Growth in Q3 has been sluggish compared with the previous quarters

- In Jan.-Sep., the pace of economic growth decelerated to 4.7% y-o-y compared with 5.3% y-o-y in H1. In Q3, real GDP grew at an estimated 3.5% y-o-y, marking a drop from the robust 5.6% expansion seen in Q2. The slowdown was also evident in the quarter-over-quarter performance with GDP contracting 0.6% in Q3 relative to the previous quarter.
- Several factors contribute to this deceleration. Retail trade growth, serving as a proxy for household consumption, slowed to 6.1% y-o-y in Q3, down from 6.4% y-o-y increase recorded in Q2. Investment also exhibited a slowdown, with growth standing at 10.8% y-o-y in Q3 compared to 12.8% in Q2.
- In contrast, real exports saw a turnaround, growing by 2.6% y-o-y in Q3 after contraction in Q1-Q2, attributed largely to increased oil exports. But, it has not fully offset the deceleration in consumption and investment.

Inflationary pressures ease slightly and real incomes pick up

- Inflation continues a declining trend for 8 consecutive months and reaching 10.8% y-o-y in Oct., following a peak of 21.2% in Feb. 2023. While annual food prices saw a sharp deceleration (from 23.1% in Oct. 2022 to 10.4% in Oct. 2023), services inflation remained relatively persistent, standing at 11.1% in Oct. (only 2.5 p.p. lower than year earlier).
- In early Oct., the central bank cut the policy rate by 0.5 p.p. lowering it to 16%. However, the adverse weather conditions, particularly heavy rainfall during the Sep. harvesting season, coupled with sustained fiscal stimulus, could slow the pace of decline and make harder for inflation to reach the target of 5%.
- Following the most substantial decline in living standards since the 2015 crisis, real incomes have begun rising supported by falling inflation, moderate increase in real wages and a strong labor market. This is likely underpin consumer spending.
The deficit surges as spending outpaces revenue growth

- The government budget posted a deficit of US$ 4.9 bln. Between Jan.-Sep. compared with a US$ 1.3 bln. shortfall reported for the same period in 2022.
- Revenues increased by 16.7% y-o-y, largely reflecting higher non-oil related tax revenues. Non-tax revenues increased by 29.7% y-o-y, while oil-related revenues declined by 9.3%.
- Budget expenses, including net lending, increased by 26.7% y-o-y, primarily driven by higher spending on healthcare and education (+13.7%); and social benefits (+8.7%), reflecting an increase in minimum wage (+16.7) that benefit around 350k public sector workers, pension (+10.5%), and increased fiscal support for housing and utility infrastructure.
- Gross financing requirements in Jan.-Sep., including debt stock repayment, amounted to US$ 9.5 bln. U.S. Dollars, which is twice the figure for the same period in 2022. Nearly all of the funding needs were met through domestic borrowing.

Elevated bond yields drive up debt interest expenses

- In Sep., government bond yields, which reflect the overall cost of government financing, remained elevated across various maturities due to persistently high inflation and a tightly held monetary policy stance.
- Although short-term bond yields have experienced a modest decrease since their peak in Feb., they continue to remain at 15.5% in Sep., which is significantly above the post-pandemic average of about 9%. 10-year spot bond yields increased to 10.6% in Sep., up from 9.9% in Jan.
- Rising borrowing costs, coupled with the government’s exclusive reliance on domestic funding sources, have resulted in a sharp increase in the budget’s debt interest expenses, which have risen as a share of tax receipts to 10.7% in Jan.-Sep., up from 9.2% during the same period of last year.

Fiscal outturn, billion U.S. Dollars

Debt interest rates and service payments, %

Source: Ministry of Finance, National Bank of Kazakhstan, staff estimates

Source: National Bank of Kazakhstan, Haver analytics.
5-month MA, debt interest expenses and tax revenues (SA)