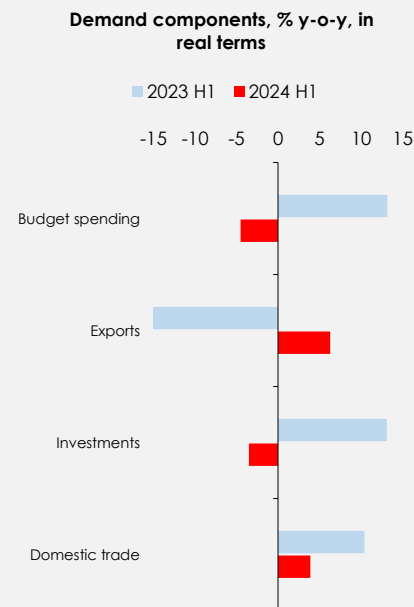
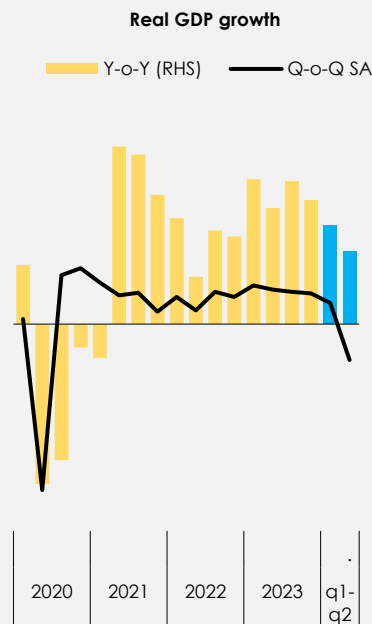


Kazakhstan Monthly Update, August 2024

Growth slowed sharply, the government's 2024 growth target under pressure

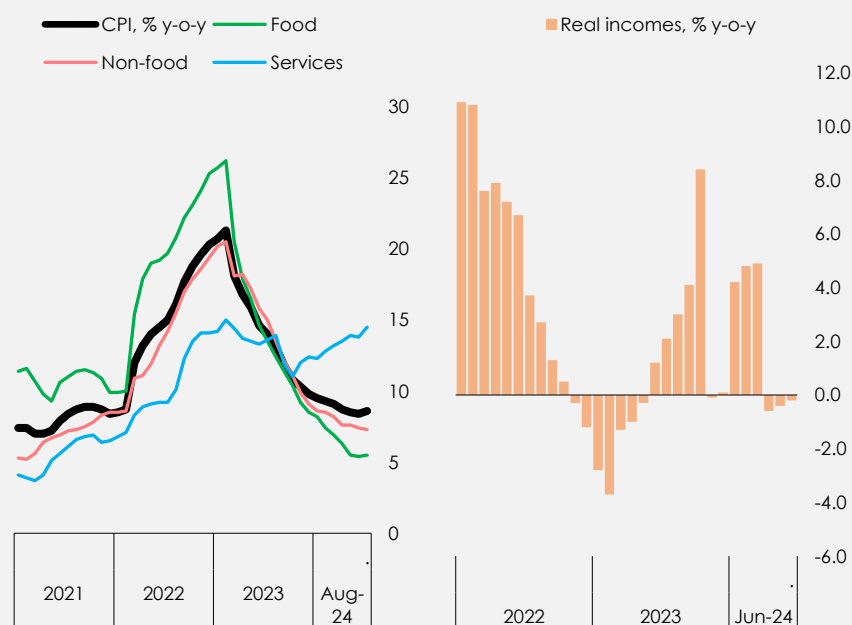
- Real GDP grew by 3.2% y-o-y in H1, but momentum faded fast. Q2 growth slowed to 2.8% y-o-y, down from 3.8% in Q1, with GDP contracting by an estimated 1.6% quarter-on-quarter (0.8% gain in Q1)—the worst performance since the pandemic-free era.
- The slowdown was broad-based across demand components, with investment and government spending notably weak. Investment declined by 3.5% y-o-y in H1, compared to 13.3% expansion in the same period last year. Government budget spending also took a hit, down 4.5% y-o-y in H1 in real terms. On the upside, while domestic trade, a proxy for consumer spending, grew 3.9% y-o-y in H1, this marked a significant slowdown from the 10.4% growth recorded a year ago. Nominal export of goods increased 6.3% y-o-y, providing some support to economic activity.
- These trends cast doubt on the government's ambitious 2024 growth target of 6%. Achieving this goal, nearly double the estimated potential growth rate, would only be possible through a major fiscal stimulus.



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

Inflation slows but living costs still bite

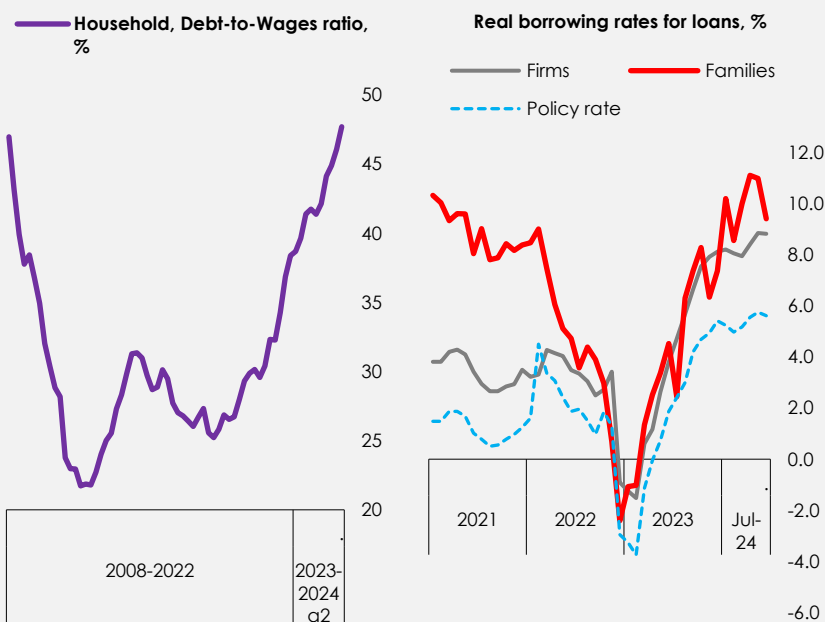
- After months of steep decline, inflation continued to ease to 8.4% y-o-y in August down from 8.6% in July. This dip was largely driven by colling service prices, which decelerated by 13.6% y-o-y, compared to 14.5% in July.
- Food price increase slows falling from a peak of 26.2% y-o-y in February 2023 to 5.5% in August. The slowdown can be attributed to declining global food prices (-6.1% in June) and a slight dip in domestic farm gate prices (-0.1%).
- While inflation may have slowed, the cost of living still squeezing households. Prices aren't dropping—they're just not rising as fast. Food prices remain 38% higher than in January 2022, while real incomes have declined by 2.6% over the same period, emphasizing the ongoing economic hardship faced by many families.



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

Consumer borrowing soars amidst income stagnation. Debt level rises.

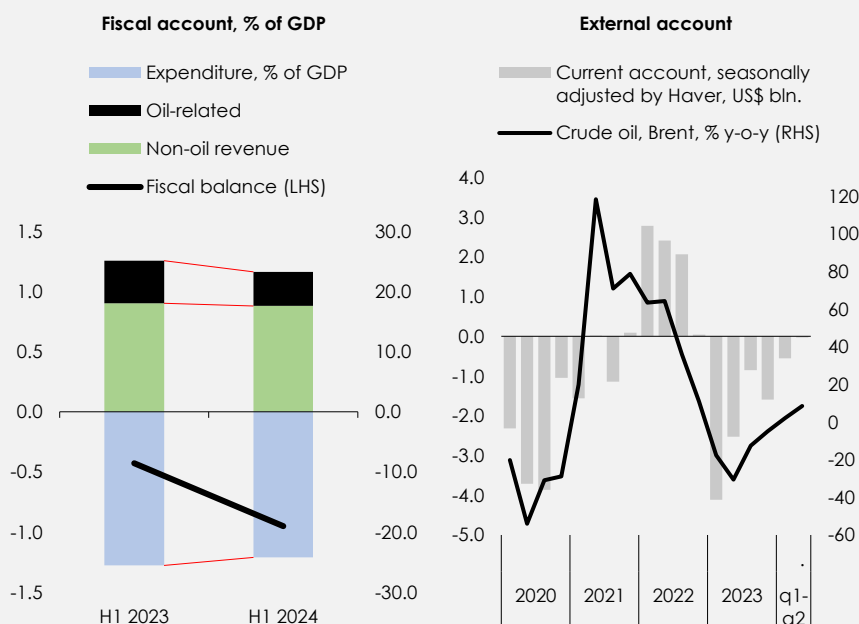
- Household debt vulnerabilities deepened in H1 2024 as consumer credit growth remained strong despite stagnant real incomes. Aggregate bank loans in real terms increased by 13.8% y-o-y in June, with a 75% of this growth fueled by consumer borrowing.
- Household debt-to-wage ratios hit a high 47.7% in Q2, eclipsing the levels seen before the 2008-09 banking crisis. With inflation still running high, real interest rates elevated, and household income growth barely budging, the debt trends could worsen.
- Real lending rates for households, though slightly lower, remained elevated at 9.4% in July, just below the April peak of 11.1%. Low-income families could potentially be at risk owing to predatory lending through installment plans for durable goods purchases and payday loans offered via digital platforms, often at interest rates three to five times the inflation rate. Real lending rates for businesses ticked up to 9.4% in July from 8% recorded at the beginning of the year.



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

Fiscal policy tightens and current account turns positive

- Despite a widening budget deficit, fiscal policy appears to have tightened in H1 2024, with total spending shrinking in real terms. Both budget receipts and outlays fell relative to GDP, with the consolidated budget deficit expanding to 1%, up from 0.4% a year earlier.
- Outlays dropped to 24.2% of GDP, down from 25.5% in H1 2023, largely due to cuts in defense and healthcare spending. However, social welfare, housing, utility infrastructure, and interest payments saw increases. Receipts declined to 23.3% of GDP from 25.1% H1 2023, with both oil-related and non-oil revenues slipping to 5.7% and 17.6% of GDP, respectively. Timing shifts in some payments may have influenced these year-on-year comparisons.
- The current account is estimated to have balanced out in Q2 2024, marking a significant reversal from the quarterly deficits since Q1 2023. This improvement was primarily attributable to a steep decline in the primary income balance, which decreased by 27.7% y-o-y in Q2.



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

Note: Consolidated budget expenditures include net lending but exclude spending by extra-budgetary funds.