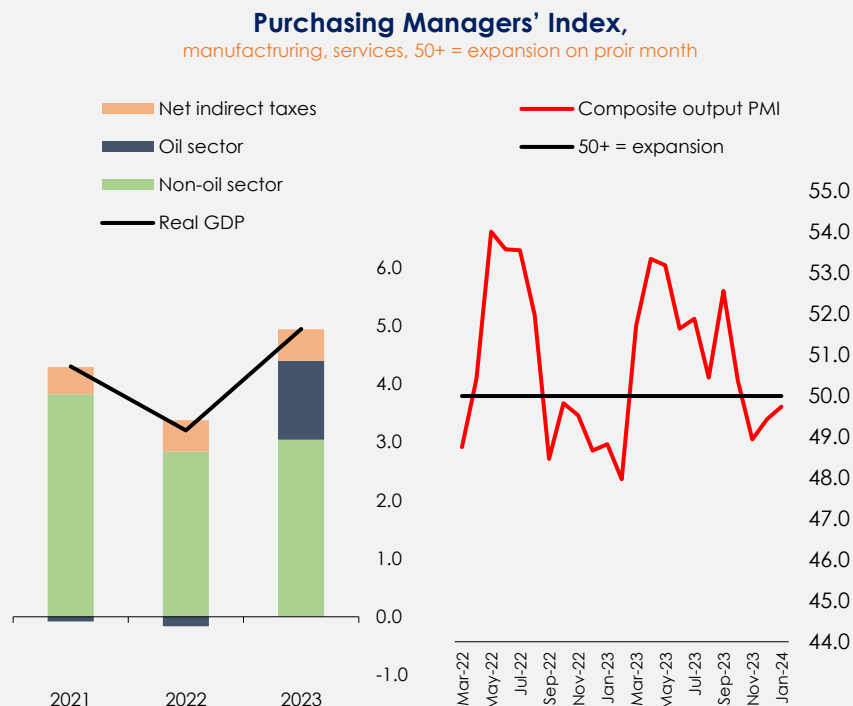


Kazakhstan Monthly Update, January 2024

Oil output boosts growth in 2023, but non-resource business activity is muted

- Official figures indicate real GDP grew by 5.1% in 2023, driven by both oil and non-oil sectors. After four consecutive years of stagnation, oil output rebounded by 6.9%, contributing an estimated one-third to overall growth in 2023. Excluding the oil sector's contribution, the economy would have grown at a more moderate 3.5%, closer to its long-term trend.
- While official data indicates positive growth, the PMI composite index for the entire economy dipped below the 50-point threshold in January, suggesting a weakened in business activity towards the end of 2023, particularly in the non-oil sector. This could be due to the ongoing challenges of high inflation and restrictive monetary policy, which particularly affected the non-oil economy.

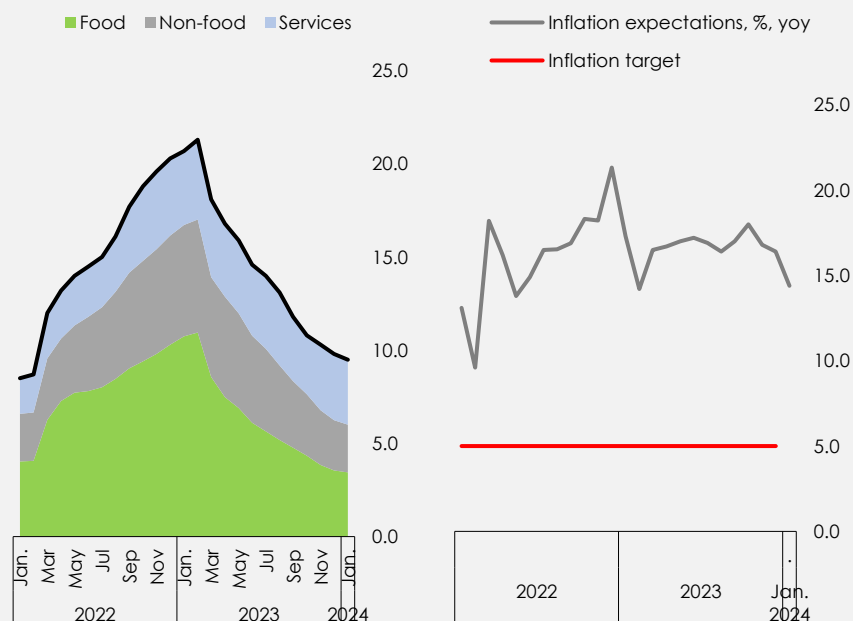


Source: S&P Global Purchasing Managers Survey, Bureau of National Statistics

Actual inflation down but expectations remain unanchored

- In Jan., inflation slightly moderated, reaching 9.5%, compared to 9.8% in Dec. and 20.7% in Jan. 2023. Price increases slowed across all major subcomponents except services. Food prices, which make up 40% of the consumer basket, further decreased from 8.5% in Dec. to 8.2% in Jan.
- Unlike other inflation components, services inflation persisted, which is likely due to the dominant role that wages play in determining the costs. Real wages grew by 5.3% yoy in Q4 2023, with particularly strong increases observed in services sectors during the last quarter.
- Meanwhile, elevated households' inflation expectations remain a concern, significantly exceeding both the current inflation rate and the NBK's 5% target. Perceptions of high prices can affect consumer spending and wage negotiations, potentially hindering the current downward trajectory of inflation.

Consumer price inflation, yoy, percentage point

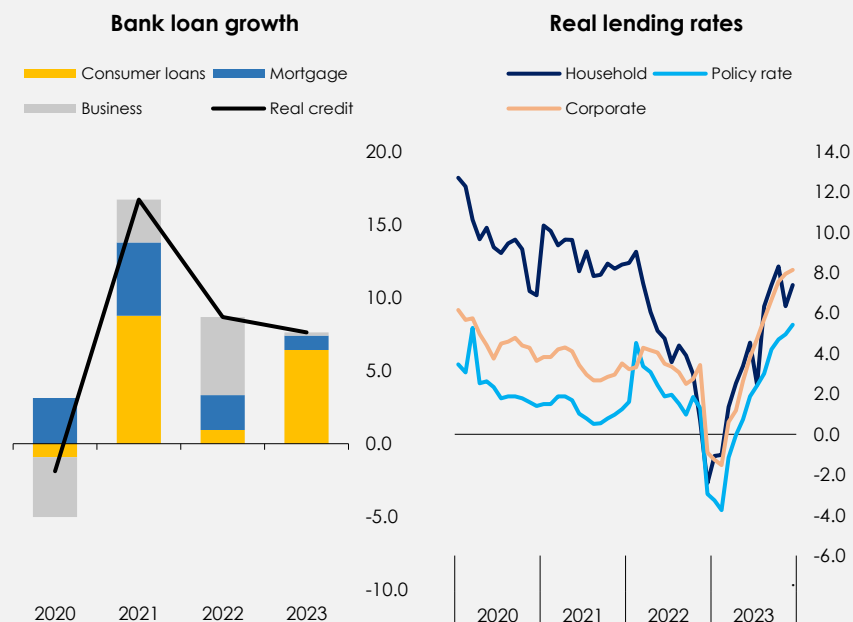


Source: Bureau of National Statistics, Inflation expectations published by National Bank of Kazakhstan

Despite tighter financing conditions, borrowing remains robust.

- Dec. 2023 saw real lending rates for both firms and households increase further, a consequence of declining inflation. This coincides with the NBK's ongoing tightening of monetary policy, resulting in a pronounced and rapid rise in real lending rates throughout 2023. Real lending rate for households is already on par with those observed before the 2022 inflation spike, while businesses face significantly higher borrowing costs of 8% in Dec., double the historical average of 4% over the past three years.
- Despite tighter financing conditions, bank surveys indicate businesses and households haven't reported significant difficulties in securing loans, and borrowing demand remains robust. This is reflected in aggregate bank loan growth, which grew by an estimated 7.6% yoy in Dec. 2023 in real terms. This growth surpasses the 6.6% observed in H1 2023 and is largely driven by strong demand for retail loans, particularly consumer credit and mortgages.

Credit developments, % of total

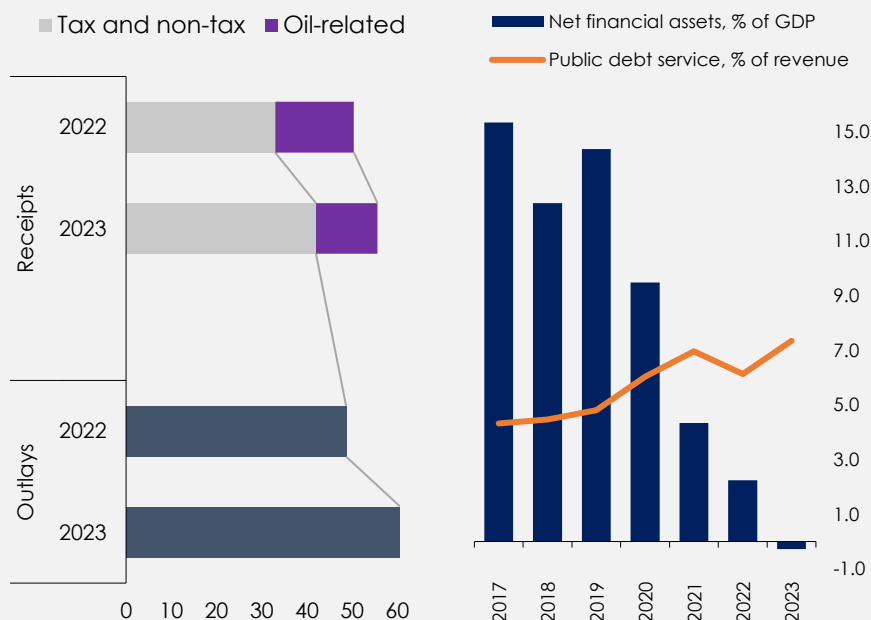


Source: National Bank of Kazakhstan

Budget balance turned into deficit and government debt surpassed reserves

- The fiscal balance flipped into deficit to an estimated US\$4.2 bln. in 2023 – a sharp reversal from US\$2.7 surplus recorded in 2022. While consolidated budget revenues in US dollars increased by 10% yoy, driven by a significant rise in non-oil revenues (+27%), which was partially offset by a decline in oil-related revenues (-27%) in 2023.
- Total budget spending increased by nearly 25%, reaching an estimated US\$60.8 bln. Key areas driving this uptick include housing and infrastructure (+53.7%), social transfers (+18.6%), among others.
- Higher borrowing costs pushed up interest payments as a share of budget revenues up to 7.3% in 2023 from 6.1% in 2022. Net financial assets, defined as the difference between NFRK assets and public debt, dipped into negative territory for the first time.

Fiscal outturn, billion U.S. Dollars



Source: Ministry of Finance, Consolidated fiscal account, staff estimates