



QUARTERLY REPORT

# KAZAKHSTAN MACRO & MARKET OVERVIEW

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Q4 2023 // NATIONAL BANK OF KAZAKHSTAN

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# STRATEGIC OUTLOOK: WHAT TO EXPECT IN 2024?

## BASE RATE & INFLATION

Annual inflation is projected to be in the range of 7.5-9.5% in 2024. Gradual rate cuts will continue in the absence of unforeseen shocks. Pauses in rate cuts are not excluded. The easing cycle may extend over a long period.

## FX MARKET

In 2024, the Ministry of Finance mandated a transfer of 3.6 trillion tenge from the National Fund. A portion (1.1 trillion in 2023) will be secured through tenge inflows, and the remainder will be converted on the FX market, ensuring sales. At the same time, the Pension Fund will review currency purchase options, subject to market conditions, with a monthly limit from 200 to 500 million USD.

## GOVERNMENT SECURITIES MARKET

In 2024, the Ministry of Finance has set a target to issue tenge-denominated securities amounting to 5.2 trillion tenge. The ongoing strategy to broaden benchmarks will continue by increasing the volume of existing issues, with eight of them raised to amounts equivalent to at least 1 billion USD. Both the National Bank and the Ministry of Finance are dedicated to implementing essential measures to further develop the government securities market and gaining inclusion in global government securities indices. These commitments include the introduction of primary dealers and the facilitation of Euroclear settlement.



# POSITIVE OUTLOOK: KAZAKHSTAN'S CREDIT RATINGS STAND STRONG

On October 27, Moody's upgraded Kazakhstan's outlook from stable to positive while affirming its rating at Baa2. This positive shift reflects Moody's acknowledgment that the continuous advancements in economic diversification signal increased resilience to potential economic or financial shocks. Progress in elevating institutional quality, addressing sociopolitical concerns, and an ongoing commitment to reforms suggest a potentially stronger level of institutional effectiveness compared to peers.

In their annual credit analysis published on October 29, Moody's emphasized Kazakhstan's solid government balance sheet, low debt burden, and very high debt affordability, providing a substantial buffer against external shocks. Despite these strengths, Moody's notes concerns in the country's credit profile, stemming from its still-significant exposure to oil price developments, institutions that are relatively weak but steadily improving, and potential longer-term political transition risks.

On November 17, Fitch maintained Kazakhstan's BBB rating with a stable outlook. Fitch recognizes Kazakhstan's resilient fiscal and external balance sheets, proven in their ability to withstand external shocks, and financial flexibility supported by accumulated oil income savings.

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



Kazakhstan's Credit  
Outlook

**TURNED  
POSITIVE**



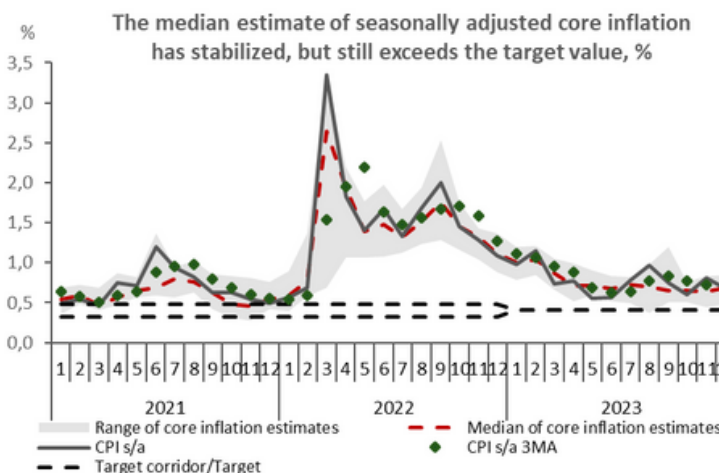
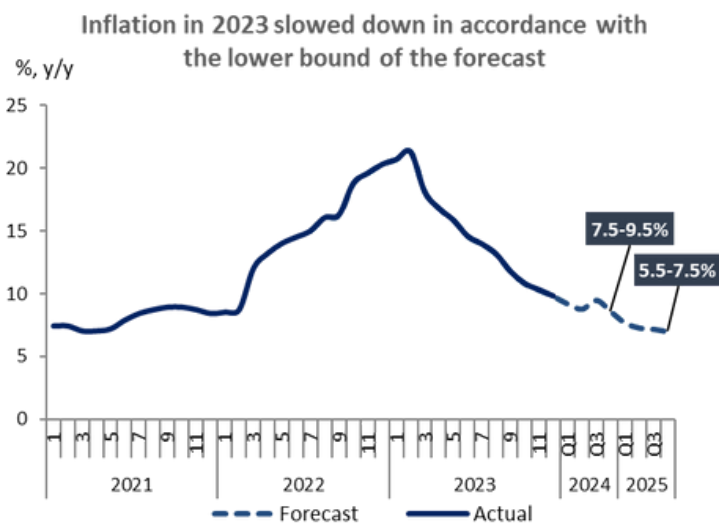
# Annual inflation REACHED SINGLE DIGITS

By the end of December 2023, inflation exhibited a significant deceleration, more than halving from 21.3% in February 2023 to 9.8%, finally dipping into single digits. This slowdown was influenced by timely monetary policy measures implemented by the National Bank and the Government, the exhaustion of the high base from 2022, a dip in global food prices, and a weakening of global inflationary pressure. The deceleration in the annual growth rates of producer prices across various industries played a crucial role in facilitating slower price growth.

The median estimate of seasonally adjusted core inflation has steadied at 0.7% since April 2023. According to our expectations, the deceleration in inflation is anticipated to persist, driven by restrictive monetary conditions and a gradual easing of global inflationary pressures. Forecasts suggest a decline in annual inflation to 7.5-9.5% in 2024 and further to 5.5-7.5% in 2025.

In response to the deceleration of inflationary trends, The National Bank implemented two rate cuts (25 and 50 b.p.) during the 4Q2023, bringing it to 15.75% by the year-end. Subsequent determinations regarding the base rate will be contingent upon the alignment of actual inflation dynamics with its projected trajectory. Attaining the 5% inflation target necessitates the upholding of moderately tight monetary conditions. The National Bank will vigilantly assess incoming economic data, and in the absence of unforeseen shocks, the systematic reduction of the base rate will persist, with the possibility of occasional pauses. Nonetheless, it is acknowledged that the decline in the rate may persist over an extended period.

## INFLATION



# CURRENT ACCOUNT DEFICIT

is expected to narrow in 2024

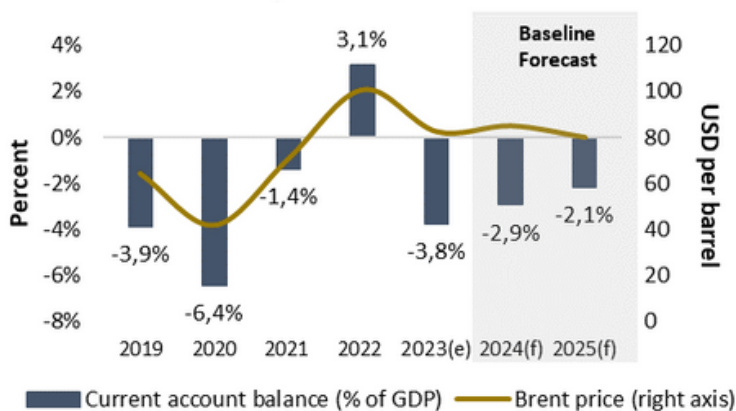
Based on preliminary results, the 2023 current account of the balance of payments recorded a deficit of \$9.8 billion, marking a transition from the surplus in 2022, primarily attributed to the trade balance deterioration. Import of goods surged by 20.1% to \$60.8 billion, driven by robust demand across all categories, while export of goods declined by 6.6% to \$79.9 billion, mainly due to falling oil prices.

The National Bank's latest forecasts from the forecasting round in November align closely with earlier projections, anticipating a moderate current account deficit over the medium term. The deficit is expected to narrow from an estimated (-)3.8% of GDP in 2023 to (-)2.9% in 2024 and (-)2.1% in 2025.

Import growth rates are projected to decelerate significantly, with volumes sustained by consistent demand from households, businesses, and state-driven economic support programs. Export levels will be boosted by an anticipated increase in oil production, a projected rise in uranium prices, and the introduction of new ferroalloy capacities. However, further export growth will be constrained by a gradual scenario-based decline in oil prices to US\$80 per barrel by 2025, redirection of natural gas for domestic consumption, and scenario-driven downward adjustments in prices of specific commodity groups like ferrous and non-ferrous metals, gas, coal, grains, and refined petroleum products.

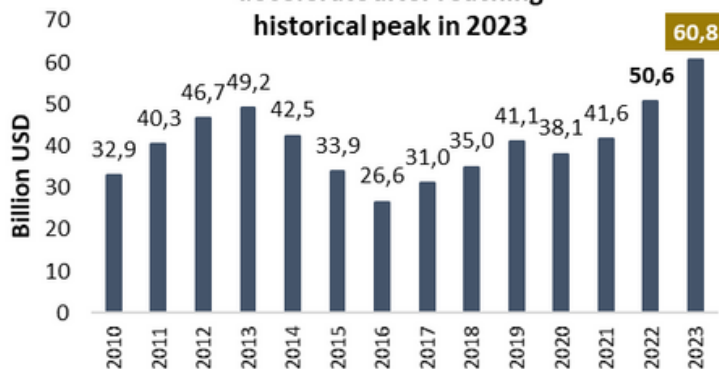
## CURRENT ACCOUNT

The current account projections align closely with the previous estimates



\*Figures on NGPD for 2023 are not yet available. Thus, "Current account/NGDP" ratio is an estimate of the NBK.

The growth of import of goods is expected to decelerate after reaching historical peak in 2023



# TENGE EXCHANGE RATE HAS APPRECIATED by 1.7% in 2023 YoY

## FX MARKET & FX RESERVES

<i>mIn USD</i>	2022	2023
<b>FX Reserves</b>	35 076	35 965
<b>Assets in hard currencies</b>	14 585	16 455
<b>Gold</b>	20 491	19 510
<b>Share of gold,%</b>	58%	54%
<b>USD/KZT total volume on KASE</b>	29 704	37 047
<b>USD/KZT rate</b>	463	455
<b>Interventions (net)</b>	(-) 1 394	0
<b>Mandatory FX sales by quasi-sovereign companies</b>	5 055	2 125
<b>Sales from National fund</b>	(-) 4 285	(-) 9 483

In 2023 the tenge exchange rate has appreciated by 1.7% YoY to 454.69 tenge per US dollar.

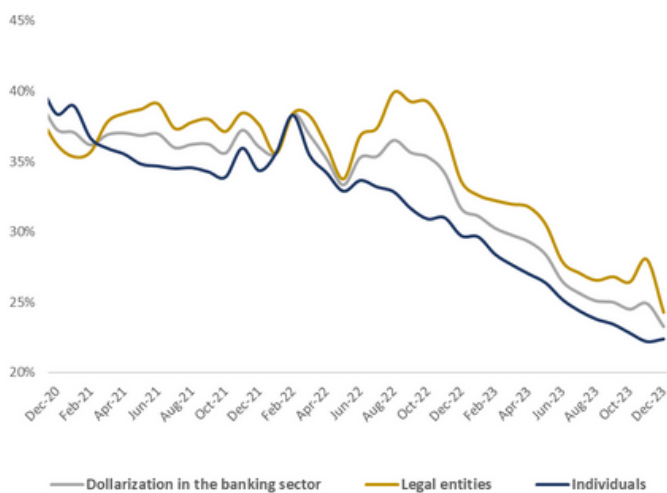
During the fourth quarter of 2023, the domestic market experienced a 4.3% appreciation of the tenge. The strength of the tenge was bolstered by a decrease in the level of dollarization in deposits and an increased volume of sales from the National Fund, particularly during October and November. This surge, exceeding averages from preceding periods, is attributed to the acquisition of KazMunayGas shares.

Throughout the year, the National Bank consistently executed its operations, including sales from the National Fund and purchases for the Unified Pension Fund, in accordance with pre-announced volumes. In 2024, the Ministry of Finance required a transfer of 3.6 trillion tenge from the National Fund. A portion of this amount (1.1 trillion in 2023) will be ensured through tenge inflows, while the remainder will be converted (USD sales) on the FX market. Concurrently, the Pension Fund announced plans to expand the potential range of FX purchases, with pre-announced monthly limits.

As of now, the country's international reserves stand at \$96 billion, comprising \$36 billion in FX reserves and \$60 billion in National Fund assets. The increase in FX reserves is attributed to the upswing in gold prices. The NBK is actively enhancing the liquidity of its FX reserves by selling a portion of its gold to international markets. Consequently, the FX component within the reserves has witnessed a significant uptick, with the gold share decreasing from 68% in 2021 to 54% in 2023.

Amid of tight monetary policy, in December 2023 deposit dollarization hit a 26-year low. Despite recent base rate reductions, appealing rates on retail deposits in tenge persisted, resulting in continuous inflows of new local currency deposits. Deposit dollarization of legal entities also declined to 24.3%.

Dollarization of deposits reached a 26 year low



In the 4Q2023, Kazakhstan's Ministry of Finance issued fixed-coupon government securities totaling 335.8 bn tenge. Approximately half of the issuances had medium- and long-term maturities exceeding 5 years. As signs of inflation slowing down emerged, coupled with the ongoing easing of monetary policy, yields on government securities with maturities up to 5 years decreased by 50-90 b.p. compared to the third quarter of 2023. Throughout 2023, the Ministry of Finance issued government securities totaling 5.4 trillion tenge, with market investors contributing 61%. Nonresidents' investments in Kazakhstan government securities increased by 73 bn KZT (~162 mln USD) over the year. Secondary market liquidity on Kazakhstan Stock Exchange increased 1.5 times in 2023 YoY up to 2.7 trillion tenge (~5.9 bn USD). In 2023, initiatives were implemented to disclose the volume of secondary transactions on the OTC market, which added a total of 2.1 trillion tenge for the year (~4.6 bn USD) to the secondary market volume.

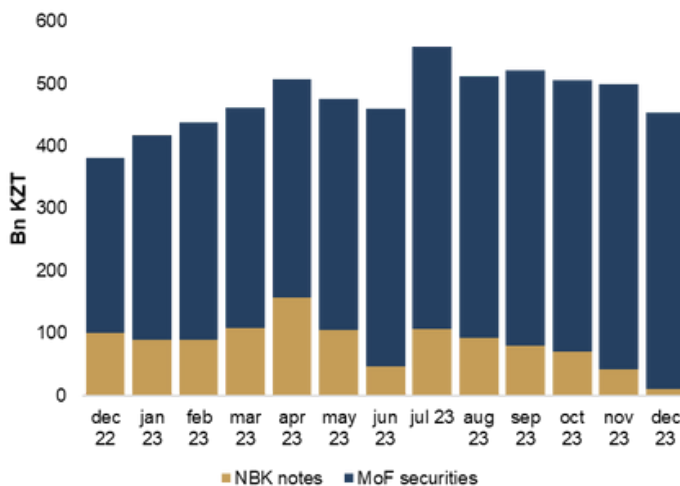
In 2024, the Ministry of Finance plans to issue securities amounting to 5.2 trillion tenge. To align with market preferences and enhance secondary market liquidity, measures have been initiated to consolidate existing securities, aiming to increase the amounts of eight issues to at least 1 billion USD equivalent. Addressing foreign investors' preferences, issue days will be shifted from Wednesday to Tuesday.

Further initiatives include ongoing efforts to establish Euroclear settlement and introduction of primary dealers, streamlining auctions for a more efficient public debt market. The primary dealers list will be formed based on the results of a monitoring period that assessed participants from May to October, considering both primary and secondary market activities.

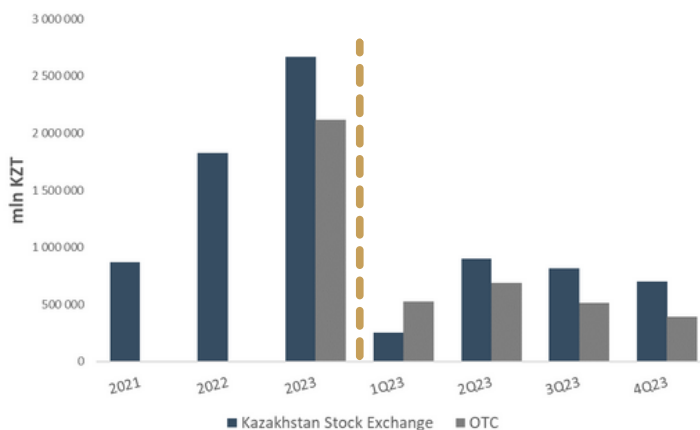
Additionally, the National Bank of Kazakhstan is actively transferring fund assets into a competitive environment, with seven funds totaling 461 billion KZT already transferred by the end of 2023, and three more funds scheduled for transfer in 2024-2025.

## GOVERNMENT SECURITIES MARKET OVERVIEW

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



**Secondary market liquidity\* on Kazakhstan Stock Exchange witnessed a 1.5-fold increase in 2023 compared to the previous year**



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

In 2024 8 more securities will each have a USD-equivalent amount of **AT LEAST 1 BN USD**





# INVESTOR RELATIONS

In an effort to further facilitate interest in Kazakhstan's financial market and disseminate information about our initiatives, the National Bank organized engaging sessions geared towards a global audience of investors, including sovereign, quasi-sovereign, and private sector entities.

During the IMF and World Bank Group Annual Meetings in Marrakech, the National Bank actively interacted with investors at the Small Talks Symposium organized by the Bank of America. Concurrently, another successful engagement with investors took place on J.P. Morgan's platform.

On November 13, Bank of America Securities organized a visit for a group of sovereign and corporate debt investors to Kazakhstan, arranging an update session on the country's primary macroeconomic trends and developments in the financial markets. Another dedicated session on Kazakhstan was held on November 28 as part of the Barclays Virtual Investor Conference platform. Complementing these sessions, the National Bank strategically convened significant meetings with counterparts, all aimed at advancing Kazakhstan in the global financial landscape.

These endeavors underscore our commitment to fostering international collaboration and propelling the growth of Kazakhstan's financial sector.

**Additional sources:**

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



## CONTACTS

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