EQUITABLE GROWTH, FINANCE & INSTITUTIONS

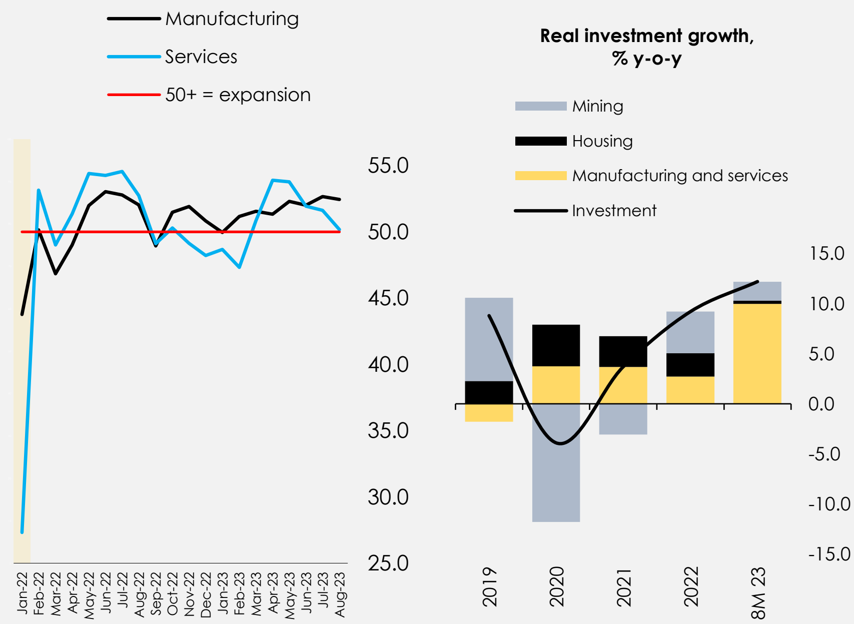
Macroeconomics, Trade and Investment

Kazakhstan Monthly Update, October 2023

Business activity lost momentum in August

- The overall PMI reading edged down to 50.4 in August from 51.9 in July, led by a pronounced drop in services. Monthly hard data also supports this trend, with slower growth in cargo turnover (down from 5.5% yoy growth in July to 4.3% in August) and passenger traffic, along with deceleration in domestic trade (falling from 8.8% in July to 7.3% in August).
- Investment gained momentum, growing by 12.2% yoy in Jan.-Aug. (5.7% a year ago). High oil prices fueled investments in drilling and mining (accounts for 1/3rd of total). But there was also robust non-resource investment growth driven in part by higher investment spending by public sector (17% of total). This spending grew by 26.9% yoy in Jan.-Aug. in real terms. Meanwhile, housing investment has moderated, rising only 1.5% yoy in Jan.-Aug. due to reduced subsidized housing program. Rising borrowing cost could have also played a role.

Purchasing Managers' Index,
manufactruring, services, 50+ = expansion on proir month

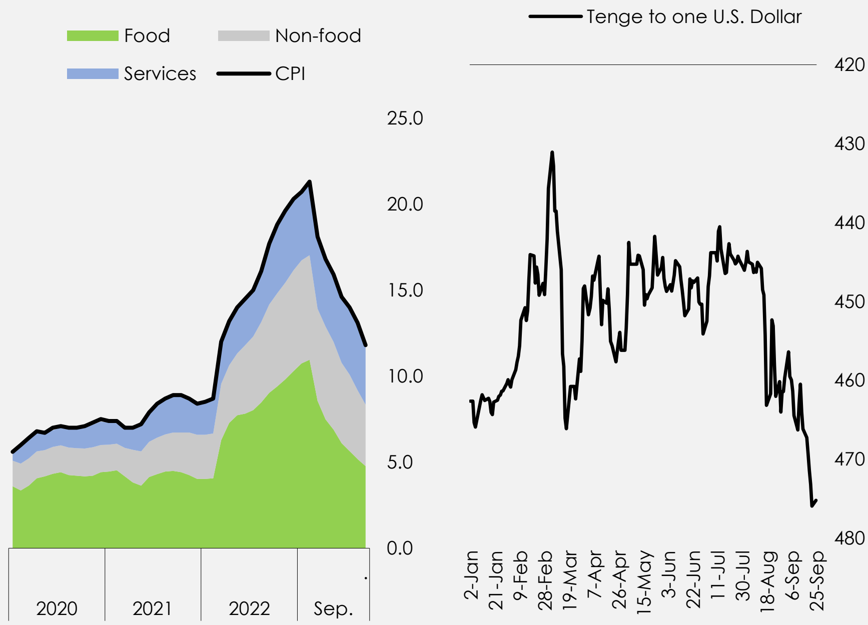


Source: S&P Global Purchasing Managers Survey, the shaded areas indicate recession periods

Inflation further decreases, yet the recent depreciation poses risk

- In September, inflation continued to decline, reaching 11.8% yoy, down from 13.1% in August. This decrease was primarily attributed to a sharp decline in food inflation, which fell to 11.4% yoy in September, significantly lower than the 22.2% reported a year ago. The non-food inflation decreased to 12.1% yoy (down from 17% a year ago) and services inflation shifted down to 11.9% yoy (12.3%).
- The tenge depreciated by about 10% against the U.S. Dollar in late September compared to its highest level recorded in mid-March. Factors contributing to depreciation likely include the growing current account deficit, the suspension of compulsory sale of SOEs FX earnings domestically, and the Ruble's slump by almost 40 percent since March. Additionally, in August, the net flow of FX transactions through interbank channels increased by nearly 40% yoy, indicating a substantial capital outflow from the country.

Consumer price inflation, yoy, percentage point

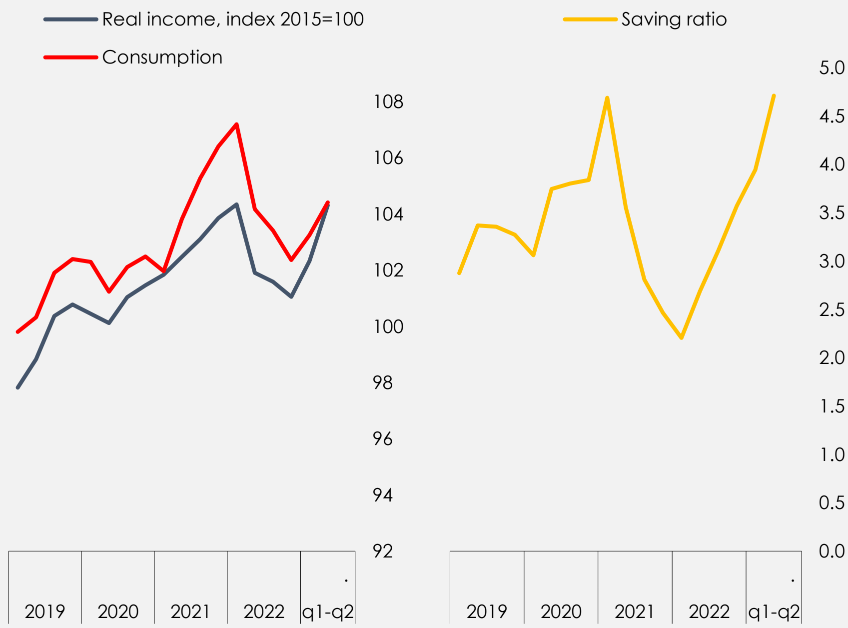


Source: Bureau of National Statistics, Financial times Global Exchange rates

Personal savings rebound fueled by stronger real income growth

- Supported by the ongoing deceleration in inflation, real personal income, net of taxes and adjusted for inflation, increased by 2.4% yoy in Q2.
- Real wage growth began to pick up in Q2, rising by 1.2% yoy, up from 0.6% decline in Q1, as the impact of inflation lessened. This has bolstered real income growth and is expected to drive consumer spending.
- Real income growth is a key driver of consumer spending, which inched up 0.2% yoy in Q2. Growth in consumer credit, which is mostly associated with household spending, has also supported households' spending decisions. With income growth estimated to have outpaced spending growth, the personal savings rate has increased, following a significant decline during the pandemic.

Household spending, % of total

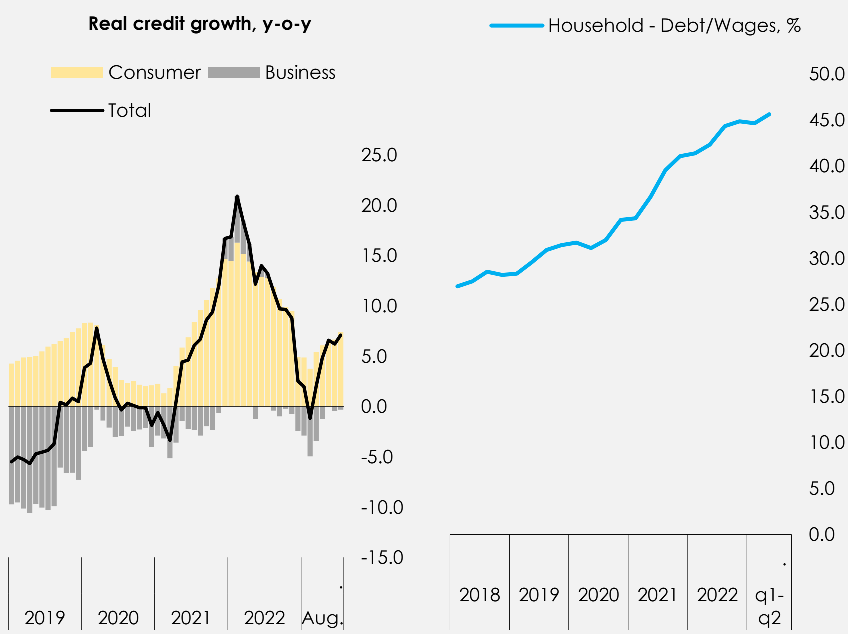


Source: Bureau of National Statistics, staff estimates

Demand for retail loans remains robust but household debt appears to picked up

- Although the NBK's policy tightening has continued to result in higher bank lending rates, the demand for retail loans from households remained strong in August. The average real lending rate for businesses picked up to 5.7% yoy in August (0.6% in March) and for households rose to 6.3% yoy (1.3% in March).
- In August, credit to households increased by 13% yoy in real terms, while credit to businesses continued to decline. The demand for loans from firms was not growing, despite various concessional lending programs and a series of bank bailouts.
- Household debt surged in Q2 2023 due to accelerated borrowing and despite the pressure on incomes caused by high inflation. Government policies have played a crucial role in the rising household debt levels, as banks continue lending with substantial support from government-funded subsidized programs, including mortgages and car loans.

Bank loans growth and household debt, %



Source: Bureau of National Statistics, Haver analytics