



QUARTERLY REPORT

# KAZAKHSTAN MACRO & MARKET OVERVIEW

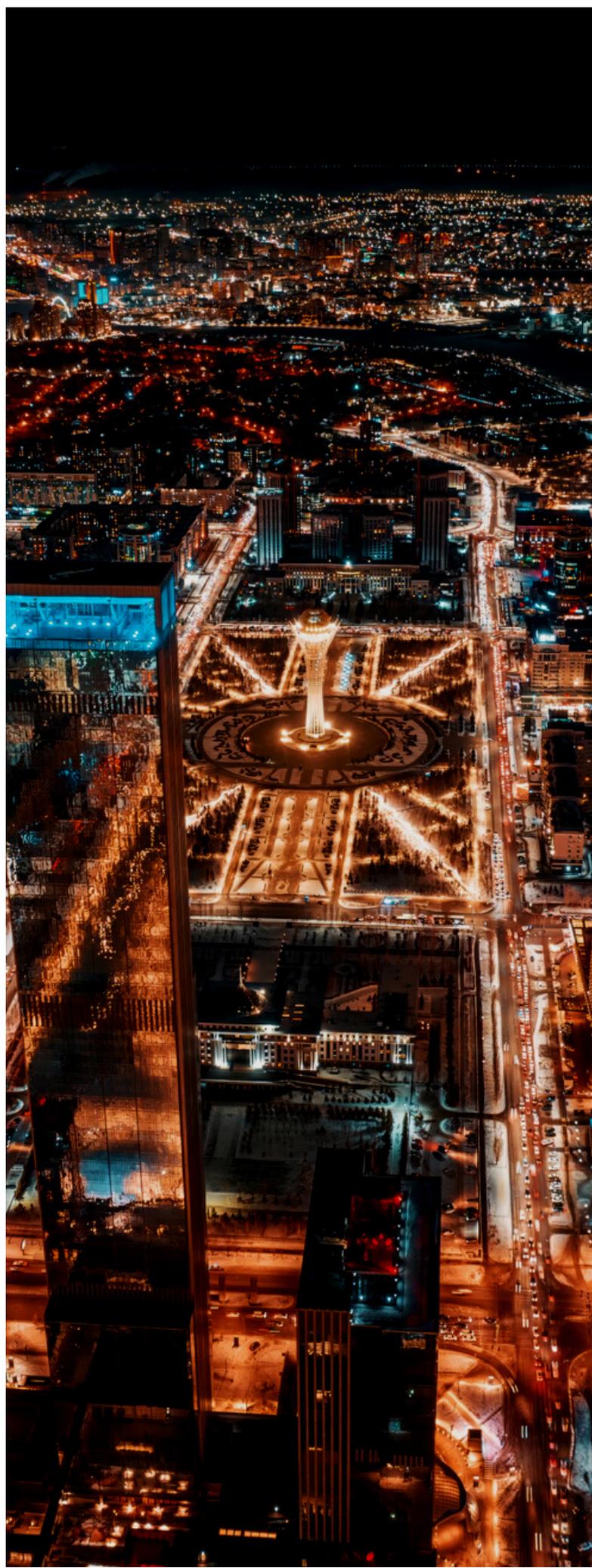
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Q3 2023 // NATIONAL BANK OF KAZAKHSTAN

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## NEW LEADERSHIP – CONSISTENT PRIORITIES

Starting from September 2023, Timur Suleimenov was appointed as the new Governor of the National Bank of Kazakhstan.

Having previously served as a Board member of the National Bank during his tenure at the President's Administration, Mr. Suleimenov brought a wealth of experience to his new position.

Addressing the importance of transparency and open communication, Suleimenov underlines that the National Bank of Kazakhstan will maintain its commitment to being both accessible and informative.

The cornerstone of Suleimenov's leadership at the National Bank is his unwavering commitment to price stability. Under his guidance, existing monetary policy will remain consistent, transparent, and predictable, with the ultimate goal of stabilizing inflation near the medium-term target of 5%.

Based on the National Bank's updated forecasts, annual inflation is expected to be in the range of 10-12% in 2023, followed by further deceleration to 7.5-9.5% in 2024 and 5.5-7.5% in 2025. Achieving the medium-term goal of 5% inflation is expected by the end of 2025, excluding the direct effect of the increase in utility tariffs.

Despite the anticipation of a smooth reduction of the base rate due to decelerating inflation, Suleimenov's address highlights the need for a cautious and data-dependent approach in making near-term decisions. The room for reducing interest rates is constrained by the risks of potential fiscal stimulus intensification, which necessitates a prudent approach.

Suleimenov also underscores the National Bank's commitment to a flexible exchange rate regime, maintaining a liberal foreign exchange market, and ensuring complete transparency in all foreign exchange operations. He places significant importance on the consistent development of the domestic market.



Timur Suleimenov,  
The New Governor:  
“WE WILL STAY  
COMMITTED TO  
THE CORE  
MANDATE –  
PRICE STABILITY”

# KAZAKHSTAN CREDIT RATINGS REMAIN RELIABLE

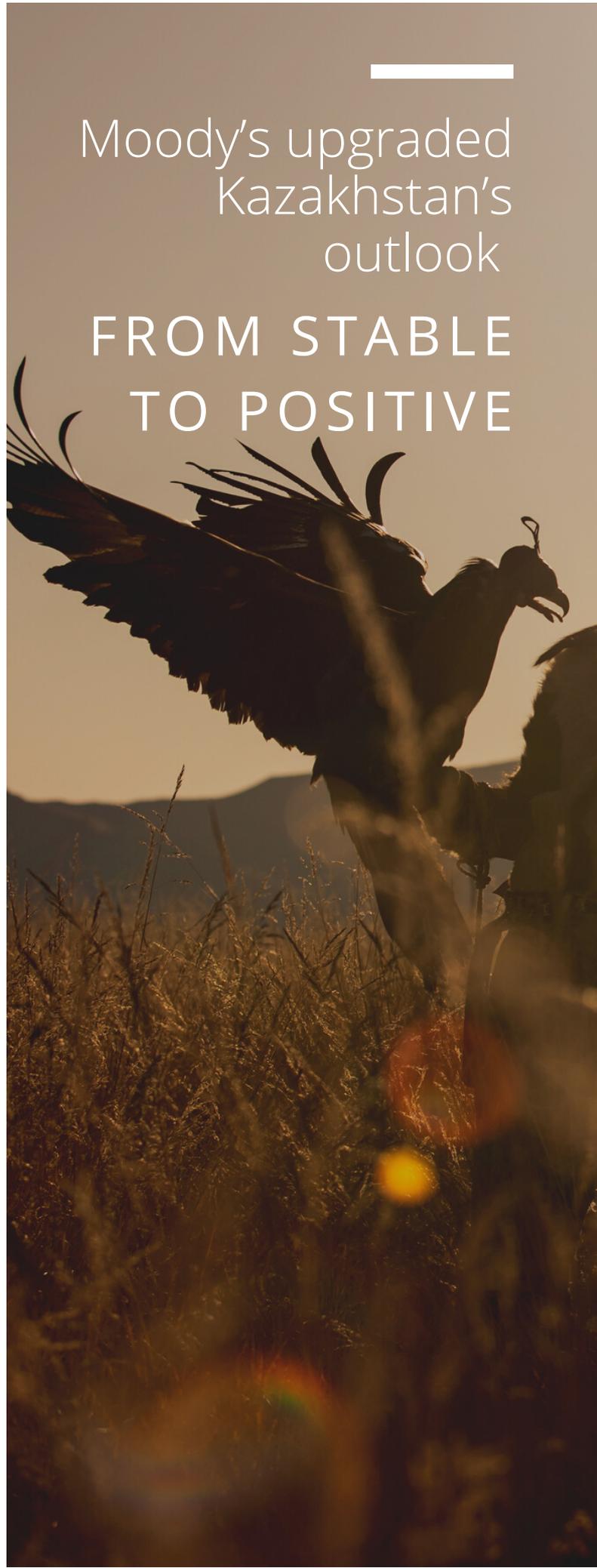
On September 4, the S&P Rating Agency released an update analyzing the sovereign credit rating of the Republic of Kazakhstan. The credit rating remains stable at "BBB-" with a stable outlook.

S&P highlights the country's robust external reserves and low public debt, providing resilience against potential external risks. The economy is projected to grow by approximately 5.9% in 2023, supported by sectors like construction, trade, information, communications, transport, and mining. Long-term GDP growth from 2023 to 2026 is expected to average close to 4.9%, driven by both oil and non-oil sectors.

S&P analysts forecast an inflation rate of 11.4% in 2023, slowing to 5.9% by 2026, aligning with the National Bank's target. The flexible exchange rate system has helped Kazakhstan adapt to external volatility, and the financial sector has shown significant improvement in asset quality. While geopolitical factors have had a moderate impact, a prolonged decline in oil exports, increased budget deficit, growing government debt burden, or other adverse factors could lead to a credit rating downgrade. On the positive side, an upgrade is possible if fiscal policies reduce debt accumulation, monetary policy effectiveness improves, and inflation remains low.

On October 27 **Moody's improved the outlook to positive from stable**, while affirming the Kazakhstan's rating at Baa2. The positive outlook reflects Moody's assessment that material and ongoing progress in economic diversification points to greater resiliency to economic or financial shocks. Progress in enhancing institutional quality and addressing sociopolitical matters, as well as ongoing commitment to reforms also point to a potentially stronger level of institutional effectiveness versus peers.

<b>S&amp;P Global</b>	<b>FitchRatings</b>	<b>MOODY'S</b> INVESTORS SERVICE
BBB- Stable	BBB Stable	Baa2 <b>Positive</b>



Moody's upgraded  
Kazakhstan's  
outlook

FROM STABLE  
TO POSITIVE

# Annual inflation CONTINUES TO SLOW DOWN

In September 2023, annual inflation continued its descent, reaching 11.8%. This decline was attributed to a moderately tight monetary policy and the gradual exhaustion of last year's high base. The easing of global inflationary pressures and decreasing domestic production costs also contributed to this slowdown. However, challenges persisted as monthly and core inflation remained high, reflecting stable domestic demand and elevated inflation expectations. Considering the deceleration of inflationary processes, in 3Q23 National Bank decided to decrease the base rate by 25 b.p., setting it at 16.5%.

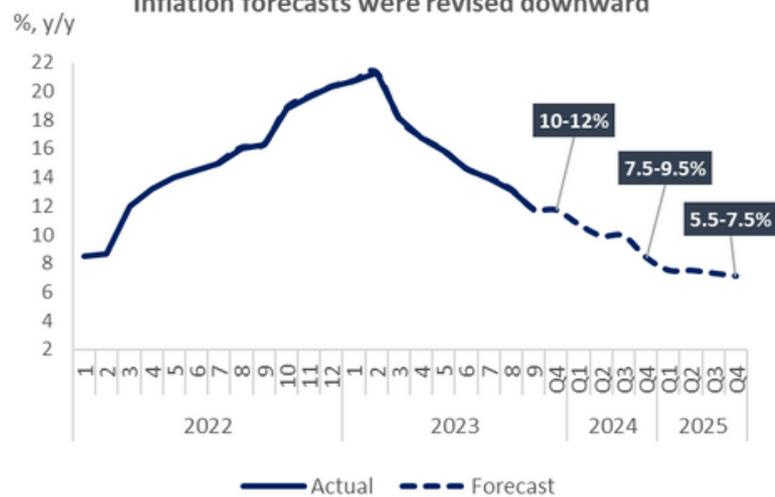
Inflation forecasts were revised downward amid a reassessment of the impact of secondary effects from the rise in the cost of fuel on the overall price level. In the baseline scenario, annual inflation is expected to be in the range of 10-12% in 2023 with a further slowdown to 7.5-9.5% in 2024 and 5.5-7.5% in 2025.

In the medium term, the slowdown of inflation will be facilitated by the current restrictive monetary conditions, leading to declining inflation expectations and a movement towards the medium-term target of 5%. Additionally, the return of inflation to target levels in Kazakhstan's trading partners and the global decrease in food prices were expected to aid the reduction of inflation domestically. At the same time, there is a concern regarding inflationary upside risks. Fiscal stimulus strengthening, non-anchoring inflation expectations, and potential deferred secondary effects from fuel and utility price hikes, along with uncertain forecasts for the domestic wheat harvest, posed upward inflation pressure.

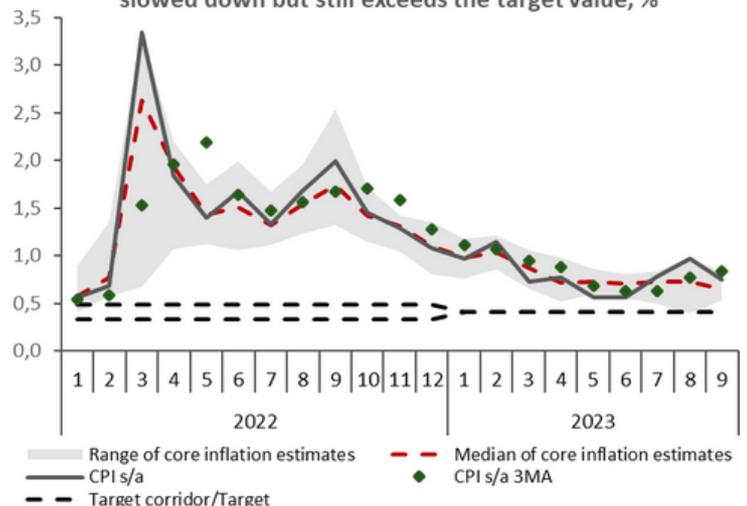
While the National Bank had room for reducing the base rate, inflationary risks both externally and domestically limited the possibilities for further rate cuts in 2023. Monetary policy easing would be considered if annual inflation slowed to a single-digit level by the end of the year.

## INFLATION

Annual inflation continues to slow down. Inflation forecasts were revised downward



The seasonally adjusted consumer price index has slowed down but still exceeds the target value, %



# MODERATE CURRENT ACCOUNT DEFICIT is expected over the medium term

In the first 9 months of 2023 the current account of the balance of payments recorded a deficit of \$7.7 billion. The main reason behind the transition of the current account from a surplus to a deficit zone was the deterioration in the trade balance. Import of goods increased by 26.5% to \$45 billion, driven by high demand across all good categories – capital, consumer and intermediate products. Export of goods dipped by 8.9% to \$58.7 billion, mainly due to falling oil prices compared to 2022.

During National Bank’s forecasting round in August 2023 the current account projections were revised downward due to higher actual imports than projected earlier and scenario downward adjustments in oil and metal prices.

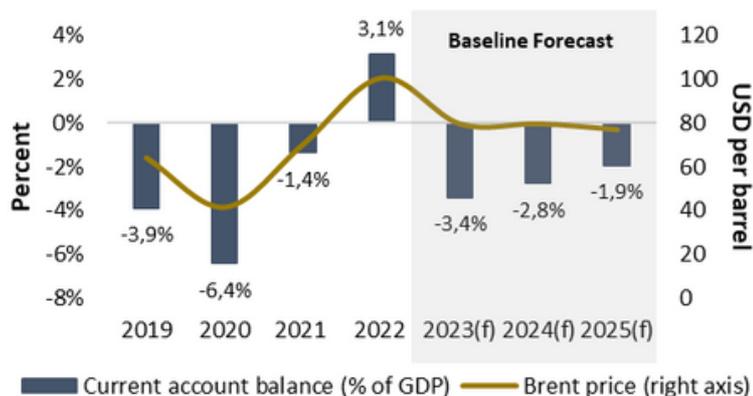
In the baseline scenario, a moderate current account deficit is expected over the medium term. Anticipated deficits of (-)3.4% of GDP in 2023, (-)2.8% in 2024, and (-)1.9% in 2025 are expected due to the following trends.

Import of goods will continue to rise over the forecasting horizon, surpassing the historical peak of 2022. High levels of imports will be supported by the growing demand of the population and businesses, consumer loans, as well as fiscal expenditures, including those related to the implementation of the state programs and initiatives to support the economy.

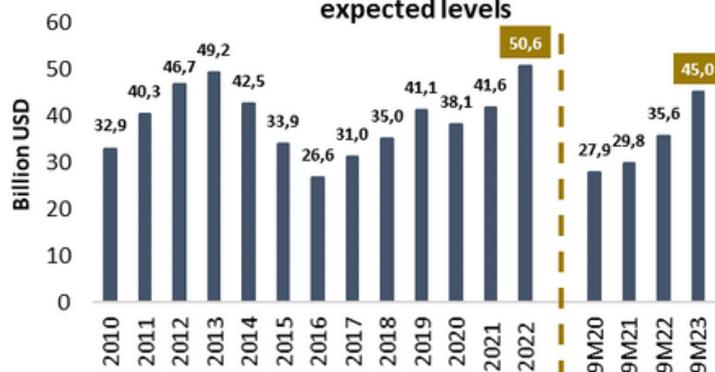
Export of goods will be influenced by multidirectional factors in the medium term. The growth of exports will be supported by an increase in oil production, projected rise in uranium prices and its production, as well as planned introduction of new ferroalloy plants. Higher export growth will be constrained by the redirection of natural gas to domestic consumption and the scenario downward adjustments of the high prices of certain commodity groups, such as ferrous and non-ferrous metals, gas, coal, grains and refined petroleum products.

## CURRENT ACCOUNT

The current account projection was revised downward



Import of goods in 9M 2023 were above expected levels

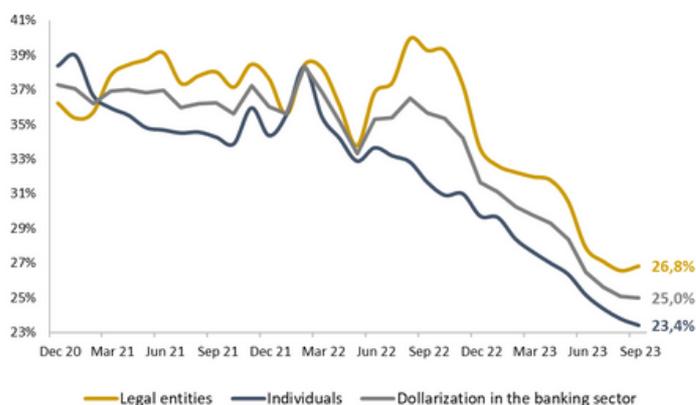


# Dollarization among individuals reached 26-YEAR LOW

## FX MARKET & FX RESERVES

<i>mIn USD</i>	2022	1H2023	3Q2023
<b>FX Reserves</b>	35 076	34 457	31 930
<b>Assets in hard currencies</b>	14 585	15 268	13 314
<b>Gold</b>	20 491	19 188	18 616
<b>Share of gold,%</b>	58%	56%	58%
<b>USD/KZT total volume on KASE</b>	29 704	16 263	9 790
<b>USD/KZT rate</b>	463	452	475
<b>Interventions (net)</b>	(-) 1 394	0	0
<b>Mandatory FX sales by quasi-sovereign companies</b>	5 055	1 894	231
<b>Sales from National fund</b>	(-) 4 285	(-) 3 489	(-) 2 516

Dollarization of deposits is decreasing



As of September 30, 2023, the tenge exchange rate has depreciated by 2.7% year-to-date to 474.99 tenge per US dollar, compared to 462.66 on December 30, 2022.

In 3Q23, the domestic market witnessed fluctuations in response to various factors. Initially, in July, the tenge strengthened due to increased demand from non-residents in government securities and favorable external conditions. However, from August onwards, negative influences took hold. Externally, the rhetoric of the US Federal Reserve and the global surge of the US dollar, coupled with the weakening currencies of trading partners, impacted the market. Internally, seasonal demands from importers during the active budget development phase, the suspension of mandatory FX sales by quasi-sovereign companies, and the National Bank's base rate reduction against falling inflation played significant roles.

Throughout the year, the National Bank's operations, including sales from the National Fund and purchases for the Unified Pension Fund, were executed as per preannounced volumes.

As of now, the country's international reserves stand at \$89.7 billion, comprising \$31.9 billion in FX reserves and \$57.8 billion in National Fund assets. The reduction in FX reserves is attributed to decreased balances in commercial banks' foreign currency accounts, primarily due to decrease in dollarization.

The dollarization rate has continued to decline, reaching 25.0% in September 2023. This decline is primarily due to the decrease in dollarization among individuals, reaching a 26-year low of 23.4%. Among legal entities, the minimum level of dollarization was achieved at 26.8%, marking the lowest rate in the past sixteen years.

In 3Q23 Kazakhstan's Ministry of Finance issued fixed-coupon government securities totaling 1.1 trillion KZT, with market investors contributing 59% (56% in 2Q23). More than half of these issuances had medium- and long-term maturities exceeding 5 years. As signs of inflation slowing down emerged, yields on medium-term government securities auctions decreased by 70-100 basis points compared to the second quarter of 2023.

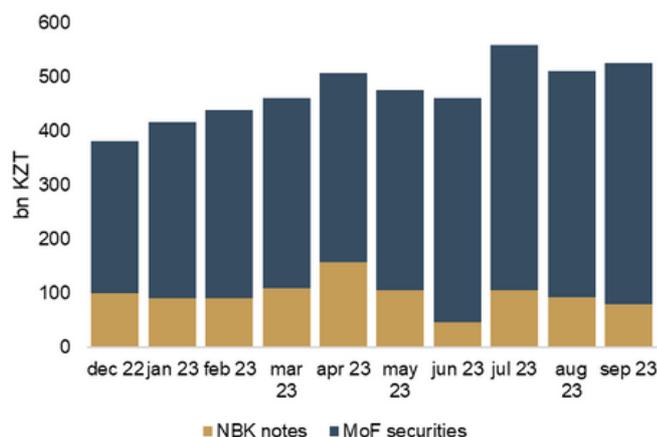
Throughout the year, there was a notable rise in nonresidents' investments in Kazakhstan government securities, amounting to 144 billion KZT (~306 million USD) over the first three quarters.

In its recent EM Index governance results, J.P. Morgan reveals that 31% of respondents support the incorporation of Kazakhstan onshore government bonds into the GBI-EM series. Generally, investors' preferences align with the need for a consolidated yield curve, larger benchmark tenor securities, and enhanced secondary market liquidity before considering index inclusion. Global bond investors emphasize the importance of ease of market access through international clearing and settlement systems, rather than onshore settlement and custody.

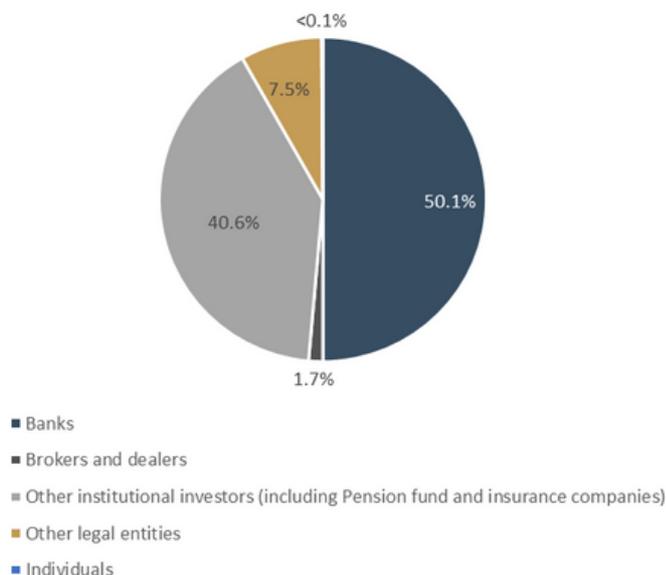
To address market preferences and to enhance secondary market liquidity, the Ministry of Finance initiated measures to consolidate existing securities and reduce the number of issues. They announced plans to increase the volume of certain securities in 2024 to levels suitable for benchmarks. Notably, Ministry of finance refrained from issuing new securities in 3Q23, focusing solely on reissuing existing securities. Also, the establishment of Euroclear settlement is actively underway with the ongoing due diligence process.

## GOVERNMENT SECURITIES MARKET OVERVIEW

**Holdings of government securities by foreign investors has increased YTD**



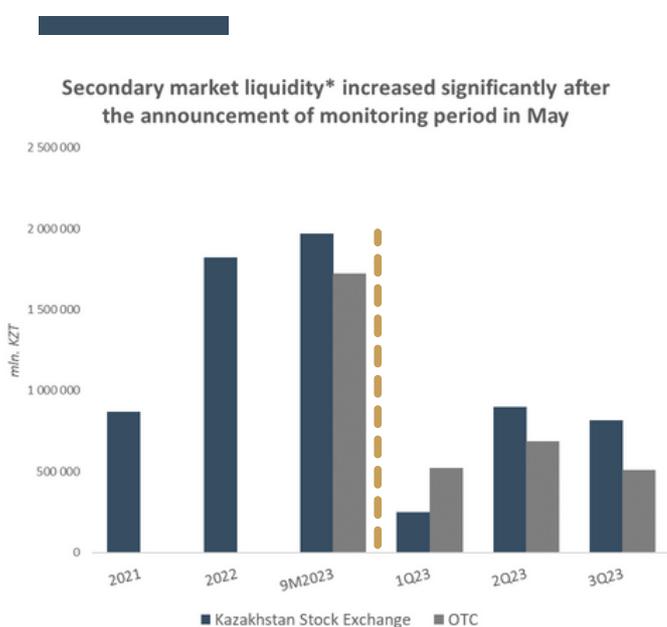
**During 9M23 about 50% of the primary market participants consisted of banks**



Holdings of government securities by foreign investors  
**INCREASED BY \$306 mln, YTD**

# Primary dealers initiative is ENHANCING SECONDARY MARKET LIQUIDITY

## SECONDARY MARKET LIQUIDITY



\*Data on secondary market includes only tenge denominated securities of National Bank and Ministry of Finance. OTC data is available since 2023

To enhance secondary market liquidity, the Ministry of Finance and National Bank plan to introduce primary dealers, streamlining auctions for a more efficient public debt market. Selected participants will serve as primary dealers, participating in auctions and acting as market makers. A monitoring period, which started in May, assesses participants based on primary and secondary market activity, analytical information, and communication. [The ranking of market participants](#) is publicly accessible on the Kazakhstan Stock Exchange's website on a monthly basis. As the monitoring period concludes, the National Bank and the Ministry of Finance have initiated a pivotal dialogue within the market, exploring the framework of responsibilities and benefits tailored for primary dealers.

Since the initiation of the monitoring period, notable enhancements have been observed in the government securities market. In the second quarter of 2023, the secondary market volume experienced a substantial uptick and maintained its strength throughout the third quarter, indicating a positive trend when compared to the volumes recorded in 2022.

It is noteworthy that the total number of transactions in the secondary market saw a significant rise. The transactions in the third quarter of 2023 doubled compared to those in the 1Q23 and increased by 1.4 times compared to the 2Q23.

Furthermore, a surge in daily activities was observed, with numerous market participants actively quoting various government securities on both the Bloomberg Ebond trading system and the Kazakhstan Stock Exchange. This heightened participation signifies a growing interest and engagement in the government securities market, reflecting a positive shift in the market dynamics and investor confidence.

# INVESTOR RELATIONS

To enhance interest in Kazakhstan's financial market and disseminate vital information about our initiatives, the National Bank initiated a series of engaging sessions tailored for global investors. These sessions attracted a diverse range of investors, including sovereign, quasi-sovereign, and private sector entities, who actively participated in these discussions.

Notably, on September 4, 2023, a dedicated session for global investors was held on Citibank's platform, providing a comprehensive overview of our initiatives and opportunities. Furthermore, during the IMF and World Bank Group Annual Meetings in Marrakech in October, the National Bank actively engaged with investors at the Small Talks Symposium organized by the Bank of America. Concurrently, another fruitful interaction with investors took place during the same Annual Meetings on J.P. Morgan's platform.

In addition to these sessions, the National Bank conducted strategically significant meetings with counterparts, all geared towards advancing Kazakhstan's position in the global financial landscape. These efforts underscore our commitment to fostering international collaborations and driving the growth of Kazakhstan's financial sector.

**Additional sources:**

- [Recent Publications and Press releases](#)
- [Monetary Policy Report](#)



## CONTACTS

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