NATIONAL BANK OF KAZAKHSTAN

Monetary Policy
REPORT

August 2023

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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.

The Report is published in an electronic form on the official Internet resource of the National Bank in the Kazakh, Russian and English languages.

The forecast and analysis of macroeconomic indicators was prepared on the basis of statistical information as at **August 11, 2023**

STATEMENT BY THE GOVERNOR OF THE NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN ON THE BASE RATE DATED AUGUST 25, 2023

The Monetary Policy Committee of the National Bank decided to lower the base rate by 25 bp to 16.5%.

Our new inflation and economic growth forecasts provided key insights into the changing macroeconomic environment.

We are now watching the effects from a gradual base rate increase of the last year, which are impacting the economy. As a result, inflation has been decelerating smoothly. This increases confidence in our estimates and reinforces the trend towards stabilization of inflation.

Inflation has been declining for the fifth consecutive month. In July 2023, annual inflation was 14.0%. We are already seeing an indirect effect from the increase in fuel prices at a slower pace than previously expected. This effect was partially offset by the dynamics of the tenge exchange rate.

Monthly inflation is still above the historical averages, having amounted to 0.6% in July of this year. With the overall positive dynamics of annual inflation, we see that the decline in its steady part has been suspended. Thus, various metrics of core inflation, having declined in April, have been stable enough not to fall below this level over the last 4 months. Seasonally adjusted inflation has a similar pattern. This suggests robust domestic demand and the manifestation of fiscal stimuli. Additional factors include the rising cost of logistics and high production costs that affect the price of goods and services.

Inflation expectations have slightly decreased but remain high; this was expected given concerns of the population about the rise in prices for utility services and fuel and lubricants. Thus, with the medium-term inflation target of 5%, the assessment of inflation expectations in a year amounted to 16.9% in this July. Perceived inflation has also declined, which is in line with the actual dynamics of expected inflation. What is important for us is the consolidation of the downward trend in inflation expectations. High inflation expectations can now hinder the decline in inflation, as they are an indicator of consumer behavioral habits.

The business activity in the domestic economy continued to expand due to the growth of major sectors of the economy. Growth rate of real GDP in Kazakhstan during January-July of this year made up 4.8%. The largest upturn was demonstrated by such sectors as construction, trade, information and communication, and transport. The persistence of high production costs due to rising prices for fuel, utilities and industrial services is also noteworthy.

Demand in the economy remains steady. The growth of real wages is recovering. Despite the fact that the population spends a larger portion of earnings on food, the demand for non-food products is also actively accelerating. This is especially noticeable in the segments involved in selling cars and fuel. In case of high inflation, such demand exerts additional inflationary pressure.

The demand is also supported by the growing budget spending on transfers to the population.

Investment activity is accelerating. Construction and capital repairs serve as the main drivers. At the same time, the investment activity of the population slowed down. Activity in the real estate market returned to the historical averages.

In the external economy, global inflation continues to slow down, being supported by tight monetary policy of countries, lower energy and food prices. The influence of external factors on inflation is gradually weakening but the situation has become less positive compared to the previous forecast, as the steady part of inflation in the world remains elevated. This is an evidence of persistence of a pro-inflationary background. The IMF expects global inflation to remain high, and a return to the inflation target in the near term is unlikely in many countries. Thus, we have entered a period when inflation will be above the target in many countries.

In this regard, external monetary conditions remain tighter compared to the previous forecasting round. At the same time, the stability of core inflation and high probability of failure to achieve the targets in the medium term has shifted the timing of the beginning of the cycles of rate cuts in the world. Before, the central bank policy easing was expected as early as this year.

In countries-Kazakhstan's trading partners, the situation with inflation has somewhat deteriorated. In the EU, inflation is still significantly above the target and is slowly declining. In Russia, the weakening ruble and strong consumer demand contributed to acceleration of inflation. The gradual increase in inflationary pressures in Russia will pose risks to acceleration of price growth in Kazakhstan. China is experiencing deflation due to weak existing indicators of economic activity.

The decline in global food prices is having a disinflationary effect. However, prices rose slightly in July. Such divergent dynamics create risks of uncertainty regarding further trends in external food markets. In the future, a gradual rise in prices is also expected as a result of the stoppage of the Grain Deal. There is a probability of its extension or conclusion of a new deal.

Inflation forecasts under the baseline scenario have undergone changes. Thus, according to our projections, annual inflation will be in the range of 10-12% in 2023, 7.5-9.5% in 2024 and 5.5-7.5% in 2025.

Inflation will continue to slow down but the above pro-inflationary factors require readiness to maintain a tighter monetary policy in order to achieve the inflation target of 5% by the end of 2025. At the same time, without taking into account the direct effect of the increase in utility tariffs, to which the National Bank does not react by changing the base rate, the achievement of the medium-term target of 5% is expected by the end of 2025. Fiscal policy, measures taken in the sphere of pricing for fuel and lubricants and tariff setting for utility services, as well as the balance between consumption and saving in the economy will have a great impact on this target.

The main risks to the inflation forecast include a stronger fiscal impulse and the associated increase in pressure on prices from the domestic demand, high inflation expectations, stronger inflation growth in Russia, a possible increase in world food prices as a result of risks of non-renewal of the Grain Deal as well as the risks of possible supply shocks in domestic markets. However, the continuation of the pricing reform in the fuel and lubricants market was not taken into account in the baseline scenario of inflation forecast.

Forecasts regarding the development of Kazakhstan's economy in the medium term have been improved given an active government support to the economy. The GDP growth in 2023 will be in the range of 4.2-5.2%. Forecast of economic growth for 2024-2025 has been raised to 4-5%. At the same time, an upturn in oil production and growth in the demand with active stimulation of the economy will promote growth in the medium term.

Risks to the GDP forecast are related to a possible reduction in demand for energy resources amid the risk of global recession with possible problems of access of Kazakhstani exports to world markets as well as the probability of failure to achieve the planned oil production.

If the dynamics of actual inflation and its steady part correspond to our deceleration expectations, the National Bank will continue the policy of smooth and prudent lowering of the base rate. The space for this is created, however, given pro-inflationary risks, including fiscal impulse, it is limited and a balanced approach to future decisions is required. In the future, pauses in lowering the base rate and the need to retain tight monetary policy for a longer period depending on incoming data and inflation risks cannot be ruled out.

Governor of the National Bank of the Republic of Kazakhstan
Galymzhan Pirmatov

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PROSPECTS OF THE DEVELOPMENT OF THE MACROECONOMIC SITUATION

1.1. Forecast Assumptions

Compared to the "May 2023" forecasting round, assumptions regarding the global economy remain moderately positive. The IMF has only slightly raised its global growth forecast for this year from 2.8% to 3.0%. High inflationary pressures, geopolitical factors and tight financial conditions remain as constraining factors. The forecast for the global economic growth in 2024 remained unchanged at 3.0%. On a country-by-country basis, forecasts for 2023 were slightly improved for the UK, Spain, Italy, Russia, Brazil and Mexico. At the same time, forecasts for 2024 do not imply further rapid growth. Thus, developed countries in 2023-2024 will grow at no more than 1.4%-1.5%, YoY. The growth rates of emerging economies in the reviewed period will be 5.0%-5.3%.

Risks to the development of the global economy are still associated with inflation, which may remain high or accelerate under the influence of deteriorating geopolitical situation, climate conditions and insufficiently tight monetary policy of central banks.

In terms of the EU countries, compared to the "May 2023" forecasting round, projections have not undergone changes. As before, due to a tight monetary policy, a deepening recession in the manufacturing industry and weak external demand, growth in the EU countries is expected to be sluggish over the entire forecast horizon. The German economy is expected to fall into recession this year on the back of currently weak exports and a declining industrial sector, in particular the car industry. In France and Italy, the economic growth will be no more than 1.0%, YoY. Thus, the EU economy in 2023 will go up by 0.7%, YoY, and next year the growth will be moderate at 1.3%, YoY (Figure 1) (Table 1).

The forecast regarding the Chinese economy for 2023 remained unchanged at 5.5%; however, the estimate for investments has been lowered significantly
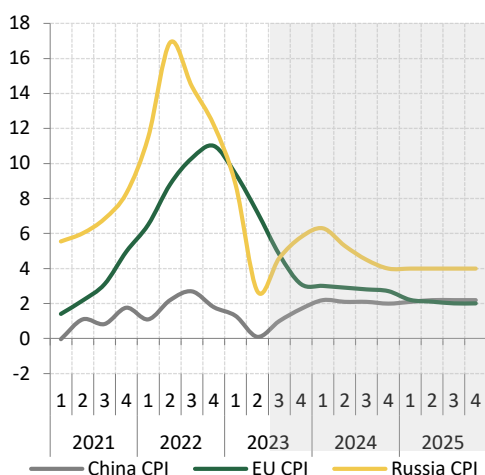
Graph 1. GDP Growth Rates in China, the EU and Russia in Real Terms, YoY, %
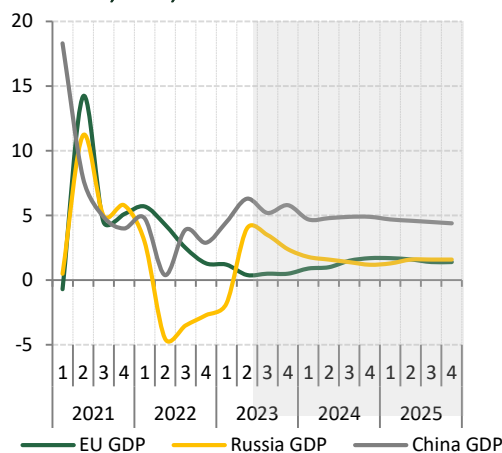
Source: Eurostat, National Bureau of Statistics of China, Rosstat, Consensus Ecs., CB RF, NBK estimate

Graph 2. Inflation in China, EU, Russia, YoY, %

Source: Eurostat, National Bureau of Statistics of China, Rosstat, CB RF, Consensus Ecs., NBK estimate

because of the existing problems in the real estate market. The industrial sector's assessment was also revised downwards; the sector is expected to continue to be constrained by a weak demand for exported products amid tight monetary policies of major central banks. With key economic sectors underdeveloped, current high youth unemployment is likely to continue rising.

The Chinese economy is expected to be significantly supported by the government's planned stimulus measures and a looser monetary policy. In 2024-2025, the growth is projected to slow down to 4.8% and 4.6% YoY, respectively (Figure 1) (Table 1).

In Russia, as a result of higher economic growth rates since the beginning of the year, including given a rapid growth in manufacturing, construction and retail trade as a result of a sharp recovery in consumer activity, the forecast for 2023 was raised from 1.3% to 2.0%, YoY. The forecast for 2024 was kept at 1.5%, YoY, and was reduced from 2.0% to 1.5%, YoY, for 2025. Taking into account the existing difficulties with labor shortages, the current sanctions regime and the weaker exchange rate of the ruble against the US dollar, one cannot exclude that during the forecast period the economic development would be more sluggish compared to the forecast (Figure 1) (Table 1).

According to updated IMF forecasts, it is expected that the ongoing tight monetary policy of central banks will somewhat reduce the current high inflation in the countries. Global inflation is expected to slow down from 8.7% in 2022 to 6.8%, YoY, in 2023 and to 5.2%, YoY, in 2024. Core inflation will continue to decelerate but will be above the target in most countries until the end of 2024.

Due to the current lower inflation, China's inflation forecast has been lowered. In the EU, as before, a gradual weakening of inflationary pressure is anticipated. In Russia, annual inflation will be slightly higher than previously expected, in the context of strong domestic demand, a narrow labor market and the weakening of the Russian ruble against other world currencies (Figure 2) (Table 1).

Compared to the May 2023 forecasting round, external monetary conditions have worsened. The beginning of the monetary easing by the US Federal Reserve System has shifted to a longer period. According to expectations of market participants, the policy rate of the US Fed will remain unchanged until May 2024. The ECB's monetary policy, as expected, will remain tight.

Assumption regarding the oil market have not changed considerably. The oil market is expected to be dominated by oil shortages in the short term, supported by strong demand and shrinking supply from major OPEC+ countries. Going forward, prices are expected to continue to be supported by the recovery of the Chinese economy, low global oil reserves and the expectation of a suspension of the rate hike cycle by major central banks (Figure 3).

Taking into account the weaker dynamics of oil prices at the beginning of the second quarter of 2023, as well as the forecasts of international organizations regarding the further development of the global oil market, the baseline scenario assumes that world prices for Brent oil will remain at $80 per barrel. It is expected that from August 2023 until the end of 2024, prices will be at the level of $80 per barrel. At the same time, by the end of 2025, world prices for Brent oil are expected to gradually decrease to $75 per barrel. The assumptions for the optimistic and pessimistic scenarios also remained unchanged at $110 and $50 per barrel (Figure 4) (Table 1).

Graph 3. Dynamics of the Global Oil Market
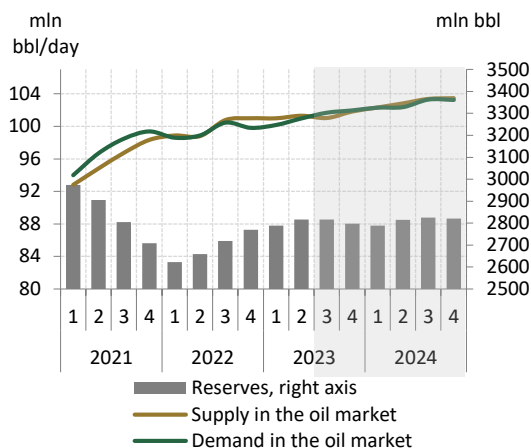
Source: EIA

Table 1. Forecast Assumptions under the Baseline Scenario

	2023	2024	2025
GDP, YoY, %			
China	**5.5** (5.5)	**4.8** (5.1)	**4.6** (4.6)
EU	**0.7** (0.7)	**1.3** (1.5)	**1.5** (1.5)
Russia	**2.0** (1.3)	**1.5** (1.5)	**1.5** (2.0)
Inflation, YoY, %			
China	**1.7** (2.2)	**2.0** (2.2)	**2.2** (2.2)
EU	**3.1** (3.4)	**2.7** (2.7)	**2.0** (2.0)
Russia	**5.8** (5.3)	**4.0** (4.0)	**4.0** (4.0)

Source: forecasts by Consensus Ecs, NBK calculations

* – the preceding forecast as part of the "May 2023" forecasting round is shown in the parenthesis

Table 2. Forecast Assumption Regarding the Oil Price

	2023	2024	2025
Pessimistic scenario	**74.9** (68.1)*	**50.9** (50.0)	**50.0** (50.0)
Baseline scenario	**80** (82.2)	**80.0** (80.0)	**77.3** (77.3)
Optimistic scenario	**84.2** (95.6)	**109.0** (110.0)	**110.0** (110.0)

Source: NBK calculations

* –the preceding forecast as part of the "May 2023" forecasting round is shown in the parenthesis

Graph 4. Scenarios for Brent Oil Price, US Dollars per Barrel
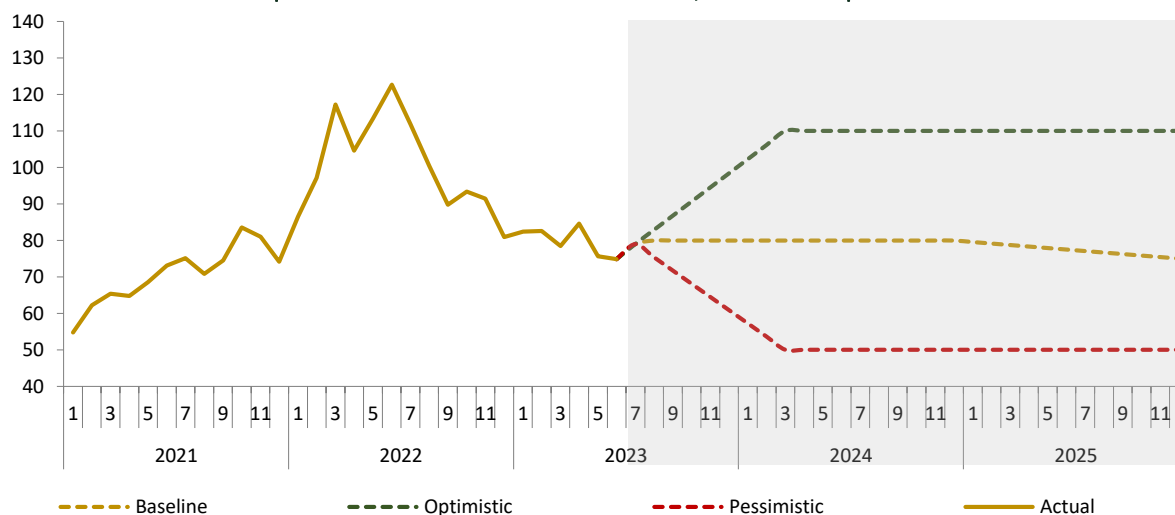

Source: EIA, NBK calculations

1.2. Dynamics of Economic Development under the Baseline Scenario

The dynamics of economic activity based on the results of the first half of this year showed high growth rates and developed within the baseline forecast of the NBK. All components of demand made a positive contribution, resulting in an increase in the production of both goods and services. Until the end of the year, under the baseline scenario, the current dynamics of the GDP component are expected to continue, and the economic growth will be in the range of 4.2-5.2% (Figure 5).

This year, the main contribution will be made by the domestic demand. Growth in consumer demand will be driven by continued fiscal stimulus, a resumption of positive dynamics in real wages as inflationary processes slow down, and persistently high growth rates of consumer loans. Gross capital formation will continue to make a significant contribution in terms of investment projects in the mining industry, investment in the renewal of PPE in the real sector, public investments in social infrastructure and capital investments in the framework of utility services reforms. A positive contribution in the short term is also expected from the government in the context of a simultaneous increase in current costs for goods and services and labor costs.

Exports will demonstrate moderate growth rates in the face of increased oil production this year compared to 2022. Positive dynamics of external demand for Kazakhstani products are expected against the growth of economies in the countries – Kazakhstan's main trading partners. At the same time, moderate dynamics of exports will be associated with lower energy prices compared to last year. In addition, an internal risk factor associated with interruptions in the production of electricity in the Mangystau region due to problems in the operation of the MAEC (Mangistau Atomic Energy Complex) is not excluded. Nonetheless, according to the Ministry of Energy, potential losses in oil production may be less than

Graph 5. GDP, YoY, %
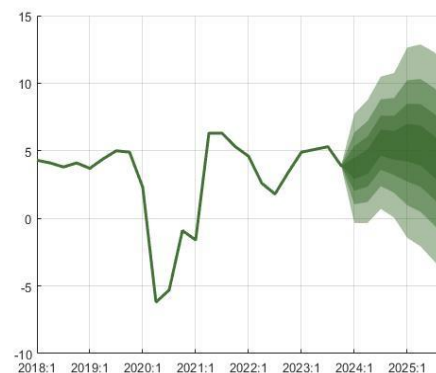
Source: NBK forecast, percentiles at the level of 80%, 60%, 40%, 20%

Graph 6. Inflation, Quarterly Average, YoY, %

Source: NBK forecast, percentiles at the level of 80%, 60%, 40%, 20%.

one million compared to the planned volume (90.5 mln. tons); this should not exert a significant effect on the exports of raw commodities.

A more significant GDP acceleration will be held back by high import growth. In the context of a high contribution of domestic demand to GDP and a strong real exchange rate of the tenge, an increase in all components of imports (investment, intermediate and consumer imports) is anticipated.

Thus, at end-2023, the real GDP growth is expected to be within 4.2-5.2%.

Forecasts for economic growth in the medium term compared to the preceding forecasting round were revised upwards. Stronger fiscal stimulus is expected, aimed at building the infrastructure and education facilities. In addition, the social focus of budget spending will also support domestic demand. Moreover, in 2024-2025, in the context of an increase in oil production, including at the Tengiz field, export growth rates will continue to be high. **Thus, the GDP growth is expected to be within 4-5% in 2024-2025.**

The output gap, defined as the percentage deviation of the actual GDP level from its potential level, will be in the positive zone throughout 2023-2025 with a gradual closure. This is owing to the positive dynamics of domestic demand given the fiscal stimulus as well as growth in exports due to the increased oil production. However the positive output gap will close more slowly compared to the preceding forecasting round because of a stronger fiscal momentum. Thus, the output gap will exert pro-inflationary pressure on the economy over the forecast horizon.

Inflation forecasts for 2023-2024 have been revised downwards due to a reassessment of the impact of spillovers from rising fuel prices on the overall price level and strong real effective exchange rate dynamics.

However, higher fiscal stimulus in 2024 will have a deferred effect on price growth, and in 2025 inflation, despite the abovementioned disinflationary factors, will develop as previously expected. Thus, in the baseline scenario in 2023, annual inflation will be in the range of 10-12% followed by a slowdown to 7.5-9.5% in 2024 and 5.5-7.5% in 2025 (Figure 6).

The revision of projected values mainly took place due to the actual strengthening of the tenge exchange rate against the ruble. At the same time, the impact of indirect effects from the April increase in fuel prices on inflation was moderate, which corresponds to the lower limit of impact estimates (1-2.5 percentage points). On the other hand, in the current forecast period compared to the preceding one, the fiscal impulse and the dynamics of world food prices have been revised upwards.

During the second half of 2023, the dynamics of inflation will be subject to several important factors. A rise in prices for regulated services will be gradual. In July of this year, prices for certain types of utilities were raised in some regions of the country. In the coming months, utility prices are expected to keep rising, thereby accelerating the service component of inflation. Meantime, the dynamics of the food component will be largely exposed to the disinflationary effect of a strong exchange rate of the tenge due to a high share of imports from the Russian Federation and a further slowdown in the growth of producer prices in the manufacturing industry. At the same time, given the growing real income of the population and a corresponding increase in demand, high values of monthly growth in prices for non-food products and market services are also expected at the end of this year.

In the medium term, annual inflation will continue to slow down. This will be facilitated by the existing constraining nature of monetary conditions, which will lead to a gradual decline in inflation expectations and inflation towards the medium-term target. In addition, the gradual return of inflation in the countries – Kazakhstan's trading partners to their target values and the general trend towards a decline in world food prices will also help reduce inflation in Kazakhstan.

At the same time, the persistence of inflationary processes from higher prices for fuel and lubricants and regulated utility services in 2023, as well as pro-inflationary pressure from the pro-cyclical fiscal impulse and the corresponding strong domestic demand, will significantly impede a rapid decline in annual inflation. However, the continuation of the pricing reform in the fuel and lubricants market was not taken into account in the baseline inflation forecast scenario. Without regard to the direct effect of the increase in utility tariffs, to which the National Bank does not respond by changing the base rate, the medium-term goal of 5% is expected to be achieved by the end of 2025.

Table 3. Forecasts under the Baseline Scenario

	2023	2024	2025
GDP, *YoY, %*	**4.2-5.2** (4.2-5.2)	**4-5** (3.5-4.5)	**4-5** (3.5-4.5)
CPI, *Dec. to Dec. of the preceding year, %*	**10-12** (11-14)	**7.5-9.5** (9-11)	**5.5-7.5** (5.5-7.5)
Brent oil, *in US dollars per barrel, yearly average*	80	80	77

Source: NBK calculations

* –henceforth, the preceding forecast as part of the "May 2023" forecasting round is shown in the parenthesis

1.3.   Alternative Forecast Scenarios

Due to the presence of uncertainty regarding the development of the world economy against the backdrop of an unstable geopolitical situation, the National Bank, in addition to the baseline scenario, considered other alternative scenarios – pessimistic and optimistic when making a decision on the base rate.

If the pessimistic scenario is realized, oil prices are expected to gradually decline to $50 per barrel and remain at this level until the end of 2025. Such dynamics of oil prices will be driven by decreasing global demand for oil due to the negative developments in the economies of importing countries (a prolonged global recession amidst a complicated geopolitical situation) with a concurrent increase in oil production owing to the termination of the OPEC + agreement on cutting the oil production and a ramp-up in oil production in non-OPEC countries.

In case of developments according to the pessimistic scenario, the demand for export goods of Kazakhstan, primarily for oil, will be dampened. This factor, coupled with a lower oil price, will restrain the business activity in the extractive industries, which will also have a negative impact on the related sectors of construction, transport, trade and other services, and on investment in the economy as a whole. More sluggish activity in the economy will lead to lower household income and a corresponding weakening of consumption. In addition, as economic agents adapt to the new level of oil prices and the low base effect, economic growth in 2025 will approach the values of the baseline scenario. **As a result, GDP growth rates will be 4-5% in 2023, 3.5-4.5% in 2024 and 4-5% in 2025.**

In the case of the pessimistic scenario, inflation will be decelerating at a slower pace compared to the baseline scenario. Despite a lower activity in the economy, a weaker real effective exchange rate of the tenge and higher inflation expectations will give rise to an elevated inflationary pressure. **In 2023, inflation will be 12-14%, in 2024 – 9-11%, and in 2025 – 7-9%.**

If the world economy develops according to the optimistic scenario, it is assumed that oil prices will gradually rise to $110 per barrel and remain at this level until the end of the forecast horizon. Higher oil and commodity prices in general will be supported by faster growth of the global economy given the easing of geopolitical tensions, the restoration of active trade relations and slowing inflation in developed and developing countries, while maintaining moderate world oil production.

High global commodity prices and strong external demand will have a more positive impact on business activity in Kazakhstan than under the baseline scenario. **The economic growth in 2023 will be 4.5-5.5%, in 2024 - 5-6%, in 2025 - 4.5-5.5%.**

Under the optimistic scenario, Inflation will fall to the target values faster than under the baseline scenario. This will be facilitated by the strong dynamics of the exchange rate of the tenge and lower external inflationary pressure. **In 2023, inflation will be in the range of 9.5-11.5%, in 2024 - 7-9%, in 2025 - 5-7%.**

Table 4 (a). Forecasts under the Pessimistic Scenario

	2023	2024	2025
GDP, *YoY, %*	4-5 (3.2-4.2)	3.5-4.5 (3-4)	4-5 (3-4)
CPI, *Dec. to Dec. of the preceding year, %*	12-14 (13-15)	9-11 (11-13)	7-9 (7-9)
Brent oil, *in US dollars per barrel, yearly average*	75	51	50

Table 4 (б). Forecasts under the Optimistic Scenario

|	2023	2024	2025
GDP, *YoY, %*	4.5-5.5 (4.7-5.7)	5-6 (4.5-5.5)	4.5-5.5 (4-5)
CPI, *Dec. to Dec. of the preceding year, %*	9.5-11.5 (10.5-13.5)	7-9 (8-10)	5-7 (5-7)
Brent oil, *in US dollars per barrel, yearly average*	84	109	110

Source: NBK calculations

1.4. Risks in the Medium Term

Compared to the preceding forecasting round, the aggregate severity of inflation acceleration risks has generally not changed and remains high. At the same time, the risks from external factors somewhat increased with an ambiguous change in internal factors. The cumulative balance of risks continues to be in the weakly disinflationary zone (Figure 7).

Compared to the previous forecasting round, the risk of importing a high global food inflation has increased due to the termination of the indirect deal between the Russian Federation and Ukraine. Despite the current strong global food supply and the observed decline in prices, the likely disruption of traditional exports by the Black Sea in the medium term could lead to a shortage of food in the world and a corresponding rise in prices. In addition, adverse weather conditions due to the changing climate may also lead to future spikes in world food prices. In aggregate, these external risk factors, together with the persistence of high production costs in Kazakhstan, could result in an acceleration of food price growth in Kazakhstan.

Graph 7. Risk Map Based on the Expert Judgment

"August 2023" forecasting round

"May 2023" forecasting round
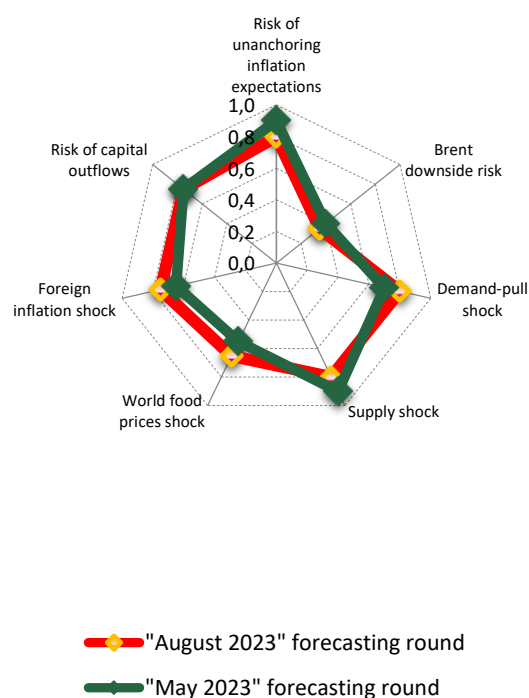
The risk of importing external inflation also somewhat increased. Despite the slowdown in the world, its steady part (core inflation) is still high. This may mean that inflation will accelerate in the future. In addition, in Russia, one of Kazakhstan's main trading partners, inflation is likely to accelerate significantly due to the observed weakening of the ruble, strengthening domestic demand, and restructuring of supply sources. At the same time, a more stringent policy of the Central Bank of Russia and a strong exchange rate of the tenge against the ruble may constrain the negative consequences of this factor.

The risk of capital outflow from emerging markets in favor of developed ones also remains high. Thus, due to persistent inflationary pressures in the world, the central banks of developed countries may continue to pursue a tight monetary policy, thereby increasing pressure on the exchange rates of emerging markets. In addition, the impact of the embargo on the export of Russian oil by the EU as well as possible problems with the Caspian Pipeline Consortium may negatively affect the export of Kazakh oil and reduce foreign exchange proceeds, which may also be a negative factor for the tenge exchange rate.

The risk of a significant drop in oil prices has slightly decreased given the excess of the estimated demand for oil over its supply, which is associated both with the actions of OPEC+ to reduce oil production and the continued growth of the global economy. At the same time, the decline in global economic growth against the backdrop of the disruption of traditional trade links, and the growing problems in the financial sector may cause a decrease in prices for oil and other commodities.

As for internal risk factors for inflation, a change in their intensity is ambiguous.

Thus, the risks from supply factors have somewhat decreased, albeit remain high. The weaker-than-expected impact of higher fuel prices on a wide range of consumer goods and services in Kazakhstan in 2023, as well as the gradual restructuring of logistics links with Russia, somewhat reduce the risks of rising production costs. However, the effect of these factors may further increase along with the expected increase in prices for regulated utility services.

The risk of anchoring inflation expectations at numbers exceeding the inflation target also somewhat decreased, which is largely stemming from the recent refinement of the inflation target. However, this risk remains pronounced due to the current high inflation and the sensitivity of expectations to the dynamics of prices for food, fuel and lubricants and utility services.

At the same time, the risk of inflationary pressure from domestic demand increased against the backdrop of stronger fiscal stimulus. Considering the periodic upward revision of public spending in prior years, it is not excluded that the budget parameters may be further revised in the direction of expanding the expenditure side, which may become an additional source of pro-inflationary pressure in the economy.

1.5. Forecast of the Current Account of the Balance of Payments

According to the baseline scenario, the current account of the balance of payments will be in the deficit zone in the medium term. The current account deficit in 2023-2025 will be supported by the persistently strong growth in imports and the downward forecast path of global commodity prices.

The anticipated movement of the current account from a surplus of (+)3.5% of GDP in 2022 to the deficit of (-)3.4% of GDP in 2023, (-)2.8% of GDP in 2024 and (-)1.9% of GDP in 2025 will result from the following trends (Figure 8).

Import of goods according to the official statistics of the BNS and the SRC in the 1st half of 2023 compared to the same period of the last year increased significantly – by 32.2% to 29.3 billion US dollars. Imports by the balance of payments methodology is expected to continue to rise over the forecasting horizon, surpassing the historical peak of 2022. High levels of imports will be supported by growing demand of the population and businesses due to insufficient domestic production capacity, as well as fiscal expenditures, including those related to the implementation of the government programs and initiatives to support the economy.

Export of goods according to the balance of payments methodology will be influenced by multidirectional factors in the medium term. The growth of exports will be supported by an increase in oil production, an anticipated rise in uranium prices and plans to increase its production, as well as planned introduction of new capacity for ferroalloy production. Higher export growth will be constrained by the redirection of natural gas to domestic consumption and the scenario downward adjustments of the high prices of certain commodity groups in 2022, such as ferrous and non-ferrous metals, gas, coal, grains and refined petroleum products.

The **income balance** deficit will moderately widen while remaining at significantly high levels. Despite the projected downward path of oil and metal prices,

Graph 8. The Current Account of the Balance of Payments
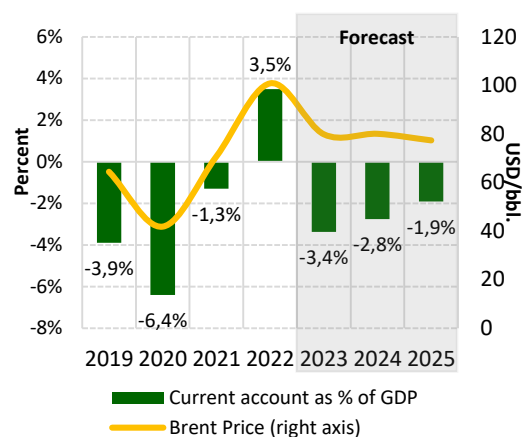
Source: NBK forecast.

the income paid to foreign direct investors will keep putting pressure on the current account through the increase in oil production. Accrued interest payable will reach its all-time highs in 2023 and will start to decrease from 2024 as a result of gradual monetary easing by major central banks.

The deficit of the **balance of services** will expand due to faster growth in import of services compared to exports. The main factors for increasing the export of services will be the transit transportation of goods through the territory of Kazakhstan, passenger transportation by air, as well as travel. The increase in the import of services, to a greater extent, will be due to the growth of freight owing to the growing volume of imports of goods and an increase in the tourist flow abroad.
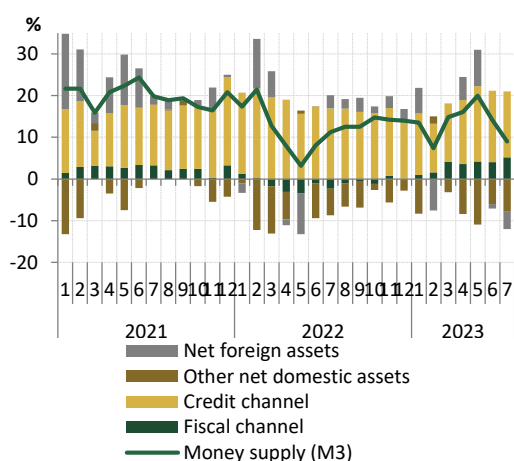
02

MONETARY POLICY

Graph 9. Dynamics of Changes in the Base Rate and Interest Rate in the Markets, %
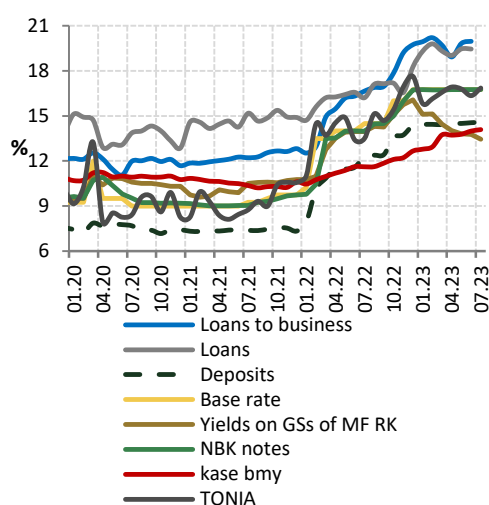
Source: KASE, NBK

Graph 10.   Money Supply, YoY, %

Source: NBK

2.1.   Monetary Conditions

Given the retention of the base rate at the existing level, financial market rates have changed insignificantly.

Weighted average rates on deposits and loans have increased by 0.1 pp during the second quarter of 2023. The yield on notes has stayed at the base rate level since April of this year.

The weighted average yield of government securities in July 2023 decreased by 0.6 pp compared to the April value and set at 3.3 pp below the base rate. This was nurtured by the growth in the share of long-term bonds of MF RK, whose yields formed below short-term government securities due to expectations of future easing of monetary conditions.

Corporate bond yield index (KASE_BMY) rose to 14.08% in July from 13.71% in April 2023.

The spread between TONIA rate and the rate on the tenge deposits has not virtually changed over the year and amounted to 1.80 pp in June 2023.

2.2.   Money Supply

The annual growth of money supply, after its significant acceleration in May, had slowed down in June-July 2023. The main contribution to the growth in money supply as before was made by the credit and fiscal channels. The reserve money in July has contracted considerably in annual terms.

Accelerated growth of the money supply in May (up to 20% YoY) was replaced by a slowdown in July to 9% YoY. The overall volume of money supply in July equaled 34.2 trln tenge (Figure 10).

Retail loans continued to make the main contribution to the annual growth of the money supply (12.2 pp), and loans to businesses – to a lesser extent (1.9 pp). A positive contribution from the fiscal channel has remained since the beginning of the year. In July of this year, its contribution was 5.2 pp given the increasing issuance of government securities by the Government.

The increase in the money supply was demonstrating similar dynamics with the overall tenge supply – a significant growth in May was replaced by deceleration in June-July of this year. Nevertheless, growth rates remain high (in July, YoY – a 22.7% growth) (Figure 11).

In July, the reserve money contracted significantly on the YoY basis, by 17.1%. This was driven by the buildup of funds in the Government's accounts.

2.3. Money Market

In July 2023, the balance (liquidity surplus) has sizably gone up in annual terms, to 4.7 trln tenge. Money market rates in May-June have set around the lower bound except for certain periods, and in July – closer to the base rate.

In July 2023, the balance of NBK operations increased by 41.2% YoY.

The bulk of liquidity during May-July was generally withdrawn via notes amounting to 2.7 trln tenge, deposit auctions – 0.9 trln tenge and deposits – 0.6 trln tenge (Figure 12).

The money market rate TONIA in May and June was setting closer to the lower bound of the band except for the last decades in view of the tax period. Meantime, in July of this year, TONIA was setting primarily around the base rate. The average TONIA rate in May-July was 16.5% (Figure 13). The spread between TONIA and the base rate in May-July 2023 was on average at (-) 0.2 pp.

2.4. Foreign Exchange Market

In May-July 2023, the tenge exchange rate continued its upward trend. This was driven by the inflow of foreign investors' funds into the government securities market, the global weakening of the US dollar as well as the maintenance of a high base rate and rates on deposits in the tenge.

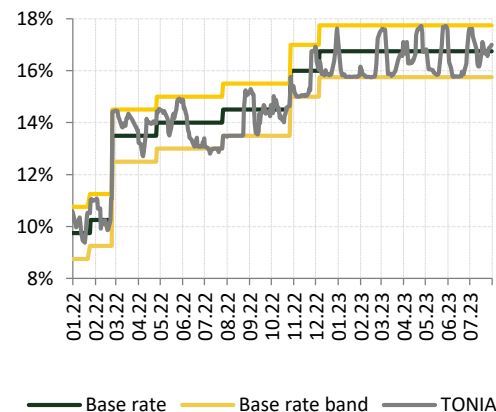Graph 11. Money Supply in the Tenge and Lending Volumes of STBs
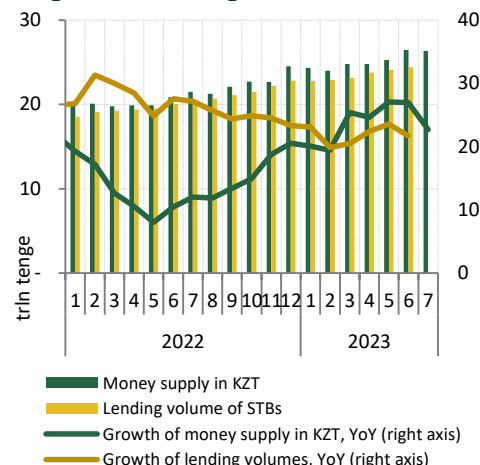
Source: NBK

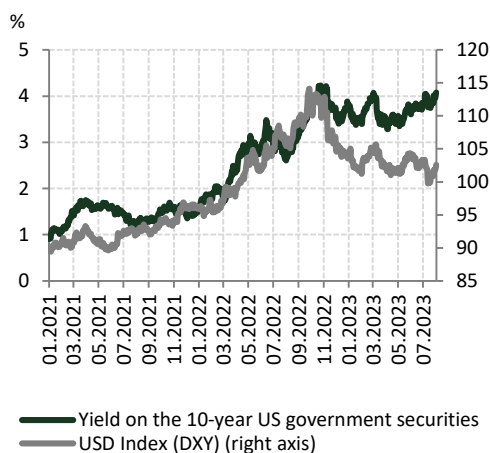Graph 12. Exposure on the National Bank's Operations, bln tenge
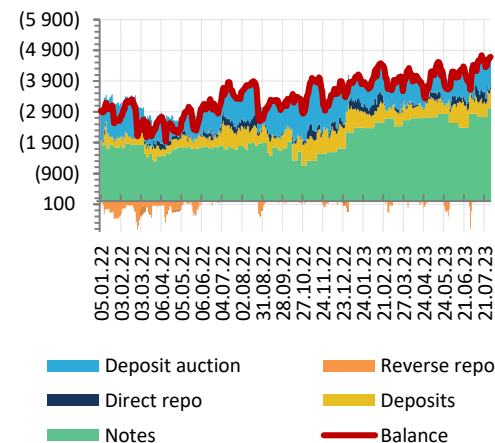
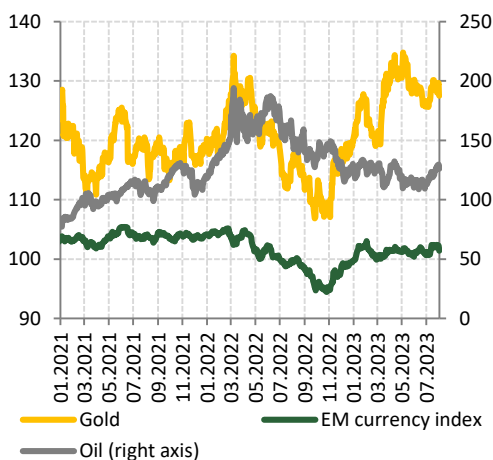*Source: NBK*

Graph 13. Interest rate Band and TONIA

Source: NBK, KASE

Graph 14.
Yield on the 10-Year US Treasuries,
DXY

Yield on the 10-year US government securities
USD Index (DXY) (right axis)

Source: Refinitiv

Graph 15. Dynamics of the EM
Currency Index, and of the Price of
Gold and Oil (31.12.2019=100)

Gold   EM currency index
Oil (right axis)

Source: Refinitiv

In the context of persistently high inflationary background, the central banks of developed countries continued to tighten monetary conditions. The ECB raised interest rates by 25 bp three times from May to July from 3.5% to 4.25%. The Bank of Canada in June-July raised the rate twice by 25 bp from 4.5% to 5%. The US Federal Reserve increased rates by 25 bp in May and July from 4.75-5% to 5.25-5.5%.

Given that annual inflation in the United States decelerated to 3% in June 2023 and based on market participants' expectations about the completion of the monetary policy tightening cycle, the US dollar index in July weakened by 1% from 102.9 to 101.9. The yield on the 10-year US Treasuries increased from 3.5% to 4% during May-July (Figure 14).

In May-July, the price of gold varied between $1,909 and $2,048 per ounce. At the beginning of May, the precious metal quotes rose to their maximums in the past three months amid investor concerns about a possible default on government debt in the United States. However, in July the price of gold dropped to $1,909 per ounce due to market participants' expectations of an increase in the US Fed policy rate (Figure 15).

The oil market in May-July was influenced by multidirectional factors. Downward pressure on oil prices was exerted by concerns about a global recession and expectations of a decline in demand due to worsening forecasts for the economic growth in China. The rise in oil prices was facilitated by a reduction in supply and increased demand in the market. This is associated with the agreement by OPEC+ countries to cut oil production to 41.9 million barrels per day until the end of 2023, Russia's implementation of the agreement to reduce production, a significant reduction in the US strategic reserves and a revision of the forecast for growth in demand for raw materials given a planned adjustment to China's economic policy aimed at recovery from the COVID and focused on stimulating the domestic demand.

Given the abovementioned, based on the results of May-July 2023, the oil price went up by 7.6% from 79.5 to 85.6 US dollars per barrel (Figure 15).

In May-July 2023, the domestic foreign exchange market was balanced in terms of demand and supply.

The sale of foreign exchange proceeds by entities of the quasi-public sector provided additional supply in the foreign exchange market. At the same time, taking into account the balance of the foreign exchange market and in order to provide quasi-public sector companies with greater opportunities in managing foreign exchange flows, from July 1, 2023, the requirement for the mandatory sale of foreign exchange proceeds was first reduced from 50% to 30%, and then in August it was suspended. Their average share of participation in trading was 9.7% during May-July 2023 or 806 mln US dollars (Figure 16).

Foreign exchange sales from the National Fund as part of ensuring a transfer to the budget served on the supply side of foreign currency. Their share of participation on average in May-July was 23.4% of the total trading volume. When conducting operations with the National Fund resources, the National Bank of Kazakhstan adheres to the principle of market neutrality. This implies conducting regular and equal sales of foreign currency. This practice allows minimizing the impact of conversions from the National Fund in the foreign exchange market and over a long period does not have an impact on the money supply and reserve money.

It is noteworthy that in order to support a foreign currency portion of the UAPF's pension assets at 30%, in May-July of this year the National Bank purchased foreign currency equaling 720 mln US dollars.

A high differential in interest rates between deposits in the tenge and foreign currency given the existing monetary conditions also increased the attractiveness of the tenge assets and contributed to a decline in the demand for foreign currency from economic agents.

The exchange rate corridor in May-July went down to 441-454 tenge per US dollar (in February-April 2023, the range was 431-466 tenge per US dollar) (Figure 16).

The average daily volumes of trades on the exchange in May-July 2023 increased by 26.2% YoY and amounted to 138.3 mln US dollars (in February-April 2023 – 148.4 mln US dollars, in May-July 2022 – 109.6 mln US dollars).
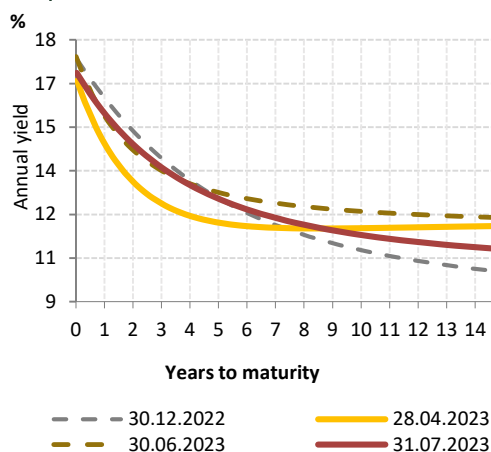
Graph 16. The Share of Certain Market Participants in the Currency Sales
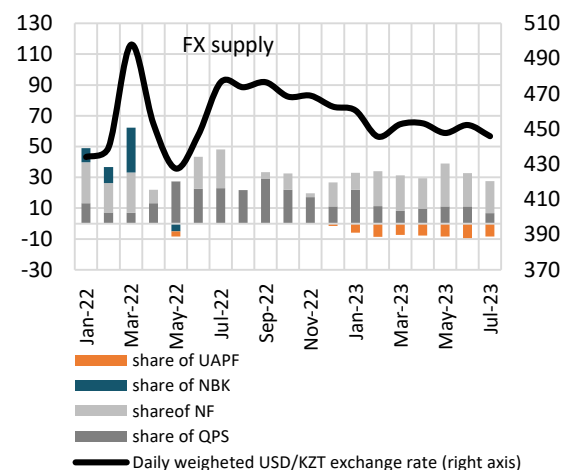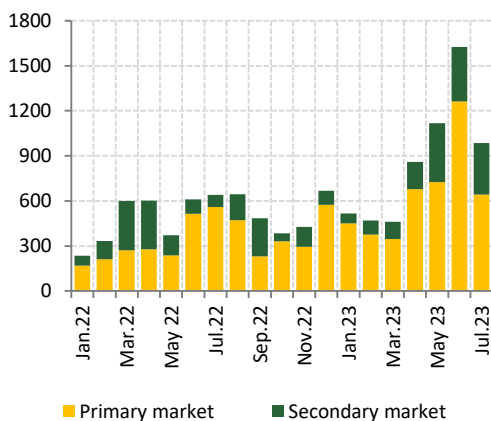

Source: KASE, NBK
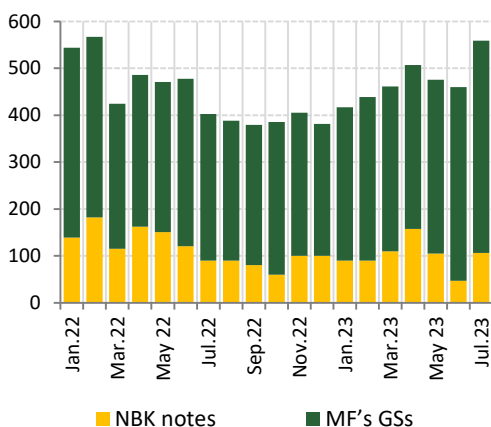
Graph 17. Risk-Free Yield Curve, %

Source: KASE, NBK

Graph 18. Transaction Volume in the GS Market, Bln Tenge

Source: KASE, NBK

Graph 19. Volume of GSs Held by Non-Residents, Bln Tenge

Source: KASE

2.5. Stock Market

In May-July 2023, trading volumes in the government securities market had been higher than during the same period of the last year, with a record volume of placements in the primary GSs market being observed in June of this year.

A risk-free yield curve retains its "inverted" shape amid expectations about the monetary easing.

Rates in the medium-term section (from 1 to 5 years) increased while the value of long-term securities decreased. This was nurtured by the heightened demand from investors for longer-term government securities. Thus, in July of this year, yields on government securities in the section from 1 year to 5 years went up by an average of 96 bp versus April of this year, and from 6 years and above – decreased by 19 bp (Figure 17).

As of August 1, 2023, government debt (traded on the KASE) has increased since the beginning of the year by 3.8 trln tenge and amounted to 25.4 trln tenge. The growth is associated with record placements of government securities of the MF RK in May-June of this year due to the need to make payments on existing debt, as well as with the heightened demand for government securities in the face of market participants' expectations about monetary easing.

Meanwhile, in July MF RK's placements reduced in half on the MoM basis, slightly exceeding the volumes in the same period of the last year (Figure 18).

The bulk of placements in the primary government securities market in May-July was in the segment from 6 to 9 years amounting to 1 403 bln tenge at 13.0%-14.0%, and in the longer period from 10 years – 288.9 bln tenge at 11.5%-13.0%. In addition, medium-term GSs worth 682.7 bln tenge with maturities from 1 to 5 years were placed at 13.6%-14.4%, and short-term GSs (less than one year) – 193.8 bln tenge at 14.6%-14.8% (Figure 20).

During May-July, banks were active players in the primary market with their share accounting for 50% of the total trading volume, as well as other institutional investors with the share of more than 40%. However, the share of banks has decreased slightly since the beginning of the year (in the first quarter the share was 57%).

The volume of trading in the MF RK's GSs in the secondary market in May-July 2023 also increased compared to February-April of this year (Figure 18). Banks accounted for 40% of the total trading volume (in the first quarter – 31%). However, since the beginning of the year other corporate entities have been rather active with their share exceeding 50%.

Local executive authorities also demonstrated their activity and raised 61.4 bln tenge at 0.35%-4.25% during May-July 2023.

The share of non-residents' participation slightly decreased from 2.7% in April to 2.6% in July (Figure 19). Meanwhile, investments into the MF RK's government securities by non-residents reached an all-time high in July, amounting to 453 bln tenge.

The corporate yield bond index KASE_BMY since the beginning of 2023 has grown by 142 bp, since April – by 37 bp to 14.08 points. The volume of trades in the corporate bond market in May-July on a QoQ basis went down given the reduced volume of placements in July 2023.
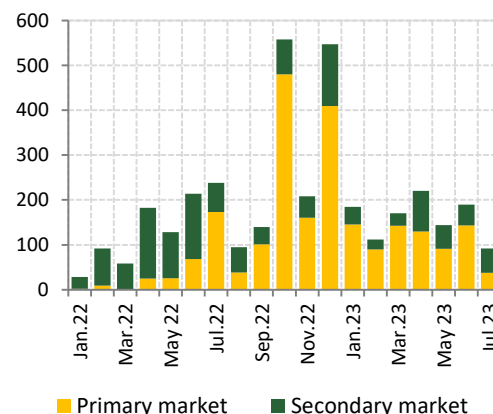
In May-July, the volume of trades in the corporate bond market on a QoQ basis decreased by 15.3%. The transaction volume in the primary market went down by 25%, whereas the volume in the secondary market went up by 9.7% (Figure 21).

Graph 20.   Placed MF RK's GSs by Maturities, in May-July 2023, Bln Tenge
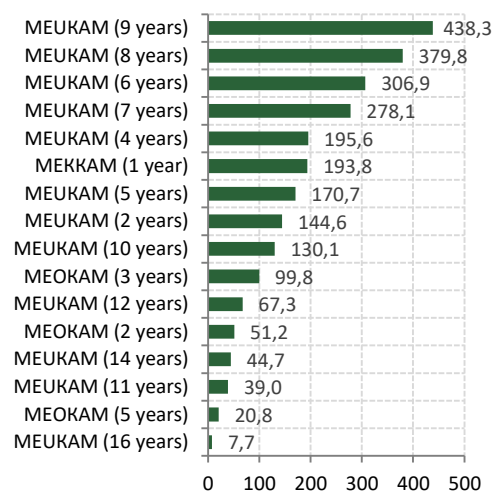
Source: KASE

Graph 21.   Transaction Volume in the Corporate Bond Market, Bln Tenge

Source: KASE

Box 1. Historical Analysis of the Government Securities Market of Kazakhstan

The government securities ("GSs") market is not only a source of financing of the state budget deficit but also an important indicator of the condition of the economy, enabling to determine the value of money over the entire maturity horizon. Interest rates on government and central bank securities form the risk-free yield curve and are an important element in the transmission of monetary policy.

Over the past 15 years, the government securities market has undergone various stages of development, reflecting, among other things, changes in the monetary policy regime. This affected the change in the structure of securities for different types of maturities, market participants and the level of globalization of government securities of the Republic of Kazakhstan.

Historical Dynamics. The dynamics of placements in the primary government securities market from 2008 to 2022 are heterogeneous. In general, the period from 2008 to 2019 is characterized by recovery from the global financial crisis. Significant events during this period include the merger of pension funds in 2014, as well as the transition to a freely floating exchange rate in 2015. In addition, in 2015-2016, the National

Fund became the main source of the budget deficit financing; there was also a reorientation from placing domestic debt to attracting foreign capital (Eurobonds). This led to uncertainty in the frequency of government securities placements in terms of terms and volumes, which reduced their attractiveness for market participants. As a result, the volume of government securities placements dropped in 2016 reaching the minimum since 2008. In addition, the structure of government securities issues has changed – the issuance of short- and medium-term government securities has decreased. At the same time, National Bank of Kazakhstan, by placing its notes for up to 1 year, contributed to the formation of the short-term segment of the yield curve.

A significant increase in placements began from the period of coronavirus pandemic in 2020, when the Ministry of Finance of the Republic of Kazakhstan ("the MF RK"), in the context of the budget deficit, sharply increased public debt through the traditional mechanism of selling bonds in the domestic market to a historically record level at that time (Figure 1). Alongside with that, in order to increase demand for debt instruments of the MF RK as well as to build an effective yield curve for government securities of the Republic of Kazakhstan, the National Bank of Kazakhstan limited the issuance of one-year notes, and the MF RK began issuing government securities with maturities of 1-5 years. As a result, the share of participation of market investors in government securities auctions increased to 32.7% in 2020 and to 69.2% in 2021. In addition, the share of participation of market investors in placements of government securities with maturity of 1 to 5 years in 2021 amounted to 91.4%. However, in 2021 the volume of government securities issued by the Ministry of Finance of the Republic of Kazakhstan decreased as a result of an increase in budget revenues given the economic recovery after the easing of quarantine restrictions as well as the attraction of external loans to cover the budget deficit.

In 2022, a historical maximum – about 4 trln tenge – was raised in the government securities market. This happened amidst high rates on government securities and an increase in the issuance of short-term securities. In turn, as part of a further stimulation of demand for government securities of the MF RK, from the 2nd quarter of 2022, the National Bank of Kazakhstan cancelled the issuance of 182-day notes and limited the volume of issue of 91-day notes to 100 billion tenge, and in June 2022 already excluded the issue of 91-day notes daily notes and focused on regulating short-term liquidity. In the 4th quarter of 2022, it was decided to reduce the frequency of issuance of 28-day notes from weekly to once every 2 weeks. It should be noted that the main buyers in the primary market were the UAPF and funds managed by the NBK, which invested 3 trln tenge in 2022, while investments from market investors amounted to about 1 trln tenge. At the same time, in just 7 months of 2023, the volume of trading in government securities of the MF RK has already exceeded the all-time high achieved in 2022. This was nurtured by the need to repay the principal debt as well as by the increased market demand and decreased yields on medium- and long-term government securities, for which the Ministry of Finance was ready to meet the demand, in the context of the NBK's rhetoric about the termination of the tightening cycle and in the subsequent about a possible lowering of the base rate in the second half of 2023. In turn, in June 2023, a record volume of attractions for the month was achieved – 1,244.8 billion tenge.

The secondary government securities market showed high activity in 2009-2010. However, the desire of professional participants to hold government securities in their portfolios until maturity in 2011, the introduction by the National Bank of a ban on participation in placements on the government securities market of brokerage companies in 2012, as well as the decreased attractiveness of government securities due to changes in prudential regulation of accumulative pension funds caused the decline in trading volumes[1]. Since 2014, after the consolidation of pension assets and their transfer to the UAPF, low activity in the secondary market has persisted. However, in 2020, the activity in the secondary government securities market increased significantly. This was associated with the need for liquid funds from the State Social Insurance Fund because of the necessity to make social payments in case of loss of income amid the imposition of restrictive quarantine measures[2]. In 2022 and based on performance during 7 months of 2023, the GS market continued to demonstrate high activity. Market participants were actively participating in trading, both in terms of buying and selling (Figure 2).

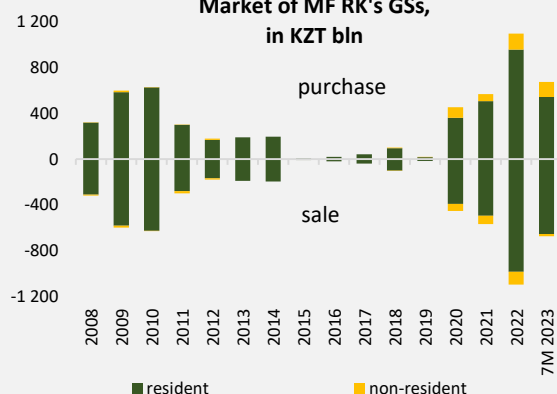[1] https://kase.kz/files/press/ru/releases/Statistika_itogi_2012.pdf
[2] Financial Stability Report of Kazakhstan for 2020

Figure 1. Placement Volumes in the Primary Market of MF RK's GSs, in KZT bln
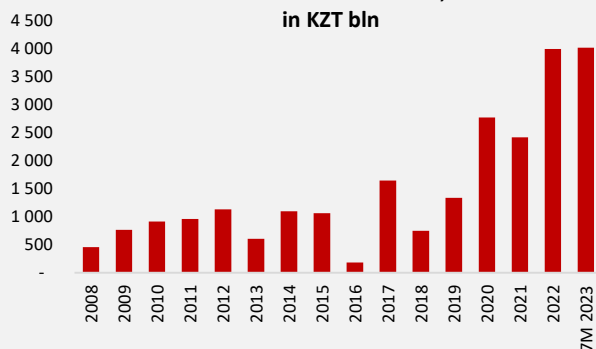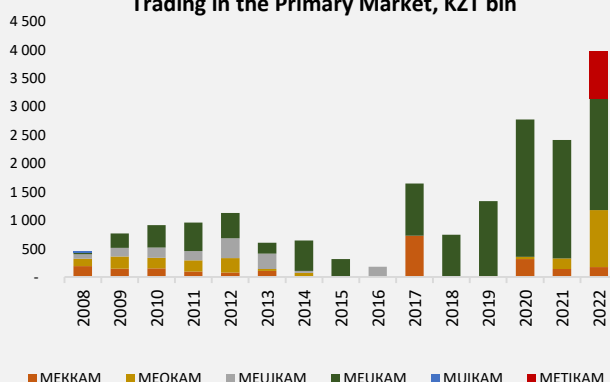
Source: KASE

Figure 2. Placement Volumes in the Secondary Market of MF RK's GSs, in KZT bln
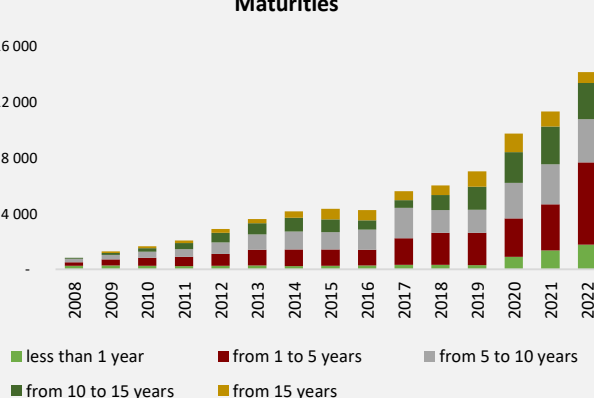
Source: KASE, CSD

GSs Structure by Types of Securities and Holders. The structure of issued government securities by type of securities has the following features. First, before the transition to inflation targeting, inflation-indexed bonds (MEUJKAM) were in demand among pension funds and insurance companies. This was stemming the fact that interest rate targeting was not carried out during the fixed exchange rate period. Under these conditions, government securities with fixed rates showed negative real yields, and government securities indexed to inflation became more attractive. After the transition to the inflation targeting regime, which implies control of interest rates through the setting of the base rate, a yield curve of government securities began to build becoming a benchmark for the cost of money for various maturities. As a result, securities with fixed rates demonstrated higher yields compared to MEUJKAM. Thus, the demand for MEUJKAM reduced, and their share in circulation of the total volume decreased to 3.4%. Second, taking into account the long-term nature of the UAPF investment strategy, after the creation of funds in the structure of placed government bonds, the volumes of long-term securities (MEUKAM) increased many times over. It should be noted that the type of long-term securities – MEUKAM – is periodically reissued and the maturity period for the reissued MEUKAM becomes shorter and does not correspond to the long-term type. Therefore, some MEUKAM securities are converted into medium-term securities, while retaining the designation of "long-term paper" in its name (MEUKAM – State long-term Treasury obligation) (Figure 3).

Figure 3. Structure of MF RK's GSs by Types of Trading in the Primary Market, KZT bln

Source: KASE

**Figure 4. MF RK's GSs in Circulation by Maturities**

Source: KASE

Since 2020, the structure of government securities by type of security began to change towards an increase in the share of short-term and medium-term securities (from 1 year to 5 years) (Figure 4). This was facilitated by the NBK's decision made in 2020 to gradually reduce the maturity of the NBK note issues. At the same time, the share of long-term securities of 5 years or more decreased, which is partly since in 2021 the UAPF was limited in investments in connection with the program for pension savings payout. In turn, banks, due to the structure of their liabilities and the continued high uncertainty in the economy, unlike the

UAPF, are not interested to a significant extent in purchasing long-term assets with a fixed rate. This leads to a low level of liquidity of long-term securities in the secondary market.

In the structure of buyers of government bonds, despite the increase in the share of banks (market holders) with the start of issues of short-term government securities in 2020, as of the end of 2022, the main share was held by the UAPF, which holds securities primarily until maturity. However, the share of banks has increased significantly since 2020 (Figure 5).

Figure 5. Structure of Buyers of MF RKs GSs, in KZT bln
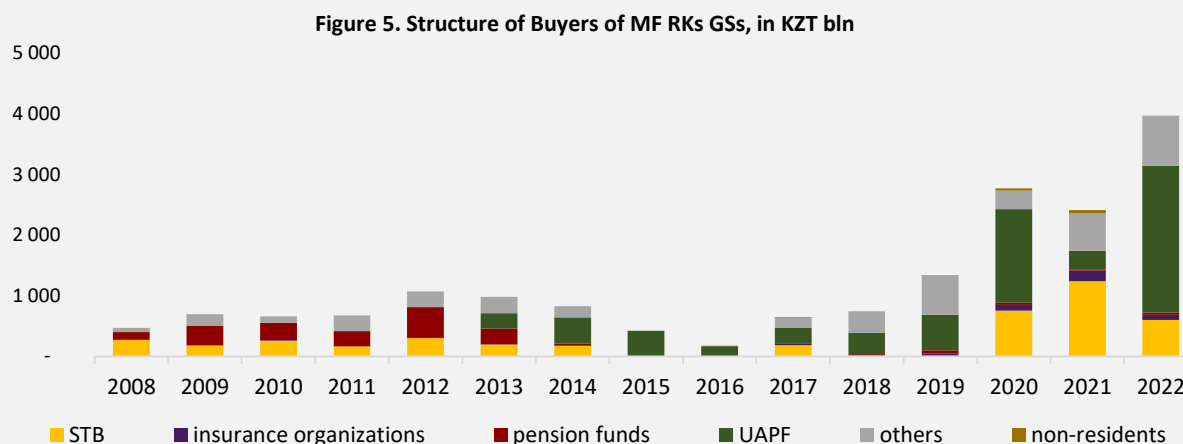
Source: CSD

In recent years, there has been an increasing demand for government securities of the Ministry of Finance of the Republic of Kazakhstan from foreign investors. This is explained by the measures taken to simplify access for non-residents to the government securities market and a relatively acceptable level of interest rates. Thus, the share of non-residents increased from a minimum level of 1.2% in June 2020 to a maximum level of 6% in October 2021.

An increase in the share of participation of non-residents in the government securities of the MF RK, on the one hand, contributes to the short-term strengthening of the national currency, while at the same time increasing the share of participation of market investors. However, the participation of non-residents in the Kazakhstan government securities market in recent years has been marked by a lack of stability and is subject to the influence of major events. In particular, their outflow was associated with the following factors: the coronavirus pandemic, the geopolitical situation in the world, the global tightening of monetary policy against the historically high inflation in the world.

Thus, a chronological review of the development of the government securities market suggests that during the period of active placement of securities after 2020 and a reduction in the issue of the National Bank notes, the risk-free yield curve began to gradually transform into a significant indicator of the cost of money in the economy. This was facilitated by joint measures of the National Bank and the Ministry of Finance of the Republic of Kazakhstan. However, while the short-term segment of the risk-free yield curve began to reflect the dynamics of the base rate and short-term expectations of professional participants, the level of liquidity of the long-term segment remains low and the returns on it do not fully reflect the long-term inflation expectations of market participants, the risk premium and the real level of neutral interest rate. Thus, the lack of an active market for institutional investors and the still insufficient participation of retail investors limit the role of the government securities market in the monetary policy transmission mechanism.

2.6. Deposit Market

In July 2023, the overall deposit volume[3] continued growing in annual terms due to the increase in the national currency deposits. Foreign currency deposits decreased.

Overall dollarization in the banking system continued to decline in July 2023 to its lowest level in the last 16 years. The decrease in the overall indicator is associated with appreciation of the national currency and with the decreased dollarization of deposits of both individuals (a historical minimum over 26 years) and corporate entities.

Given that the base rate remained at its existing level, general market interest rates on deposits changed insignificantly.

Deposit Portfolio. In July, the annual growth of the overall deposit level was 9.5% (in July 2022 – 11.3%) (Figure 22).

At the end of July 2023, the volume of deposits reached 30.7 trln tenge. Within the structure of deposits, the tenge deposits increased while foreign currency deposits decreased.

In annual terms, in July deposits in the national currency went up by 26.0% due to a 13.9% increase in corporate deposits, and deposits of individuals grew by 38.0%. The growth of retail deposits in the tenge was furthered by a high differential between rates on the tenge and foreign currency deposits, the Deposit Protection Program in respect of the national currency deposits as well as money multiplication through credit and fiscal channels.

Foreign currency deposits decreased by 20.7%, YoY. Over the year, foreign currency deposits of corporate entities went down by 29.2% and those of individuals – by 10.5% (the overall reduction in foreign currency equivalent was 15.2%). This is likely due to the flow of funds from foreign currency deposits to the tenge deposits owing to greater attractiveness of interest rates on deposits in the national currency, as well as the preference of depositors for other types of financial instruments for investing and saving the funds.

Graph 22. Deposits of Residents at Depository Organizations, YoY, %
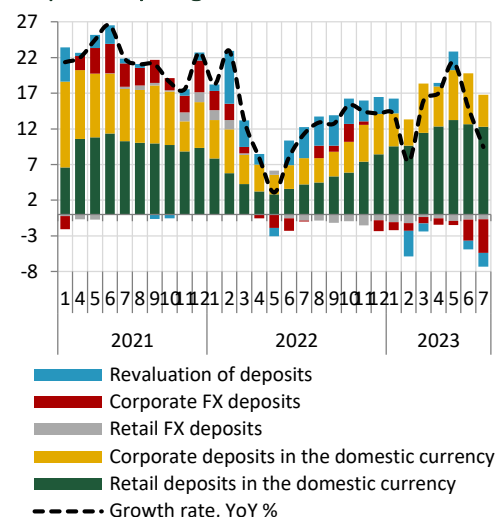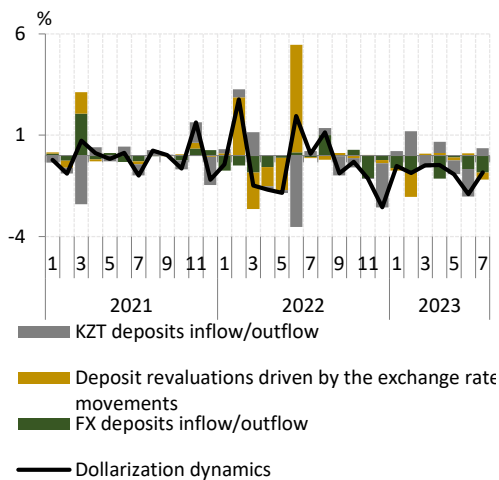

Source: NBK

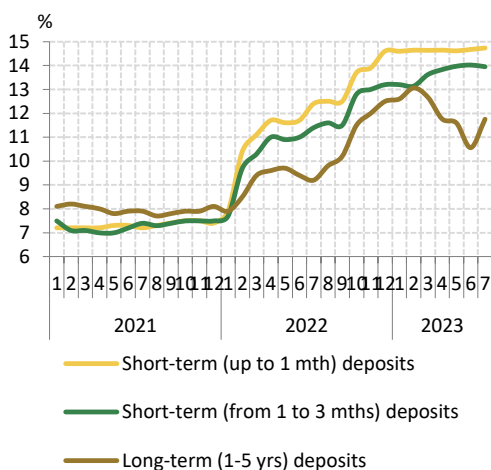Graph 23. Deposit Dollarization, %
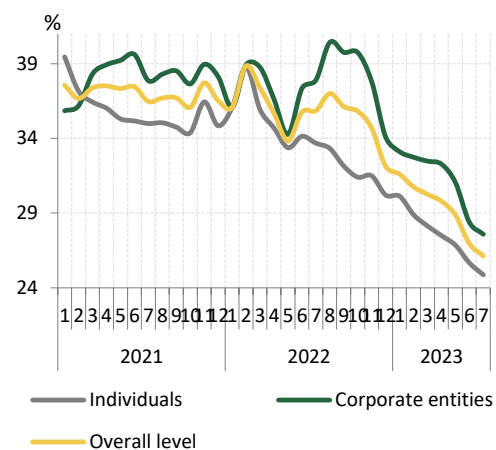
Source: NBK

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[3] *Deposits of residents at second-tier banks and the National Bank of Kazakhstan*

Graph 24. Factors Causing the Change in Dollarization in the Banking System, MoM, %

- KZT deposits inflow/outflow
- Deposit revaluations driven by the exchange rate movements
- FX deposits inflow/outflow
- Dollarization dynamics

Source: NBK

Graph 25. Interest Rates on Corporate Deposits, %

- Short-term (up to 1 mth) deposits
- Short-term (from 1 to 3 mths) deposits
- Long-term (1-5 yrs) deposits

Source: NBK

Within the structure of retail deposits (including non-residents) non-term deposits accounted for a major portion of the tenge deposit base at end-July 2023[4] – 56.6% (in July 2022 – 50.4%), the share of savings deposits decreased compared to the last year and amounted to 9.7% (in July 2022 – 10.2%), despite their annual growth of 32.4%. A year-on-year growth of non-term deposits in the tenge was 56.9%.

Deposit Dollarization. In 2023, the trend of deposit de-dollarization continued, declining to 25.6% as at end-July (in July 2022 – 35.4%) (Figure 23).

Dollarization of corporate deposits decreased over the year from 37.4% in July 2022 to 27.1% in July 2023, and that of retail deposits – from 33.2% to 24.4% (Figure 23). De-dollarization took place because of high interest rates on the tenge deposits and low rates on foreign currency deposits. It is worth noting that the decline in dollarization was accompanied by both a net inflow of new deposits in the tenge and a net outflow of foreign currency deposits (Figure 24).

Dollarization of retail deposits (including non-residents) declined in all segments in terms of amounts.

Deposit Rates. Given that the base rate remained unchanged in 2023, short-term market interest rates on corporate deposits in July 2023 remained virtually unchanged, rates on long-term deposits showed divergent dynamics. Interest rates on retail deposits demonstrated a minor rise.

Thus, rates on corporate deposits in the tenge with maturity of up to 1 month, which account for a major portion of attracted deposits (86.0% of all corporate term deposits in the tenge) have remained at almost the same level since the beginning of the year and amounted to 14.7% in July (in July 2022 – 12.4%). Rates on deposits with maturity of 3 months to 1 year (the share is 11.2%) increased from 11.4% in July 2022 to 14.0% in July 2023. Interest rates on long-term deposits with maturity of 1 to 5 years (the share – 0.4%) increased from 9.2% to 11.8% over the year (Figure 25).

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[4] *According to the KDIF methodology for calculating and setting maximum rates on retail deposits*

Interest rates on retail term deposits also increased on a YoY basis: rates on short-term tenge deposits up to 1 month (the share accounts for 16.3% of all retail term deposits in the tenge) went up to 14.7% in July 2023 from 12.2% in July 2022. Rates on deposits from 3 months to 1 year (the share is 31.5%) increased to 14.1% from 11.6%, and rates on deposits with maturity of 1 to 5 years (the share – 48.2%) have grown to 14.0% from 12.3% (Figure 26).

Graph 26.   Interest Rates on Retail Deposits, %
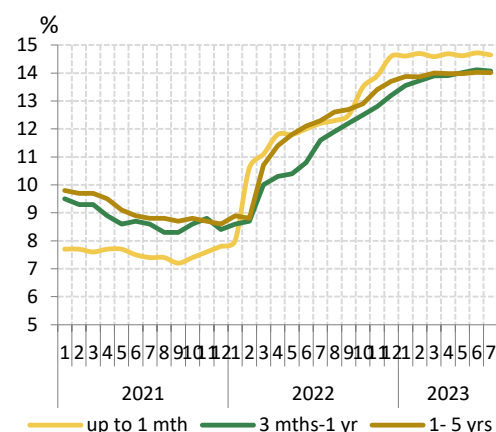
Source: NBK

Box 2. Seasonal Patterns in the Dynamics of Retail Deposits in the National Currency

The dynamics of retail deposits is formed under the influence of many factors – business activity, saving behavior, interest rates, changes in the exchange rate, macroeconomic and political situation, monetary and fiscal policy, the functioning of the deposit insurance system, availability of alternative financial instruments, etc.

In addition, household deposits may be influenced by seasonal factors. The inflow of deposits may increase during the period of annual bonuses, premiums, and decrease during the periods of summer vacations, holidays as well as during the periods of increased expenses associated with the beginning of the heating or school season.

The dynamics of retail deposits in the national currency[5] in the period from 2017 to 2023 points to the presence of seasonality[6] in the depositor behavior, demonstrating the largest growth at the end of calendar year and the increase in deposits by the end of the second quarter followed by a decline in the autumn (Figure 1).

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[5] *Only retail deposits in the tenge were looked at, since foreign currency deposits are largely influenced by changes in the exchange rate*
[6] *Seasonality means recurrent patterns or cycles of behavior over time. A ratio above one indicates a seasonal increase; a ratio below one indicates a seasonal decrease.*

Figure 1. Seasonal Patterns of Retail Deposits in the Tenge (2017-2023), %
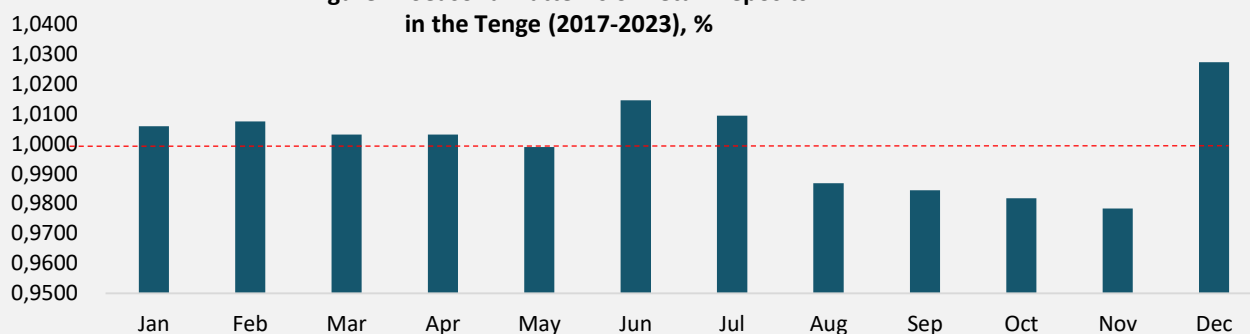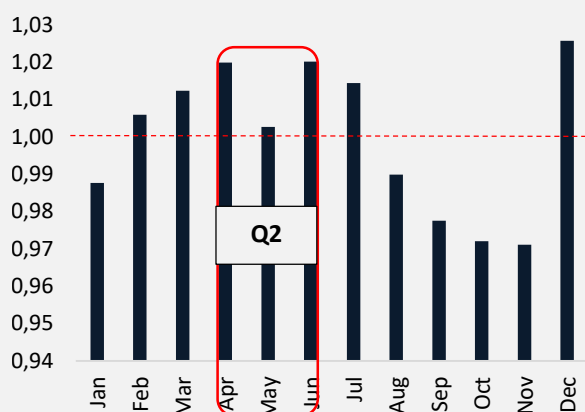
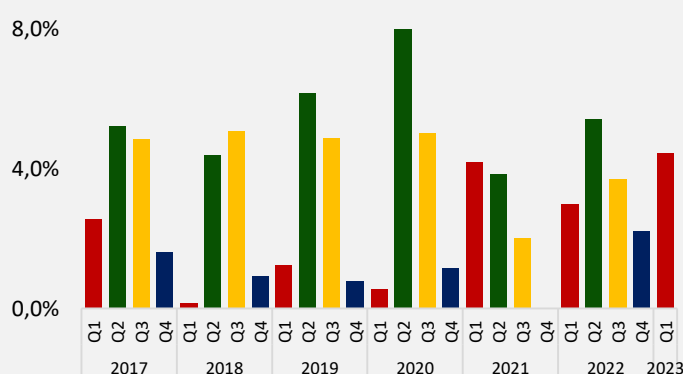*Source: NBK, computed in Eviews*

Within the structure of retail deposits classified depending on the deposit amount, the mass segment (with deposit amounts up to 10 million tenge) accounts for the largest share, which makes up more than half of household deposits in terms of volume (56% in June 2023) and which follows the dynamics of the general depositor behavior: the peak of seasonal growth occurs in the second quarter (April, June) and December, the decline occurs at the beginning of the year and in the autumn (Figure 2). The seasonal increase in December is likely due to the payment of annual premiums and bonuses during the December holidays. Historically, the nominal wage index in the last month of the year is on average higher than in other months. This is probably reflected in the growth of retail deposits in the last calendar month. The decrease in deposits in the autumn periods is caused by increased costs associated with the beginning of the academic year, as well as increased costs for utility services (Figure 2).

The ramp-up in deposits in the mass sector in the second quarter correlates with the indicator of the population savings rate, which also shows the maximum value in this period from 2017 to 2023 (Figure 3); this may be associated with both the reduction in expenses after the end of the heating season, a seasonal decline in the price of certain food products and the effect from wage increases during this period (by an average of 8% QoQ).

Figure 2. Seasonality of Deposits in the Mass Segment (2017-2023), %

Source: NBK, the seasonal factor has been computed in Eviews

**Figure 3. Population Savings Rate by Quarters (from 2017-2023), %**

Source: BNS (The share of savings from total money income of the population)

In the middle segment of depositors (with a deposit amount from 10 to 50 mln tenge), the peak of seasonal growth also occurs in December, followed by a decline, less pronounced compared to the mass segment, from January to May. Further, an increase is observed at the beginning of the summer period and a decrease in the autumn months (Figure 4). At the same time, compared to the mass segment, based on a

visual analysis of seasonal factors, the seasonality of deposits in the middle segment is less pronounced. This probably indicates that the saving behavior of this category of depositors is less dependent on seasonal factors (the share of the middle segment in the total volume of retail deposits was 27.6% in June 2023).

Seasonal patterns of deposits are somewhat different for large depositors (with deposit amount from 50 mln tenge and the share of less than 20% of all deposits of individuals) (Figure 4). There is seasonal reduction in the spring months, while in the summer it is difficult to note a pronounced seasonal pattern. In the autumn and winter periods, the volume of deposits grows, with the peak of growth occurring in December (for the mass segment, January is characterized by a seasonal decline in deposits). Moreover, this segment of investors is characterized by noticeable volatility: compared to other segments, there are stronger fluctuations from the maximum value in December to the minimum in April. Differences in seasonality in the large sector may be explained by the small number of depositors and individual behavioral characteristics. The number of accounts in this sector is 12 thousand compared to 112 million in the mass segment, respectively; withdrawals/replenishments of deposits of even a small number of the largest depositors can affect the final changes in this segment. Most likely, the seasonality results obtained could be influenced by other factors: a wider choice of potential investments, movements in the exchange rate, terms and conditions of personal service, loyalty to the bank.

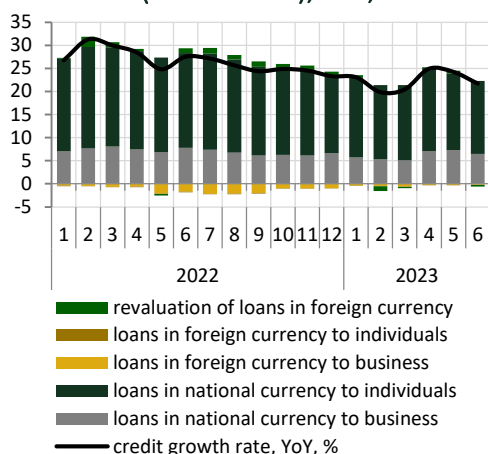**Figure 4. Seasonality of Deposits in the Middle and Large Segments (2017-2023), %**
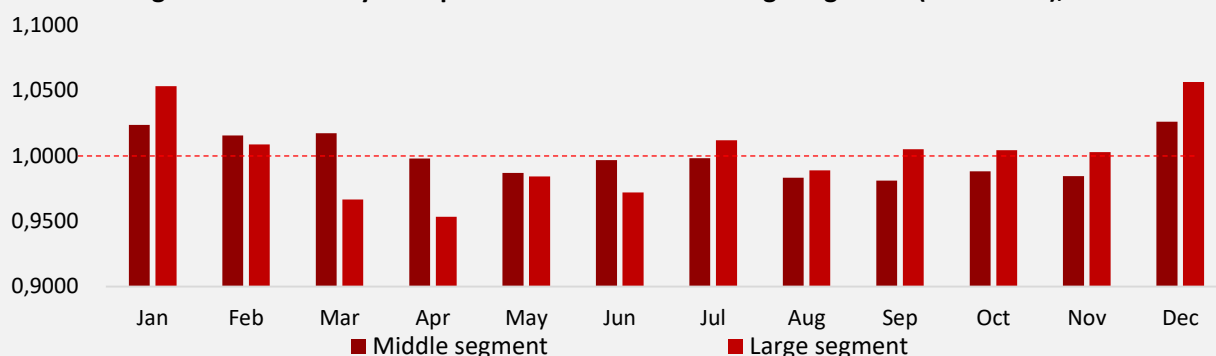
Source: NBK, the seasonal factor has been computed in Eviews

Thus, in general, the dynamics of deposits of individuals in the national currency is subject to seasonality in different periods of the year. For all categories of depositors, the highest growth in deposits was observed in December. More than a half of the share of deposits in the national currency is concentrated in the mass segment and, as a result, they reflect the dynamics of total deposits of the population in the national currency to a greater extent. Changes in behavior among large depositors depending on the time of year are ambiguous, which is probably due to a relatively small number of accounts and volumes of deposits (the total share of deposits is less than 1/5 of all deposits of the population in the tenge). Their deposits, as a rule, do not depend on changes in seasonal expenses of depositors, as the income of this category of depositors probably allows them not to withdraw their savings in case of periodic events leading to an increase in expenses.
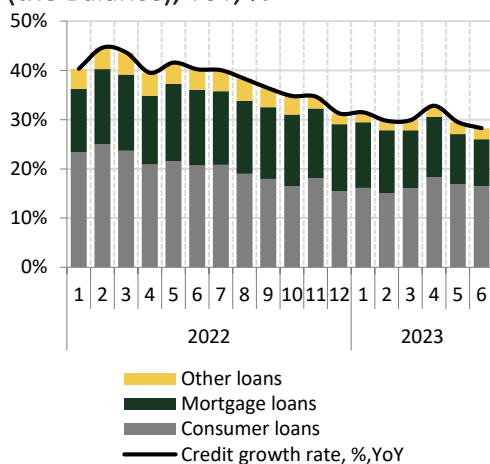
It is also worth mentioning that during the period under review from 2017-2023, the dynamics of retail deposits was affected by major shocks: the pandemic in 2020-2021, the possibility of using pension assets in 2021-2022, the geopolitical factor in 2022, the introduction of the tenge deposit protection program in 2022-2023. These events could also have influenced the results obtained by seasonal factors. Thus, if in the pre-pandemic period the most significant growth of household deposits was mainly observed from April to July and in December, in the period from March 2020 depositors preferred to increase their savings more in the summer period. The two periods considered are characterized by a reduction in savings in the autumn period and a significant increase at the end of the year. Also distinctive is the sharp decline in deposits at the beginning of the calendar year in the post-pandemic period, as opposed to their persistence in the pre-pandemic periods.

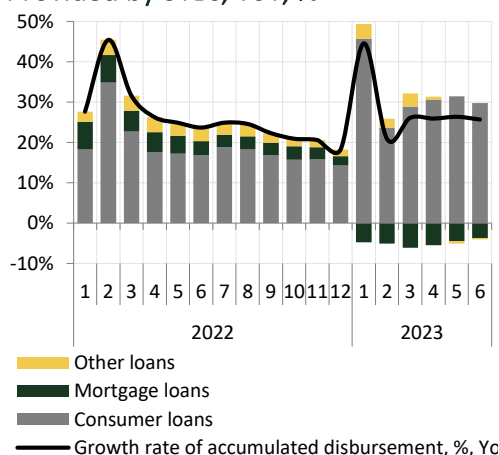## Graph 27. Credits to the Economy from STBs (the Balance), YoY, %

- **revaluation of loans in foreign currency**
- **loans in foreign currency to individuals**
- **loans in foreign currency to business**
- **loans in national currency to individuals**
- **loans in national currency to business**
- **credit growth rate, YoY, %**

Source: NBK

Graph 28. Retail Loans from STBs (the Balance), YoY, %

- **Other loans**
- **Mortgage loans**
- **Consumer loans**
- **Credit growth rate, %,YoY**

Source: NBK

Graph 29. New Retail Loans Provided by STBs, YoY, %

- **Other loans**
- **Mortgage loans**
- **Consumer loans**
- **Growth rate of accumulated disbursement, %, Yo**

Source: NBK

2.7. Credit Market

Growth rates of STB's credits to the economy improved in the second quarter of 2023 owing to loans to the population and businesses.

The main contribution to the growth of total lending was made by loans to households. In the structure of loans to households, the growth of consumer lending accelerated in the context of high inflation expectations and widespread use of installment loans. At the same time, mortgage lending decelerated against the declining demand in the residential real estate market and existing monetary conditions.

Loans to businesses grew owing to the intensification of lending to individuals and small businesses. In terms of types of economic activities, the growth of lending was observed in all sectors, except for communication and construction.

At the end of the second quarter, the pricing terms of consumer and business lending did not change significantly, and in case of mortgage lending, they became somewhat tighter.

The annual growth of credits to the economy (the balance) accelerated to 21.7% in June from 20.4% in March (Figure 27). Despite deceleration, the main contribution to the growth in total lending volumes was made by retail loans. A significant contribution to the increase in the overall lending volumes was also made by loans to businesses owing to the increased small business lending.

Retail Loans. The growth of retail loans in annual terms slowed down from 29.9% in March to 28.2% in June, mainly because of the decreased growth rates of mortgage lending – from 35.1% to 27.7% (Figure 28). In the first half of 2023, the volume of new mortgage loans on a YoY basis went down by 20.4% (Figure 29).

Growth rates of mortgage lending decelerated because of the "7-20-25" program limitations in effect since the beginning of this year, lower demand in the residential real estate market, as well as the existing monetary conditions. At the same time, mortgage rates decreased from 11.0% in March to 10.6% in June on the back of joint partnership programs between developers and STBs (Figure 30).
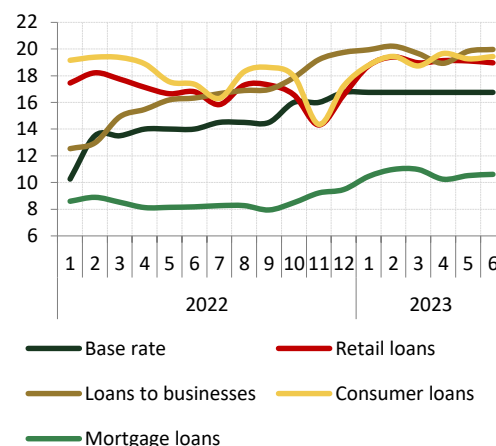
Consumer lending growth accelerated from 26.9% in March to 28.0% in June. As before, the main factors behind the ongoing high growth were the widespread use of installment payments and high inflation expectations.

Compared to March 2023, there was a minor increase in the weighted average rate on new consumer loans (including installment rates) in the tenge from 18.7% to 19.4% in June. At the same time, there is seasonality in consumer lending rates, when lower rates are observed in July, November due to marketing campaigns of banks and in the months with public holidays. Lower interest rates in some months are associated with the increase in the share of installments in the total volume of consumer loans (Figure 30).

Loans to Businesses. Annual growth in loans to businesses (the balance) accelerated from 9.2% in March to 13.4% in June (Figure 31). Growth was recorded in all major sectors except communication (-23.1%) and construction (-13.4%). Lending to the industry and trade, which account for the bulk of loans to businesses, has grown by 14.9% and 19.7% over the year, respectively.
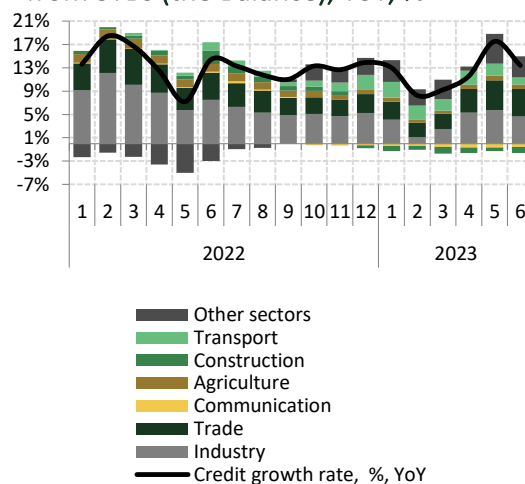
Growth rates of loans to business entities continued to remain at the double-digit level primarily due to the small business lending. Issuance of new loans to small businesses (excluding individual entrepreneurs) and to individual entrepreneurs increased by 52.6% and 124.7%, YoY, respectively, in the first half of 2023 (Figure 32).

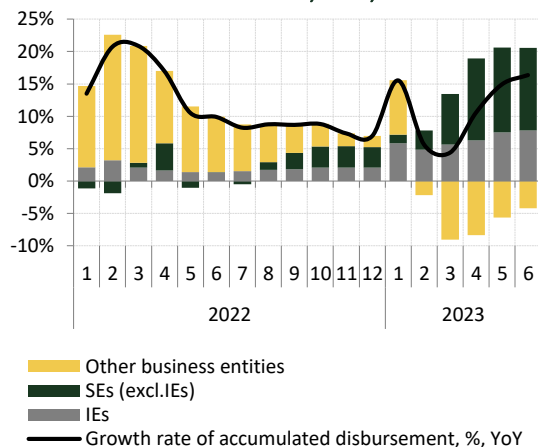**Graph 30. Rates on Loans in the National Currency**

Base rate — Retail loans — Loans to businesses — Consumer loans — Mortgage loans

Source: NBK

Graph 31. Loans to Businesses from STBs (the Balance), YoY, %

Other sectors — Transport — Construction — Agriculture — Communication — Trade — Industry — Credit growth rate, %, YoY

Source: NBK

Graph 32. New Loans to Businesses from STBs, YoY, %

Other business entities — SEs (excl.IEs) — IEs — Growth rate of accumulated disbursement, %, YoY

Source: NBK

As for medium-sized businesses, issuance of new loans increased by 17.4% over the same period, while new loans to large businesses decreased by 11.7%.

Weighted average rates on loans to small and medium-sized businesses remained virtually unchanged – there was a minor increase from 20.9% in March to 21.4% in June and reduction from 18.9% to 18.4%, respectively. There was a minor increase (from 18.6% in March to 18.9% in June) in the weighted average interest rate on loans to large businesses.

Credits to the Economy in an Extended Definition[7] in the first quarter of 2023 increased on a YoY basis by 18.7% to 29.3 trln tenge. Over the same period, loans to businesses (non-financial legal entities and individual entrepreneurs who received loans for business purposes) have gone up by 10.4%, while retail loans have grown by 28.1%. Loans to the banking sector as of July 1, 2023 increased by 18.7%, YoY, while loans from the Development Bank of Kazakhstan decreased by 10.7% and STB loans went up by 21.7%.

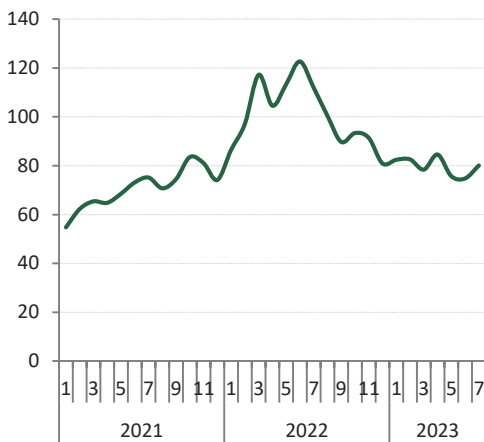[7] *https://nationalbank.kz/ru/news/kredity-ekonomike-v-rasshirennom-opredelenii/rubrics/2002*
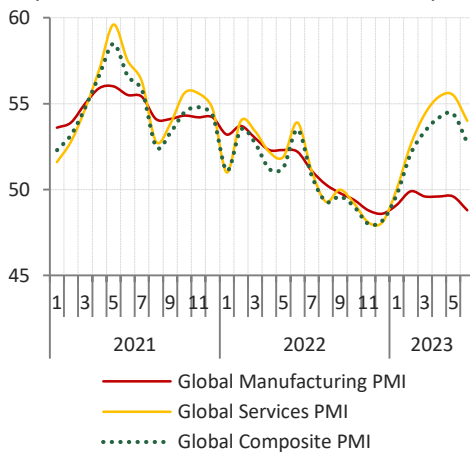
03

MACROECONOMIC CONDITIONS

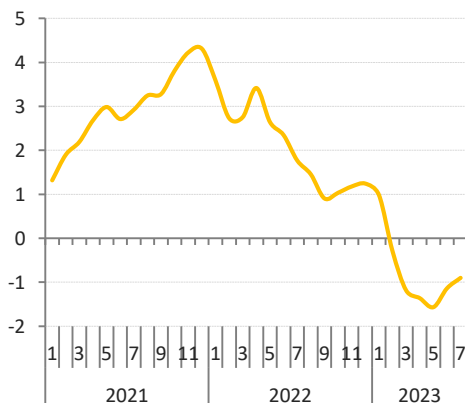## Graph 33.   Dynamics of Brent Oil Prices, $/Bbl

Source: EIA

Graph 34.   Global Business Activity

———— Global Manufacturing PMI
———— Global Services PMI
·········· Global Composite PMI

Source: PMI by S&P Global

Graph 35.   Global Supply Chain Pressure Index (GSCPI)

Source: Federal Reserve Bank of New York

3.1.   External Sector

Since the end of the preceding "May 2023" forecasting round, world Brent oil prices have been characterized by increased volatility. In May-June 2023, quotes declined because of a weaker recovery in China after the pandemic and increased risks of lower global demand because of high interest rates. However, since July 2023, the situation in the oil market has improved. World oil prices were boosted by lower supply due to production cuts by Saudi Arabia and Russia, as well as by a sharp decline in the US dollar index for the first time since April 2022 amid a further deceleration of the US consumer inflation and growing expectations about the Fed policy easing (Figure 33).

In the second quarter of 2023, the slowdown in global industrial activity, which had been observed since the beginning of the year, continued. One of the main reasons was the reduction of new orders in the EU countries. Thus, in Italy, France, Germany there was a decline in Manufacturing PMI from the beginning of the year by 8.3%, 8.3% and 17.6%, respectively. The largest decline was observed in the engineering and electricity production sector. At the same time, it is worth noting that after a prolonged rise since the beginning of this year, the global service activity index fell from 55.4 in May to 54.0 in June 2023. The slowdown in activity is mainly due to the continued tight monetary policy of central banks, which has led to higher credit costs, lower consumer activity and business uncertainty about the development prospects (Figure 34).

Global inflationary pressures continued to ease in the second quarter of 2023. The key drivers were a slowdown in energy and food prices, as well as a significant improvement in supply chains and falling container prices (Figure 35). However, core inflation is slowing down at a slower pace, and in some countries, it continues to accelerate (Figure 36). The persistence of core inflation is mainly associated with price increases in the service sector,

caused by wage raising against vacancy reductions.

Development of economies in the Kazakhstan's trading partners demonstrated divergent dynamics in the second quarter of 2023.

China's economic growth rates slowed down amid a protracted crisis in the real estate market and lower consumer demand. Economic activity in Russia accelerated on the back of increased output in construction and the industry. Strong domestic demand led to growth in retail trade and investment activity.

Economic growth in the EU has slowed down due to a cutback in production in the industrial sector amid slowing external demand. At the same time, domestic demand remains sluggish because of deteriorating consumer sentiment, lower purchasing power and tighter monetary policy. Meantime, the economy is supported by the service sector, which remains highly active, as the demand for services that were not available during the pandemic has recovered.

Given an elevated inflationary pressure, central banks in developed countries continued to tighten their monetary policy. Thus, the US Fed raised the policy rate by 25 bp to 5.25-5.5% in July 2023. In turn, the ECB also increased its prime rate by 25 bp in June and July 2023.

Graph 36. Dynamics of Core Inflation, YoY
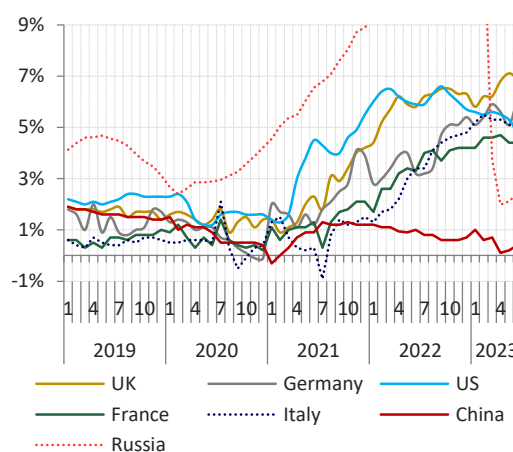

Source: National statistical offices

Box 3. Possible Implications of Russia's Exit from the Grain Deal for Kazakhstan

The Grain Deal was an agreement on unhindered export of Ukrainian grain from the ports of Odessa, Chernomorsk and Yuzhny, as well as the elimination of problems with the export of Russian agricultural products and fertilizers to world markets.

The implementation of the Grain Deal, which was concluded in July 2022, contributed to a decline in prices for wheat and corn in the summer of 2022 to the levels that existed before the outbreak of the military conflict (Figure 1).

**Figure 1. World Price Indices of Wheat and Corn, Jan.2000=100**
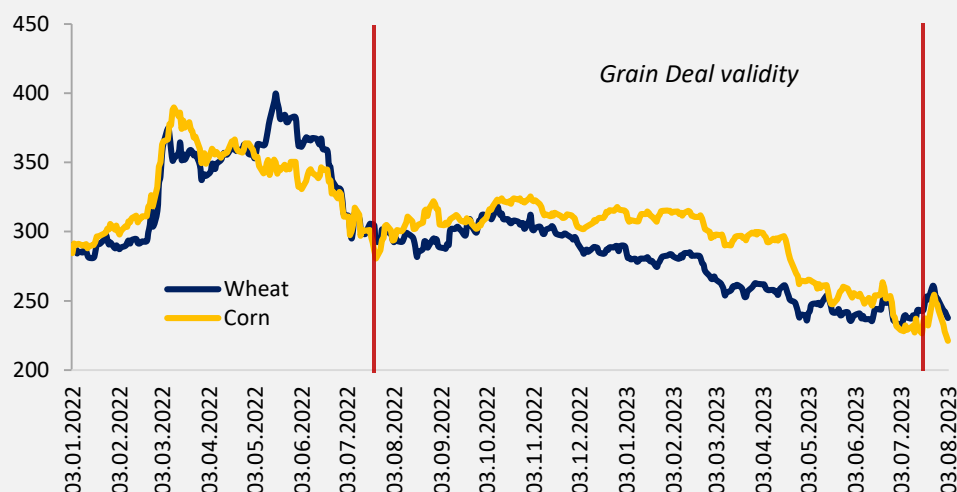
Source: International Grains Council

After the deal was terminated on July 18, 2023, prices for wheat and corn over the week (as of July 24, 2023) had risen by 7.5% and 11.3%, respectively. However, by the end of July 2023, grain prices dropped to the level of the Grain Deal and continued to decline, being driven by a high supply in the global grain market.

According to the UN, during the Grain Deal, 32.9 million tons of Ukrainian grain were exported, half of which was corn, and more than a quarter – wheat. The main recipients were China, EU countries, Türkiye and Egypt.

(Figure 2).

Figure 2. Volume of Exports of Ukranian Grain from the Black Sea Ports Since the Beginning of the Deal, by Countries, Mln Tons
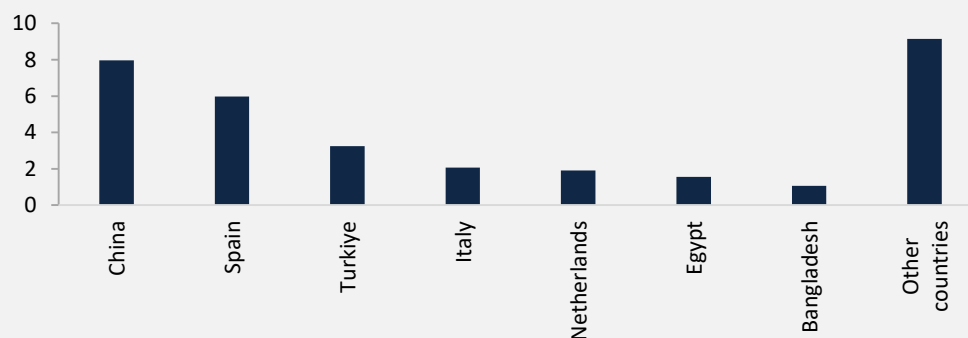
Source: TASS-Dossier, UN

In the absence of Ukraine's access to the Black Sea ports, the need to find alternative routes for the export of agricultural products increases. Among them, we can highlight the transportation of grain along the Danube River, overland by road and rail. However, switching to alternative routes has a number of logistical problems, in particular the low congestion of the canals in the past, low water levels in the Danube against the backdrop of dry weather in Europe, and higher transportation costs. Along with this, there are risks associated with possible attacks from the Russian military and a boycott by farmers from Eastern Europe of Ukrainian grain, which is supplied to their market in large volumes[8].

Thus, due to problems of logistics, Ukrainian grain will be partially excluded from the world market for an indefinite period of time. According to the UN FAO, in 2021 Ukraine accounted for 10% of the world wheat market and 16% of the corn market. At the same time, owing to the good harvest in other exporting

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countries, high supply in grain markets has a restraining effect on world grain prices. However, according to the IMF estimates, due to termination of the Grain Deal, grain prices may rise by 10-15%[9].

In the event if the Black Sea International Transport Corridor is closed, Russian grain exports can be redirected through the alternative North-South route[10] in the direction of St. Petersburg, Astrakhan, the Caspian Sea region, Iran and further, depending on the final destination, towards India or the Persian Gulf and North Africa (Chart 1).

Chart 1. Russia's Trade Routes

Source: Wikipedia
Red Line – North-South Route
Green Line – a traditional sea-lane via the Suez Canal

The advantage of the North-South route for Russia is its remote location from the sanctions zone and a shorter time (twice) for cargo delivery (delivery to Mumbai from St. Petersburg takes 30-45 days via the traditional sea route, and via the North-South route – 15-24 days). This route could allow Russia to export Russian grain to Kazakhstan's traditional markets in Central Asia and Afghanistan, significantly increasing supply with more competitive prices.

It must be emphasized that in recent years the Kazakh wheat market has suffered losses from "gray" imports of Russian wheat. Wheat imported from Russia is exported to Central Asia and Afghanistan under the guise of Kazakh grain without paying a transit tariff and other taxes. Despite the introduction of a ban on the import of grain by road for a period of 6 months from April 10 of this year, according to domestic producers, shipments are under way. According to grain organizations in Kazakhstan, the volume of smuggled grain imports from Russia can reach 1.5-2 mln tons per year, which is equivalent to 500 mln US dollars in value terms[11]. However, given the record grain harvest in Russia in 2022 (157 million tons of grain[12]) and the significant volume of carryover stocks in the new agricultural year, in 2023 the volume of "transit" Russian grain may be significantly higher.

Traditionally, the main export route of wheat from Kazakhstan (more than 70% of all exports) goes through the Saryagash station (Turkestan region) in a southern direction, including to Uzbekistan, Tajikistan and Afghanistan. However, a monopsony has formed in this market. Buyers, knowing the low diversification

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[9] https://www.bloomberg.com/news/articles/2023-07-25/imf-sees-grain-prices-rising-up-to-15-from-black-sea-deal-pause#xj4y7vzkg
[10] https://eabr.org/analytics/special-reports/mezhdunarodnyy-transportnyy-koridor-sever-yug-sozdanie-transportnogo-karkasa-evrazii-/
[11] https://www.gov.kz/memleket/entities/moa/press/news/details/535700?lang=ru
[12] *According to the Ministry of Agriculture of the Russian Federation*

of Kazakhstani export destinations, impose their conditions on quantity, quality, and price and deferred payments. A reduction in grain supplies from Ukraine creates an opportunity for Kazakhstan to expand the geography of wheat exports, in particular, to redirect wheat supplies from traditional markets to China, Turkiye and the EU countries. Along with the expected rise in world grain prices, an increase in supplies will have a positive impact on the potential of Kazakhstani producers.

Thus, in April 2023, a grain transportation route was launched through the terminal at the junction of the Dostyk-Alashankou stations, which has a capacity of 2.5 mln tons per year[13] with an average total wheat export of about 6 mln tons per year. Moreover, it is planned to build an additional Altynkol-Khorgos grain terminal with a similar traffic capacity. During the period of the Grain Deal, China imported 8 mln tons of grain from Ukraine, which could potentially be replaced by Kazakhstani grain. At the same time, the Chinese direction is more profitable due to the pricing for agricultural products based on world quotes.

Another potential, but less attractive route from the point of view of logistics costs, is the export of grain to Turkiye and the EU countries. It is worth noting that these countries were active importers of wheat from Ukraine and are among the largest exporters of flour.

Export of grain in this direction is possible through the Trans-Caspian international transport route, running through the port of Aktau, Baku, Tbilisi, Turkiye and further to Europe. The disadvantage of this route is longer delivery times and, consequently, higher transportation costs.

The termination of the Grain Deal also had an impact on the global oilseeds market. According to the UN FAO, amid uncertainty regarding supplies from Ukraine, prices for sunflower oil increased by 15% in July 2023 (MoM). At the end of 2021, Ukraine accounted for more than 40% of global sunflower oil exports.

This increase is favorable for domestic producers exporting mainly to China and Central Asia. Meanwhile, there is a risk of the pass-through of global price growth onto domestic prices. During January-June 2023, the share of sunflower oil imports in sales in the domestic market is 14.7%. Domestic prices for sunflower oil have declined by 12% since February 2023 (in July 2023, a decrease of 4.7%, YoY) given the reduction in world prices in prior months, the imposition of an export duty on sunflower seeds and their significant reserves. Thus, it is possible that domestic prices will also begin to rise following world prices.

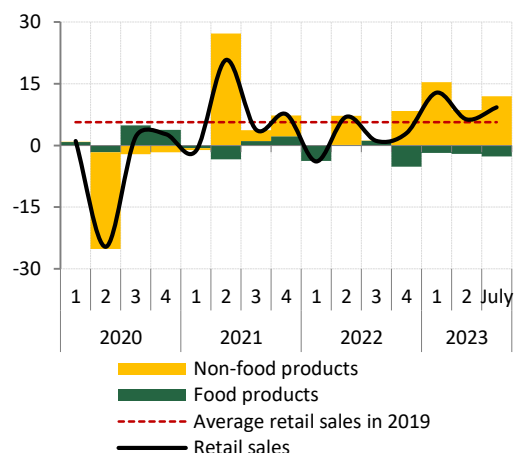[13] *https://eldala.kz/intervyu/15206-kitay-gotovitsya-pokupat-5-mln-tonn-kazahstanskoy-pshenicy-v-god*

3.2. Development of the Domestic Economy

According to the ASPR BNS RK, in the first quarter of 2023, all components of final consumption showed growth; this indicates that a robust domestic demand including household demand was persisting. Retention of such dynamics of consumer demand in the second quarter of 2023 was confirmed by the dynamics of retail sales, paid services and payment card operations of the population.

More than half of household nominal expenses continue to be spent on food. Against a high demand, spending on paid services is recovering. Loan repayment costs increased slightly amid ongoing consumer lending. The increase in all listed items of household spending led to a minor reduction in the share of nominal spending on non-food products.
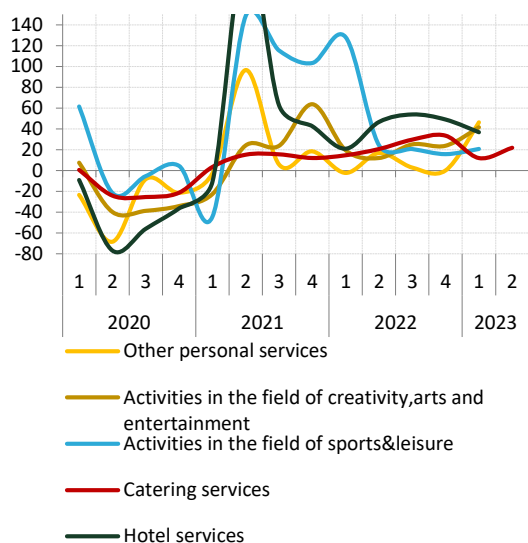
This year, there is still volatility in the dynamics of retail turnover; however, compared to prior periods, annual growth rates fluctuated solely above the average level of 2019 (Figure 37). The turnover of non-food products remains as the main driver of retail trade growth from 2021. A high demand for non-food products is proved by similar dynamics of non-food imports, which grew by more than 40% in the second quarter of 2023, YoY. According to the ASPR BNS, a significant increase in trade is observed in enterprises selling cars, motor fuel and electrical household goods. This expansion of retail trade in non-food products continues to be supported by high consumer lending, demand from Russian citizens, the opportunity to purchase goods in installments for a long period provided by individual banks, as well as the development of various online trading platforms.

Graph 37. Dynamics of Retail Sales and Contribution by its Components, YoY, %

Source: ASPR BNS, NBK calculations

Graph 38.   Quantum Index of
Services, YoY

Other personal services

Activities in the field of creativity,arts and entertainment

Activities in the field of sports&leisure

Catering services

Hotel services

Source: ASPR BNS

Graph 39.   Annual Change in Payment
Card Operations of the Population and
Retail Sales in Real Terms, %

Retail sales

Payment for goods and services

Cash withdrawal

Payments/transfers
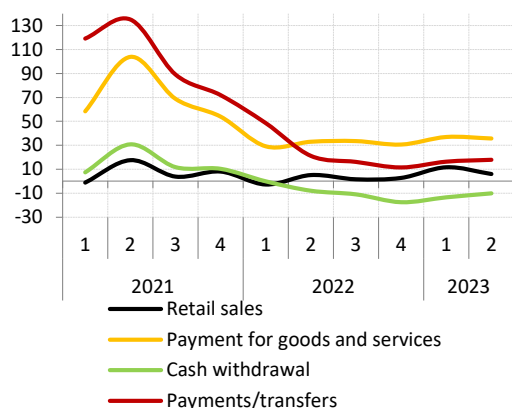
Source: ASPR BNS, NBK, NBK calculations

Meantime, the dynamics of food trade turnover after 2020 remains unstable. Since the end of 2022, there has been a decline in food retail trade. The existing negative dynamics of food trade turnover is accompanied by a stable increase in domestic production and import of food products, which may indicate the replacement of a part of the retail food trade by public catering services. Thus, compared to the first quarter of 2019, in the first quarter of this year there has been a slight increase in the share of urban population's expenses for the services of cafes/bars/restaurants (CaBaRe), as well as the share of rural population's expenses on "eating out" in paid services (from 3.6% to 4.7%).

Food and beverage services, including food delivery services, have shown a steady growth since 2021 (more than 10% year-on-year). As a result of increased demand for domestic tourism, residential services (hotel services) have resumed and are growing steadily. Significant dynamics are demonstrated by services in the field of sports, entertainment, recreation, creativity, as well as services of hairdressing salons, beauty salons, and dry cleaners (Figure 38).

There is a positive correlation between the dynamics of retail turnover and transactions on household payment cards (the correlation between the annual growth rates of retail turnover and cash withdrawals since 2016 made up 0.68, payments for goods and services – 0.49, payments and transfers – 0.45). The real growth rates of these card transactions also indicate the active realization of consumer demand in the economy. The volume of payments for goods and services using payment cards from the population is growing significantly. The volume of payments and transfers began to grow rapidly in 2020 against the backdrop of quarantine restrictions and the development of online banking. In the second quarter of 2023, the growth rate of payments and transfers by cards of individuals slowed down, but remains high at the level of 15-18% per annum. In the context of the growth of non-cash transactions, the volume of cash withdrawals by the population using cards has shown negative dynamics since 2022 (Figure 39).

Due to a gradual slowdown in inflationary processes, real income of the population moved into the growth zone in the second quarter of 2023, which led to the preservation of stable demand. The resumption of real income growth was furthered by the return of real wages to the positive zone against a slight acceleration in the payroll fund buildup, as well as the restoration of growth in real spending on pensions. At the same time, in the first quarter of 2023, the increase in household income from self-employment and entrepreneurial activity accelerated significantly (Figure 40).

Along with consumer demand, investment activity is characterized by stable dynamics. An increase in the investment demand is noted by firms, however, the investment activity of the population in the second quarter of 2023 decreased slightly.

Investments in fixed assets in the second quarter of 2023 increased by 13.2%, year on year. The main contribution continues to be made by construction and installation works. In most regions, construction and installation works increased, especially in the Atyrau region and cities of national importance. At the same time, in the Atyrau region a greater share falls on the construction of structures, and in cities of national importance – on residential construction.

Investments in property, plant and equipment also contribute to the growth of investments this year. Investments in machinery, equipment and vehicles are distributed more evenly across regions compared to construction works. The largest increase in investment in current prices was noted in the city of Astana, Turkestan, Akmola and Almaty regions.

Positive investment dynamics were observed in almost all sectors of the economy, with the exception of other types of services, manufacturing and financial/insurance activities. High investments are being made in the purchase of agricultural machinery and transport in agriculture, where investment growth in the first half of 2023 amounted to 22.1%, YoY.

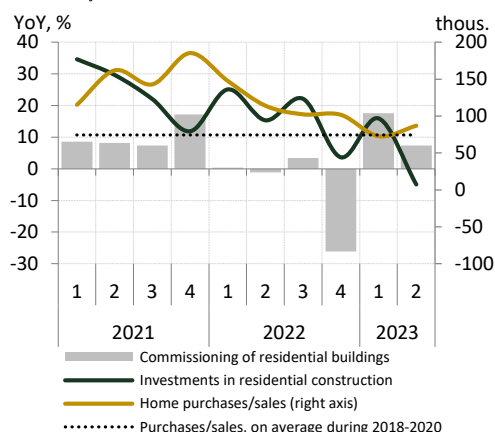Graph 40.   Sources of Cash Income of the Population, YoY, in Real Terms
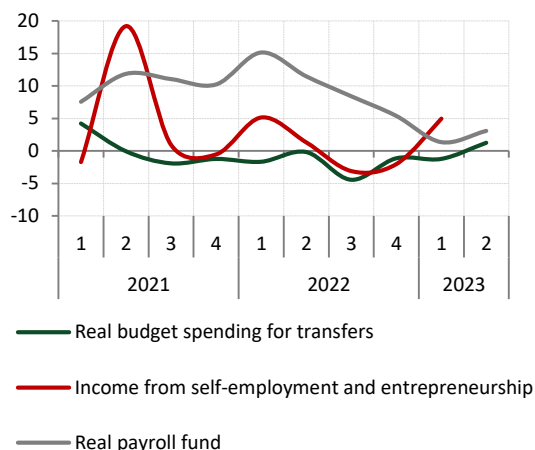
Source: ASPR BNS, NBK calculations

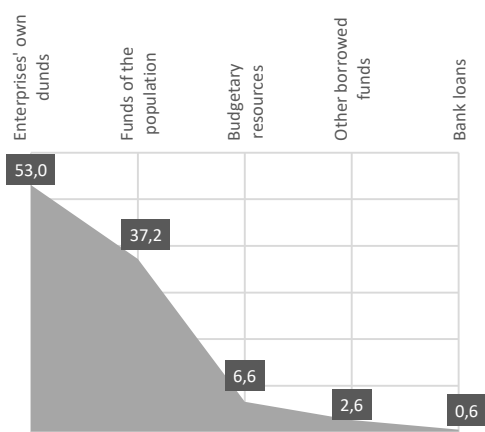Graph 41.   Fixed Capital Investments and Components, YoY
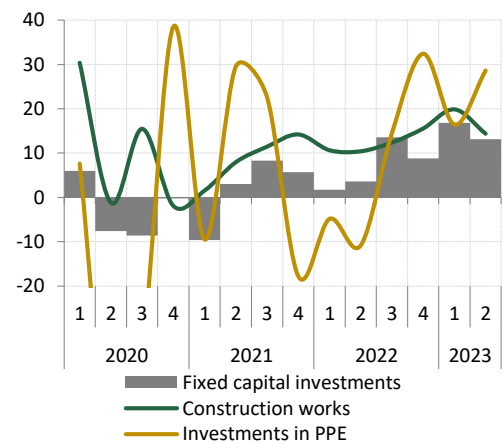
Source: ASPR BNS

Graph 42.   Investments   in
Residential   Construction   and
Activity in the Real Estate Market

Source: ASPR BNS, NBK calculations

Graph 43.   Sources of Investments
in Residential Construction, %

Source: ASPR BNS, NBK calculations

Given the reforms in utility services, investments in the sectors of electricity, gas, steam and hot water and water supply entered the growth zone (annual growth by 39% and 41.2%, respectively). Due to construction of social facilities, investments in education and healthcare are increasing (by 21.5% and 50.9% YoY, respectively). In the context of reconstruction of roads and railways and improvement of transport infrastructure, investments in the transport and warehousing industry increased (a 56.8% growth, YoY). Investments in the mining industry are supported by the completion of the FGP/WPMP construction and investments in the mining enterprises of West Kazakhstan region.

Own funds of enterprises remain the main source of fixed capital investments. In the first half of 2023, their share slightly decreased to 77% compared to the beginning of the year. The government's share in investments went up as the budget utilization increased (13.6%). Other sources are financed by 7% of investments, and bank loans account for 2.1% of the budget.

In a sectoral context, investments in construction, trade, and the provision of other types of services are financed from own funds. A high share of the state budget as a source of investment is typical for the water supply (86%), education (78%), government (77%), arts, entertainment and leisure (72%) as well as healthcare (58%) and electricity (44%). The transport and trade sectors demonstrate the largest use of loans as a source of investment, but they account for less than 5% of all investments.

Investment activity of the population in the second quarter of 2023 weakened slightly. Thus, public investment in residential construction decreased by 4.9% YoY. Funds of enterprises and the population still represent the main source of investment in residential construction (Figure 43).

Also, compared to the first quarter of this year, the commissioning of residential buildings showed minor deceleration. Despite the current situation, the number of purchase and sale transactions in the real estate market in the second quarter increased, exceeding the level of 2019 (Figure 42).

Foreign trade is characterized by divergent dynamics. Thus, exports of goods in the first half of 2023 decreased by 10.3% in annual terms and amounted to 38 billion US dollars. The major decline occurred in the second quarter of 2023 (a 16.7% reduction, YoY) (Figure 44).

Oil exports, which comprise the bulk of supplies (54%), went down by 17.4% YoY in January-June 2023. Given the lag in oil statistics of one quarter, the decline occurred because of repair work at the oil fields in October 2022 and higher prices for oil in 2022. In physical terms, oil exports decreased by 5% YoY, including reduced supplies to Turkiye, Brunei, Spain, India and Lithuania. At the same time, there is an increase in oil supplies to Italy and Romania (Figure 45).

A reduction in exports of non-ferrous and ferrous metals also contributed to the overall decline in exports, with the exception of oil. The slowdown in the global economy and the slower pace of economic recovery in China contributed to a decline in world prices for metals in January-June 2023. At the same time, in the structure of non-ferrous metals exports, the physical volumes of copper exports decreased due to contraction in demand from China and the UAE. Aluminum exports to Italy and Greece decreased. Zinc exports have declined. At the same time, lead supplies to Turkiye and Vietnam increased. In the structure of ferrous metals, demand for iron ore from China is growing. Meantime, supplies of ferroalloys to Indonesia, Japan and Korea are going down.

Given the increased sales in the domestic market, natural gas exports went down. At the same time, export of fertilizers to Russia, Uzbekistan and Poland increased significantly.

In the group of food products, as a result of the last year's good harvest, wheat exports increased by 24.1%, YoY. The demand for barley from the side of China has increased. Supplies of meat to Russia have gone up. There is an increase in the export of alcoholic and non-alcoholic drinks to Russia, Uzbekistan and the UK.

Graph 44. Exports by Major Groups of Goods, YoY, %
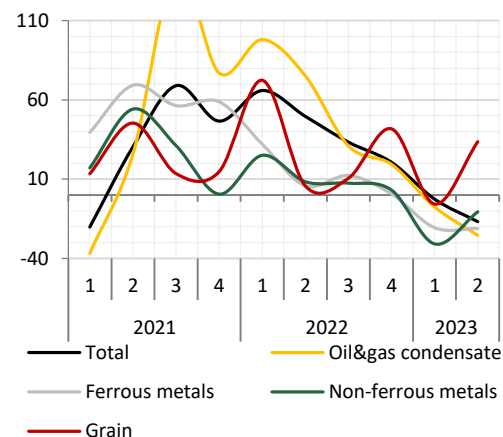
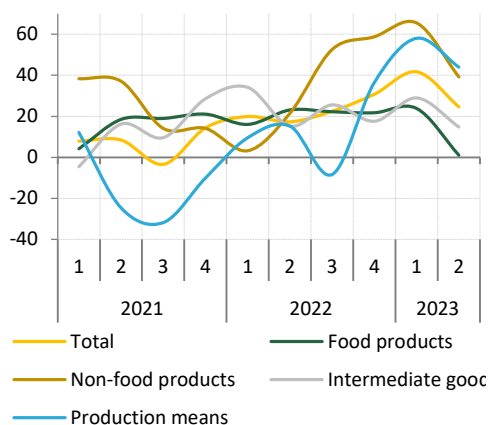*Source: SRC MF RK, ASPR BNS, NBK calculations*

Graph 45. Oil Exports by Countries in the First Half of 2023, YoY, %
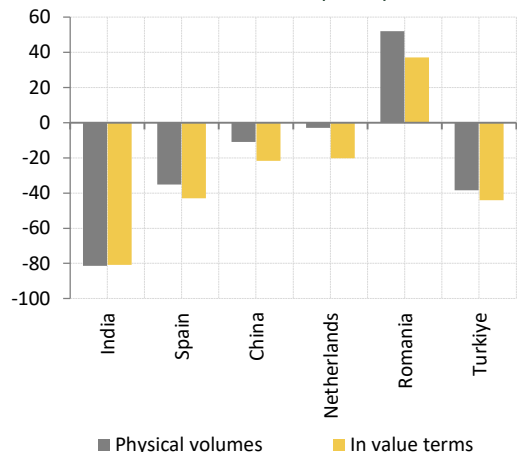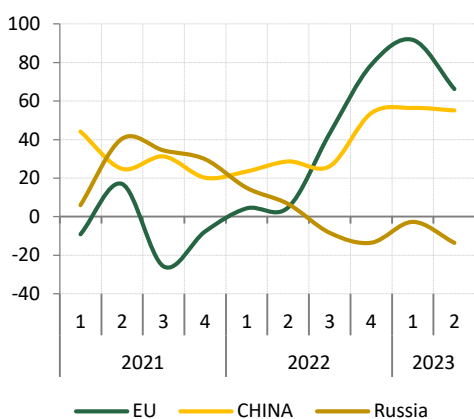

Source: ASPR BNS

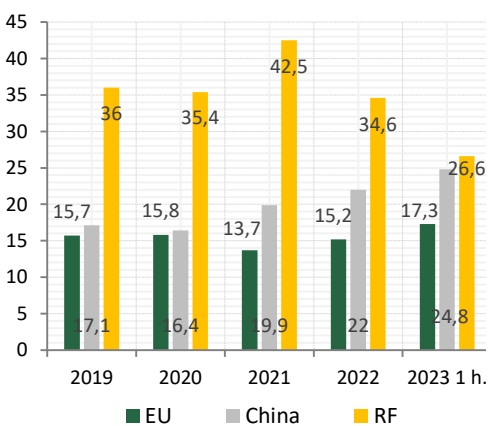**Graph 46. Imports by Major Groups of Goods, YoY, %**

Source: SRC MF RK, ASPR BNS, NBK calculations

Graph 47. Imports, by Countries, YoY, %

Source: SRC MF RK, ASPR BNS, NBK calculations

Graph 48. Shares of Countries in Imports, %

Source: SRC MF RK, ASPR BNS, NBK calculations

In the export structure by countries, Russia's share increased from 8.4% to 13%, in nominal terms the increase amounted to 1.4 bln US dollars. Exports of uranium, gold, pipes, taps and valves, cars, tires and spare parts, monitors and projectors, computers have ramped up significantly.

In January-June 2023, imports went up by 32.2% YoY, amounting to 29.3 bln US dollars. The growth is observed across all groups of goods (Figure 46).

Within the structure of food products, imports of tea, alcoholic and non-alcoholic drinks in kind increased. Supplies of vegetable oils and fats from Indonesia and Malaysia have increased. Sugar supplies from Russia have increased significantly, including due to the low base of the last year, when a ban on exports was imposed by Russia in March-August 2022. At the same time, imports of meat and milk decreased.

In the structure of non-food products, in anticipation of oil refineries going out for repairs, imports of diesel fuel from Russia increased 10.5 times. There has been an increase in imports of medicines, hygiene and cosmetic products, detergents and cleaning products, computers, monitors and projectors, telephones, and cars. There is an increase in supplies of tires from China, as well as clothing from China, Turkiye and Uzbekistan. Given a shortage within the country, electricity imports from Russia went up by 5.7 times.

Investment imports ramped up, in particular various machinery and equipment for agriculture, the flour-grinding industry, and the industrial manufacturing of food and beverages.

In the context of procurement channels, the decline in imports from Russia accelerated to 13.5%, YoY, in the second quarter of 2023 (in the first quarter of 2023 there was a decline of 2.6%, YoY). At the same time, after a hike in the first quarter, the growth of imports from the EU in the second quarter of 2023 slowed down to 66.2%, YoY (in the first quarter of – growth by 91.7%, YoY). Imports from China grew to 55.1% YoY in the second quarter of 2023 (Figure 47). On a country-by-country basis, Russia's share in total imports decreased from 34.6% in 2022 to 26.6% in the first half of 2023, while the shares of the EU and China increased (Figure 48).

Export prices went down by 10.2% YoY in the second quarter of 2023, stemming from lower world prices of oil and base metals.

In addition to the dynamics of world prices for raw materials, the decline in export prices was also driven by the removal of the last year's high base from the calculation, as well as by the strengthening of the tenge exchange rate against foreign currencies.
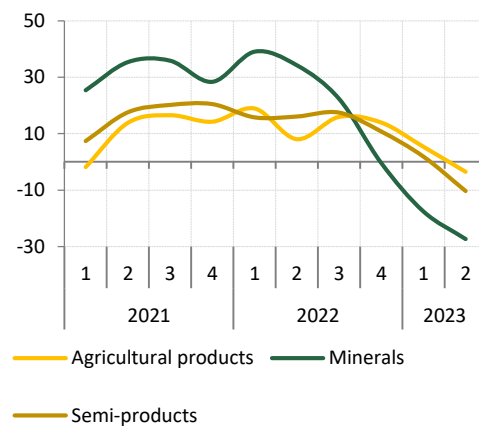
In the second quarter of 2023, there is a 1.8% decline in import prices on a YoY basis, which is associated with the effect of the last year's high base, the strengthening of the tenge exchange rate and deceleration of inflation in trading partner countries. Thus, the rise in prices for imported investment goods, including capital goods, has slowed significantly. Import prices for construction materials, as well as intermediate goods, decreased in the second quarter of 2023 (Figures 49, 50). These trends cause a reduction in the cost of the imported component of domestic production, which will put downward pressure on the prices of final products for consumers.

Graph 49. Import Prices for Investment Goods, YoY, %

Investment goods

Machinery, equipment&transport vehicles

Construction materials (right axis)
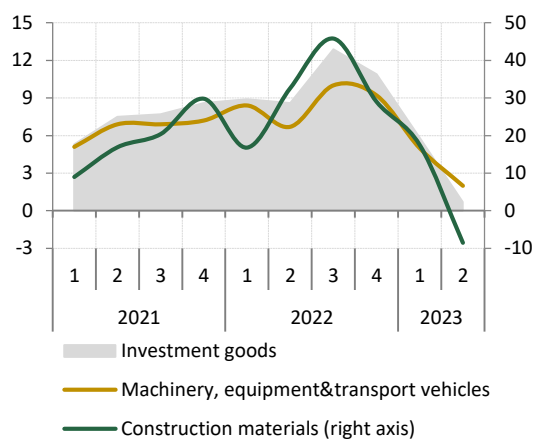
Source: ASPR BNS

Graph 50. Import Prices for Intermediate Goods, YoY, %

Agricultural products   Minerals

Semi-products

Source: ASPR BNS

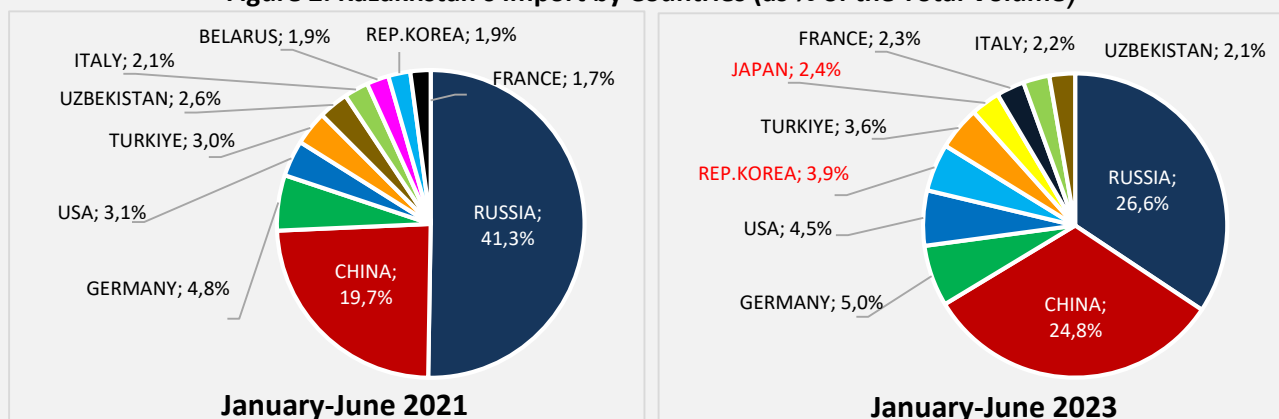Box 4. Analysis of the Foreign Trade Structure and "New" Countries-Kazakhstan's Trading Partners

Over a long time, the EU, China and Russia have been the main trading partners of Kazakhstan. Since 2021, in response to the changing economic environment (the pandemic, worsening geopolitical situation, emerging deglobalization trends), the main export and import directions of Kazakhstan are gradually changing (Figures 1, 2).

Figure 1. Kazakhstan's Export by Countries (as % of the Total Volume)

January-June 2021

CHINA; 16,7%
ITALY; 13,0%
RUSSIA; 12,5%
NETHERLANDS; 8,0%
UZBEKISTAN; 4,7%
TURKIYE; 4,6%
FRANCE; 4,4%
SPAIN; 3,4%
ROMANIA; 3,4%
INDIA; 2,9%

January-June 2023

ITALY; 19,0%
CHINA; 16,7%
RUSSIA; 13,0%
REP.KOREA; 6,2%
NETHERLANDS; 6,2%
TURKIYE; 4,9%
UZBEKISTAN; 4,2%
FRANCE; 3,8%
ROMANIA; 3,4%
SINGAPORE; 2,3%
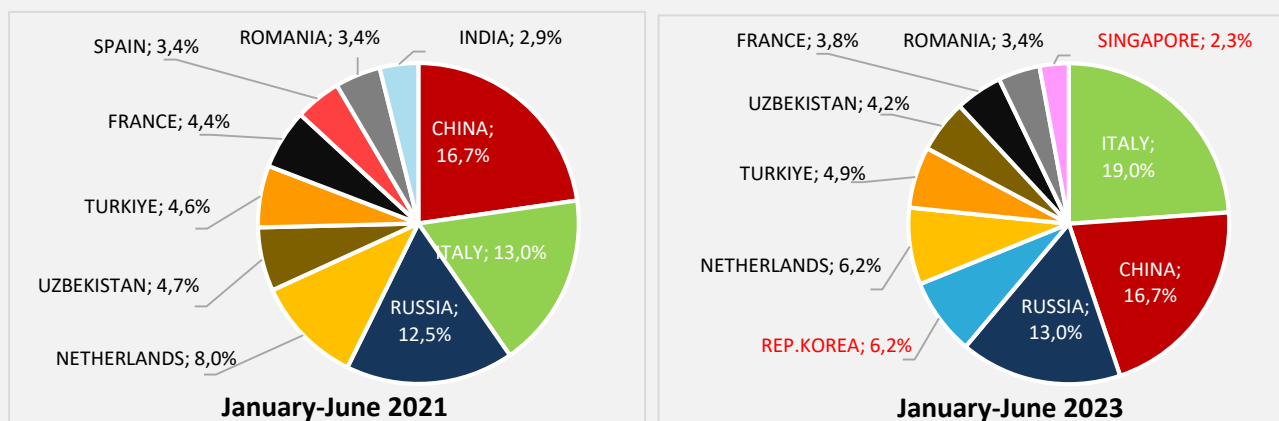
Figure 2. Kazakhstan's Import by Countries (as % of the Total Volume)

January-June 2021

RUSSIA; 41,3%
CHINA; 19,7%
GERMANY; 4,8%
USA; 3,1%
TURKIYE; 3,0%
UZBEKISTAN; 2,6%
ITALY; 2,1%
BELARUS; 1,9%
REP.KOREA; 1,9%
FRANCE; 1,7%

January-June 2023

RUSSIA; 26,6%
CHINA; 24,8%
GERMANY; 5,0%
USA; 4,5%
REP.KOREA; 3,9%
TURKIYE; 3,6%
JAPAN; 2,4%
FRANCE; 2,3%
ITALY; 2,2%
UZBEKISTAN; 2,1%

Source: SRC MF RK, ASPR BNS, NBK calculations

The top three trading partners in Kazakhstan's exports remained the same (Figure 1). Meantime, Italy's share increased from 13.0% to 19.0%, being driven by the ramp-up in oil exports (during the reviewed period, exports increased by 2.1 times), wheat (5 times) and metals. Exports to China, Russia and the Netherlands also increased noticeably; however, their share in total exports remained almost unchanged due to the expansion of the geography of Kazakhstan's export destinations and the growing share of other countries. Republic of Korea and Singapore became new consumers of Kazakhstani products in this period.

Table 1. Commodity Structure of Kazakhstan's Exports to Some Countries (in mln US dollars)

	January-June 2021	January-June 2023
Republic of Korea		
Total:	**733.59**	**2 348.07** (a 3.2 times increase)
Intermediate goods	733.30	2 277.29
Production means	-	70.37
Non-food consumer products	0.19	0.30
Food consumer products	0.09	0.11
Singapore		
Total:	**302.41**	**888.31** (a 2.9 times increase)
Intermediate goods	301.61	888.18
Production means	0.08	0.13
Non-food consumer products	0.72	0.00

Source: SRC MF RK, ASPR BNS, NBK calculations

Exports to the Republic of Korea increased mainly owing to intermediate goods, namely due to the increased exports of crude oil and metals (ferrochrome, raw titanium) (Table 1). In consumer non-food products, growth is observed among other cosmetic products and prosthetic teeth, in food products – among vodka and alcohol tinctures. Singapore increased its share of Kazakhstan's exports, mainly owing to increased crude oil volumes. Capital goods increased because of increased supplies of other measuring instruments and other mechanical devices.

The main change in Kazakhstan's imports during this period was a sharp reduction in the share of Russia and an increase in the share of China (Figure 2). As for other major importers (Germany, USA, Turkiye, France and Italy), supplies continued to grow. In addition, during this period, the share of the Republic of Korea and Japan increased significantly, while that of Uzbekistan, on the contrary, slightly decreased.

In the commodity structure, Russian imports were supported by an increase in supplies of intermediate goods (gasoline, diesel fuel, pipes for oil and gas pipelines, other ores and precious metal concentrates, iron products, etc.) and consumer goods (sugar, mineral and carbonated water, confection, sausages, etc.) (Table 2). Sharp reductions occurred in fertilizers, large household appliances, furniture, clothing, household chemicals and many others. From China, a jump in imports was recorded for phones, cars, computers, fertilizers, and clothing. In turn, the Republic of Korea, China and Japan during the reviewed period became one of the largest suppliers of cars and their spare parts.

Table 2. Commodity Structure of Kazakhstan's Imports from Some Countries (in mln US dollars)

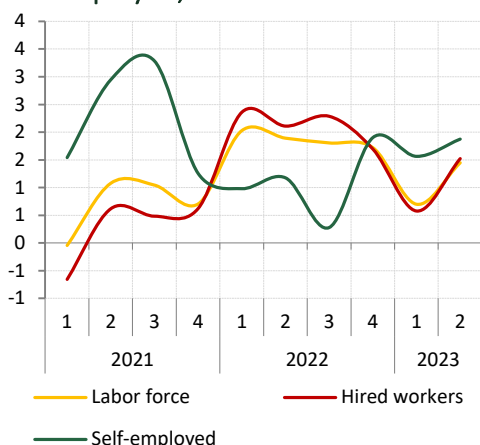|	January-June 2021	January-June 2023	January-June 2021	January-June 2023	January-June 2021	January-June 2023	January-June 2021	January-June 2023
	RUSSIA		CHINA		REP. of KOREA		JAPAN	
Total:	7 715.0	7 784.9 (+0.9%)*	3 689.8	7 256.8 (+96.7%)	354.8	1 145.3 (+a growth of 3.2 t.)	263.6	706.0 (+a growth of 3.2 t.)
Intermediate goods	4 811.0	5 136.4 (+6.8%)	1 198.1	2 439.4 (+103.6%)	214.8	871.0 (+a growth of 4.1 t.)	65,.3	127.9 (+a growth of 2 t.)
Production means	795.3	766.3 (-3.6%)	1 185.6	1 922.1 (+62.1%)	90.9	82.3 (-9.5%)	60.6	183.2 (+a growth of 3 t.)
Consumer non-food products	1 332.5	861.7 (-35.3%)	1 213.7	2 791.2 (+130.0%)	43.0	179.1 (+a growth of 4.2 t.)	137.2	393.3 (+a growth of 2.9 t.)
Consumer food products	776.4	1 020.5 (+31.5%)	92.3	104.1 (+12.8%)	6.1	12.9 (+a growth of 2.1 t.)	0.5	1.7 (+a growth of 3 t.)

* the growth rates in January-June 2023 versus January-June 2021 are shown in the parenthesis

Source: SRC MF RK, ASPR BNS, NBK calculations

Over the past two years, Kazakhstan's exports and destinations have expanded to countries such as the Republic of Korea, Japan and Singapore. The current economic situation in these countries is generally characterized by positive dynamics. Thus, according to performance in the first half of 2023, the GDP growth rate accelerated in Japan and Singapore. However, weaker economic activity against the decline in exports, agriculture and the industrial sector was observed in the Republic of Korea.
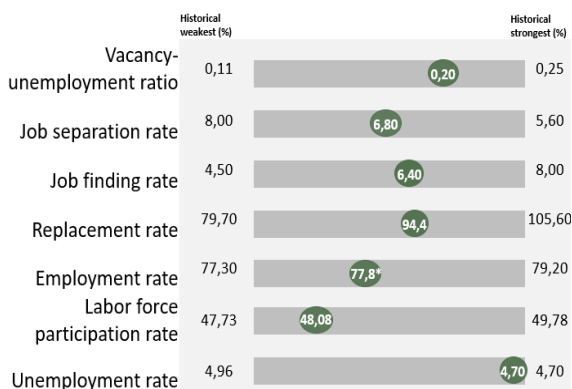
Inflation trends in Japan, Republic of Korea and Singapore are similar to many countries – consumer inflation is slowing, but core Inflation is declining at a slower pace. At the same time, inflation exceeding target values causes central banks to adhere to tight monetary policies. However, recently, amid signs of the cooling inflationary pressure and a slowdown in the economic activity, the rate hike cycle has been suspended for now.

Graph 51. Hired workers and Self-Employed, YoY

Legend:
— Labor force
— Hired workers
— Self-employed

Source: ASPR BNS

Graph 52. Labor Market Performance, Second Quarter of 2023

	Historical weakest (%)		Historical strongest (%)
Vacancy-unemployment ratio	0,11	0,20	0,25
Job separation rate	8,00	6,80	5,60
Job finding rate	4,50	6,40	8,00
Replacement rate	79,70	94,4	105,60
Employment rate	77,30	77,8*	79,20
Labor force participation rate	47,73	48,08	49,78
Unemployment rate	4,96	4,70	4,70

*at Q1 2023

A historically weak and strong indicator means minimum and maximum values from 2019 to 2023
Source: ASPR BNS, Center for Labor Resources Development, NBK calculations

3.3 Labor Market

In the second quarter of 2023, the annual rate of labor force growth in the labor market accelerated, resulting in reduction of unemployment to 4.7% and decline in the unemployment rate of young people aged 15-34 to 3.6% from 4.1% in the first quarter of 2023. However, the share of young people who are not in education, employment or training (NEET)[14], is still high (7.5% in the second quarter of 2023).

In the second quarter of 2023, the number of employed people amounted to 9,115 thousand, showing an increase of 1.6%, YoY. There is an acceleration in the growth rate of the number of both hired and self-employed workers (Figure 51). It is worth mentioning that along with this, the number of the unemployed population decreased by 1.7% YoY in the second quarter of 2023, which is also confirmed by reduction in the number of appeals to employment authorities by 14.2% YoY and a decline in the number of temporarily unemployed population by 13.9% YoY.

A significant growth in employment is observed in such sectors as the provision of accommodation and catering services (14.7%, YoY), professional, scientific and technical activities (10.8%), financial and insurance activities (7.2%), other services (7.1%). At the same time, a drop in employment occurs in such sectors as "Real Estate Transactions" (by 11.3, YoY), "Arts, Entertainment and Leisure" (by 4.4%). At the sector level, the largest share of employees consists of workers employed in trade (16.6%), education (12.9%), the industry (12.3%) and agriculture (12.2%).

The annual dynamics of changes in the self-employed shows an increase of 2.9% given a significant growth of self-employed in healthcare (94.7%, YoY), education (62.8%), communication (32.9%), activities in the field of administrative and ancillary services (30.2%), other services (23.3%). Along with this, a decline in the number of self-employed people is observed in the water supply sector (by 58.7%, YoY), real estate transactions (by 36.9%), arts, entertainment and leisure (by 23.7%), financial and insurance activities (by 14.2%).

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[14] NEET – not in education, employment or training.

It is noteworthy that the largest number of self-employed is engaged in three areas: trade (32.2%), agriculture (28.6%) and transport (11.7%).

A wide range of indicators signals that the labor market tensions remain moderate in the second quarter of 2023 (Figure 52). Market density defined as the ratio of job openings to the number of unemployed people is near an all-time high but remains relatively low (0.20) compared to developed countries (Canada is about 0.8). Along with this, Kazakhstan has a high replacement rate (94.4%), reflecting how quickly newly hired personnel fill the vacant positions. The employment rate among the working age population was 77.8%, in line with the historical median.

At the same time, the labor market rigidity, calculated as the ratio of the number of vacancies to resumes, increased in the second quarter of 2023 (110.5 on average for April-June 2023) after labor market conditions softened from the second quarter of 2022 (Figure 53). This indicator shows how much demand exceeds supply of labor. The increasing labor market rigidity (tension) may put upward pressure on wages.

Thus, in the second quarter of 2023, wages have been growing, both in nominal and in real terms (Figure 54). Despite a slowdown in the growth rate of nominal wages, they remain high (17.1%, YoY, Figure 54). A significant increase in nominal wages in annual terms is observed in the sectors of information and communication (36.0%), transport (24.6%), agriculture (23.7%), wholesale and retail trade (21.8%), water supply (21.4%), financial and insurance activities (21.2%) and others. Due to the slowing inflation, real wages increased in many sectors, with the exception of education (a 4.8% reduction, YoY), construction (by 3.5%), accommodation and catering services (by 2.6%) and healthcare (by 0.1%).

The growth rate of the payroll fund slowed in the second quarter of 2023 because of a deceleration in the payroll fund growth in both the private and public sectors. However, the growth rate of the payroll fund in the private sector is faster than the growth rate in the public sector (Figure 55).
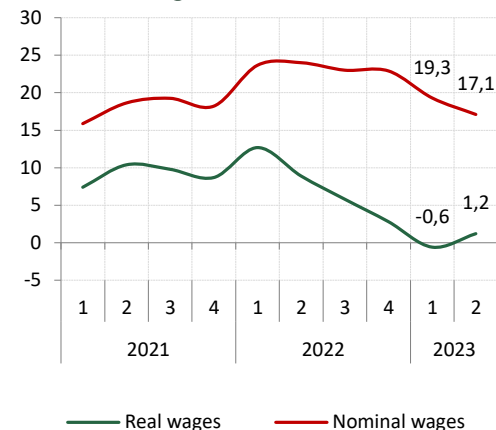
Graph 53.   Labor Market Rigidity, SA (January 2019=100)

enbek.kz:vacancies/CVs
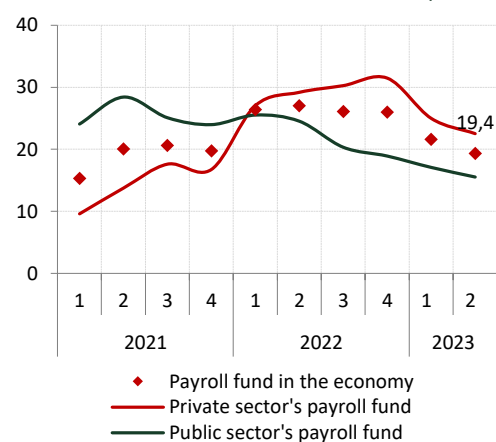
Real wage index* (right axis)
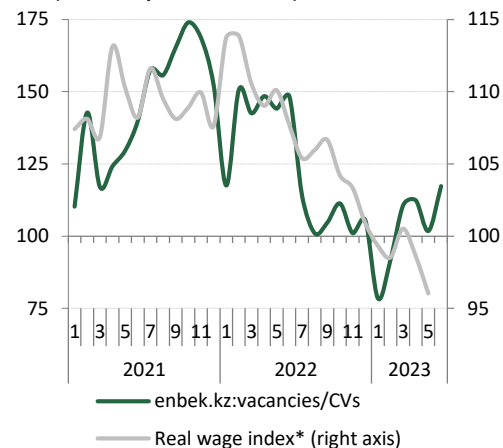
*according to the ASPR BNS estimates
Source: Center for Labor Resources Development, ASPR BNS, NBK calculations

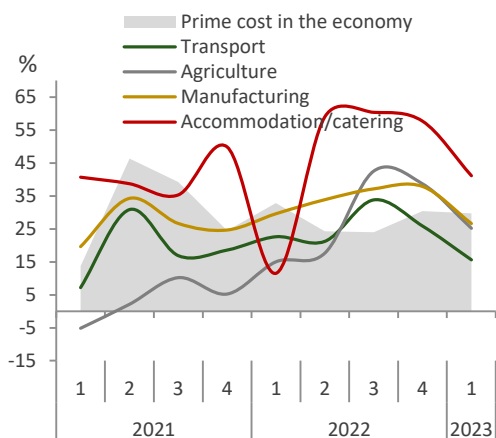Graph 54.   Growth Rate of Nominal and Real Wage, YoY

Real wages   Nominal wages

Source: ASPR BNS

Graph 55.   Payroll Fund Dynamics, YoY, %

♦ Payroll fund in the economy
— Private sector's payroll fund
— Public sector's payroll fund

Source: ASPR BNS, NBK calculations

## Graph 56. Prime Cost, by Economic Sectors, YoY

Source: ASPR BNS, NBK calculations

In turn, a slowdown in wage growth slightly slackens the upward trend in the prime cost of goods and services in some sectors of the economy, in particular in the provision of accommodation and catering services, transport, agriculture and the manufacturing industry (Figure 56).

Box 5. Demand and Supply in the Labor Market

In June 2023, the demand for labor in the labor market showed a significant decline and supply demonstrated a relatively smaller reduction compared to the same period of the last year (Figure 1). Despite this fact, the number of vacancies on the *enbek.kz* website[15] in June was 89.9 thous., and the number of filed CVs equaled 54.6 thous., which points to a heightened demand for the labor force and a lower supply on the part of population signaling about the personnel shortage in the labor market[16] (Figure 2). Such situation increases the probability of growth of wages in the economy. Moreover, the annual cumulative dynamics of demand and supply from 2018 to 2022 also indicates a widening gap between the number of vacancies and CVs that had slightly decreased in the second half of 2022 due to higher growth rates of the number of CVs. (Figure 2). One of the reasons for the increasing rate of growth in the supply of labor force could be an inflow of the labor force from Russia.

Figure 1. Dynamics of the Number of CVs and Vacancies (%,YoY)
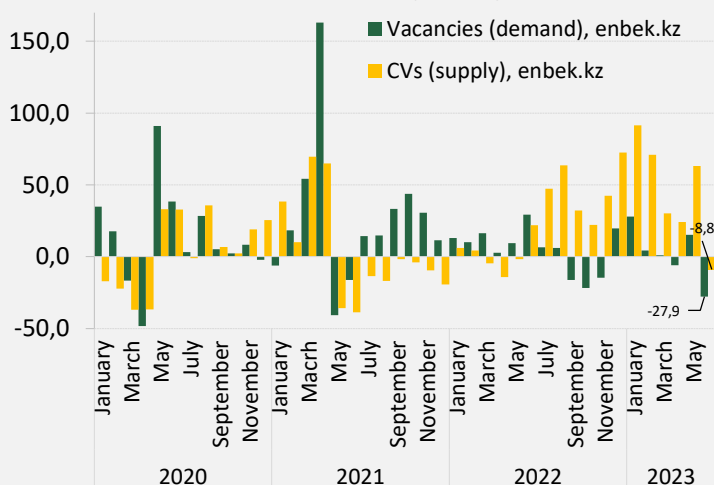
Source: Center for Labor Resources Development

Figure 2. Dynamics of the Number of CVs and Vacancies, Cumulatively over the Year
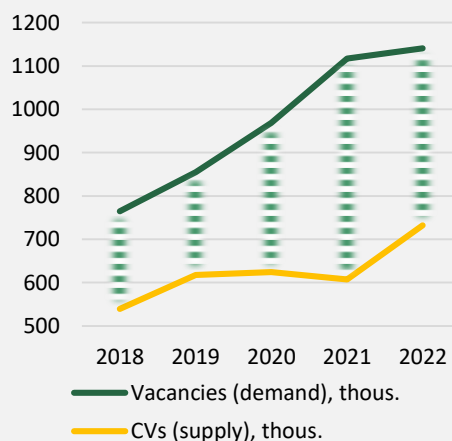

Source: Center for Labor Resources Development

The dynamics of the number of posted CVs and vacancies show that in March 2020, in light of the pandemic, there was a simultaneous reduction in the number of submitted CVs and posted vacancies, followed by a sharp recovery after the easing of quarantine measures in the country (Figure 3). At the same time, a significant labor shortage was observed in May 2020, when companies resumed their operations. Labor shortages also worsened from mid-2021 to mid-2022 due to increased job openings. Starting in July 2022, the number of CVs submitted increased exceeding the number of vacancies in January 2023. In the second quarter of 2023, the labor supply returns to the level of the beginning of 2022.

Alternatively to the number of vacancies on the enbek.kz website, statistics on the number of vacancies at enterprises in the country as published by ASPR BNS, also reflect the demand for labor in the labor market in Kazakhstan. Thus, according to the BNS data, the number of vacancies at enterprises is constantly increasing: from 34 thousand people on average in 2019 to 51.8 thousand people on average in 2022, thereby signaling an expansion in the number of jobs in the country. The staff listing at the surveyed enterprises at the end of the fourth quarter of 2022 amounted to 3804.6 thousand people, and the number of vacancies was 51.3 thousand. The largest number of vacant jobs is in the industry (29.7% of the total number of vacancies), public administration (17.2%), transport and warehousing (11.7%), healthcare (10.6%), and the smallest number of workers are required in agriculture, forestry and fisheries (0.9%) and in real estate transactions (0.2%).

Figure 3. Demand and Supply in the Labor Market, Thous. Individuals
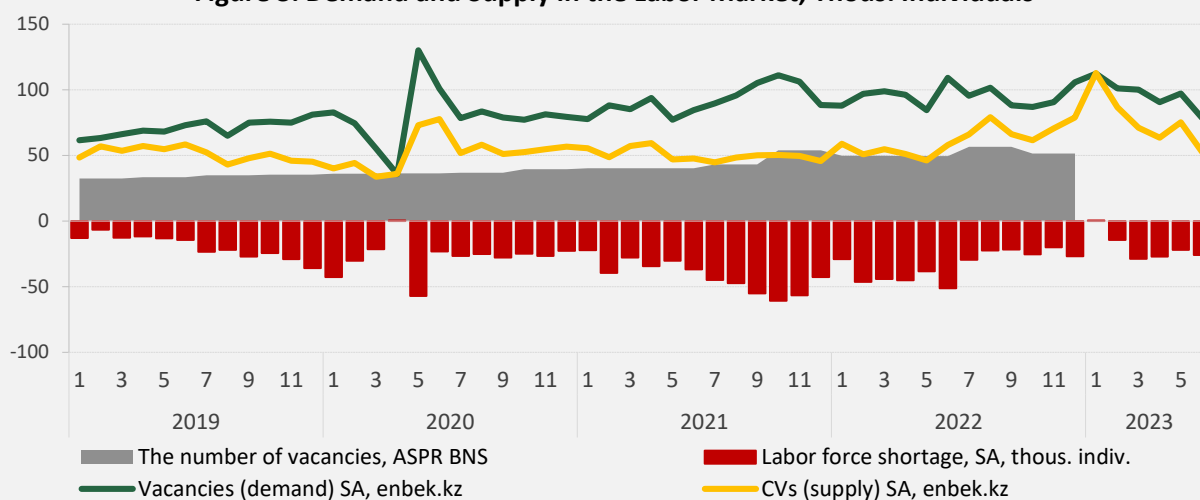

Source: ASPR BNS, iak.enbek.kz

The expected recruitment needs[17] at the medium-sized and large enterprises amounted to 11.4 thousand individuals in 2022[18], where the most required personnel include professionals (20.3%), services and sales personnel (17.4%), workers in the industry, construction, transport and other related sectors (16.3%), unskilled workers (14,2%), heavy equipment operators, product assemblers and drivers (13.8%)

Figure 4. Expected Recruitment Needs, 2022, %
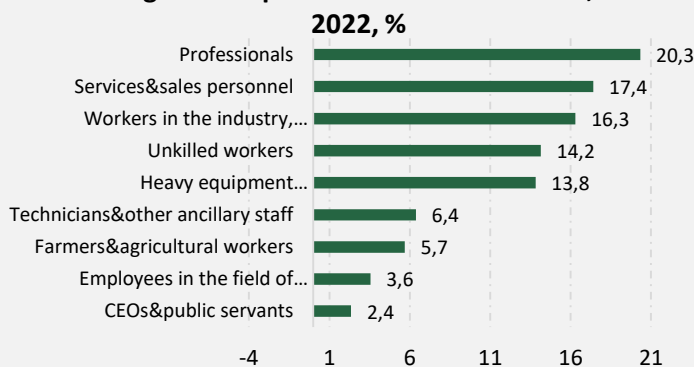
Source: ASPR BNS

Figure 5. Dynamics of Expected Recruitment Needs, Thous.Indiv.
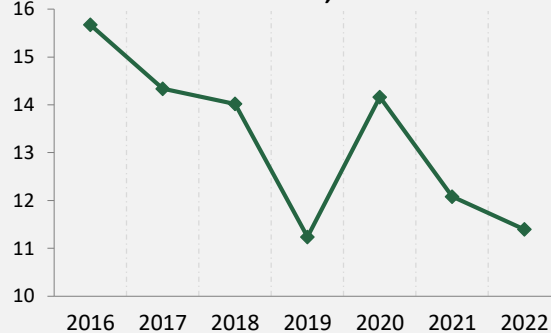
Source: ASPR BNS

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[17] Estimated additional number of personnel (workers) required in the reporting period to the existing number of employees and vacant jobs.
[18] The enterprise survey is conducted once a year. Data for the reporting year is released in the second half of the year following the reporting year.

(Figure 4). Despite the dynamics of growth in vacancies and vacant positions in the country, the expected need for personnel in the period from 2016 to 2022 decreased insignificantly (Figure 5).

Another indicator of supply and demand in the labor market is the replacement rate calculated as the ratio of the number of hired workers to the number of dismissed workers. The replacement rate reflects the extent to which newly hired personnel fill the vacant positions at enterprises. The dynamics of the replacement rate in the economy usually remained high (more than 95%), except for the second quarter of 2020 during the period of strict quarantine restrictions (Figure 6). Despite the fact that in the first quarter of 2023 the replacement rate is 101%, the figures vary by industry. A relatively low replacement rate is observed in agriculture (85.1%) and activities in the field of administrative and support services (85.1%). This may be the evidence of an overflow of employment between economic sectors.

Meanwhile, the labor supply continues to decline. The labor force participation rate, which represents the ratio of the labor force to the total population, has shown a downward trend from 2014 to 2023 (Figure 7). This reduction in the percentage of labor force is driven by an increase in the share of the population under and over the working age from 37.2% in 2014 to 42.5% in 2022. In general, the country's population is relatively young, the share of children is 31.2% of the total population, and the share of people over the working age is only 11.4% (Figure 8).
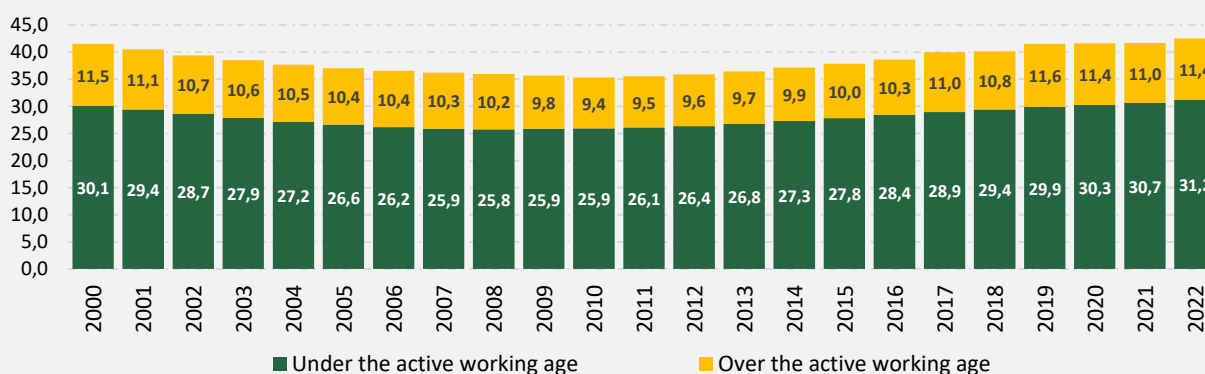
Figure 6. Replacement Ratio,%
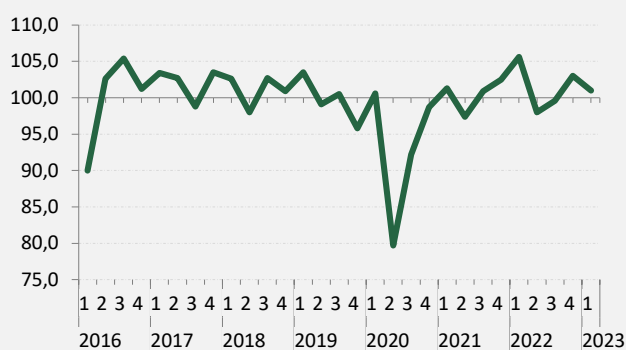
Source: ASPR BNS

Figure 7. Labor Force Participation Rate, %
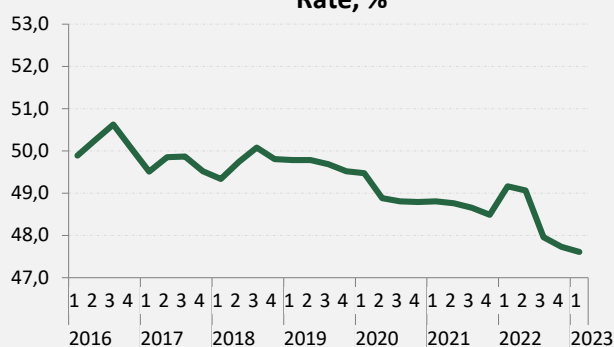
Source: ASPR BNS

Figure 8. The Share of Population Under and Over the Active Working Age,%
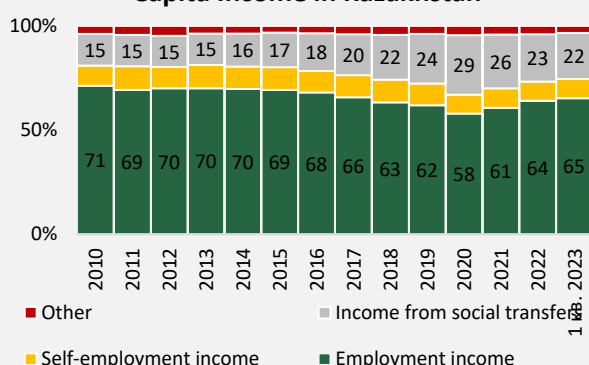

Source: ASPR BNS

Box 6. Personal Income in Kazakhstan

Given that inflation processes in 2022 and at the beginning of 2023 accelerated, real income of the population decreased. In the second quarter of 2023, as inflation slowed and nominal income grew, real income returned to the growth zone.

Wages remain the main source of income for the population. Income from hired work accounts for more than a half of all income of the population. At the same time, there has been a continuous decline in the share of wages in the structure of cash income of the population from 2010 to 2021 (Figure 1). This trend was observed with an increase in the share of income from transfers, which increased due to an active fiscal

policy. The growth of budget spending on social transfers exceeded the growth of the payroll fund in the economy in the period from 2013 to 2020 (Figure 2).

Figure 1. Structure of Average Monthly per Capita Income in Kazakhstan

- Other
- Income from social transfers
- Self-employment income
- Employment income

Figure 2. Growth Rates of Budget Spending for Transfers and the Payroll Fund, as % YoY

- Payroll fund
- Budget spending for retirement benefits
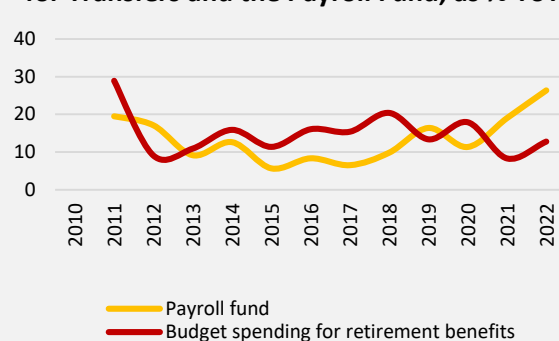
Source: ASPR BNS

During the pandemic, the share of income from employment decreased to 58%, which was associated with stronger quarantine restrictions. Starting in 2021, given a significant increase in the minimum wage in Kazakhstan and the raising of wages in the public sector, the share of wages in the structure of household income has gone up, once again exceeding 60%.

It is worth mentioning that there is a structural shift in the dynamics of growth rates of nominal and real income of the population. Thus, before the global financial crisis of 2008-2009, the annual growth of real income of the population exceeded 10-15%, in certain periods reaching 27%. After the financial crisis, the average annual growth in real income of the population decreased and amounted to 3.9%. The results of data filtering by income showed a decrease in the growth potential of real income of the population after the global financial crisis.

Figure 3. Personal Income Structure, by Regions, %
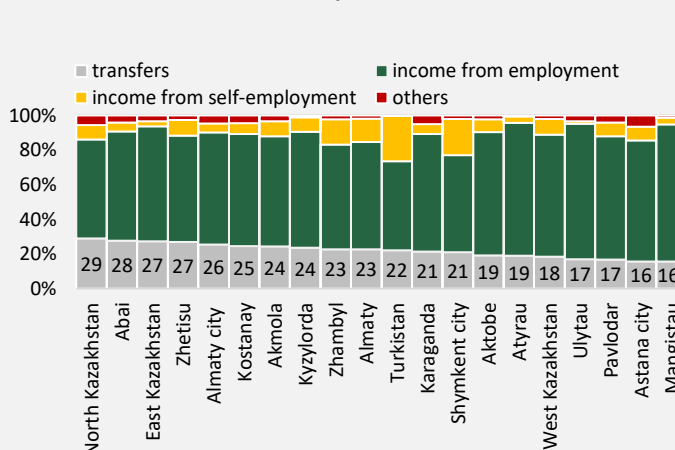
- transfers
- income from employment
- income from self-employment
- others

Figure 4. Structure of the Population Potentially Being Not Among the Labor Force, by Regions (2022)

- Share of children in the population
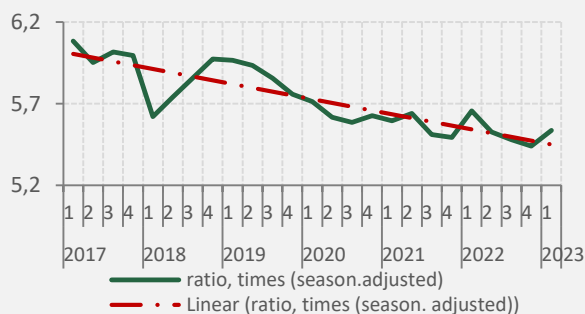- Share of pensioners in the population

Source: ASPR BNS
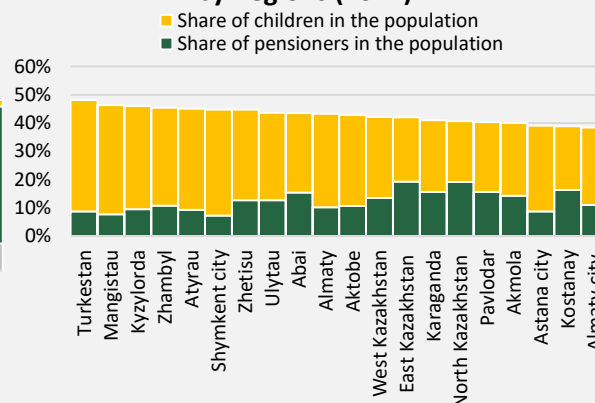
Despite retention of a significant share of wages in the income structure, regionally the income structure is heterogeneous. In regions with the largest number of pensioners, a higher contribution of transfers is observed (North Kazakhstan region, East Kazakhstan region, Abai and Zhetisu regions). In the southern regions, the share of income from self-employment is higher than in other regions, which is due to the large number of small and medium-sized businesses (Figures 3, 4).

Along with the decline in the average growth rate of personal income, the ratio of cash income per capita to the minimum subsistence level (MSL) has decreased. Based on performance in the first quarter of 2023, in a regional context, the lowest ratio of cash income per capita to MSL is observed in the southern regions and the main oil regions of the country (less than 5 times). This, in turn, is characterized by a relatively low solvency of the population. At the same time, the highest income to MSL ratio is observed in the Karaganda

region and the Ulytau region, as well as in the cities of Astana and Almaty, where cash income is 7 or more times higher than the MSL (Figure 5).

From 2010 to 2017, Kazakhstan experienced poverty reduction. Thus, the share of the population with income below the subsistence level decreased to 2.7%. In 2018, the trend reversed, and the share of the poor population began to grow again (Figure 6). According to the data for the first quarter of 2023, most of the population with income below the subsistence level live in the Turkestan region, Abai and Zhetisu regions, Mangistau region and in the city of Shymkent.

Figure 5. Nominal per Capita Income/ Minimum Subsistence Level, Times

ratio, times (season.adjusted)
Linear (ratio, times (season. adjusted))

Figure 6. Dynamics in the Share of Population with Income Below the Minimum Subsistence Level, as % of the Total Population and the Gini Coefficient

Income/MSL   Gini coefficient (right axis)
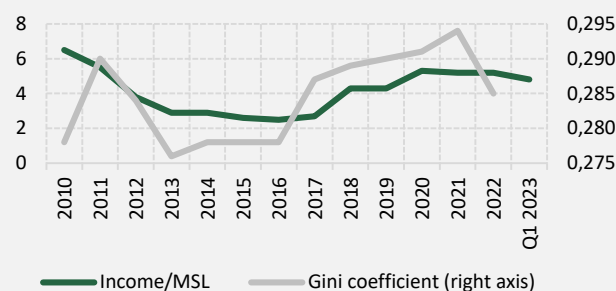
Source: ASPR BNS

In 2022, the average per capita income of the population amounted to 154 thousand tenge per month, while the median income was almost 2.5 times lower and was equal to 63 thousand tenge. In June 2023, the average monthly income increased slightly and amounted to 174 thousand tenge. At the same time, according to data for the 1st quarter of 2023, 90% of the population's per capita income does not exceed 151 thousand tenge on average per month.

The Gini coefficient, which reflects inequality in income distribution, showed that the degree of inequality in Kazakhstan has significantly decreased since 2021 (Figure 6). The minimum difference (minimum Gini coefficient) in income between the richest and poorest segments of the population is observed in two oil regions (Mangistau and Atyrau regions) and in the regions with the largest population with income below the subsistence level, in particular in Turkestan and Kyzylorda regions and the city of Shymkent. The highest disproportion in income is observed in large cities, as well as in the Karaganda region, North Kazakhstan region, East Kazakhstan region and Ulytau region.
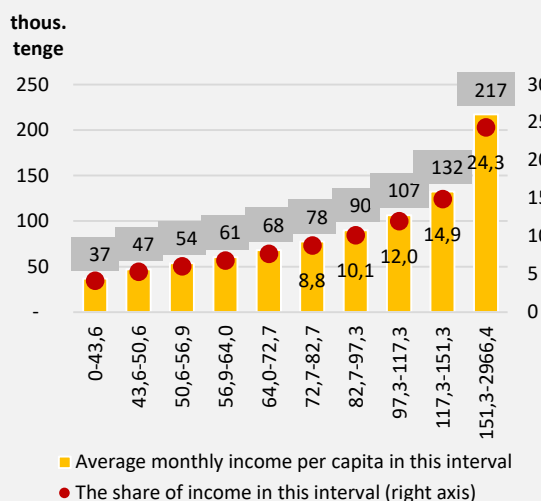
Almost a quarter of all income of the population in Kazakhstan (24.3%) falls on the richest people in the country (population in the 10th decile with an income range between 151.3 thous. and 2.97 mln tenge). However, despite a fairly wide range of income in this decile, a left-sided asymmetry is observed. Thus, the average monthly per capita income in the 10th decile was only 217 thous. tenge, which indicates a larger number of people in this decile having income closer to the lower limit of the decile (151.3 thous. tenge) (Figures 7, 8).

With a significant regional difference in the income of the 10% of the most affluent population, the income of the 10% of the least affluent population is equally low in all regions and fluctuate in the range of 35-45 thousand tenge a month per person.

Figure 7. Distribution of Personal income by 10-% Groups (Based on the Data for Q1 2023)

- ■ Average monthly income per capita in this interval
- ● The share of income in this interval (right axis)

Source: ASPR BNS

Figure 8. Income of the 10% Least and Most Affluent Population (Q1 2023), Thous.Tenge

- ■ The difference in income between the most and least affluent
- — 10% of the lowest-income population
- — 10% of the most affluent population
- ● Average monthly wage
- --- Average monthly wage in the economy
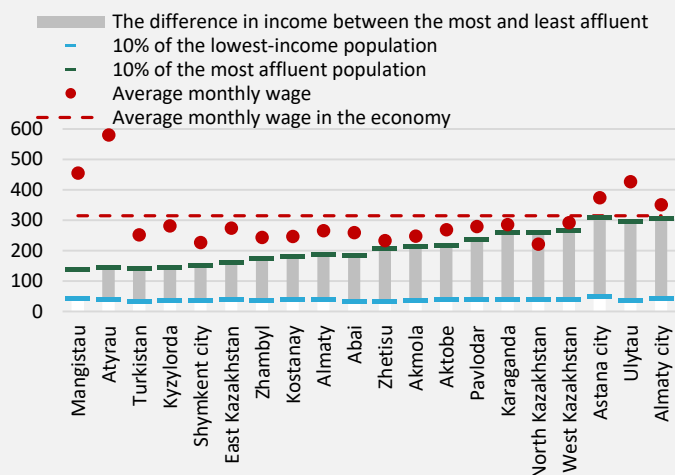
At the same time, the highest level of wages does not lead to higher cash income in the region. Thus, with maximum wages in the Atyrau and Mangistau regions, the cash income of the population is the lowest in the country. This is mainly due to the structure of industry in these regions and the high proportion of "rotational" workers[19]. In most of the remaining regions of the country, wages are below the national average.

One of the common characteristics of many "poor" regions of the country is the high share of the dependent population (children, pensioners) in the structure of the region's population (Figure 4). However, despite the large share of this category of the population, the share of transfers in the cash income of the population in "poor" regions does not exceed the nation-wide average level. This situation may be a consequence of a greater demographic burden on the part of children than on the part of retired people.

One can note some deterioration in the financial situation of the population in recent years. This is a consequence of both demographic processes in the country, which lead to a greater dependence on transfers, and high Inflation, which reduces the purchasing power. Thus, one of the most important short-term tasks in improving the financial standing of the people is to reduce inflation to the target level of 5%.

Graph 57. Inflation Dynamics, %

Legend:
- Inflation, MoM (right axis)
- Inflation, YoY
- Inflation SA, MoM (right axis)*
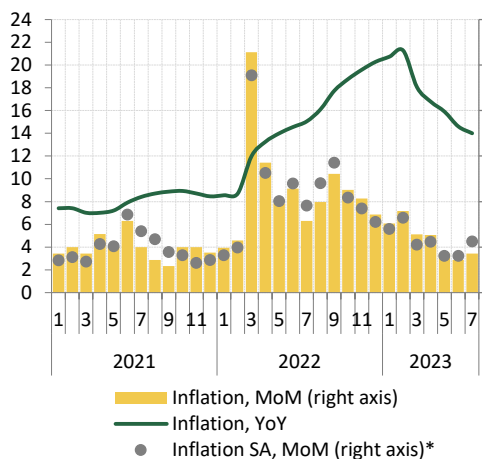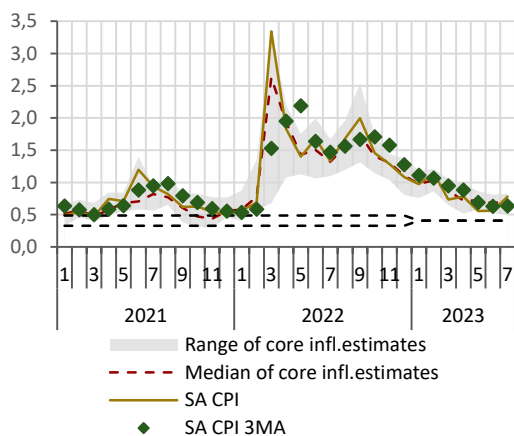
Source: ASPR BNS, NBK calculations

* Seasonal adjustment was performed by using X-12-ARIMA method from 2011 until present

Graph 58. Seasonally Adjusted Consumer Price Index and Core Inflation Estimates, %

Legend:
- Range of core infl.estimates
- Median of core infl.estimates
- SA CPI
- SA CPI 3MA

Source: NBK calculations

* a monthly moving average of seasonally adjusted CPI for the last 3 months

3.4. Inflation

Annual inflation kept decelerating for the fifth month in a row, amounting to 14% in July 2023. Within the structure of inflation, the rise of prices for food and non-food products decelerated. The increase in prices for paid services in annual terms accelerated to 13.6% (Figure 57).

Inflationary processes in the economy are slowing down in the context of a decline in world food prices (meat, dairy products and grains), deceleration of inflation in Kazakhstan's trading partner countries, as well as a decline in import prices against the strengthening tenge exchange rate. Monthly price growth in July 2023 amounted to 0.6%, while the seasonally adjusted inflation rate accelerated to 0.8%, MoM (June 2023 – 0.6%). The decline in prices for vegetables in July 2023 was below historical values, which led to their seasonally adjusted growth. Along with this, prices for audiovisual equipment and photographic equipment, electrical appliances have increased significantly due to a sharp increase in demand. The raising of utility tariffs also contributed to the growth of the seasonally adjusted indicator.

The median of the range of core inflation estimates[20] that reflects a more steady price pressure have stabilized at 0.7%, MoM, for the fourth consecutive month. The fluctuation range of seasonally adjusted core inflation slightly narrowed to 0.5% – 0.8% in July 2023 from 0.5% – 1% in April 2023 (Figure 58).

The main contribution to inflation continues to be the rise in prices of food products. However, its contribution is decreasing along with the increasing contribution of non-food products and services against a gradual increase in tariffs for regulated utility services and rising prices for fuel and lubricants.

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[20] *The range of core inflation estimates calculated using more than 60 methods. The estimates are interpreted as a range from the minimum to the maximum value. Thus, not only the change in the median of trend inflation is recorded, but also the variance of its estimates. For a more detailed description of methods for estimating core inflation, see the study "Various Core inflation Estimates" https://www.nationalbank.kz/ru/news/issledovaniya*

Food inflation in July 2023 slowed to 0.1%, MoM. The annual growth in food prices slowed to 13.5% in July of this year due to the effect of last year's high base, including a slowdown in price growth for bread and bakery and cereals, meat and dairy products. The total contribution of these product groups to annual food inflation was 8.7 pp (Figures 59, 60).

The rise in prices for bread and bakery and cereals in annual terms slowed to 18.3% (in June 2023 – 21.1%) against lower producer prices of flour and cereal products, oils and fats, and sugar. The deceleration in price growth is also driven by a decline in producer prices in agriculture; in particular, in crop production, prices for wheat have continued to decline since April, with the decline amounting to 16.6%, YoY, in July (Figures 61, 62).

The annual growth in prices for meat and dairy products, cheese and eggs in July 2023 decelerated to 11.2% and 19.4%, respectively, against the decline in world prices of meat and dairy products as well as the reduction in forage domestic prices in June – July of this year.

A contribution to the slowdown in food inflation was made by a decrease in sugar prices against the increase in production by 36.7% in January-May 2023 in annual terms and an increase in imports from Russia. Prices for sunflower oil decreased by 4.7%, YoY, which was due to a decline in prices for sunflower seeds as a result of the imposition of export duties and the availability of significant reserves.

A monthly increase in prices for **non-food products** in July 2023 remained unchanged versus June – 0.7%, there is a slowdown in prices to 15% in annual terms (in June 2023 – 15.8%) (Figure 63).

A significant contribution to annual non-food inflation was made by the rise in prices of clothing and footwear, personal goods, detergents and cleaning products. The total contribution of these product groups to the increase in non-food inflation was 8.8 percentage points. At the same time, the contribution to non-food inflation by all groups of goods, with the exception of fuel and lubricants, decreased (Figure 64).
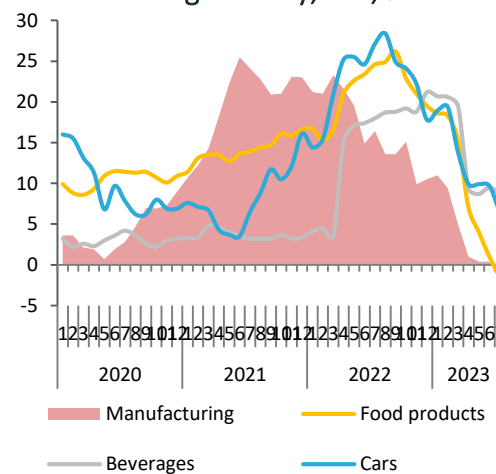
Graph 59. Dynamics of Food Inflation, %
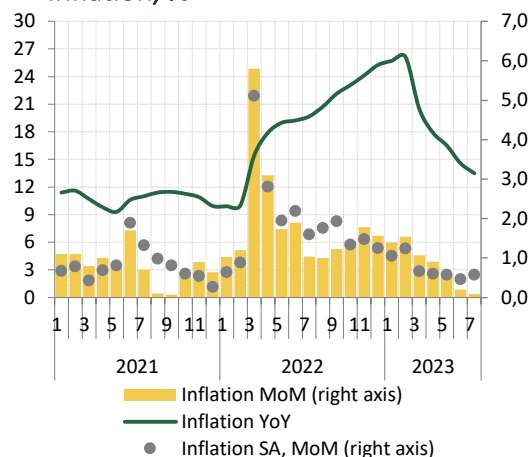
Source: ASPR BNS, NBK calculations

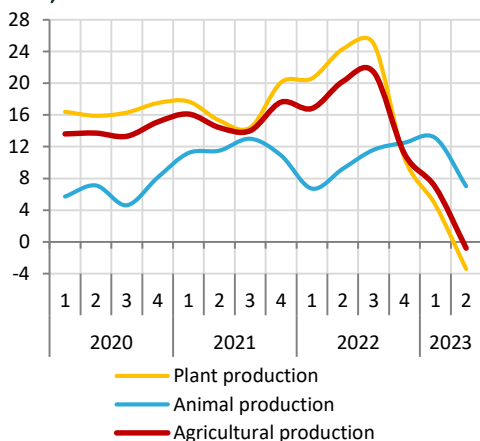Graph 60. Contribution of Particular Products to the Food Inflation, YoY, %
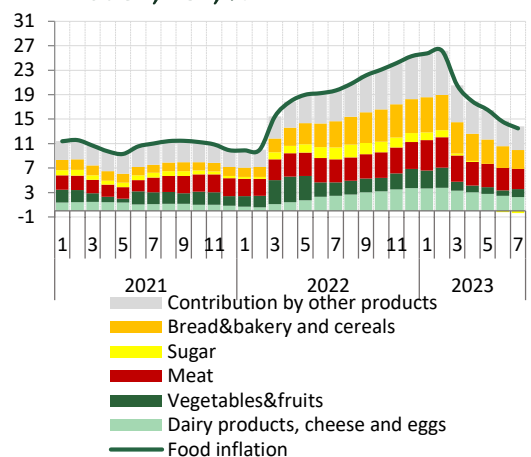
Source: ASPR BNS, NBK calculations

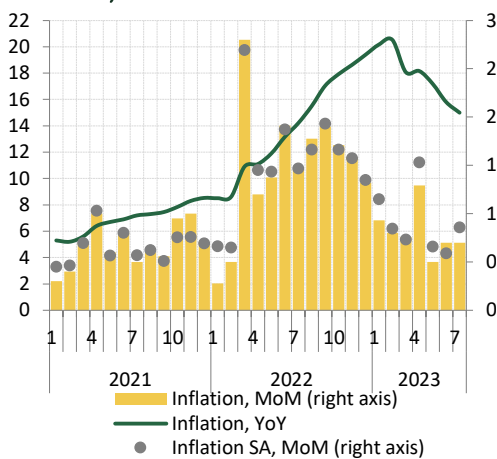Graph 61. Producer Prices in the Manufacturing Industry, YoY, %

Source: ASPR BNS, NBK calculations
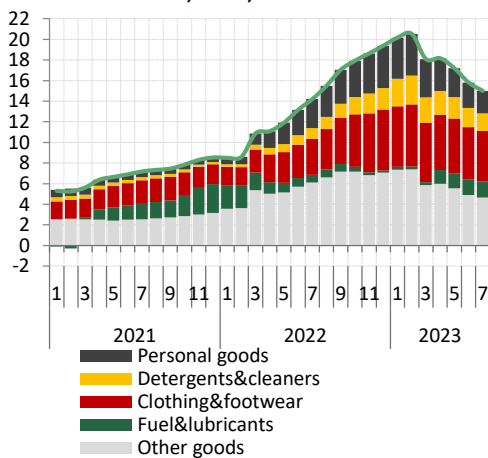
Graph 62. Prices in Agriculture, YoY, %

- Plant production
- Animal production
- Agricultural production

Source: ASPR BNS, NBK calculations

Graph 63. Dynamics of Non-Food Inflation, %

- Inflation, MoM (right axis)
- Inflation, YoY
- Inflation SA, MoM (right axis)

Source: ASPR BNS, NBK calculations

Graph 64. Contribution by Non-Food Products, YoY, %

- Personal goods
- Detergents&cleaners
- Clothing&footwear
- Fuel&lubricants
- Other goods

Source: ASPR BNS, NBK calculations

After the increase in marginal retail prices for certain types of fuel in April 2023, the structure of fuel and lubricants shows a consistent rise in prices for other types of fuel in the months to follow. Thus, from May to June 2023, prices for AI-95 and AI-98 gasoline as well as for diesel fuel went up. At the same time, it is worth mentioning that the indirect effect of rising energy prices has not yet been fully reflected in the cost of consumer goods. The strengthening of the tenge exchange rate against the Russian ruble in June-July of this year also neutralized the full realization of the indirect effect to some extent.

Meantime, one of the pro-inflationary factors in July 2023 was the increase in demand for durable goods associated with the provision of interest-free installments by STBs. In particular, the demand for audiovisual and photographic equipment, information processing equipment, household and gardening tools and equipment, personal electrical appliances, household appliances, glassware, cutlery and household utensils hiked.

The annual growth of the **paid services** inflation accelerated to 13.6% in July 2023, with the growth accounting for 1% in monthly terms (in June 2023 – 0.6%) (Figure 65).

The beginning of the summer holiday season has led to an increase in demand for services in the field of leisure and entertainment, catering, and hotel services. In June-July, prices for these types of services went up. In annual terms, services in the field of recreation and culture appreciated by 17% in terms of price, and the organization of all-inclusive offerings – by 19.0%. At the same time, there was an increase in the cost of services of hairdressing and beauty salons (by 15.9%, YoY), outpatient services (16.1%, YoY), clothing cleaning and repair services (19.5%, YoY).

As part of implementation of the "Tariff in Exchange for Investments" program in July 2023, tariffs for certain types of regulated utilities were raised in some regions of the country. Tariffs for electricity were increased in the Turkestan region and the city of Shymkent, for hot water – in the West Kazakhstan region, for cold water – in the Kostanay region (Figure 66).

At the same time, the growth of prices for air passenger transport services decelerated to 10.5%, and education services – to 13% in annual terms.

Household's inflation expectations in June-July 2023 remained elevated.

The median estimate of expected inflation over one-year horizon decreased insignificantly from 17.0% in May to 16.9% in July 2023. Meantime, the median of perceived inflation decreased significantly from 21.1% to 18.6% (Figure 21).
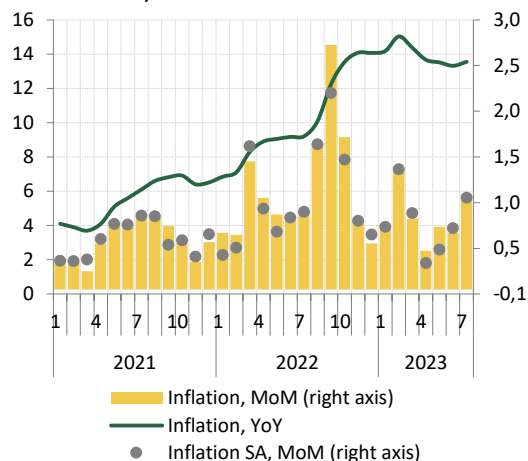
According to the results of the survey, the household's focus regarding the rising prices has shifted from food products to fuel and lubricants and utility services. In July of this year, respondents pointed to the changes in prices for fuel and lubricants as the main factor of expected inflation in a year.

In July 2023, the percentage of respondents that noted a rise in food prices over the past month continued to decrease (from 74% in June to 66% in July – a minimum since 2016). However, there was an increase in the percentage of those who noted the growth in prices for non-food products (16%) and paid services (8%).

Among food products respondents mentioned dairy products, meat, fruit and vegetable products, and bread and bakery products. In addition, respondents also noted the increase in prices for utility services, household chemicals, fuel and lubricants and passenger transport.
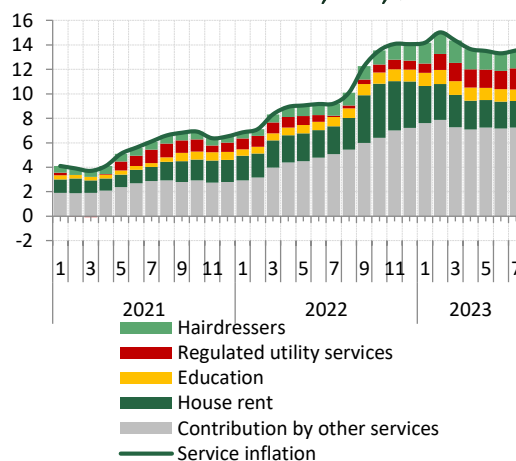
According to the results of a survey of real sector enterprises conducted by the National Bank of Kazakhstan, in the second quarter of 2023 the growth rate of prices for products and services of enterprises in all industries slowed down. The largest decline was observed by agricultural enterprises. In the third quarter of 2023, enterprises in most sectors expect a further slowdown in price growth, while utility enterprises (water supply, electricity production) as well as manufacturing enterprises anticipate acceleration in price growth.

Graph 65. Dynamics of Service Inflation, %

Inflation, MoM (right axis)
Inflation, YoY
Inflation SA, MoM (right axis)

Source: ASPR BNS, NBK calculations

Graph 66. Contributions to the Paid Services Inflation, YoY, %

Hairdressers
Regulated utility services
Education
House rent
Contribution by other services
Service inflation

Source: ASPR BNS, NBK calculations

Graph 67. Median Estimates of Expected and Perceived Inflation, YoY, %

Perceived inflation (for the past 12 months)
Actual inflation
Expected inflation (in the next 12 months)
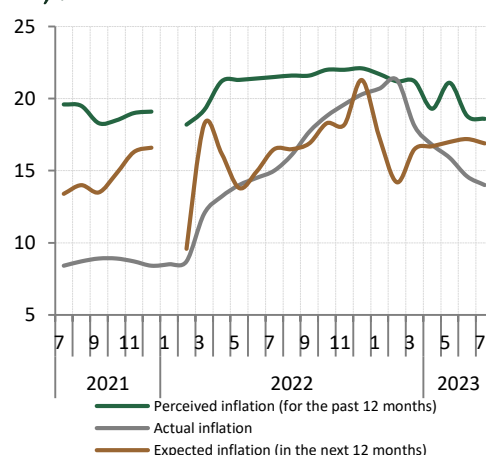
Source: ASPR BNS RK, FusionLab: population survey

Graph 68. Overall and Non-Oil Deficit of the National Budget, as % of GDP
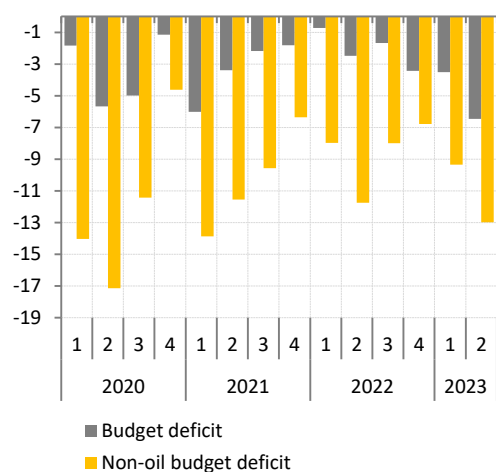
Source: MF RK

For the vast majority of enterprises, the most important factors in setting prices for finished products are prices for raw materials (for 84.0% of enterprises), demand (82.9%) and labor costs (72.5%).

In terms of factors determining prices for finished products, the rise in prices for raw materials and imported products as well as the dynamics of average wages, according to enterprise estimates, continue to slow down. In the third quarter of 2023, the trend is expected to persist, with enterprises expecting a slight increase in the demand for finished products.

3.5. Fiscal Policy

Based on performance in the first half of 2023, there is an increase in the budget deficit due to a faster growth rate of budget expenditures compared to revenues.

During January-June 2023, the national budget deficit amounted to 2,324.1 bln tenge, which exceeds the corresponding period of 2022 by 3.6 times (during 6 months of 2023 – 5% of GDP). The increase in the budget deficit is stemming from the rapid growth of expenditures over revenues (including transfers from the National Fund) (an increase of 26.1% and 9.9%, respectively).

The non-oil deficit of the national budget (budget deficit excluding transfers from the National Fund and export customs duties for crude oil) amounted to 5,210.2 bln tenge (11.2% of GDP), exceeding the amount in the corresponding period in 2022 by 31.6% (Figure 68).

National budget revenues during January-June 2023 went up by 9.9% compared to the corresponding period in 2022 and amounted to 8.6 trln tenge. Within the structure of revenues, only tax revenues showed a 25.6% growth (the share in budget revenues was 70.3%) against the growing economic activity and rising prices for main export goods. Other revenue items showed reduction compared to the last year.
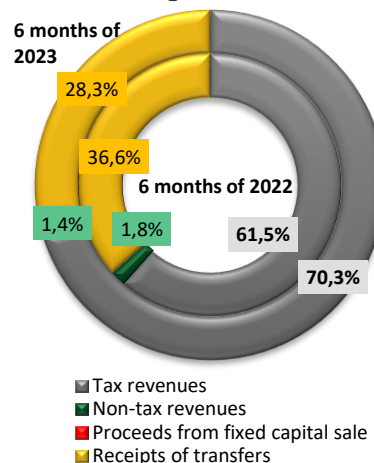
During January-June 2023, budget revenues received official transfers of 2,426.2 bln tenge (the share in budget revenues is 28.3%), of which the guaranteed transfer from the National Fund amounted to 1,203.0 bln tenge, the earmarked transfer – 941.5 bln tenge, and transfers from subordinate government authorities – 281.6 bln tenge. In the first half of this year, the volume of transfers from the National Fund decreased by 12.2% compared to the corresponding period in 2022. The national budget revenues excluding transfers from the National Fund went up by 19.9% compared to the corresponding period of 2022.

Within the structure of tax revenues, there was an increase in revenues from corporate income tax (by 21.2%, YoY) because of additional tax liabilities paid by large mining and metallurgical companies as well as from the value added tax (by 41.8%, YoY) as a result of growth in turnover from the sale of goods, works and services.

In January-June 2023, non-tax revenues went down by 18.0% compared to the corresponding period in 2022. The major reduction was in revenues from other non-tax revenues (other non-tax revenues to the national budget, with the exception of revenues from organizations in the oil sector, the Victim Compensation Fund and Education Infrastructure Support Fund). Reduced proceeds from fixed capital sale are related to the absence of sales of tangible assets from the state stockpiles (Figure 69).

During the first half of 2023, national budget expenditures amounted to 10.4 trln tenge, an increase of 26.1% compared to the corresponding period in 2022. The main contribution to the growth of national budget expenditures traditionally came from: official transfers – a 1.9 times growth (the share is 24.4%), debt servicing – by 45.4% (the share – 10.1%), healthcare – by 12.2%).

Graph 69. Structure of the National Budget Revenues

6 months of 2023

28,3%

36,6%

1,4% 1,8%

6 months of 2022

61,5%

70,3%

■ Tax revenues
■ Non-tax revenues
■ Proceeds from fixed capital sale
■ Receipts of transfers

Source: MF RK

BASIC TERMS AND DEFINITIONS

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 as well as the basis to determine the purchasing capacity of currencies.

Consumer Price Index is the change over time in the average price level of a fixed basket of goods and services purchased by the population for personal consumption. The consumer basket in Kazakhstan for computation of inflation reflects the structure of household spending and includes goods and services, which have the largest relative share in consumption of the 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 preceding (base) period. The index is calculated by the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan.

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.

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 national currency from the domestic money turnover, and acting as the means of saving, measure of value and the legal tender.

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 influence the domestic foreign exchange market in order to smooth out the volatility of the national currency exchange rate or to prevent its dramatic movements as well as to ensure the financial system stability.

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.

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 non-produced tangible assets; d) expenses in connection with the transfer of title for non-incurred costs.

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

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

Interest Rate Channel of the Monetary Policy Transmission Mechanism is the transmission mechanism channel, which describes the impact of the central bank on the economy through the interest rate regulation.

Monetary Policy Transmission Mechanism is the process, whereby monetary policy instruments influence final macroeconomic indicators such as the economic growth, inflation.

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 individuals in the national and foreign currency.

Output Gap is the 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.**Real Exchange Rate** refers to a relative price of a commodity produced in two countries: the proportion of commodity exchange between countries. The real exchange rate depends on the nominal rate, on relation between exchange rates of currencies, and prices of goods in the national currencies.

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.

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.

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 accordance 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.

The base rate is a key monetary policy instrument of the National Bank that allows regulating nominal interbank interest rates in the money market. By establishing the base rate level, the National Bank determines a target value of key interbank money market short-term interest rate to achieve the goal of ensuring the price stability in the medium term.

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.

Transferrable Deposits refer to all deposits, which: 1) can be converted into cash at face value at any moment in time without any penalties and restrictions; 2) are freely transferable through a check, draft or endorsement orders; and 3) are widely used for making payments. Transferrable deposits represent a part of the narrow money. Other deposits primarily include savings and term deposits that only can be withdrawn on expiration of a certain period of time, or can have different restrictions which make them less convenient for use in the ordinary commercial transactions and, mainly, meet the requirements established for saving vehicles. In addition, other deposits also include non-transferable deposits and deposits denominated in foreign currency.

LIST OF KEY ABBREVIATIONS

ASPR BNS – Bureau of National Statistics of the Agency for Strategic Planning and Reforms
bln – billion
bp – basis point
CBRF – Central Bank of the Russian Federation
CPI – consumer price index
ECB – European Central Bank
EIA – Energy Information Administration
EM – emerging markets
EU – European Union
FAO – Food and Agriculture Organization of the United Nations
Fed – US Federal Reserve System
GDP – gross domestic product
GSs – government securities
IMF – International Monetary Fund
KASE – Kazakhstan Stock Exchange
KDIF – "Kazakhstan Stock Exchange" JSC
KSF – "Kazakhstan Deposit Insurance Fund" JSC
MED – Ministry of Economic Development of the Russian Federation
MF RK – Ministry of Finance of the Republic of Kazakhstan
mln – million
MNE – Ministry of National Economy of the Republic of Kazakhstan
MW – minimum wage
NBK – National Bank of the Republic of Kazakhstan
NFRK – National Fund of the Republic of Kazakhstan
OPEC – Organization of Petroleum Exporting Countries
pp – percentage point
PPE – property, plant and equipment
Rosstat – Federal State Statistics Service of the Russian Federation
SRC MF RK – State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan
TCO – Tengizchevroil
TEA – types of economic activities
thous. – thousand
trln – trillion