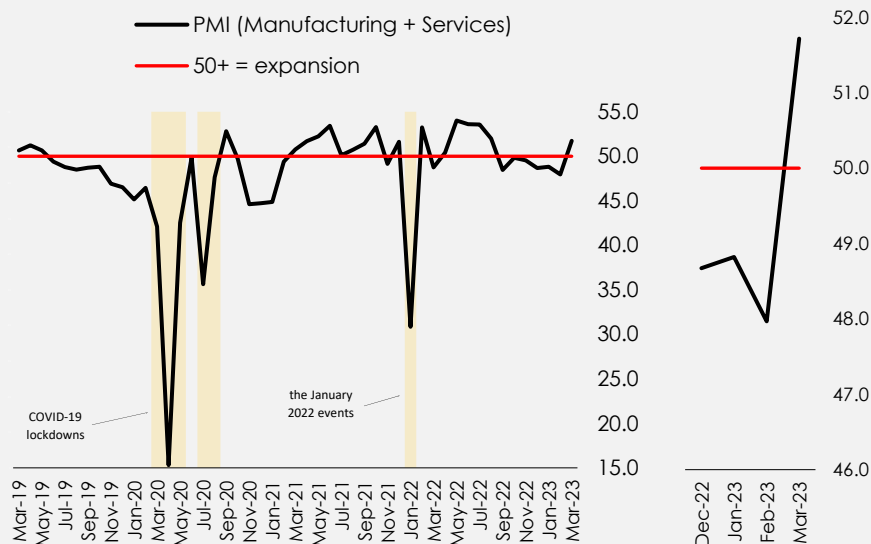


Kazakhstan Monthly Update, May 2023

Economic activity turned positive

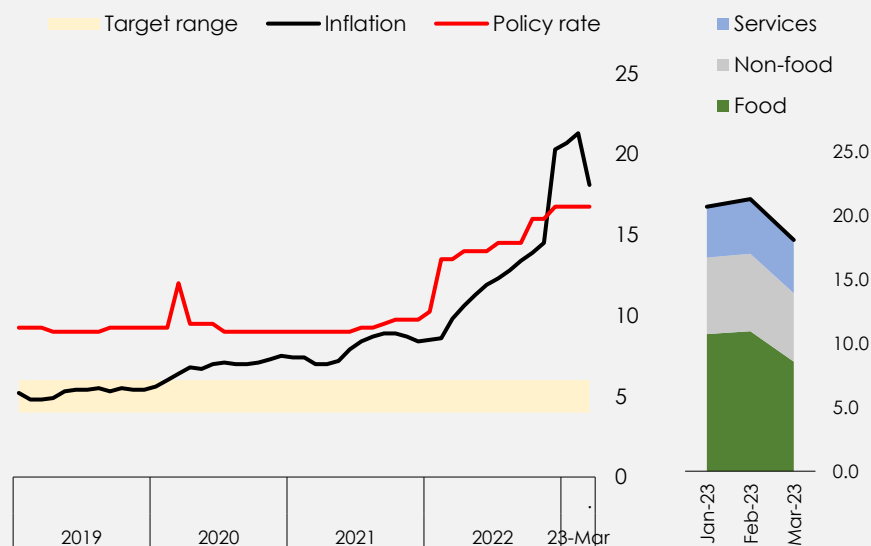
- In Mar., the composite output PMI jumped to 51.7, above the level of 48.0 recorded in previous month in Feb. 2023 and 50+ threshold point. The upturn was driven mostly by business activity in the services sector and is in line with a broadly improved level of output.
- The government has reported a preliminary year-on-year expansion of 4.9% in real GDP during Q1, primarily driven by the robust growth exhibited in the manufacturing and services sectors. Notably, sub-sectors such as food and beverages (+8.1%), petroleum and chemical (+4%), and pharmaceutical products (+8.1%) demonstrated a solid performance in contributing to the overall growth.

Composite Output PMI, manufacturing + services, 50+ = expansion on prior month

Source: S&P Global Purchasing Managers Survey

High consumer price inflation eases somewhat

- Inflation in Mar. recorded its first decline since mid-2021, falling to 18.1% y-o-y, down from 20.7% in January and 21.3% in February. The deceleration in annual price increases was observed across all main components of the CPI, with the most notable decrease seen in food prices, which dropped from 26.2% in Feb. to 20.5% in Mar., contributing 8.6 p.p. to total inflation.
- However, the decline in food prices is likely due to a high base effect, as monthly inflation surged back in Mar. 2022, pushing the annual reading to 15.4%, up from 10% a month before in Feb. 2022.
- Despite the recent decline in inflation, price pressure is expected to remain elevated due to the government's plans to increase gasoline and diesel fuel prices by 11% and 20% during Q2, respectively, as well as utility tariffs by 10-45% in 2023.

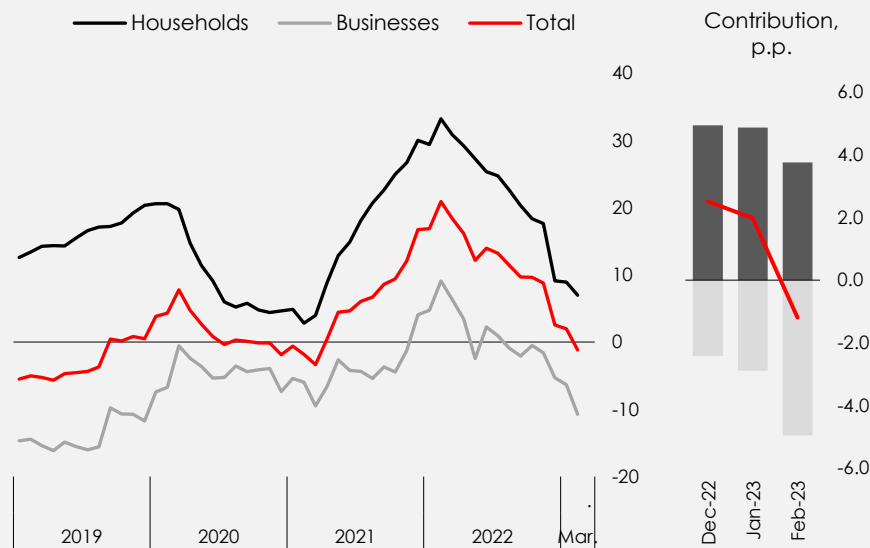
Consumer price inflation, y-o-y, percentage point

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

Credit to the economy, y-o-y, adjusted for inflation

Bank lending contracted in March as interest rates have continued to rise

- In March, credit to the economy experienced a contraction due to the tightening of monetary policy. The aggregate credit growth declined by 1.2% y-o-y, primarily driven by reduced demand for loans from firms.
- Heightened uncertainty surrounding economic prospects, persistent inflation, and increased financing costs have all played a role. The recent slowdown in consumer lending is attributed to the end of the withdrawal of pension fund savings, which had bolstered demand for mortgages throughout 2022.
- Lending rates for both firms and households continued to rise in March 2023. Specifically, rates for firms increased to 19.5% from 12.2%, while rates for households rose to 20.1% from 18.4% in March 2022.

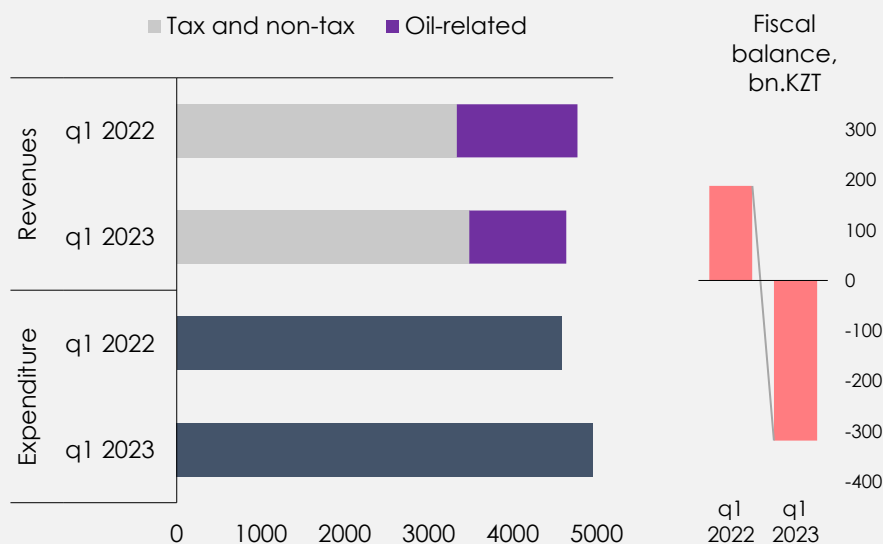


Source: National Bank of Kazakhstan, staff calculations

Fiscal outcome, billion KZT (discounted by CPI)

The budget incurred a deficit as spending outgrew budget revenue

- As the underlying prices have grown rapidly, so did the nominal tax base resulting in more revenues. However, removing a price effect, in Jan-Mar., the budget revenue reached KZT4.6 tn., which is a decline of 2.8% y-o-y. This decline is attributed to greater extent to lower oil-related revenues as oil prices have fallen. In real terms corporate income and VAT, two taxes that account for nearly 2/3rd of non-oil revenues, showed a 1.3% decline and a 11.4% y-o-y increase in collection.
- On the expenditure side, the budget spending amounted to KZT5.0 tn., which is 8.1% higher than the same period last year. The breakdown by function shows that this increase was driven by higher spending on education (+16%), utility and engineering infrastructure (+13.4%), and transport and communication (+20.6%).
- The budget deficit stood at KZT318 bn., compared to a KZT188 bn. surplus recorded a year ago.



Source: Ministry of finance, staff calculations