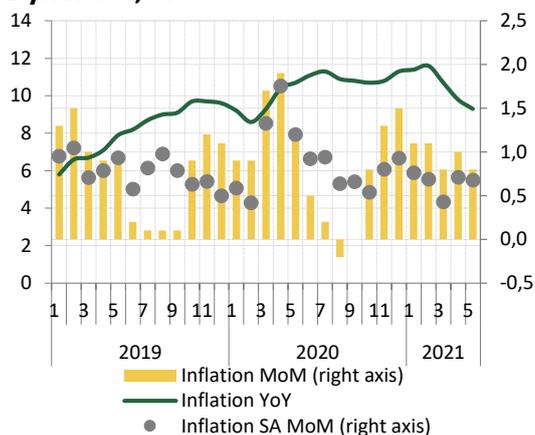
Figure 43. Inflation Dynamics, %



Source: BNS ASPR, NBRK's calculations

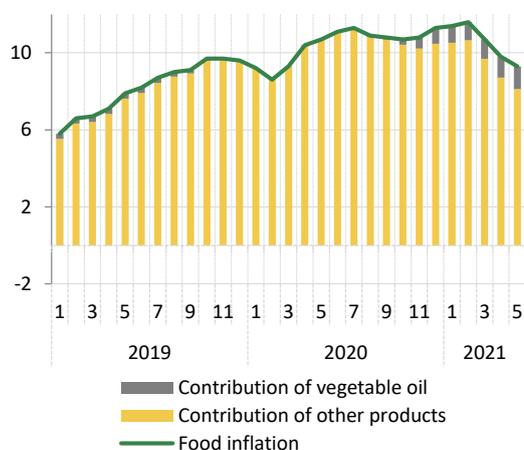
*the seasonal adjustment was performed by using the X-12-ARIMA method since 2011 until present.

Figure 44. Food Inflation Dynamics, %



Source: BNS ASPR, NBRK's calculations

Figure 45. Contribution of Particular Products to the Food Inflation, YoY, %



Source: BNS ASPR, NBRK's calculations

3.4 Inflation

In May 2021, the annual inflation accelerated to 7.2%, staying above the target level of 4-6% (Figure 43). A significant rise in prices of non-food products (6.7% YoY) and paid services (5.1% YoY) was partially offset by disinflationary processes in the food market where the annual inflation decelerates to 9.3% given a high base of 2020.

The annual growth in food prices, after their acceleration in February 2021 to 11.6%, started to slow down and at the end of May accounted for 9.3% (Figure 44). The current deceleration of food inflation is associated with the exclusion from the calculation of high monthly inflation figures of 2020 when due to disruption in the supply chains caused by the consequences of fighting with the coronavirus infection and a heightened demand for some goods, a significant rise in prices of some foodstuffs was observed.

At the same time, the annual rise in prices of vegetable oils continued to accelerate and in May 2021 it accounted for 50.5%. A sustained growth in prices of vegetable oil is a worldwide trend caused by the reduced supply in the global market as a result of a poor harvest (in the 2020-2021 season). Thus, in April 2021 the FAO Vegetable Oil Price Index made up 162 points, which is virtually two times higher than in April 2020 (a growth of 99.5%) and has been the maximum since June 2011. Therefore, prices of vegetable oil imports in March 2020 went up by 64.6% in annual terms. The increase in the price of primary product caused the annual growth of producer prices by 57.7% in April 2021 (Figure 45, 46).

At the same time, production of vegetable oils in the domestic market has been growing. Thus, in January-March 2021, the increase in production accounted for 16.4% as compared to the same period of 2020.

Acceleration of the annual price growth of eggs has slowed down over the recent months (in May 2021, the annual price growth accounted for 30.2%). It was furthered by deceleration of the annual growth rates of producer prices to 36.3% in April 2021 (March 2021 – 46.5%) given the disinflation of forage crops. At the same time, the supply is demonstrating a downward trend. Thus, in January-March 2021, production of eggs decreased by 16.3% as compared to the same period of 2020 (Figure 47).

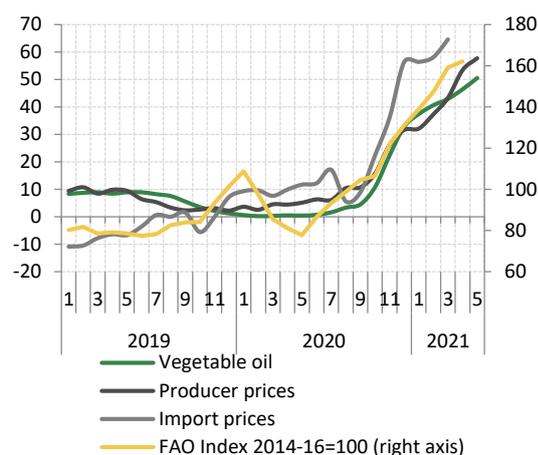
In May 2021, the growth rates of prices for fruits and vegetables slowed down to 4.4% in annual terms. Within the structure of fruit and vegetable production, there was annual deflation of onions (-19.6%), lemons (-17.3%), apples (-6.6%) and tomatoes (-1.4%).

The growth rates of consumer prices for sugar in Kazakhstan in May 2021 made up 29.3%. A large part of the consumed white refined sugar in Kazakhstan is secured with imports (according to the data from the BNS ASPR, in 2020 the share of sugar imports in the total volume of sale in the domestic market accounted for 74.9%). The Russian sugar accounts for a major portion of sugar imports, which increases the dependence of domestic prices on prices in Russia where high prices of sugar persisted in the recent months because of a bad crop of sugar beetroot in Russia in 2020 (in April 2021, the annual price growth of sugar in Russia accounted for 40.3%).

At the same time, the upward trend in the world food prices remains (Figure 48). Thus, in April 2021 the annual change in prices of vegetable oils accounted for 99.5%, sugar – 58.3%, cereals – 26%, dairy products – 24.1% and meat – 5.1%. This, in turn, may lead to the growth in the cost of imported products as well as to the rise in the domestic producer prices given the increased differential between external and domestic prices and the growing exports.

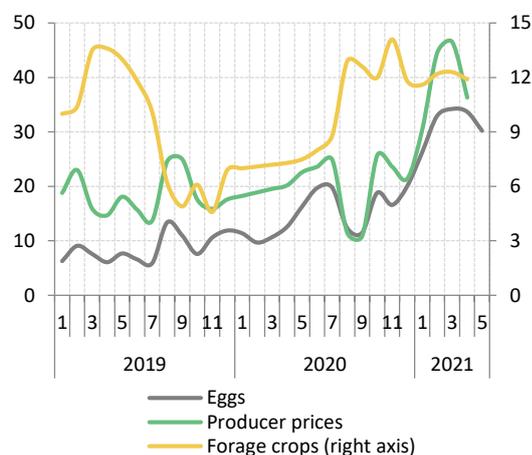
In May 2021, the **non-food inflation** accelerated to 6.7% in annual terms as a result of a continuing growth in prices of fuel and lubricants, clothes and footwear (Figure 49). During March-May 2021, the cost of fuel and lubricants went up by 11.4% and that of clothes and footwear – by 1.4%.

Figure 46. Vegetable Oil, YoY, %



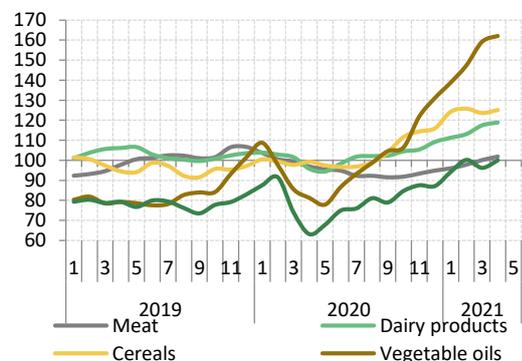
Source: BNS ASPR, UN FAO

Figure 47. Chicken Eggs, YoY, %



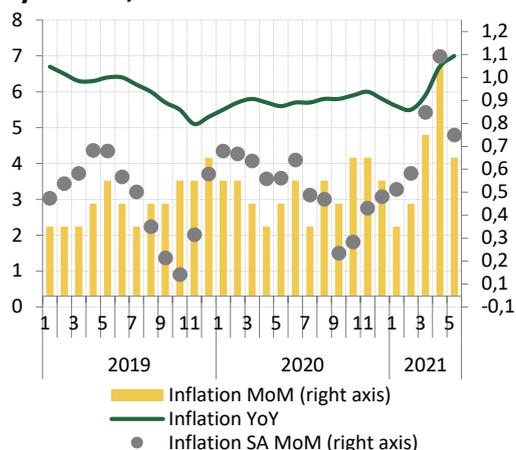
Source: BNS ASPR

Figure 48. World Food price Indices, 2014-2016=100



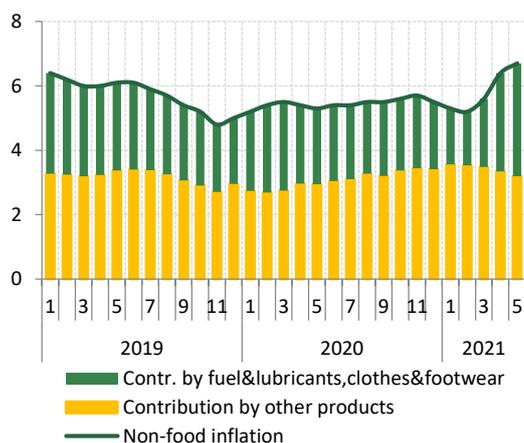
Source: UN FAO

Figure 49. Non-Food Inflation Dynamics, %



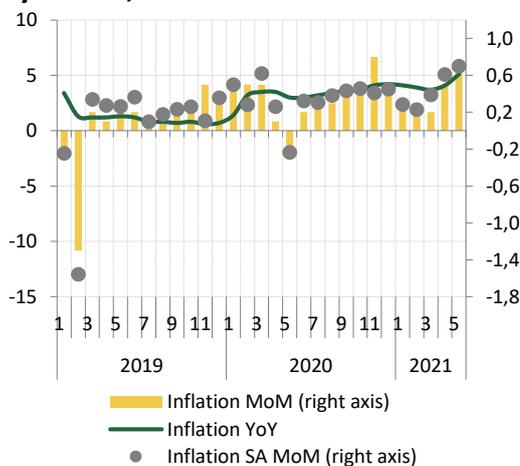
Source: BNS ASPR, NBRK's calculations

Figure 50. Contributions by Non-Food Products, YoY, %



Source: BNS ASPR, NBRK's calculations

Figure 51. Service Inflation Dynamics, %



Source: BNS ASPR, NBRK's calculations

The contribution by such commodity groups to the annual non-food inflation increased from 1.7 pp. in January 2021 to 3.5 pp. in April 2021. Along with that, a growth in prices of the remaining part of goods remains stable (Figure 50).

Appreciation in the prices of fuel and lubricants is associated with the growing prime cost, the recovering economic activity and the deferred effect from the change in the excise rate in 2020. Since the beginning of 2021, the cost of crude oil purchases has increased by 17.9%, producer prices in April 2021 increased by 12.7% in annual terms. Exports are putting an additional pro-inflationary pressure on prices. Thus, in March 2021, the growth of exports in annual terms accounted for 17.1%. The major importers of finished fuel from Kazakhstan are Uzbekistan, the Netherlands and Tajikistan (according to the data for January-March 2021).

Within the structure of non-food products, the annual growth rates of prices for clothes and footwear is observed given the growing import prices and the gradual recovery of the consumer demand.

At the same time, given a high base of 2020, annual growth rates of prices for goods, which accelerated their growth at the beginning of pandemic due to the increased demand, are decelerating. Thus, the annual price growth of pharmaceuticals slowed down to 5.5% and that of detergents and cleaning products – to 8.2%.

In May 2021, the annual rise in prices of **paid services** to the population accounted for 5.1% (Figure 51). After the annual deflation of regulated services in February-March 2021, in May the price growth resumed and made up 4.1%. In May 2021, the annual increase in electricity prices accelerated to 7% from 2.8% a month earlier. Such growth is associated with the increase in tariffs of energy producing companies from April 1, 2021, which resulted in that the annual rise of electricity producer prices in April 2021 accounted for 23.8% (a monthly growth of 8.1%)

Concurrently with that, in May 2021 prices of some non-regulated services were growing, in particular, fees for garbage disposal, transport services, hairdresser services as well as for public catering and accommodation services. The rise in prices was driven by a heightened demand due to the easing of quarantine restrictions and massive immunization of the population and also by the influence of the statistical low base effect of the previous year.

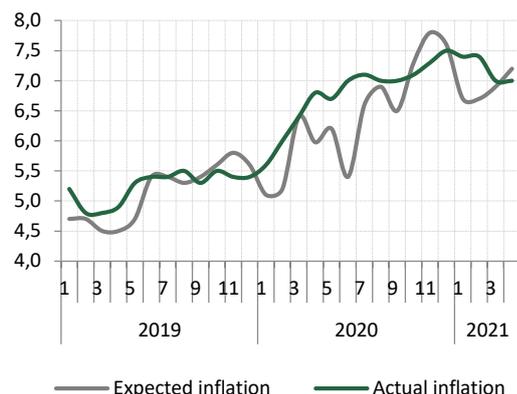
In March-April 2021, inflation expectations increased in response to a surge in prices of gasoline and foodstuffs.

In April, the quantitative assessment of inflation one-year ahead accounted for 7.2% compared to 6.7% in January-February 2021 (Figure 52). According to the public poll outcomes, 47% of respondents anticipate that the existing price growth rates will remain or will accelerate in the next 12 months.

As before, the majority of respondents (85%) who mentioned the price growth in the past month choose the foodstuffs. However, this percentage has been decreasing since the beginning of the year. In April, the percentage of respondents noting the growth in prices of non-food products increased (to 6.9% from 4.5% in March). The percentage of respondents who noted the rise in prices of fuel and lubricants sharply increased (Figure 53).

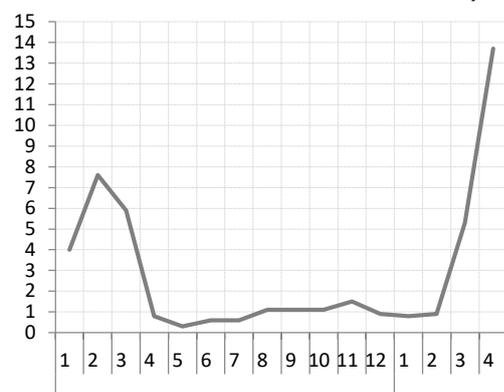
Given the existence of restriction measures, a high degree of uncertainty among respondents remains – a third of the interviewed find it hard to assess their expectations in the recent months.

Figure 52. Inflation and Expected Inflation, YoY, %



Source: CS MNE, FusionLab

Figure 53. Percentage of Respondents who Noted a Rapid Price Growth for Fuel and Lubricants over the Last Month, %



Source: FusionLab

Box 3. The Impact of the Increase in Electricity Tariffs on the Consumer Inflation

Kazakhstan’s Ministry of Energy announced that cap rates of the energy producing companies will be increased by 15% on average from April 1, 2021¹. The main reasons for such increase had been such factors as appreciation in the cost of coal, its transportation, imported equipment, the ramp-up of mandatory purchase of electricity from the renewable energy producers, etc. As a result, according to the data from the BNS ASPR PK, the annual rise in electricity producer prices in April 2021 accounted for 23.8% (a growth of 8.1% over the month) including the increase in tariffs in July 2020 (Figure 1).

At the same time, tariffs of the retail electricity realization by the energy providers in April 2021 increased by 2.8% in annual terms. It is worth mentioning that the raising of cap rates last July had a disproportional impact on the growth of electricity prices for the population due to redistribution of the burden from the people to the public-sector organizations and commercial entities.

¹ The Order of the Minister of Energy of the Republic of Kazakhstan dated March 30, 2021 No. 108 “On Making an Amendment to the Order of the Minister of Energy of the Republic of Kazakhstan dated December 14, 2018 No. 514 “On Approval of the Electricity Cap Rates”.

3.5 Fiscal Policy

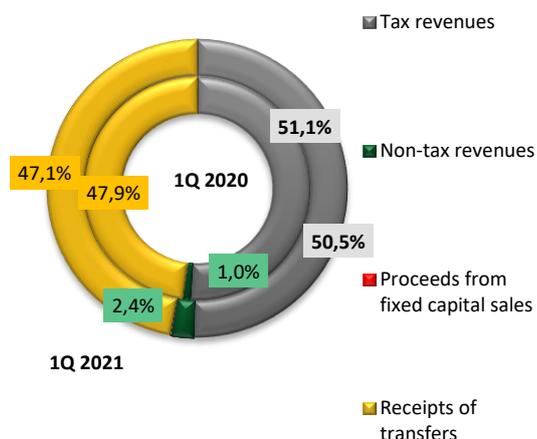
As at the end of the first quarter of 2021, the overall and non-oil deficits remain high, which is associated with a significant growth in the expenditure side against a reduction in budget revenues in annual terms.

In the first quarter of 2021, the national budget deficit amounted to 957.2 billion tenge, having increased by 3.5 times as compared to the corresponding period of 2020. Expansion of the budget deficit, first of all, was caused by a significant increase in spending (by 20.1%) against the reduction in revenues (by 5.1%) in annual terms. It is worth mentioning that in April of this year parameters of the national budget for 2021 were specified, whereby the social focus of the fiscal policy and support to the real sector of the economy were enhanced. The adjustment of fiscal parameters alongside with some upward revision of tax revenues implies expansion of the revenue side of the budget by increasing the earmarked transfer from the National Fund (from 1 trillion tenge to 1.85 trillion tenge). The planned additional allocation of the earmarked transfer from the National Fund is accompanied by the increase in the budget spending for financing of activities of the “Nur Otan” Party electoral program and fighting with COVID-19. In a more detailed breakdown, the financing will be directed to support the social sphere, implement government programs, develop agriculture and the utilities sector, for construction and renovation of the national and local roads, and to support the small and medium-sized business.

During January-March 2021, 1 201.7 billion tenge of official transfers were received to the revenue side of the budget, where the guaranteed transfer amounted to 802 billion tenge, the earmarked transfer – 276 billion tenge, and transfers from the subordinated government authorities – 124 billion tenge.

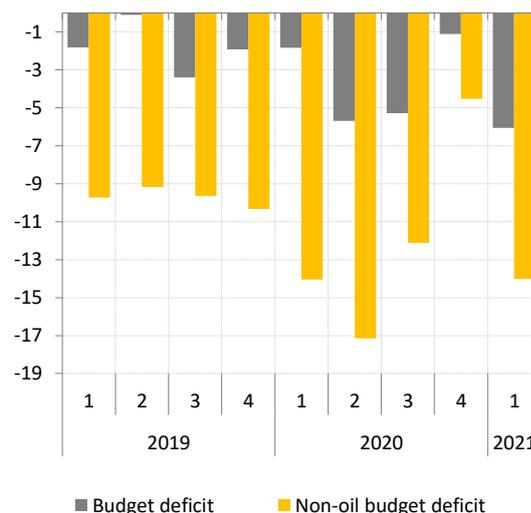
The non-oil budget deficit (the budget deficit excluding transfers from the National Fund and export customs duties for crude oil), according to the National Bank’s assessment, in January-March 2021 amounted to 2.2 trillion tenge, which is by 4.4% less than in the corresponding period of 2020 (Figure 55).

Figure 54. Structure of the National Budget Revenues



Source: Kazakhstan’s Ministry of Finance

Figure 55. Overall and Non-Oil National Budget Deficit, as % of GDP



Source: Kazakhstan’s Ministry of Finance, NBRK’s calculations

The state budget revenues in January-March 2021 decreased by 5.1 as compared to 2020 % and equaled 2.6 trillion tenge. The main reason for reduction in revenues is a 6.3% decline in tax revenues (the share in the budget revenues accounted for 50.5%) and receipts of official transfers by 6.7% (the share – 47.1%).

Reduction in tax revenues was caused by the decreased receipts from the value-added tax given the retention of restriction measures as part of the fight against the spread of coronavirus. A 2.2 times growth in non-tax revenues was driven by the repayment of unused resources from the “Social Medical Insurance Fund” NJSC as well as by receipts on administrative fines imposed by the government authorities (Figure 56).

During January-March 2021, the state budget spending amounted to 3.4 trillion tenge, having increased by 20.1% as compared to the corresponding period of 2020. The main contribution to the growth in the national budget spending has traditionally been made by expenditures for social welfare and social security (the share – 28.2%), whose increase accounted for 12.4%. Expenditures for healthcare went up by 51.5% (the share – 16.9%) and were driven by the epidemiological activities and the immunization campaign as part of the fight against the spread of coronavirus. Expenditures for education also increased – by 48.5% (the share – 9.4%) and spending on debt servicing went up by 53.6% (the share – 96%).



BASIC TERMS AND DEFINITIONS

Core Inflation – means the inflation which excludes transitory price changes subject to certain factors of administrative, event-related and seasonal nature. The base rate – is the National Bank’s key monetary policy instrument which enables to regulate nominal interbank interest rates in the money market. By setting the base rate level, the National Bank determines a target value of the targeted interbank short-term money market rate in order to achieve the goal of ensuring the price stability in the medium term.

Gross Fixed Capital Formation – is the growth in non-financial assets which have been used in the process of production for a long time. Gross fixed capital formation includes the following components: a) acquisition, less retirement, of new and existing fixed assets; b) costs for major improvements of tangible produced assets; c) costs for improvement of tangible non-produced tangible assets; d) expenses in connection with the transfer of title for non-incurred costs.

FX Swap means a foreign exchange transaction which involves the concurrent purchase and sale of a certain amount of one currency in exchange of another currency with two different value dates.

Gross Domestic Product (GDP) is an indicator that reflects the market value of all final goods and services produced during a year in all sectors of the economy within the territory of the country for consumption, exports and saving, irrespective of the national identity of the used production factors.

Reserve Money includes cash issued into circulation by the National Bank, other than cash at the cash departments of the National Bank, transferrable and other deposits of banks, transferrable deposits of non-bank financial organizations and current accounts of government and non-government non-financial organizations in the tenge at the National Bank.

Money Supply (M3) is determined on the basis of consolidation of balance sheet accounts of the National Bank and banks. It consists of cash in circulation and transferable and other deposits of non-bank corporate entities – residents and the population in the domestic and foreign currency.

Dollarization of the Economy means the situation where a foreign currency (largely – the US Dollar) starts to be used for transactions within a country or in certain sectors of its economy, pushing out the domestic currency from the domestic money turnover, and acting as the means of saving, measure of value and the legal tender.

Inflation – is an increase in the overall price level of goods and services. In Kazakhstan, inflation is measured by the consumer price index.

Consumer Price Index – is the change in the overall price level of goods and services purchased by the population for consumption. The consumer basket of Kazakhstan used for calculation of inflation reflects the structure of household spending and contains goods and services which represent the largest portion in the consumption of population. The CPI is calculated as the ratio of the cost of a fixed set of goods and services in current prices and its cost in the prices of the previous (base) period. The index is calculated by the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan.

Inflation Targeting – is a monetary policy regime which is oriented at achieving a target inflation rate.

Composite Indicator – is a generalizing indicator which is used to reflect short-term trends in the development of the real sector of the economy. Composite indicator as possessing the forward-looking feature is used to reflect a cyclical change and to identify turning points when recovery and downturns in the economy occur and change. A composite indicator is built on the basis of the

outcomes of survey among enterprises which participate in the market research conducted by the National Bank.

Reverse Repo is the purchase of a security with the commitment to sell it after a specific period of time and at a specific price. The National Bank conducts reverse repo operations with a view to provide the tenge liquidity to banks against the pledge of securities in line with the National Bank's list of collateral.

Open Market Operations are regular operations of the National Bank in the form of auctions for liquidity provision or withdrawal in the money market with a view to set interest rates around the base rate.

Standing Facilities refer to monetary policy instruments for adjustment of volumes of liquidity, which resulted from the open market operations. Standing facilities are provided as part of bilateral arrangements where the National Bank is one party to the transaction. Such operations are conducted at the initiative of banks.

Potential Output reflects the level of output in the economy that can be reached subject to full utilization of inputs and full employment. It reflects the volume of production which can be manufactured and realized without creating prerequisites for the change in the price growth rates.

Consumer Basket means a sample of goods and services which characterizes the standard level and the structure of monthly (annual) consumption of an individual or a family. Such sample is used to calculate the minimum subsistence level, based on the cost of the consumer basket in current prices. The consumer basket also serves as a comparative basis for estimated and real consumption levels and also as the basis to determine the purchasing capacity of currencies.

Direct Repo is the sale of a security with the commitment to repurchase it after a specific period of time and at a specific price. The National Bank conducts direct repos with a view to withdraw excess liquidity in the tenge.

Free Floating Exchange Rate. According to the IMF's current classification, under the floating exchange rate framework a central bank does not establish any pegs including operating ones for the level or the change in the exchange rate, allowing the exchange rate to be determined by the market factors. In doing so, the central bank reserves the opportunity to periodically intervene in the foreign exchange market in order to smooth out the volatility of the domestic currency exchange rate or to prevent its dramatic movements as well as to ensure the financial system.

Output Gap. Deviation in GDP expressed as a percentage of a potential output. Expresses the difference between an actual GDP and potential GDP for a certain time interval. Serves as an indicator which reflects the effectiveness of resources utilized in the country. If an actual output exceeds the potential one (a positive gap), other things remaining equal, the trend of acceleration in the price growth rates would be anticipated because of the overheating of the economy.

TONIA Rate – represents a weighted average interest rate on one-day repo opening transactions made on the stock exchange with government securities in the automatic repo sector.

LIST OF KEY ABBREVIATIONS

bp – basis point

BNS ASPR - Bureau of National Statistics of the Agency for Strategic Planning and Reforms

GDP – gross domestic product

GPIID - the Government Program for Industrial and Innovation Development

EU – the European Union

ECB – the European Central Bank

CPI – consumer price index

KASE – the Kazakhstan Stock Exchange

KSF – the “Kazakhstan Sustainability Fund” JSC

NBRK – the National Bank of the Republic of Kazakhstan

VAT - value-added tax

OPEC – Organization of the Petroleum Exporting Countries

Rosstat – the Russian Federal State Statistics Service

REER – real effective exchange rate

IMF – the International Monetary Fund

bln. - billion

mln. - million

MNE – the Ministry of National Economy

MoA RK – the Ministry of Agriculture of the Republic of Kazakhstan

MED – the Ministry of Economic Development of the Russian Federation

thous.– thousand

TCO - Tengizchevroil

CB RF – the Central Bank of the Russian Federation

FAO – Food and Agriculture Organization of the United Nations

US Fed – the Federal Reserve System

