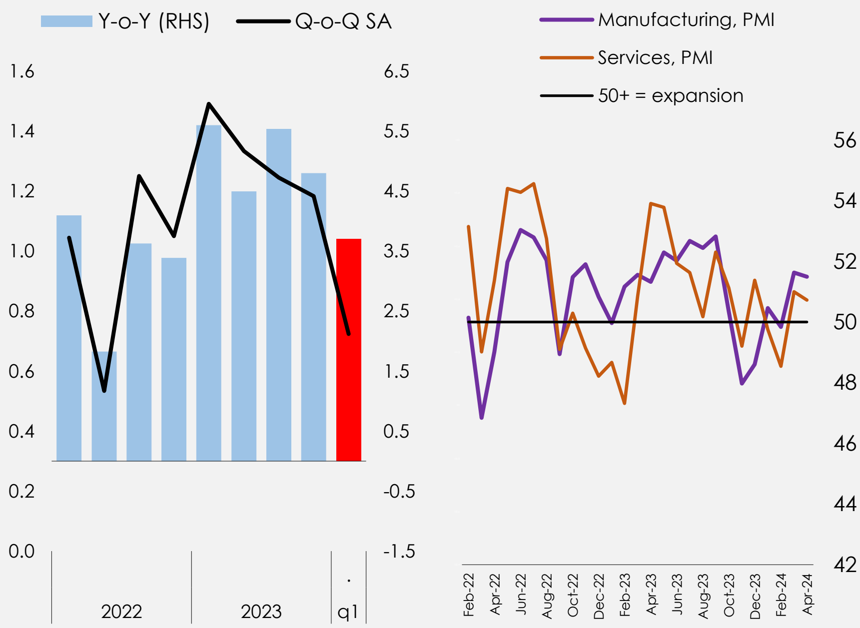
Kazakhstan Monthly Update, May 2024

Growth weakened in Q1 but recovery may be underway

- Real GDP grew a modest 0.7% (seasonally adjusted) in Q1 2024, down from a steady 1.2% quarterly average throughout 2023, attributable, as previously reported, to the dampening effect of investment and fiscal spending.
- Meanwhile, surveys point to a gradual recovery over the course of March-April, supported by both manufacturing and services sectors. The PMI has shown month-on-month improvement, reaching 50.7 in April, a sign of growth recovery into the second quarter.
- While formal job creation rose 1.1% q-o-q in Q1, the unemployment rate remained unchanged at 4.7% in Q1. Employment data historically show limited response to economic cycle and likely underestimate the real situation in the labor market. This is because many people in the gig economy, subsistence agriculture, and informal services may not be registered with the government and thus wouldn't be reflected in official employment figures.

Real GDP growth and Purchasing Managers' Index

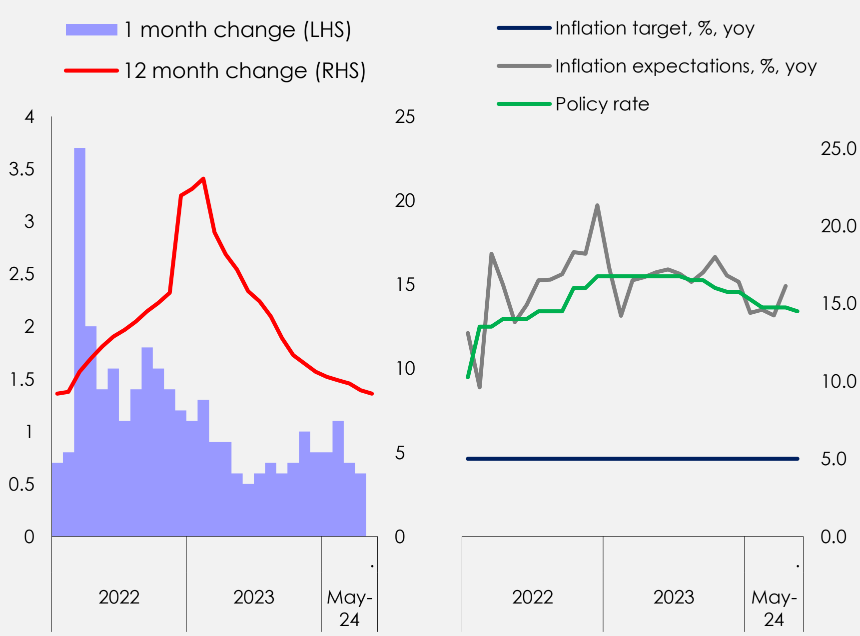


Source: Bureau of National Statistics, Haver Analytics, staff estimates

Inflation slows further but expectations stil remain high

- Consumer price inflation slowed to 8.5% y-o-y in May down from 8.7% in April amid softer domestic demand. Monthly inflation slowed for the third straight month to 0.4% m-o-m in May.
- Food and non-food prices moderated, while services prices are likely catching up to higher costs associated with solid real wage growth.
- The Central Bank cut its benchmark interest rate by 0.25 p.p. to 14.5% in May, a marginal cut which maintains the real policy rate at around 6%. Given that both actual and expected inflation remain well above the 5% target, and that there is an estimated output gap of 1.0-1.5 in Q1, which can stoke further inflation, maintaining tight monetary policy for the time being is warranted until inflation shows a clear and sustained decline, likely in H2.

Consumer price inflation



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

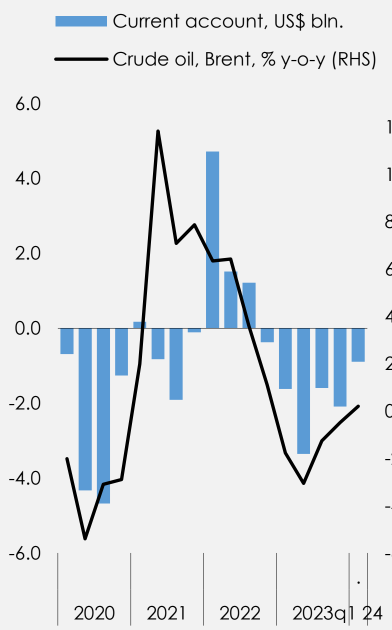
EQUITABLE GROWTH, FINANCE & INSTITUTIONS

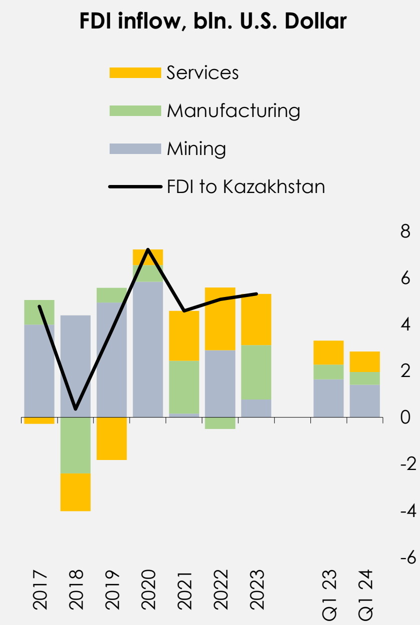
Macroeconomics, Trade and Investment

Current account deficit narrows and FDI inflows ease

- The trade surplus in Q1 rose 9% y-o-y to US$5.7 billion, driven mainly by weaker imports, down 7% y-o-y in Q1 due to sluggish domestic demand. Goods exports fell by 2.6%, largely due to a decline in exports of chemical products and machinery and equipment.
- As usual, the services account remained in deficit and foreign investor income repatriation continued, albeit at a slower pace. This resulted in the current account deficit narrowing to US$0.9 billion in Q1 (US$1.6 billion a year ago).
- Net FDI inflows weakened in Q1 to US$2.8 billion, a 14.1% decrease y-o-y.
- The tenge exchange rate has remained broadly stable since the beginning of the year as FX supply from the NFRK tripled in Q1 compared to the amount sold a year ago. FX is converted into tenge in the market before being transferred to the budget.

External Account, billion U.S. Dollars



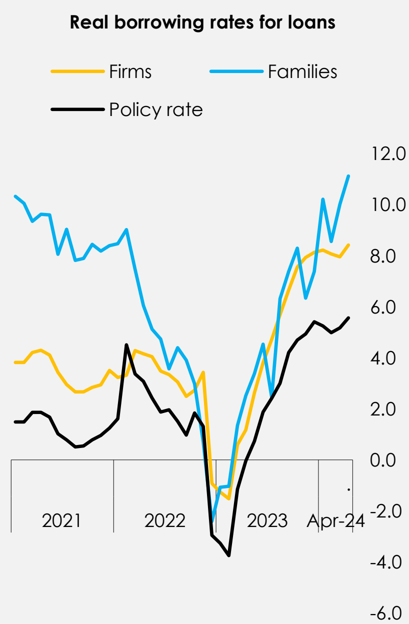


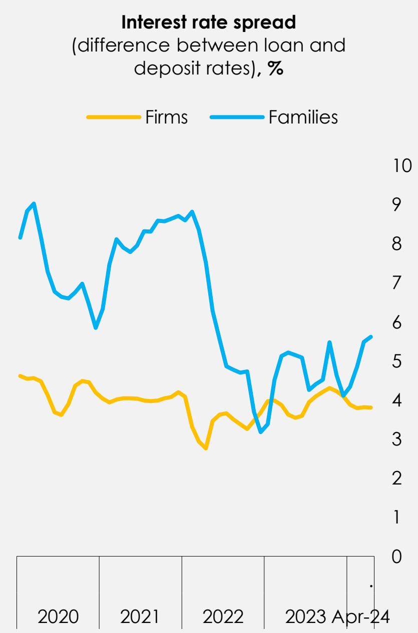
Source: Bureau of National Statistics, Haver analytics. Note: FDI is defind as net incurrence of liabilities in the balance of payment data. A negative sign refers to a withdrawal of equity or divetsment

Banks' net interest margins rise and the loan-servicing burdens increase

- Real lending rates (adjusted for inflation) for both firms and households surged to 8.4% and 11.1% in April, as headline rates remained sticky and deposit rates fell while inflation receded. These rates far exceed pre-pandemic levels and are boosting banks' net interest margins and profits.
- Borrowing cost for families remain disproportionally high and falling inflation increases the real burden to repay loans. Although around 35% of household loans are mortgages, mainly fixed rates, higher borrowing costs on other consumer loans could strain family budget.
- Real income rose by mere 3.3% y-o-y in Q1, significantly slower than a surge in real borrowing cost. Consequently, many families may need to allocate an increasing share of their income on interest payments. This trend heightens the risk of loan defaults for banks as reported earlier household credit-to-wages ratio in Q1 2024 hit a historic high level of 45% last seen before 2008-09 banking crisis.

Credit financing conditions





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