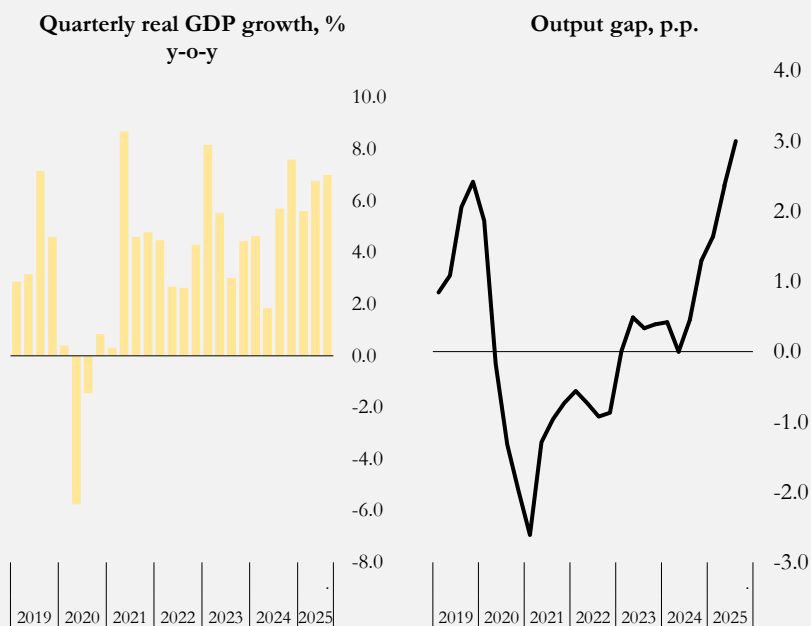




Kazakhstan Monthly Update, September 2025

Growth accelerates, beyond potential

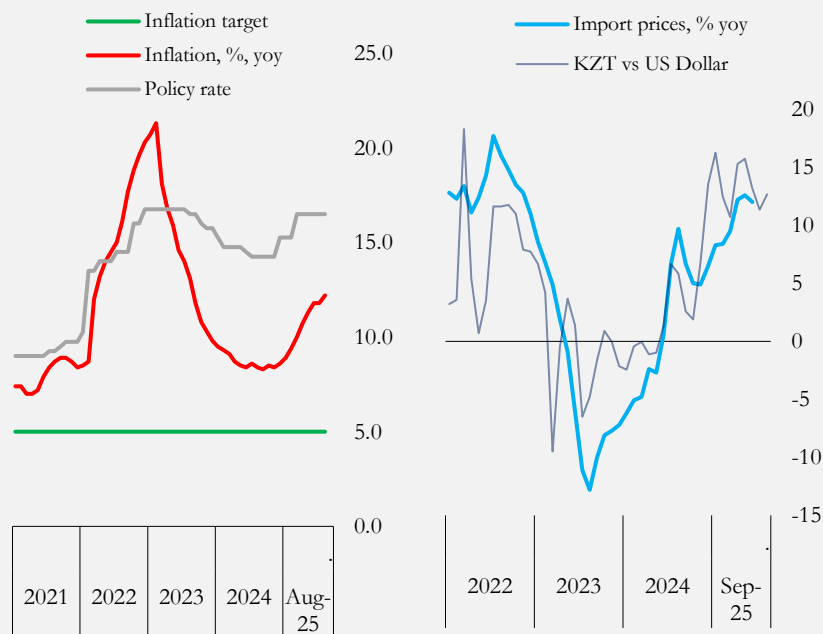
- Real GDP expanded by an estimated 6.5% y-o-y in the first eight months of 2025, up from 3.7% over the same period in 2024, driven by robust domestic demand.
- Investment surged by 16.1% in 7M of 2025, compared to a marginal 0.4% increase a year earlier, reflecting strong growth in housing and budget-funded infrastructure spending. Domestic trade – a key indicator of consumer spending – picked up to 6.3% y-o-y in August, up from 3.9% a year ago, supported largely by household borrowing despite falling real incomes (-1.0% contraction in 6M). While growth in budget expenditure remained contained, quasi-fiscal activities outside the budget expanded notably. The external sector remained a drag, with goods exports contracting 7.1% y-o-y in 6M while imports rose 3.5%, suggesting a negative contribution from net trade.
- High-frequency indicators suggest the economy is operating above potential, with the output gap estimated at 2–3 percentage points. While current growth aligns with government targets for 2025, it comes at the cost of heightened inflationary pressures, which have eroded real incomes, likely affecting most the poor and vulnerable.



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

Inflation heats up amid demand surge

- Surging domestic demand has intensified inflationary pressures, with headline inflation accelerating to 12.2% y-o-y in August (from 8.6% in December 2024). Price increases were broad-based: food inflation rose to 11.7% (5.5% in December), non-food goods to 9.7% (8.3%), and services to 15.3% (13.3%).
- Continued credit growth and expanded quasi-fiscal operations, including subsidized lending, created excess domestic demand, prompting price increases. On the supply side, inflation was pushed higher by sharp hikes in regulated utility tariffs (17.7% in August) under ongoing subsidy reforms, as well as higher import costs (11.4%) following past currency depreciation.
- With inflation remaining more than double the 5% target for 5 consecutive years and clear signs of overheating, the National Bank kept its policy rate unchanged at 16.5% in early September. Containing inflation remains a central policy priority, as sustained price pressure hits family incomes, erode living standards, and risk fueling social tensions with far-reaching implications.

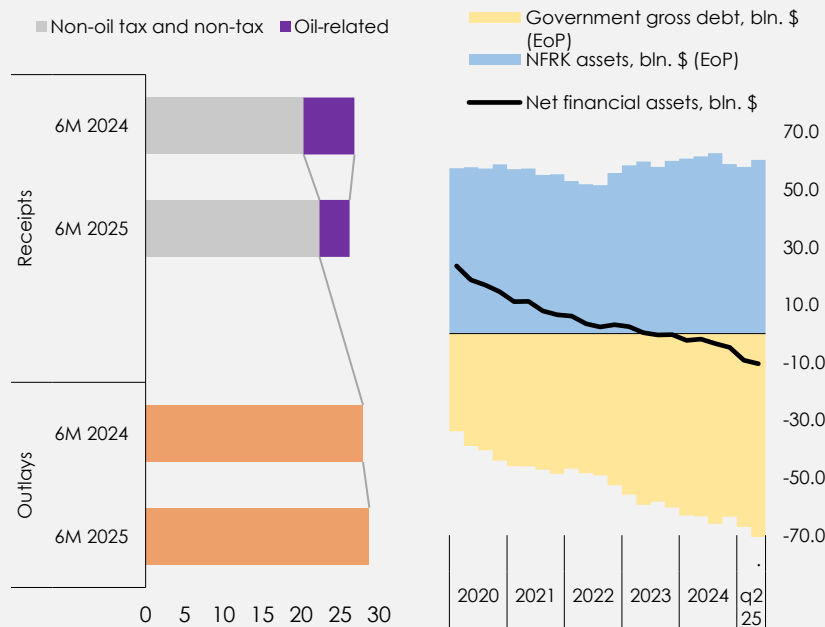


Source: Bureau of National Statistics, Haver Analytics, National Bank, staff estimates



Fiscal position softened, public debt increased

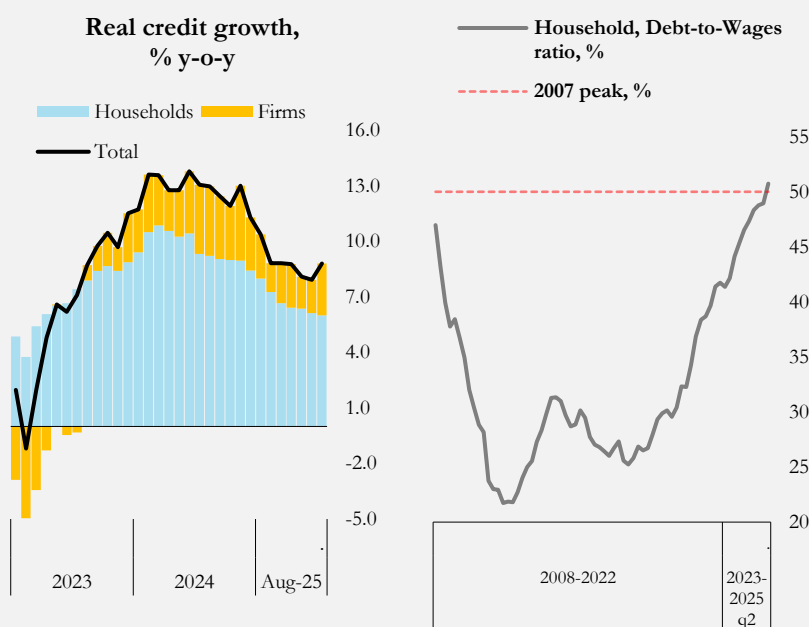
- Consolidated budget revenues slipped to \$26.2 bln. in H1 2025, marking a 2.3% y-o-y decline, as oil-related revenues fell by 40.8%, dragged down by falling global prices despite a 10% boost in production volumes. A notable 10.1% rise in non-oil tax receipts helped cushion the decline.
- Government spending in nominal terms edged up to \$28.8 bln. (+2.9% y-o-y), with notable increases in education and infrastructure. Debt service payments soared to an all-time high of 3.3 bln., consuming 12.4% of total revenues – a result of large bullet repayments and high domestic interest costs. With expenditures outpacing income, the budget deficit widened to \$2.5 bln. or 2.1% of GDP in H1 (\$1.1 bln. or 0.9% of GDP in H1 2024).
- Oil Fund reserves remained steady at \$59.7 bln. in Q2 but growing fiscal pressures are reshaping the balance sheet. With government debt rising to \$70.8 bln. on the back of persistent deficits, public liabilities have now surpassed accumulated assets. As a result, net financial asset position deteriorated further into negative territory at \$10.5 bln., a clear reversal from near-balance seen in early 2024.



Source: Bureau of National Statistics, Haver Analytics, staff estimates. Note: Consolidated budget expenditures encompass net lending and excludes spending by extra-budgetary funds. Gross government debt includes guarantees but excludes central bank liabilities and is calculated in US dollars using the end-of-period exchange rate.

Consumer credit growth remains strong with consumer debt risks mounting

- Despite tight financing conditions, real credit growth slowed only modestly to 8.8% y-o-y in July. Consumer lending remained the main driver, expanding by 9.8% and accounting for nearly 2/3rd of the total increase. Corporate lending also grew by 7.3%, supported largely by scaled-up concessional loans from development institutions.
- The recent credit boom has been fueled by a surge in installment-based purchases through digital platforms and continued subsidized loan programs for households and businesses. While this lending expansion has supported domestic demand, it has also increased household indebtedness and distorted credit markets, weakening the effectiveness of monetary policy in curbing inflation.
- By Q3 2025, household exposure to bank loans relative to wages reached a record 50.7%, surpassing the pre-2008–09 banking crisis peak. Although immediate risks remain contained, unchecked debt growth amid weak real income gains could pose significant risks to banking sector stability, with broader economic and social repercussions.



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