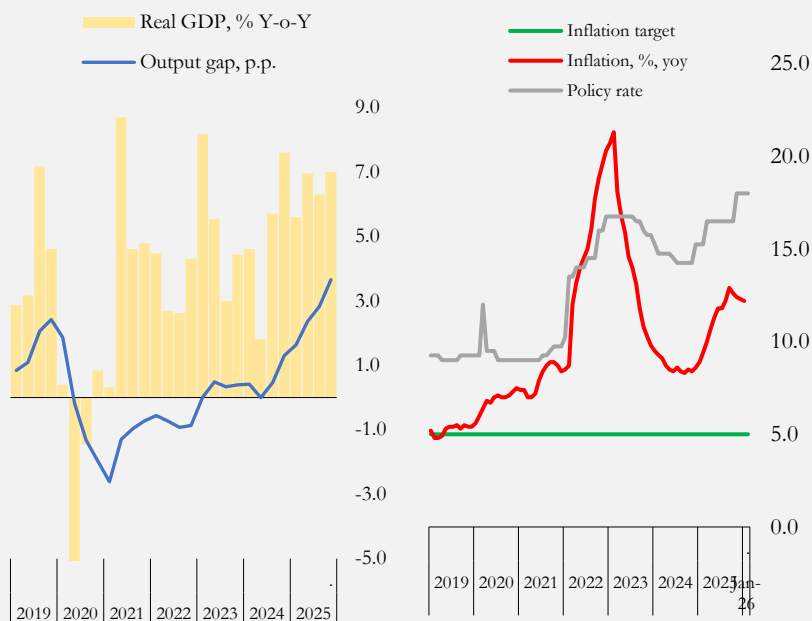




Kazakhstan Monthly Update, February 2026

Growth surges beyond potential, rising price pressure

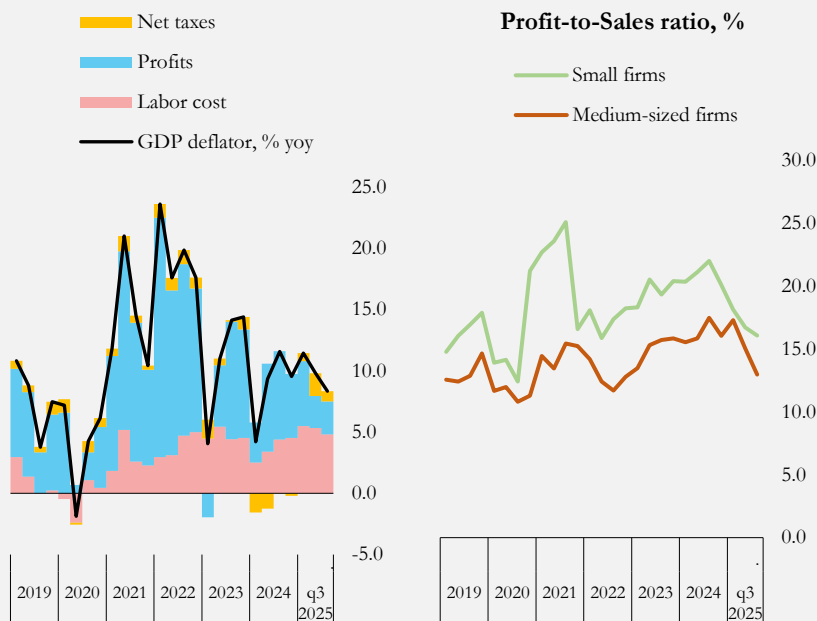
- Kazakhstan’s economy delivered another year of strong expansion in 2025, growing by 6.5%, up from 5.0% in 2024, powered by domestic demand and higher oil output. For much of 2024–25, the economy appears to have been operating above potential. Growth is expected to gradually moderate in 2026 as positive output gap unwinds.
- Household consumption remained resilient, with domestic trade climbing 7.9% in 2025, even as real incomes declined, largely sustained by continued credit expansion. Investment surged by 13% (from 7.5% in 2024), driven by infrastructure projects and quasi-fiscal spending by SOEs, while private investment remained subdued. Net FDI inflows turned negative (–US\$0.9 bln.) in 2025, reversing positive inflows of US\$2.0 bln. a year earlier, signaling weakening external investor appetite.
- The authorities’ strong push to sustain growth through additional fiscal stimulus, alongside fuel and utility tariff hikes under ongoing reforms, has come at a cost. Inflation accelerated from 8.6% at end-2024 to 12.3% by end-2025, remaining elevated at 12.2% in January 2026 –the highest levels among Central Asian peers.



Source: Bureau of National Statistics, Haver Analytics, staff estimates

The firm profits along with labor costs adds to inflationary pressure

- Recent price developments suggest that domestic inflation dynamics have also been influenced by firm pricing behavior and rising labor costs.
- The GDP deflator rose by 8.3% y-o-y in Q3 2025, down from 9.8% in the previous quarter but remaining below headline inflation, suggesting that imported price pressures also continue to play a significant role.
- Corporate pricing power has been a key driver of post-pandemic inflation, as firms took advantage of supply–demand imbalances and cost shocks following Russia’s invasion of Ukraine to widen markups and pass higher input costs on to consumers. Profitability among small firms rose from 13.1% in 2018 to 16.1% in Q3 2025, while medium-sized firms saw margins increase from 13.7 to 15.1% over the same period. More recently, however, margins have begun to ease, mirroring a diminishing contribution of profits to price increases.
- Given that these firms dominate domestic consumer goods and services markets, their strong profitability suggests that profit-driven pricing has also, among other factors, amplified inflation persistence.

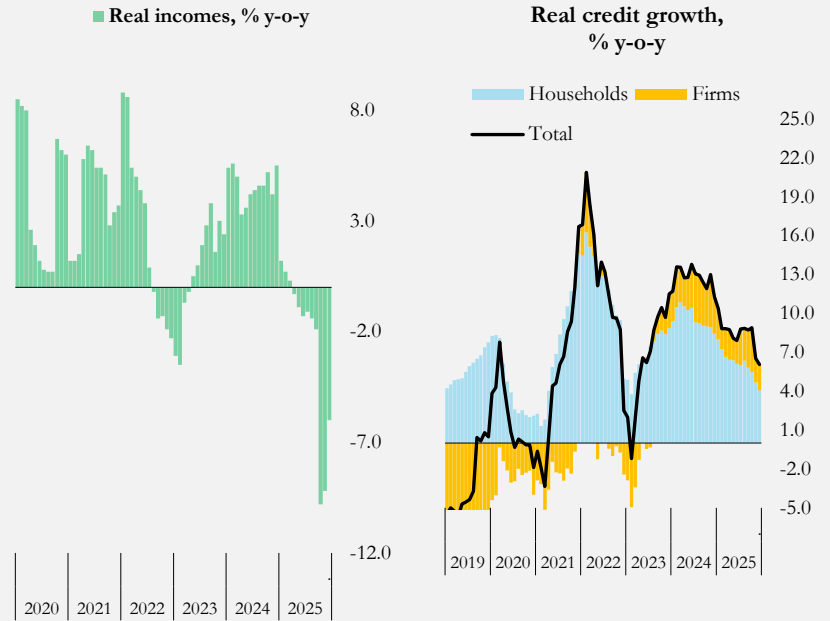


Source: Bureau of National Statistics, Haver Analytics, National Bank, staff estimates. Note: Profit and sales figures are presented as four-quarter moving averages. Profits are defined as net profits before taxes.



Inflation takes toll on living standards with credit becoming a coping tool

- High inflation is visibly eroding living standards, with the heaviest burden possibly falling on low-income and vulnerable families, particularly in rural areas, intensifying the cost-of-living pressure. As food, utilities, and essential goods become more expensive, poorer families are likely to feel the squeeze most acutely.
- After a recovery in 2023-24, real incomes slipped back into contraction in 2025 with almost 6% y-o-y decline in December (-2.7% contraction over 12M 2025) - the sharpest fall in the period shown.
- Even amid tightened financing conditions, the drop in real income appears to have pushed households to lean more heavily on credit to smooth consumption and cover essential expenses. Despite the continuous drop in real credit growth since early 2024, consumer lending expanded by 6.7% (in December 2025), accounting for nearly two-thirds of total credit growth
- Taken together, the trends point to a dynamic: strong headline GDP growth coupled with inflation-driven erosion of household welfare, and rising credit increasingly serving as a coping mechanism rather than a sign of improved financial resilience.



Source: Bureau of National Statistics, Haver Analytics, National Bank, staff estimates

Robust bank profits meets increasing household debt strain

- On the flip side, bank profitability remains exceptionally strong, underpinned by continued credit expansion (+6.1% in real terms) and high real lending rates (6.9% for firms and 8.7% for households adjusted for inflation in 2025). In 2025, the banking sector posted a return on equity (ROE) of 28.4%, slightly below the 36.7% peak in 2023, but still well above international norms. Profits were driven by a 32.3% y-o-y surge in net interest income, reflecting robust loan growth and wide interest margins.
- However, the credit expansion is increasingly stretching household balance sheets. By Q4 2025, household debt relative to wages reached a record 51%, exceeding even the pre-2008-09 banking crisis peak. Over 2020-2025, real household borrowing nearly doubled, while real income rose by only 15%.
- While financial stability indicators remain broadly sound for now, the rapid and potentially unsustainable expansion of consumer lending raises emerging vulnerabilities. Lower-income and informal workers often without stable earnings are particularly exposed, increasing the risk of debt distress, social tension, and future asset quality pressures if economic conditions tighten.



Source: The National Bank of Kazakhstan, Haver analytics, ECB – Q2 data