

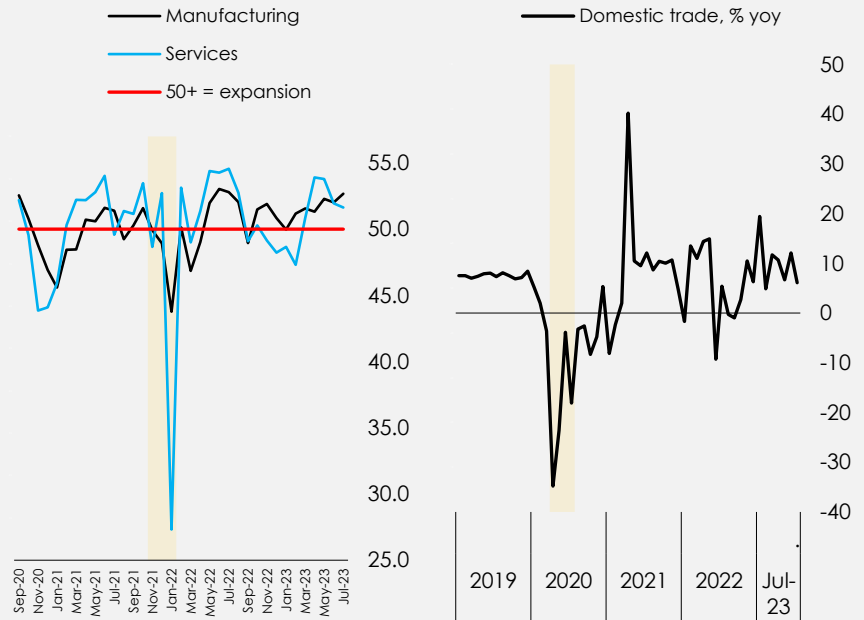
## Kazakhstan Monthly Update, September 2023

### Economic activity accelerates driven by resilient manufacturing and services

- Economic growth accelerated to a rate of 5.2% year-on-year (yoy) in Q2 of 2023, surpassing the estimated growth of 5.0% yoy in Q1. Momentum of seasonally adjusted quarter-on-quarter (qoq) growth increased from 0.3% in Q1 to 1.1% qoq in Q2. This expansion was propelled by strong consumer spending, as shown by the solid growth in retail trade (8.8% yoy) and car sales (11.1% yoy). Investment, driven by rising foreign direct investment (FDI), has also strengthened.
- Early data for July suggests the economic expansion may now be cooling. The July PMI reading is consistent with expansion in both manufacturing and services. The manufacturing PMI recorded 52.7 in July, sustaining growth despite a slight reduction in June. Although the services PMI remained comfortably above the 50+ expansion threshold, it ended at 51.6 being positively influenced by easing inflationary pressures H2.

### Purchasing Managers' Index,

manufacturing, services, 50+ = expansion on prior month

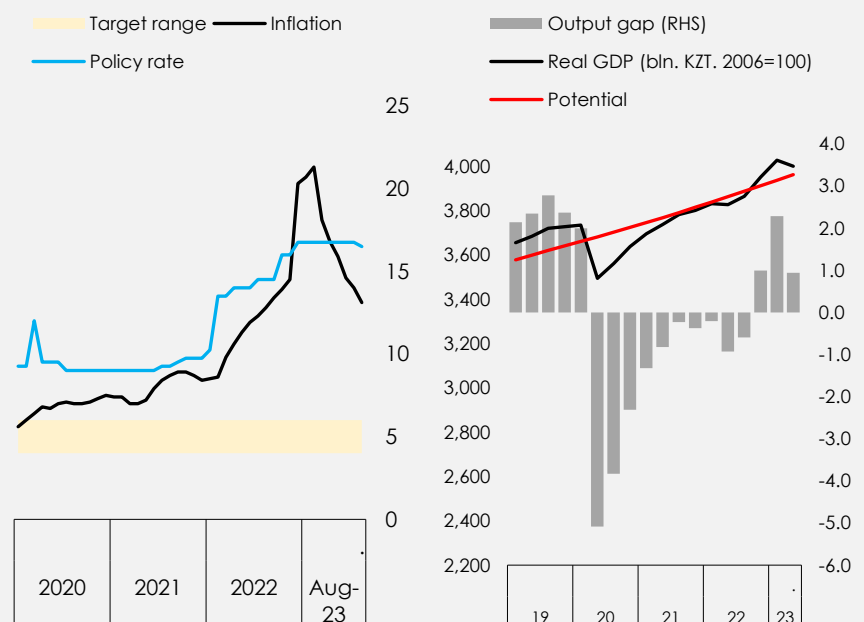


Source: S&P Global Purchasing Managers Survey, the shaded areas indicate recession periods

### Inflation eases further, yet depreciation and wage hikes pose risk

- Inflation is continuing to ease, falling to 13.1% in August from 14.0% in July. Food inflation continued to slow but remained high, at 12.4% down from 13.5% in July. With decelerating inflation, the National Bank of Kazakhstan (NBK) cut its policy rate by 150 bps to 16.5% after the August meeting.
- The depreciation of the tenge by about 4-5% against the US dollar by the end of August, following the ruble's slump, along with the effects of rising utility tariffs, minimum wage increase (+16,7%), and rising social transfers presents potential upside risks to prices.
- Additionally, the increase in consumption has pushed GDP above its potential level by about 1.5 p.p., potentially adding to inflationary pressure.

### Consumer price inflation, yoy, percentage point

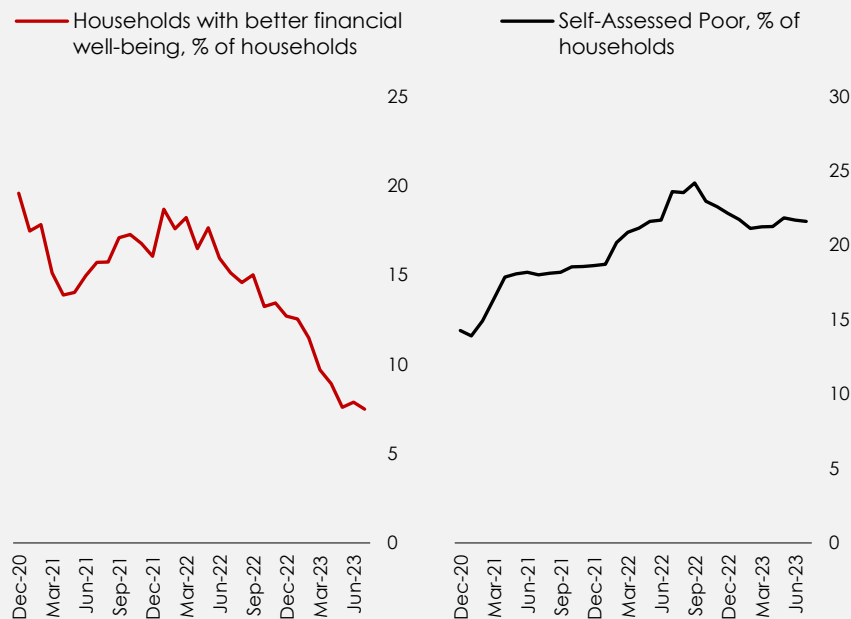


Source: Bureau of National Statistics, National Bank of Kazakhstan.

### Financial wellbeing declines, as inflation diminishes gains from minimum wage hikes

- High inflation is exacerbating financial hardships for low-income earners. According to the Listening to Kazakhstan (L2K) survey, the percentage of households experiencing improved financial wellbeing has seen a steep decline, plummeting from its peak of 24.4% in Jan. 2022 to a mere 7.5% by July 2023.
- The effects of inflation have further widened the gap between affluent and less well-off households, as the proportion of households self-assessing as poor has risen to 20.7% of the total surveyed population, up from 19.2% in January 2022.
- From Jan. 2021 to Aug. 2023, the government raised the statutory minimum wage by 65% to an equivalent of US\$150 per month. Although the minimum wage adjustment partly shielded low-pay workers from inflation, the two broadly offset one another, resulting in meager 0.2% yoy growth in aggregate wages during H1.

### Household wellbeing, % of total

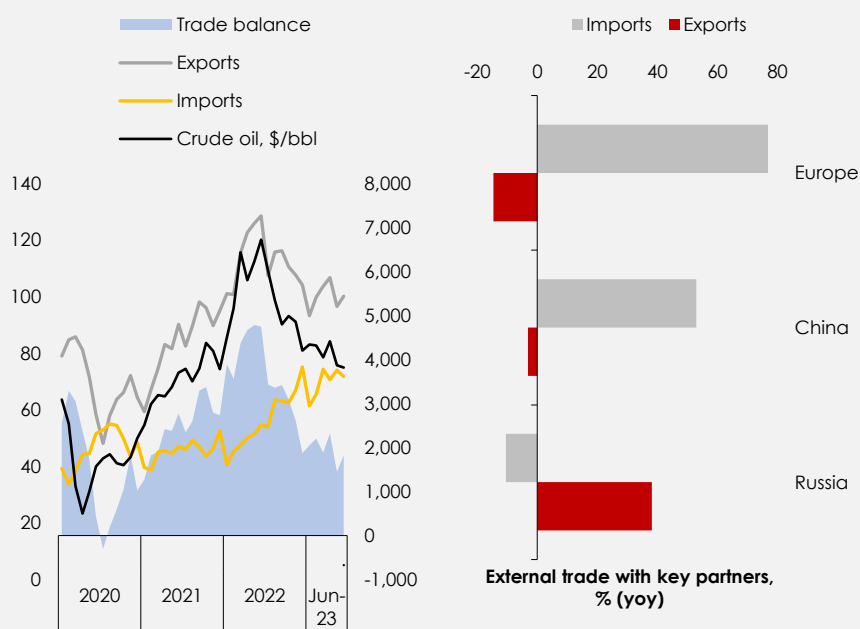


Source: Listening to Kazakhstan survey results, 3-month-MA

### Trade balance shrinks amid strong demand for reexporting goods to Russia

- In Jan.-Jun., exports declined by 15.7% yoy, largely due to a 25% plunge in oil prices. Concurrently, imports surged by 65% during the same period, resulting in a significant 55% contraction in the trade balance.
- Following the post-pandemic reopening, demand for imports has markedly increased, attributed in part to a strong economy and robust domestic demand in 2022-2023. However, the primary driver is the substantial rise in goods being reexported to Russia, as Western sanctions limit direct imports.
- Imports from key trading partners, Europe and China, grew by 76.8% and 52.9% yoy respectively in H1. Simultaneously, Kazakhstan's exports to Russia surged by 38.2% yoy, while imports from Russia experienced a 10.4% decline. Some analysts suggest that illicit and sanctioned goods might be involved in this trade.<sup>1</sup>

### External Trade, million US Dollars



Source: Bureau of National Statistics, Haver analytics

<sup>1</sup> <https://eurasianet.org/kazakhstan-says-some-dual-use-goods-getting-to-russia>