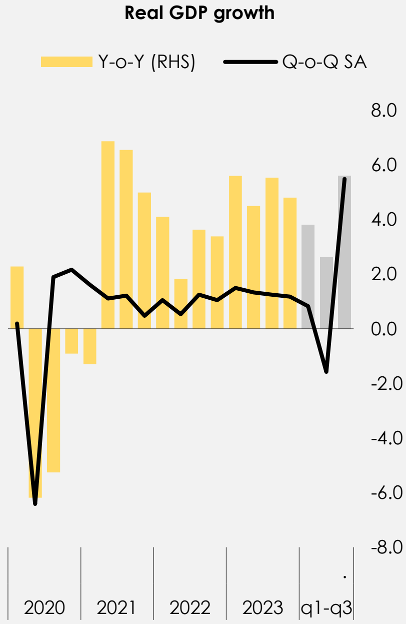
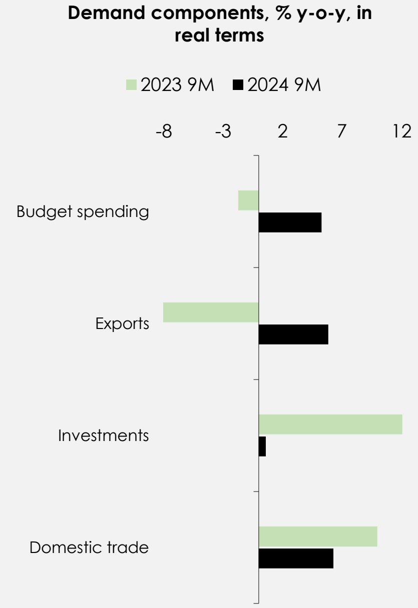
Kazakhstan Monthly Update, November 2024

Fiscal expansion drives growth while investment stagnates

- Real GDP expanded by 4% y-o-y in 9M of 2024, regaining momentum after slowing to 3.2% in H1. Growth accelerated sharply in Q3 alone to 5.6% y-o-y, up from 2.6% in Q2, with the economy rebounding by 5.5% quarter-on-quarter following a 1.6% contraction in Q2.
- Q3 performance marks the strongest quarterly growth since the initial post-pandemic recovery, surpassing earlier rebounds in pace and vigor.
- The surge in fiscal spending was likely a major driver of this rebound. The government intensified spending in Q3, with consolidated budget outlays rising 5.3% in real terms over 9M, reversing a 4.5% y-o-y decline in H1. Domestic trade—a key indicator of consumer spending—picked up to 6.3% y-o-y, from 3.9% in H1. Investment activity remained flat, showing little change over the same period. Exports of goods increased by 5.9% y-o-y, adding further, albeit moderate, support to economic activity.

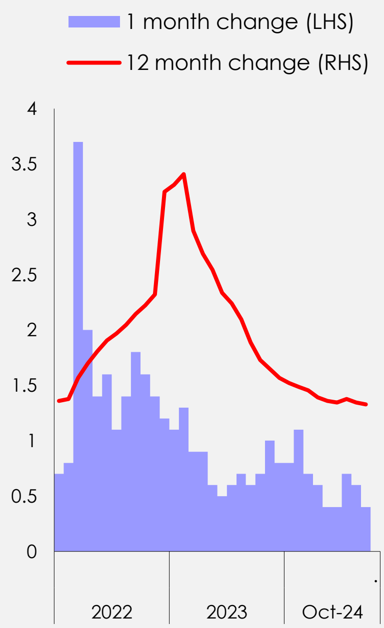


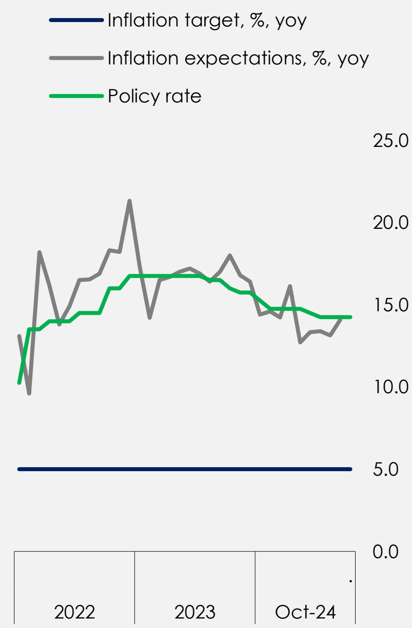


Source: Bureau of National Statistics, Haver Analytics, staff estimates

Inflation moderates but price pressure remains

- Consumer price inflation eased further to 8.3% y-o-y in September, down from 9.5% in January, reflecting softening domestic demand. Monthly inflation also slowed for the third consecutive month, settling at 0.4% m-o-m in September and aligning with historical monthly norms. While the downward trend is encouraging, inflation still remains stubbornly high and above target.
- Food prices moderated to 5%, and non-food prices eased to 7.6%, though service prices remain elevated at 13.6%, likely driven by rising costs linked to robust real wage growth.
- In October, the Central Bank held its benchmark interest rate steady at 14.25%, following a marginal 0.25 p.p. cut in September, keeping the real policy rate around 6%. With inflation—both current and expected—still well above the 5% target and rising fiscal spending, maintaining a tight monetary stance remains prudent. Sustained tightening will likely be necessary until inflation shows a clear and lasting decline, ensuring price stability in the face of fiscal expansion.





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

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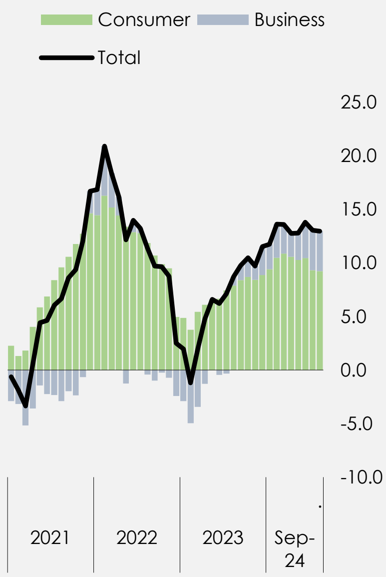
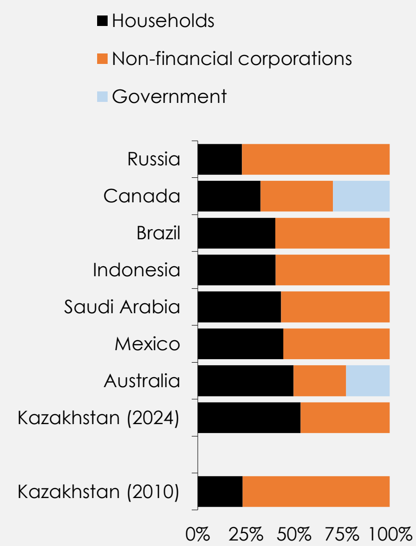
Family loans continue to dominate bank lending activity

- Real bank lending grew by 13% y-o-y in August, outpacing the 8.7% rise recorded a year earlier. This surge again was driven largely by household borrowing, which accounted for nearly 70% of the total credit expansion, contributing 9.2 p.p. to overall growth.
- The shift towards consumer lending, facilitated by the proliferation of digital platforms, has improved financial inclusion but also raised household debt exposure to record levels. As reported before, by Q2 2024, household debt-to-wage ratios reached 47.3%, surpassing the peak seen during the 2008-09 banking crisis.
- Banks have shifted lending priorities with households now dominating the landscape. In Q1 2024, households account for 55% of outstanding credit – a sharp reversal from just 20% in 2010, squeezing space for firms. In fact, Kazakhstan stands out among many resource-rich economies for its reliance on household borrowing, posing potential risks to financial stability if debt levels grow unchecked.

Real credit growth, y-o-y



Credit to sectors, % of total in Q1 2024

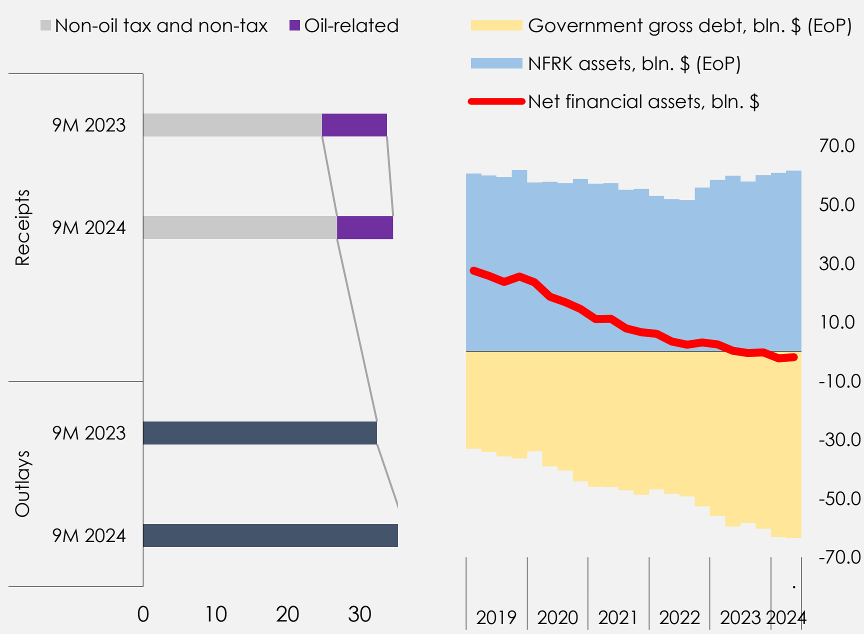


Source: Bureau of National Statistics, Haver Analytics, National Bank, Bank for International Settlements, staff estimates

Spending surges shifting budget to deficit, net financial assets turn negative

- Consolidated budget receipts totaled $34.7 bln. in 9M of 2024, showing a modest increase compared to the same period last year. Although oil-related revenues fell by 13.2% y-o-y, this decline was more than offset by an 8.3% rise in non-oil tax receipts.
- Budget outlays surged to $36.2 bln. (+11.6% y-o-y), with the sharpest increases in social transfers (+15.6%), infrastructure spending (+22.1%), and debt service payments (+24.6%).
- The faster rise in expenditures compared to revenues swung the budget from a $1.4 bln. surplus 9M of last year to a $1.5 bln. deficit this year, underscoring growing fiscal pressures.
- Oil Fund reserves remained stable at $60 bln. year-to-date. However, a continued rise in government debt, which reached $63.4 bln. in Q2, pushed liabilities above the level of accumulated assets. As a result, net financial assets turned negative for the first time, standing at -$1.9 bln. in Q2, reflecting a notable shift in fiscal dynamics.

Fiscal outturn, billion U.S. Dollar, end of period



Source: Haver Analytics, Ministry of Finanace, National Bank, staff estimates.
Note: Consolidated budget expenditures encompass net lending but exclude 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.