Kazakhstan Monthly Update, March 2024

Economic activity slows down

- Economic activity in the manufacturing and services sectors slowed down in February. The Purchasing Managers Index (PMI) for manufacturing dipped below the growth threshold of 50, falling to 49.8 from 50.5 in January. The PMI for services also declined to 48.5 from 49.8 in January.
- This weakening activity likely reflects a decline in real incomes, which contracted by 1.4 percent in January. Notably, private consumption, as measured by retail trade data, slowed to 5.5 percent year-on-year (yoy), down from 6.5 percent a year ago and a robust 9.7 percent expansion in December 2023.
- Capital investment growth also slowed to 7.9 percent yoy in February, compared to an expansion of 19.2 percent the previous year, largely due to falling investment in the mining sector.

Inflation cools down to lowest level in over a year and monetary policy eases

- Headline inflation dipped to 9.3 percent yoy in February, the lowest level since March 2022. Core inflation (which excludes food and energy prices) also fell from 9.4 percent yoy to 9.0 percent.
- Consequently, the National Bank of Kazakhstan cut its policy rate by 500 b.p. to 14.75 percent in February, marking the fourth consecutive reduction in the rate, following a period of relative stability throughout most of 2023.
- However, the increase in the minimum wage for the third consecutive year in 2024, effectively doubling it since 2021 (50 percent increase in real terms), may contribute to broader inflationary trends. Furthermore, inflation expectations remain elevated at 14.6 percent in February.

Source: S&P Global Purchasing Managers Survey

High borrowing costs don’t deter credit growth

- As of March 2024, real bank lending rates for both firms and households remain high compared to the previous year.
- Real lending rates to households surged from -1 percent a year ago to 8.6 percent in February. Similarly, business loan rates increased from -1.5 percent to 8.1 percent during the same period.
- Despite these high borrowing costs, credit growth has been on an upward trend since the beginning of 2024, reaching 13.6 percent in March, in part driven by government-subsidized lending programs for both firms and households.
- Real loans to firms increased by 7.5 percent yoy in February, and credit to households also accelerated, rising from 7 percent in February 2023 to 18.0 percent in February 2024.

Debt burden shrinks but FDI slows

- The total public and private debt burden fell to an estimated 62.3 percent of GDP in 2023, down from 71.3 percent in 2022, largely due to a sharp decrease in foreign direct investment (FDI)-linked inter-company loans, which are typically associated with long-term capital investments in the mining sector (56.3 percent of the total).
- While the repatriation of investment income has remained steady at around 10.8 percent of GDP over the past three years, FDI inflows are on a downward trend, falling from 2.3 percent of GDP in 2021 to 2.0 percent in 2023.
- Breaking down the debt structure by sector, private sector liabilities, including corporations and commercial banks, decreased to 15.8 percent from 16 percent of GDP (25.5 percent of the total external debt) in 2023 along with SOEs’ debt which also went down to 4.9 percent of GDP (6 percent in 2022).