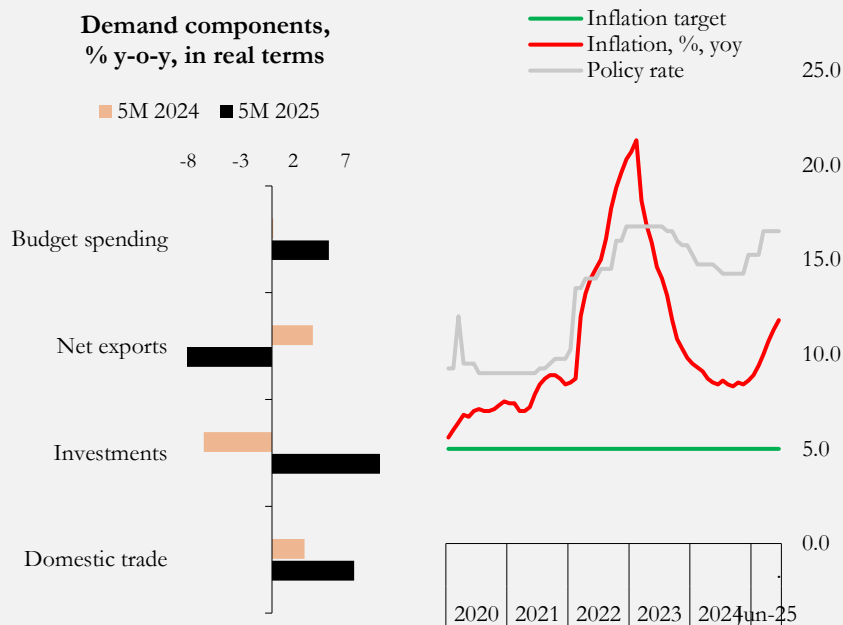




Kazakhstan Monthly Update, July 2025

Growth rebounds on domestic demand, but inflation heats up

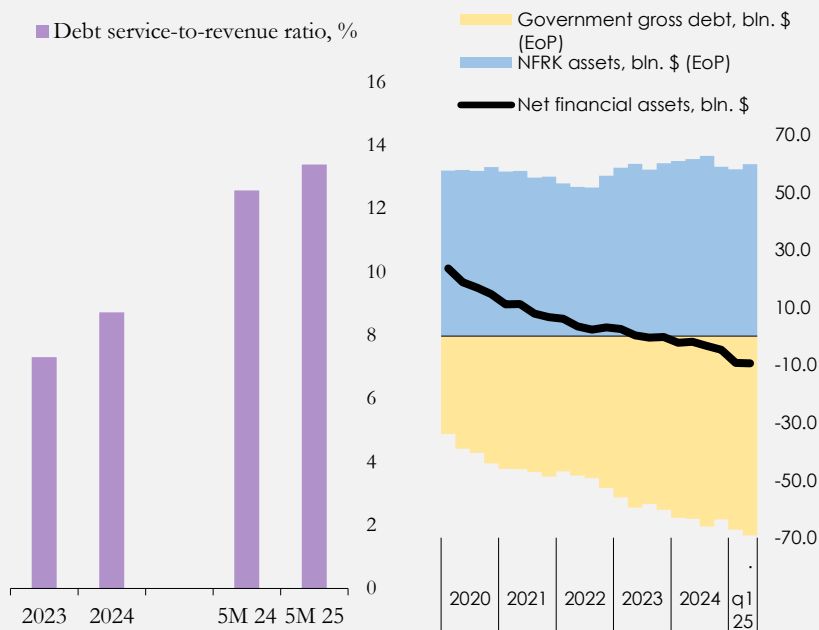
- Real GDP grew by an estimated 6% y-o-y in 5M 2025 (+3.3% in 5M 2024), supported by strong domestic demand.
- Investment surged 18.2% in 5M 2025 – a sharp reversal from the 6.5% slump seen a year earlier. Consumer demand also gained momentum, as domestic trade jumped 7.8% y-o-y, more than double the pace of 2024, fueled by rising household borrowing amid stagnant real wages. Government spending also picked up, rebounding after a sluggish start last year. But the external sector weighed on growth: goods exports slumped 12.3% while imports climbed 3.3%, pointing to a likely negative contribution from net exports.
- Surging domestic demand continues to intensify inflationary pressures. The headline inflation hit 11.8% in June, its seventh straight monthly rise, up from 8.5% a year ago. Price pressures were widespread: food prices jumped 10.6%, non-food prices rose 9.4%, and services soared 16.6%, driven in part by rising utility tariffs under the government’s subsidy reform. With inflation stuck well above the 5% target for 5 years running, taming price growth remains a top policy priority.



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

Fiscal position softened as revenues dipped and debt level rise

- Consolidated budget revenues slipped to \$25 bln., marking a 4.3% y-o-y decline, as oil-related revenues fell by 30%, dragged down by falling global prices despite a 10% boost in production volumes. A modest 1.3% rise in non-oil tax receipts helped cushion the decline.
- Government spending edged up to \$27 bln. (+3.1% y-o-y), with notable increases in education and infrastructure. Debt service payments soared to an all-time high of 3.1 bln., consuming 13.4% of total revenues – a result of large bullet repayments and high domestic interest costs. With expenditures outpacing income, the budget moved from near balance last year to \$2 bln. deficit in 5M 2025.
- Oil Fund reserves held steady at \$59.7 bln. in Q2, but growing fiscal pressures are reshaping the balance sheet. As government debt continued to climb, reaching \$67.2 bln. on the back of persistent deficits, public liabilities have now overtaken accumulated assets. This pushed net financial asset position deeper into negative territory at \$9.5 bln., marking a clear turn from near-balance seen in early 2024.

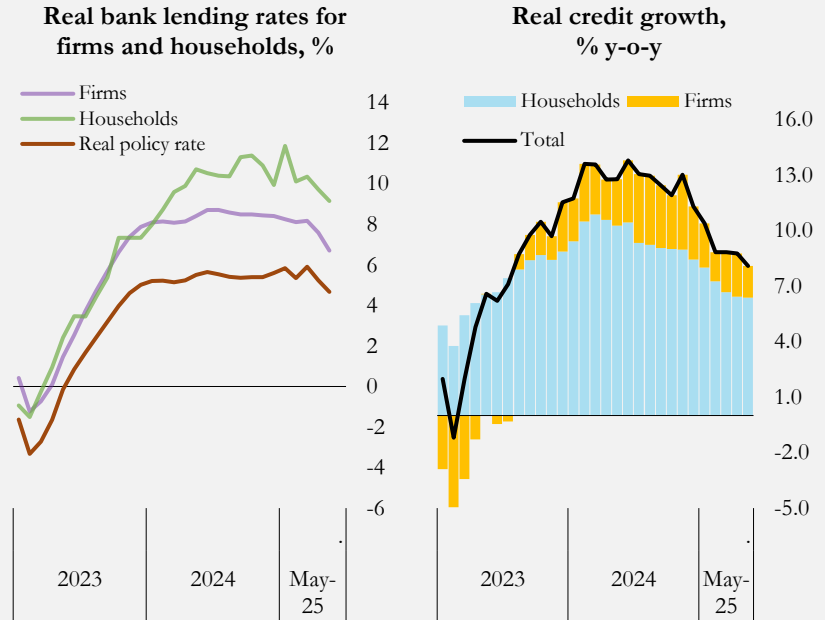


Source: Bureau of National Statistics, Haver Analytics, staff estimates. Note: Consolidated budget expenditures encompass net lending and include spending by extra-budgetary funds. Gross government debt includes guarantees but excludes central bank liabilities and is calculated in US dollars using the end-of-period exchange rate.



Lending remains resilient amid high inflation and tight credit conditions

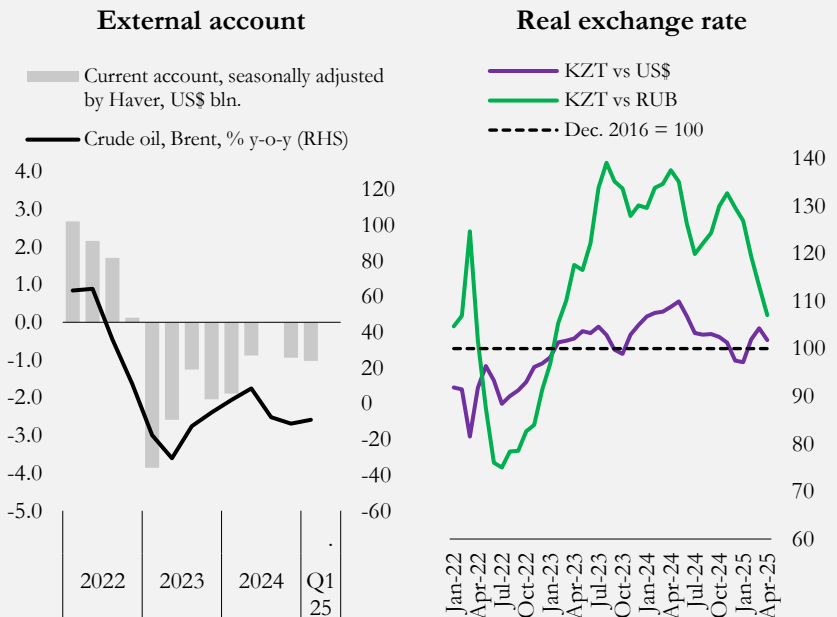
- Real lending rates for households eased slightly to 9.2% in May, down from 9.4% in December, reflecting rising inflation eroding borrowing costs. Firms saw a sharper drop, with real lending rates falling to 6.7% (1.8 p.p. below their December peak).
- The National Bank held its policy rate steady at 16.5% in early June, reinforcing its commitment to a tight monetary stance in the face of stubbornly high inflation and elevated inflation expectations over the next 12 months.
- Against the backdrop of tight financing conditions, real credit growth slowed only modestly to 8.1% y-o-y in May. Consumer lending remained the dominant force, expanding by 10.5% and contributing nearly 80% of the total increase. Corporate lending momentum, however, lost steam, with real growth slowing to 4.4%, down from 7.1% in December.
- Robust lending recently remains fueled by the surge in installment-based purchases via digital banking apps and ongoing subsidized loan programs for households and businesses. While this credit boom is driving domestic demand, it's also piling on household debt and distorting the credit market - reducing the impact of monetary policy in controlling inflation.



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

Weaker exports and income outflow weigh on external balance and exchange rate

- The current account posted \$1 bln. deficit in Q1 2025, narrowing from \$1.9 bln. a year earlier. The shortfall was driven by weaker exports amid softer oil prices and continued outflows from FDI-related income repatriation, which kept the primary income deficit.
- These external imbalances were reflected in the tenge's real exchange rate dynamics. After appreciating through much of 2024 on the back of recovering oil prices, the tenge peaked mid-2024 by roughly 10% against the US dollar and 30% against the Russian ruble in real terms.
- However, by late 2024, momentum reversed. With oil prices plateauing, the ruble rebounding, and the tenge nominal exchange rate depreciating by nearly 15% y-o-y by end-May, the real exchange rate lost most of its earlier gains, sliding back to levels seen in late 2022.



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