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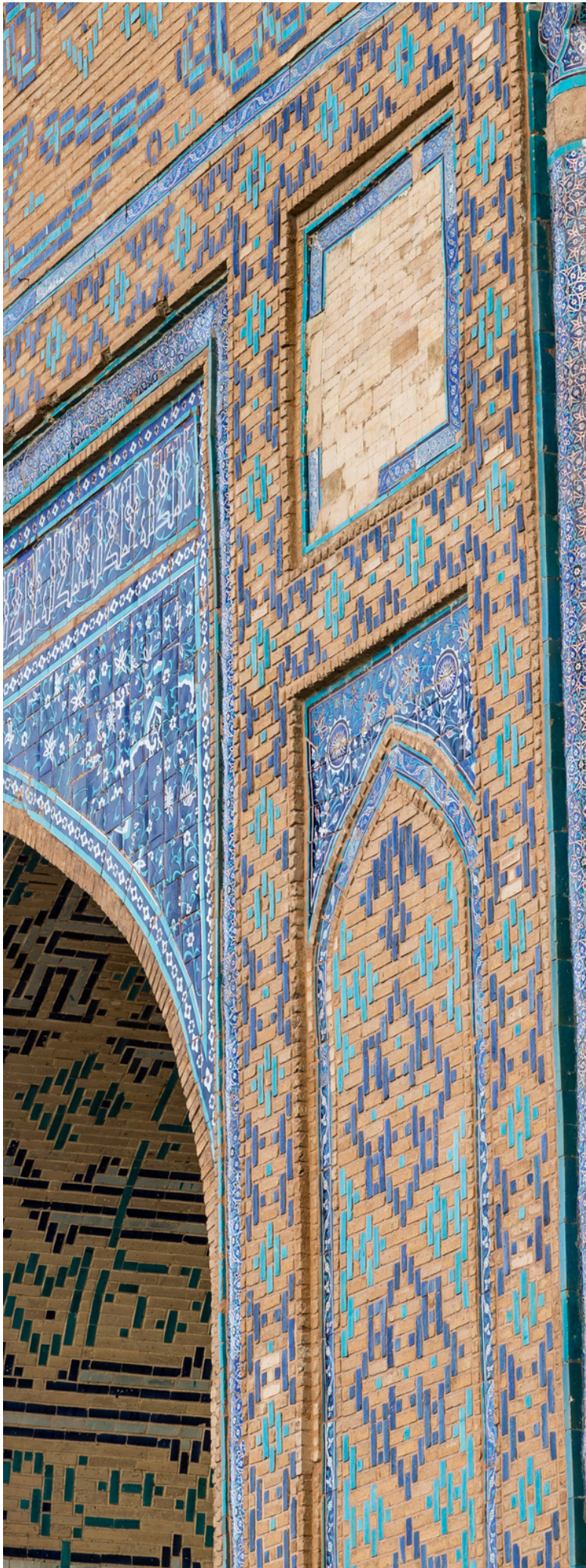
QUARTERLY REPORT

KAZAKHSTAN MACRO & MARKET OVERVIEW

Q3 2024 // NATIONAL BANK OF KAZAKHSTAN

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KAZAKHSTAN'S RATING UPGRADE REFLECTS ECONOMIC RESILIENCE

On August 26, S&P released a report on Kazakhstan, noting that the stable outlook for the country's 'BBB-' long-term rating reflects their assessment that risks from slower growth and relatively high external financing needs are mitigated by planned governance and economic reforms, along with substantial asset buffers. S&P indicated that the rating could be raised if sustained reforms lead to accelerated non-oil growth, political stability, and reduced geopolitical risks. Additionally, an improvement in Kazakhstan's monetary policy effectiveness, demonstrated by a stronger transmission mechanism, lower inflation, and a commitment to exchange rate flexibility, would support an upgrade.

On September 9, Moody's upgraded Kazakhstan's sovereign credit rating to Baa1 with a stable outlook (up from Baa2, positive outlook in 2023). The upgrade reflects ongoing improvements in governance, institutional, and political frameworks, combined with positive diversification trends in Kazakhstan's economy, which enhance resilience to external shocks and strengthening credit profile.

Moody's highlighted a notable reduction in dependency on hydrocarbons and developments in transportation, logistics, manufacturing, and information and communication technologies. The stable outlook suggests balanced risks, with Moody's analysts emphasizing that continued economic and institutional reforms are essential to boost investment attractiveness and further diversify the economy. However, potential regional geopolitical tensions and the risk of secondary sanctions pose challenges to long-term economic prospects.

Kazakhstan's substantial fiscal reserves, notably the assets of the National Fund, continue to support fiscal sustainability and provide flexibility during economic shocks.

S&P Global

FitchRatings

MOODY'S
INVESTORS SERVICE

BBB-
Stable

BBB
Stable

Baa1
Stable



Moody's
UPGRADED
KAZAKHSTAN'S
RATING TO
BAA1

Achieving the 5% inflation target will require maintaining MODERATELY TIGHT MONETARY CONDITIONS

The NBK implemented a 25 b.p. rate cut in July 2024 amid a gradual inflation slowdown in the second quarter and kept throughout 3Q2024 at 14.25% due to increased pro-inflationary pressures, with monetary conditions kept moderately tight to support the 5% inflation target.

Despite a temporary rise in July, annual inflation continued to decline, reaching 8.3% in September. This trend was supported by easing global inflation and low price growth in manufacturing and agriculture, though pressures remain due to rising regulated utility prices under the "tariff for investment" program, steady consumer demand, and fiscal stimulus.

While actual inflation slowed, expectations for the year ahead rose to 14.1% in September 2024, up from 13.3% in June, driven largely by a weaker nominal exchange rate for the tenge. It is important to note that inflation expectations remain elevated and sensitive to short-term shocks.

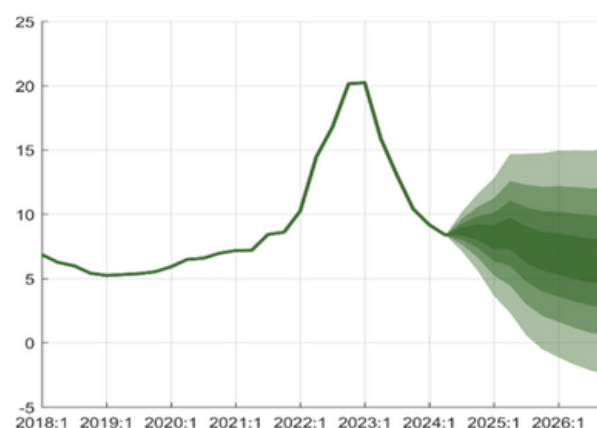
Seasonally adjusted core inflation reached 0.55% month-on-month in September 2024, with monthly inflation at 0.63% and the 3-month moving average of the CPI at 0.78%. After rising in previous months due to higher utility tariffs and a weaker exchange rate, core and seasonally adjusted inflation have started to slow.

According to the NBK's August 2024 forecast, annual inflation is expected to decline further to 7.5-9.5% by the end of 2024, 5.5-7.5% in 2025, and 5-7% in 2026. However, risks remain, including higher consumer prices in Russia, fiscal policy uncertainties, and ongoing tariff reforms. Strong domestic demand, consumer lending growth, and elevated inflation expectations also add upward pressure on prices.

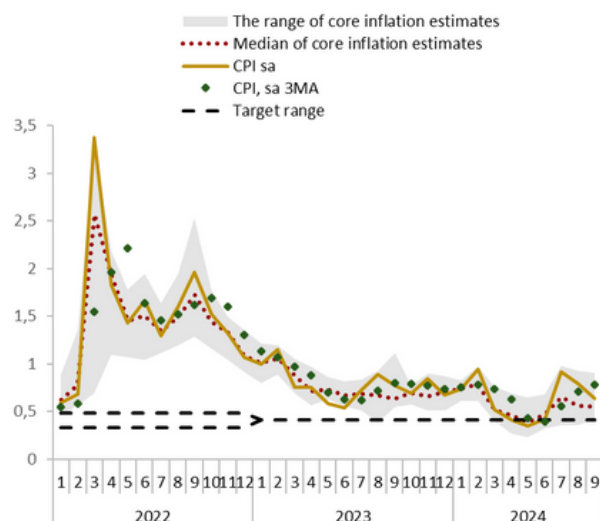
Starting with the latest release, the NBK now provides the Monetary Policy Committee's assessment of the base rate trajectory for the medium term, enhancing transparency in the inflation targeting framework and offering greater financial certainty to markets, the public, and businesses.

INFLATION

Annual inflation is expected to be in the range of 7.5-9.5% by the end of 2024



The median core inflation is forming above the inflation target



MPC members' estimates of the base rate

	Median			Range		
	2024	2025	2026	2024	2025	2026
Base rate, at the end of the year, %	14,25	11,9	10	13,5-14,5	9,5-13	8,5-12

CURRENT ACCOUNT DEFICIT

is expected to narrow in 2024

According to preliminary estimates, the current account deficit narrowed to \$0.3 billion in the 9 months of 2024, down from \$6.7 billion deficit in the same period of 2023. This reduction was primarily driven by an improvement in the trade balance and a decrease in the income balance deficit. Export of goods increased by 3.0% to \$61.3 billion. The growth was due to the increase in prices of oil, uranium, non-ferrous and ferrous metals. Meanwhile, import of goods decreased by 2.7% to \$43.6 billion across all product groups, with an exception of food products.

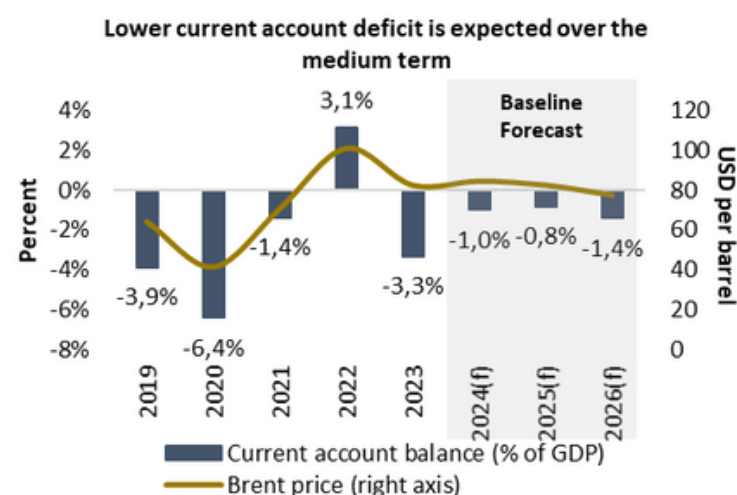
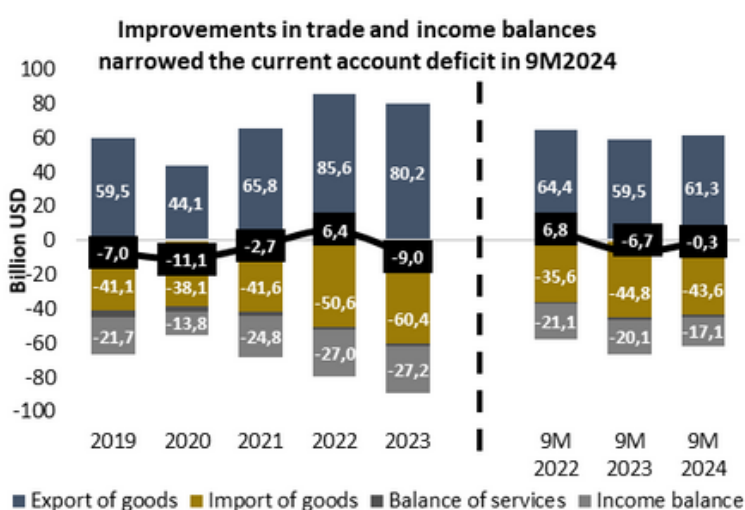
The NBK's latest current account forecast, updated in August, has been revised downward from the May projections. The medium-term current account deficit levels are now expected to be lower: (-)1.0% of GDP in 2024, (-)0.8% in 2025, and (-)1.4% in 2026. The expected deficit is the result of a gradual projected decline in oil prices and slight growth in import of goods.

An increase in oil production volumes will support the growth of export of goods, partly offsetting the forecasted reduction in oil prices. Non-oil export volumes will be determined by rising global prices for metals, ores, and uranium, as well as continuing recovery of metal production.

Imports will increase moderately because of rising demand from households and businesses amid limited domestic production, significant share of imported components in Kazakhstan's production chains, and implementation of government programs supporting the economy.

The income balance deficit will continue to be determined by the dynamics of commodity exports. Despite the projected decline in oil prices, increased oil production and metal prices will result in high volumes of income payable to foreign direct investors. After the historical peak in 2023, the accrued interest payments are expected to gradually decline due to the anticipated easing of global monetary conditions.

CURRENT ACCOUNT

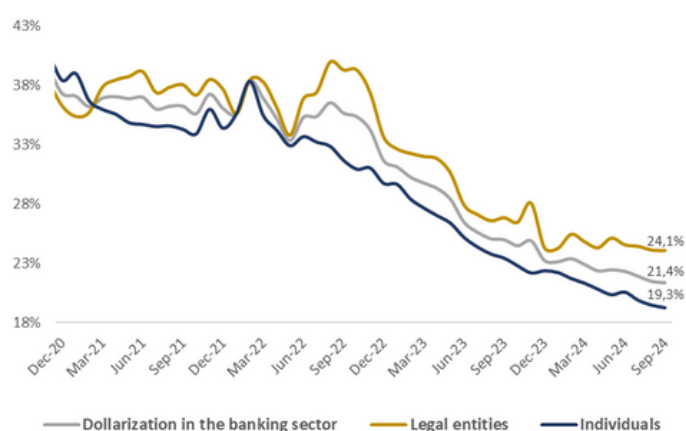


Seasonal demand from importers CONTRIBUTED TO THE INCREASED VOLATILITY

FX MARKET & FX RESERVES

<i>mln USD</i>	2022	2023	9M2024
FX Reserves	35 076	35 944	44 591
Assets in hard currencies	14 585	16 434	20 227
Gold	20 491	19 510	24 364
Share of gold,%	58%	54%	55%
USD/KZT total volume on KASE	29 704	37 047	37 993
USD/KZT rate	463	455	481
Interventions (net)	(-) 1 394	0	387
Sales from National fund	(-) 4 285	(-) 9 483	(-) 6 680

Dollarization of deposits continues to decline



The tenge depreciated by 5.8% YTD to 481.11 against the US dollar by the end of September.

In 3Q2024, we observed higher-than-usual volatility in the FX market, driven by both external and internal factors. Externally, the global strengthening of the US dollar played a key role. Internally, seasonal demand from importers, driven by the active phase of budget utilization, contributed to the increased volatility.

During the 9M2024, the NBK conducted FX sales from the National Fund, totalling \$6.7 billion. The NBK adheres to a strict market neutrality principle to facilitate the transfers from NF to the budget. While conducting these operations in the market, the NBK does not seek to influence the exchange rate and behaves strictly in a price-taking manner.

The pension fund purchased \$3.4 bln during the same period, increasing the share of FX holdings to 39%.

In the second half of 2024, the Government of Kazakhstan decided to allocate 467.4 billion tenge to the National Fund for purchasing shares in Kazatomprom JSC. Consequently, the NBK, as the manager of the National Fund, converted foreign currency into tenge for this transaction. To mitigate the impact of this unplanned conversion on the FX market, the NBK conducted a one-off conversion by directly selling National Fund assets to the NBK's FX reserves amounting to 984.8 mln USD. To maintain market neutrality, the NBK gradually sold the purchased FX from its reserves, averaging \$11.5 mln per day starting from mid-July totalling \$598 mln during 3Q2024. The remaining volume will be sold in the 4Q2024.

As of the end of 3Q2024, the country's international reserves stand at \$107.2 billion, comprising \$44.6 billion in FX reserves and \$62.6 billion in National Fund assets. The increase in FX reserves is attributed to the upswing in gold prices.

Due to moderately tight monetary policy and a high yield differential between KZT and FX deposits, dollarization in the banking sector fell to a new low of 21.4% in September 2024, down from 25.1% a year earlier. Corporate sector dollarization dropped by 2.5%, while individual dollarization decreased by 4.5%, reaching 19.3% of household deposits.

In 3Q2024, Kazakhstan's Ministry of Finance issued fixed-coupon government securities totaling 1.6 trillion tenge, with half allocated to short-term bonds (up to 5 years). Yields on these securities fell by 20-30 basis points, reflecting a reduced monthly bond supply (1 trillion tenge in July, 400 bln in August, and 200 bln in September).

Market participation surged to 89.2% in 3Q2024, up from 57.2% in 2Q2024 and 65.6% in 1Q2024. As a result, market demand averaged 1.9 times supply, with investors active across the yield curve. In October 2024, the Ministry of Finance issued a 10-year, 1.5 bln USD bond, the first since 2015. Strong demand, with an order book nearing 6 bln USD, allowed for a coupon rate and yield of 4.714% and a spread of 88 basis points over US Treasuries.

Foreign investor holdings of government securities rose 2.5 times since the start of the year, reaching 1.1 trln tenge (~2,3 bln USD).

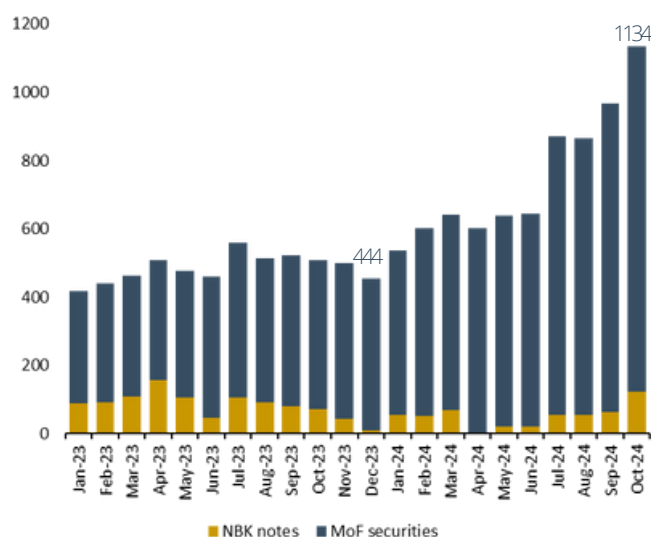
In September, the Ministry of Finance began procedures to establish a primary dealership. Previously, NBK conducted a monitoring period to assess all market participants and selected 7 candidates.

The development of the primary dealership's privileges and obligations is underway, with the first round of negotiations already completed. These procedures are expected to be finalized by year-end, with the primary dealership scheduled to commence in 2025.

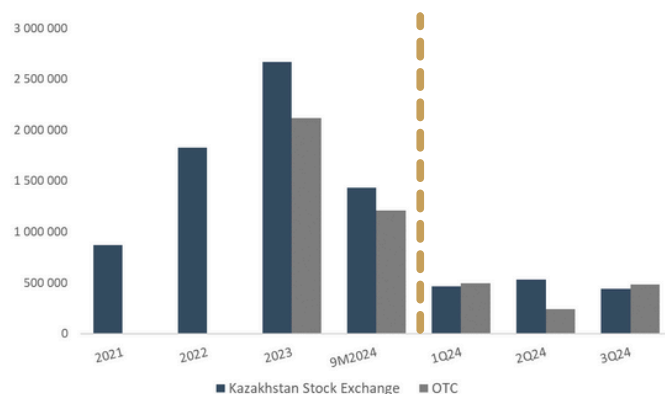
The implementation of settlements within the Euroclear global custodian system is progressing steadily. A Euroclear consultant's Legal Gap Analysis led to proposed amendments to Kazakhstan's "Law on the Securities Market". These changes will recognize ownership rights for clients of foreign nominee holders and align with Euroclear's account-opening requirements. The amendments are currently under parliamentary review and are expected to be approved by year-end.

GOVERNMENT SECURITIES MARKET OVERVIEW

Foreign investor holdings of government securities rose 2.5 times since the start of the year, in bn KZT



Secondary market liquidity*, mln KZT



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

The Ministry of Finance is preparing to launch the
PRIMARY DEALERSHIP
program in 2025

INVESTOR RELATIONS

On July 15, the NBK hosted a meeting with Citi to exchange views on current economic trends in Kazakhstan, plans to attract foreign banks, organize a "Kazakhstan Finance Day" in the USA, and explore opportunities for further cooperation. On September 9, the NBK's management met with Euroclear's client relations division to discuss current and potential partnerships.

On September 20, the NBK engaged with investors from Fidelity Management & Research, Morgan Stanley Investment Management, and other firms during a meeting organized by Transnational Research New York.

On September 23, in London, the Kazakhstan Stock Exchange, in cooperation with the NBK and supported by Citi, organized the "Kazakhstan Local Debt Market" conference aimed at attracting investors to Kazakhstani government securities.

On September 24, the NBK met with investment companies, including Morgan Stanley, Schroders, and Aberdeen Asset Management, among others, to discuss banking sector regulation, payment systems oversight, and developments in the payment system, including the National Payment Corporation.

Additional sources:

- [Press releases](#)
- [Monetary Policy Report](#)



CONTACTS

For more information, please feel free to contact:

- Nurlan Sailaubekuly - investor relations (Nurlans@nationalbank.kz)
- Batur Vakhidov - FX Market, FX reserves, government bonds, primary dealers, infrastructure (Vakhidov.b@nationalbank.kz)
- Nurzhan Nurgazin - government bonds and transfer of funds (Nurgazin@nationalbank.kz)
- Rustem Orazalin - inflation, dollarization (Orazalin.RZ@nationalbank.kz)
- Azat Uskenbayev - current account (Azat.Uskenbayev@nationalbank.kz)
- Aliya Ryskeldiyeva - general queries (aliya.ryskeldiyeva@nationalbank.kz)

