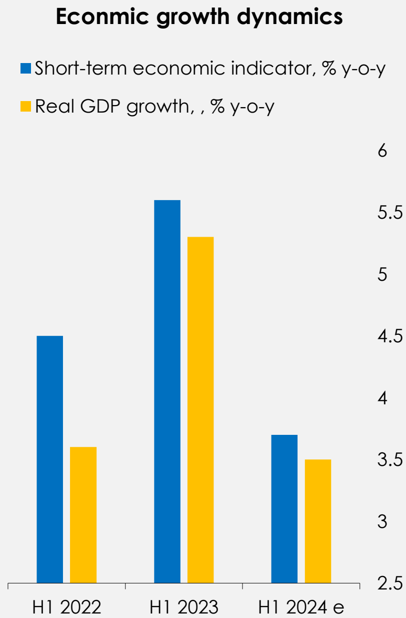
EQUITABLE GROWTH, FINANCE & INSTITUTIONS

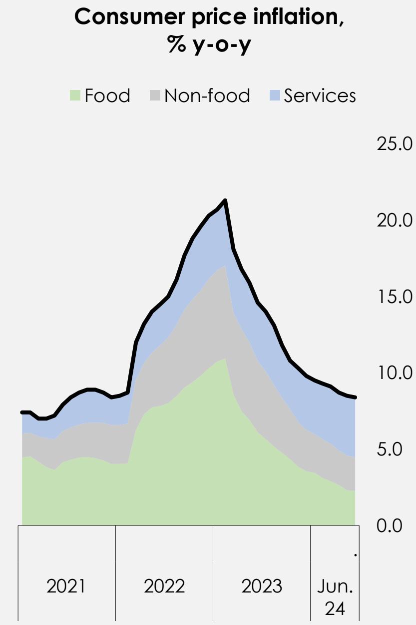
Macroeconomics, Trade and Investment

Kazakhstan Monthly Update, June 2024

Real GDP growth down amid broad economic weakening

- The short-term economic indicator, which aggregates shifts across sectors constituting 60% of GDP, decelerated to 3.7% y-o-y in Jan.-May (down from 4.5% a year ago). This slowdown reflects a broad-based weakening across sectors up to May 2024.
- Domestic trade slowed to 3.1% y-o-y (down from 10.2% a year earlier), reflecting waning consumer demand. Transport and logistics edged down to 7.1% (from 7.7%), agriculture to 1.6% (from 3.5%), and industrial production showed only tepid growth of 3%. As a result, we expect real GDP growth of 3.5% y-o-y in H1 2024, down from 5.3% in H1 2023, with final data to be released later in Q3.
- Inflation was 8.4% y-o-y in June, a slight decline from 8.5% rise in May. The food (+5.4%) and non-food (+7.4%) inflation is easing, while services inflation (+13.8%) remains sticky due to robust wage growth in the sector as reported earlier. The policy rate was slightly eased to 14.5% in June (0.25 p.p. lower), but tight policy stance was maintained to further quell inflationary pressure.



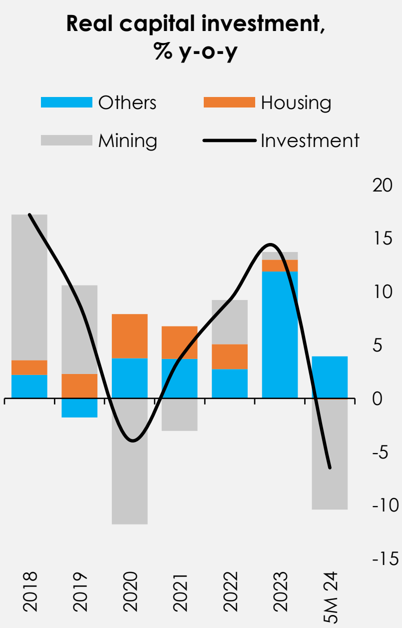


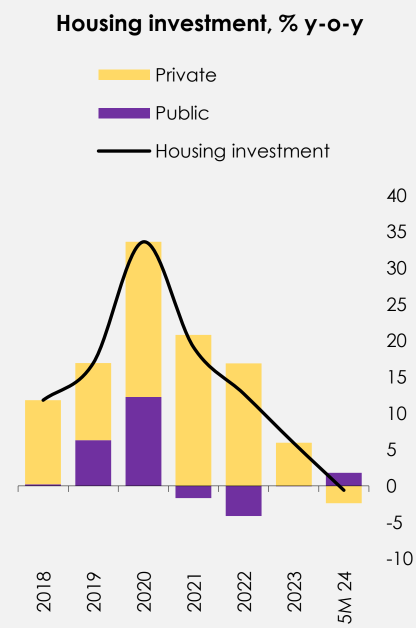
Source: Bureau of National Statistics, Haver Analytics, staff estimates

Slump in investment hurts growth

- Real capital investment fell 6.5% y-o-y during Jan.-May (compared to a 17.2% increase a year ago), with activity dampened mainly by a decline in FDI into mining and stagnant housing investment.
- Investment in mining contracted by almost 30% y-o-y in Jan.-May (up 13.4% a year earlier), as a major oil production expansion project nears completion. The contraction in housing investment, down 0.6% y-o-y (+4.1%) is attributed to the exhaustion of Pension Fund resources that were previously allowed for withdrawal and used for housing purchases, thereby providing a short-lived boost to the housing market in 2022-2023.
- Overall, weak investment activity over the past 10 years, decreasing from 28% of GDP in 2001-2009 to 17% of GDP in 2012-2022, has been a dominant factor holding back productivity and potential growth.

Capital investment





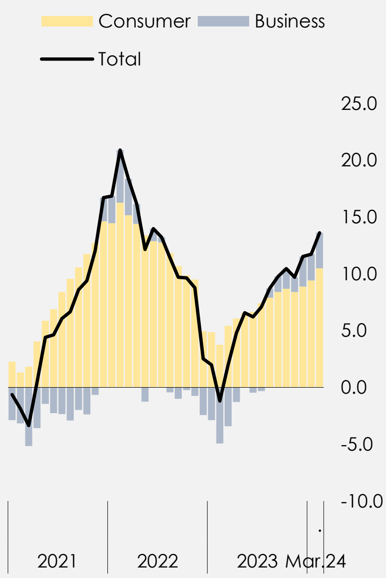
Source: Bureau of National Statistics, Haver Analytics, National Bank, staff estimates

Loan growth continued and bank profitability peaked

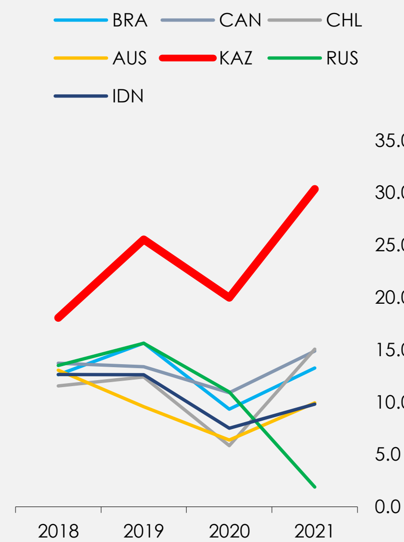
- Bank real lending to the economy increased by 14% y-o-y in May, driven by consumer loans, which contributed 9.4 p.p. or 80% of the total increase, while loans to businesses remained weak, contributing 4 p.p. or 20% of the overall expansion.
- The increase in household loans was driven mainly by short-term and high-cost consumption-related loan types, while demand for mortgages moderated. Digital platforms have increased financial inclusion and facilitated easy access to consumer loans, which, on the other hand, has raised household debt exposure.
- Banks' profitability, measured as return-on-equity, reached a multi-year high of 34.8% in April. This was driven by high real lending rates and rising net interest margins, as previously reported. Banks in Kazakhstan have long enjoyed some of the highest profitability rates among similar resource-rich countries.

Credit to the economy

Real credit growth, y-o-y



Bank return on equity (%, after tax)

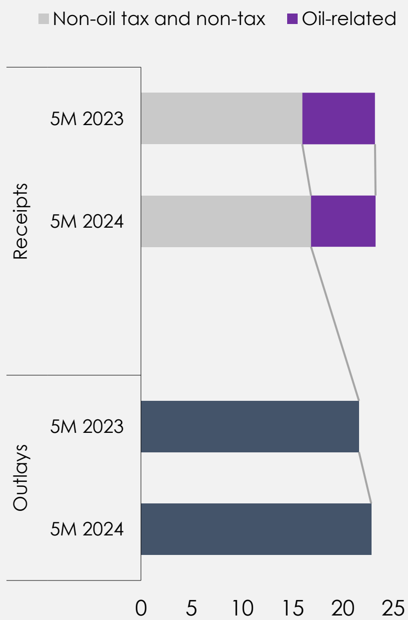


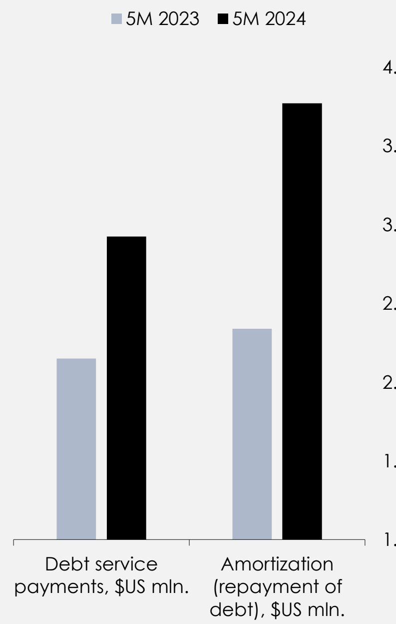
Source: World Development indicators, National Bank, staff estimates

Non-oil gains offset oil revenue decline, financing needs up

- Consolidated budget receipts totaled $US 23.3 bln. during the first five months of 2024, remaining broadly unchanged compared with the same period a year ago. Oil-related receipts fell by 11.2% y-o-y in Jan.-May, which was offset by greater collection of non-oil taxes. Non-oil taxes rose by an estimated 5.4% y-o-y to $US 16.9 bln. supported by better collection efforts and continued economic growth.
- Budget expenditures were $US22.8 bln. (+5.5% y-o-y). The biggest spending increases were in interest payments (+36.6%) and infrastructure (+22.7%), while spending on industry (-21.3%) and defense (-24.6%) declined. Shifts in the timing of certain payments can affect year-on-year comparisons with large variations likely balancing out towards the end of the fiscal year.
- The consolidated budget realized a smaller surplus of $US 0.4 bln. down from the estimated surplus of $US 1.6 bln. a year ago. However, the surplus was not enough to cover amortization payments due. As a result of greater repayments, gross financing needs increased 4.4 times to $US 3.3 bln.

Fiscal outturn, billion U.S. Dollars





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.