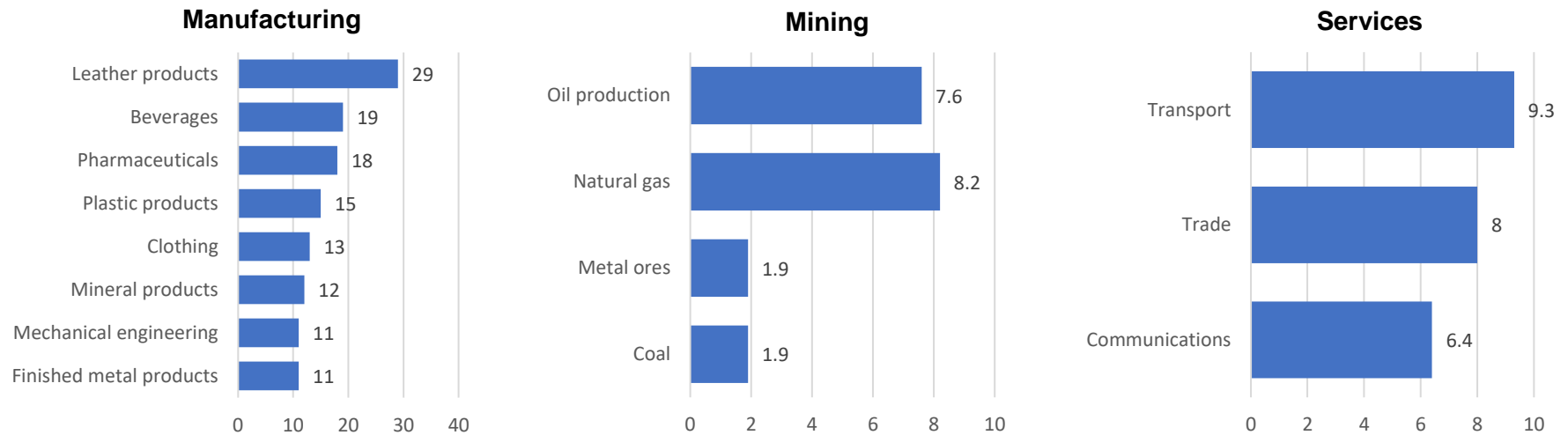




## Kazakhstan's Economic Updates

# Kazakhstan's GDP growth stood at 4.4% in 1Q22, with broad-based growth across economic sectors

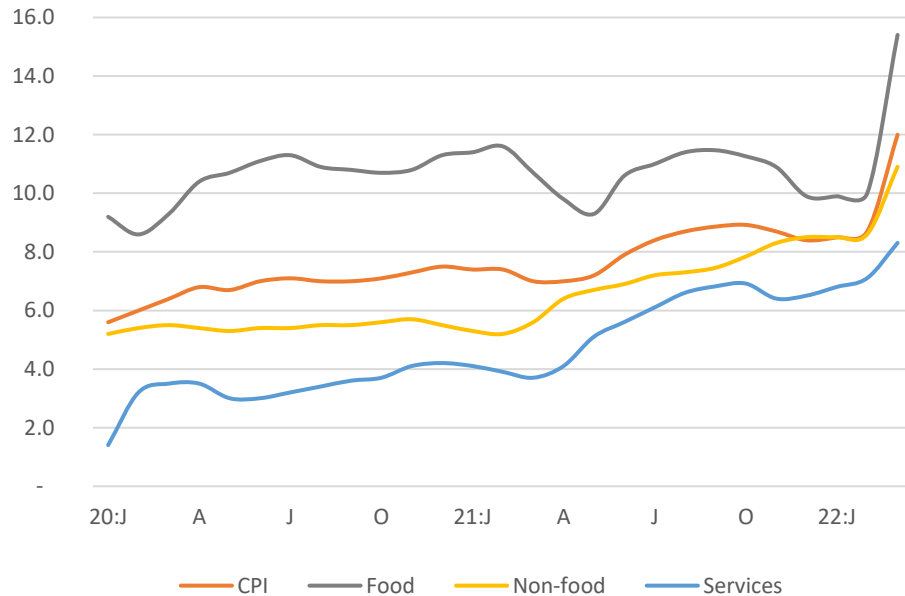
Kazakhstan's Growth Drivers in 1Q22, %



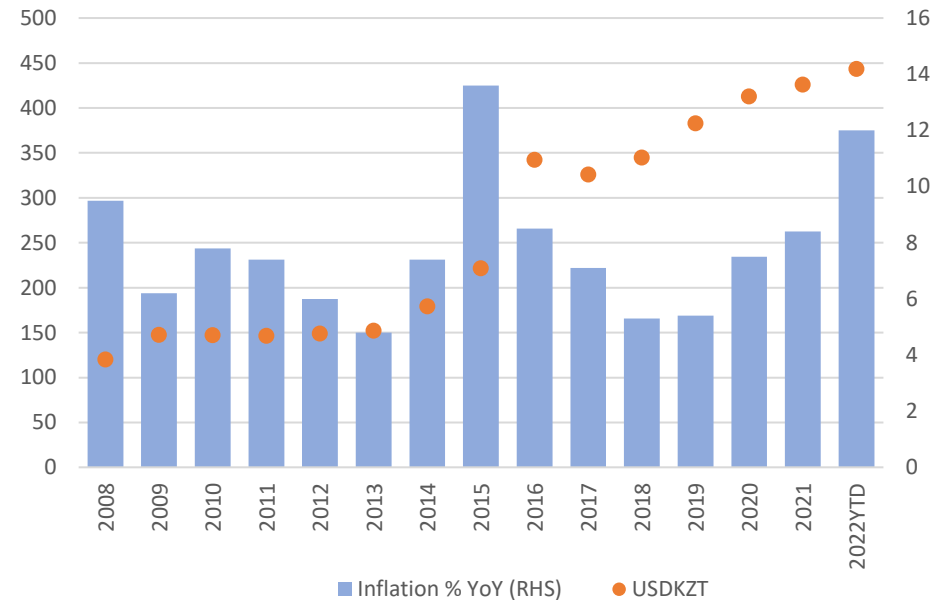
- ✓ **Kazakhstan's GDP growth accelerated to 4.4% in 1Q22** due to resilient growth across economic sectors during the quarter.
- ✓ The mining industry grew by 6.1% in 1Q22, driven by an increase in oil production of 7.6%, natural gas at 8.2%, metal ores and coal each at 1.9%.
- ✓ Growth of the services sector of 2.8% was driven by the transportation, trade and communications sub-sectors at 9.3%, 8.0% and 6.4% respectively. The construction sector grew by 8.6% in 1Q22, underpinned by the construction of 2.9mln square meters of housing.
- ✓ **For full year 2022, Kazakhstan's economy is expected to have a lower growth trajectory** than previous expectations due to geopolitics and higher inflation. However, **the pace of growth will be supported by high commodity prices**, the rise in budget spending and improvement on the pandemic situation.

# Kazakhstan's inflation accelerated to 12% in March from 8.7% in February, underpinned by rising prices across all components

Kazakhstan's Inflation Dynamics, % YoY

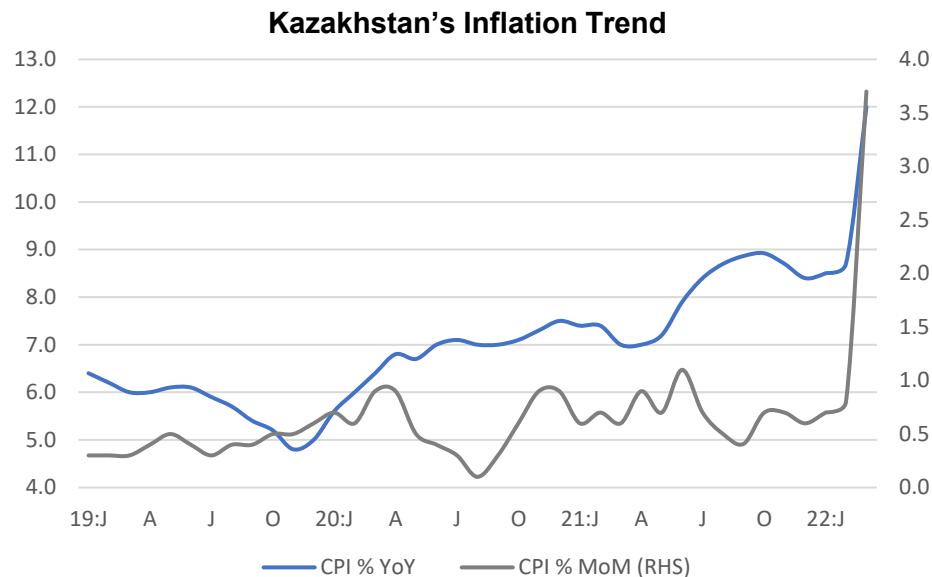
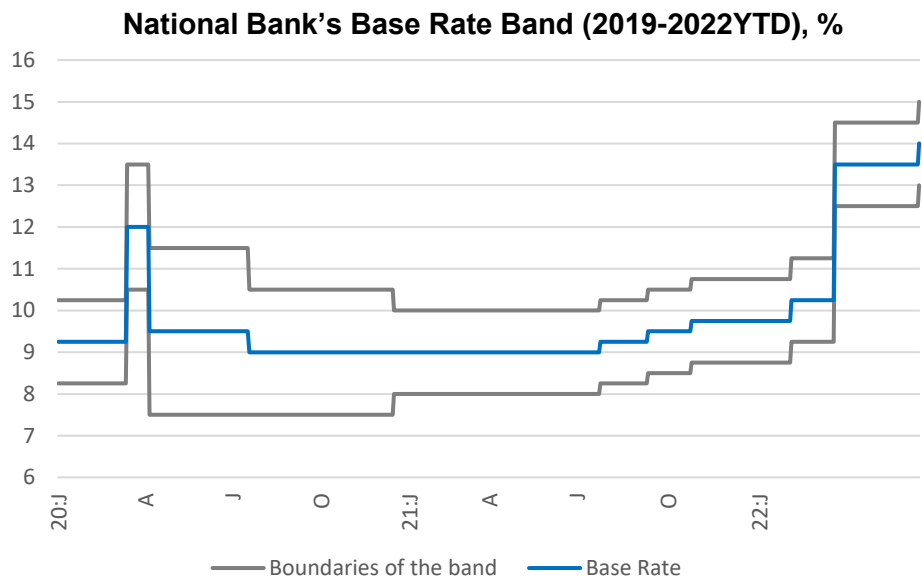


Kazakhstan's Inflation vs. USDKZT Exchange Rate



- ✓ **Kazakhstan's inflation accelerated to 12.0% in March** from 8.7% in February, underpinned by rising prices for all inflation components.
- ✓ **Food prices rose 15.4% in March** (Feb: 10%), while **non-food inflation increased to 10.9%** (Feb: 8.6%). **Paid services were 8.3% higher in March** (Feb: 7.1%).
- ✓ **The weakening of the exchange rate led to the rise in prices of imported goods.** The cost of cars has risen amidst shortage of microchips, while the price increases of clothes & footwear and medicines were due to the increase in import prices.
- ✓ Rent prices for housing have risen due to increased demand and the rising cost of buying a home. The lifting of the quarantine restrictions have also led to increased demand and prices of selected services.

# Kazakhstan's Base Rate was raised to 14%, reflecting current geopolitical risks and the risk of accelerating domestic inflation



- ✓ **Kazakhstan's inflation is expected to be higher than previous forecasts**, due to imported inflation and the high share of imports in the consumption of non-food products. Reflecting this, inflation expectations for 12-month ahead was at 11.4% in March vs. 6.2% in February.
- ✓ **On 25<sup>th</sup> April, Kazakhstan's Base Rate was raised by 50bps to 14%**, with an interest band of +/- 1.0%. The interest rate hike reflects growing inflationary pressure against the backdrop of geopolitics, rising prices globally as well as in Kazakhstan's key trade partners and their transfer to domestic prices.
- ✓ The National Bank highlighted that **there remains room for further tightening of monetary conditions** taken into account inflation expectations, updated forecasts for inflation, aggregate demand & imports, as well as the risk of possible additional inflationary shocks.

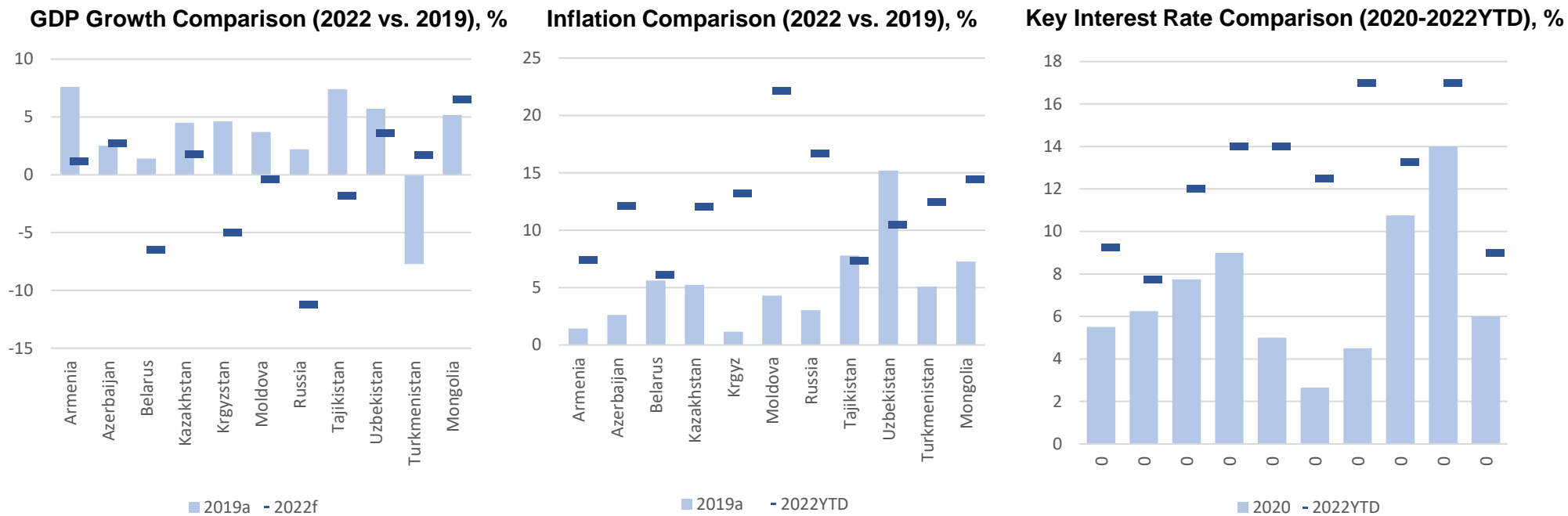
# Kazakhstan's GDP growth is expected lower at 2.1%-2.3% in 2022, underpinned by spillovers of geopolitics & sanctions, high inflation, tight monetary policy and exchange rate weakness

Kazakhstan's Key Macroeconomic Indicators Projections, %

Key Indicators	2019	2020	2021e	2022f
Real GDP growth	4.5	-2.5	4.0	2.3
Private consumption	6.1	-3.8	7.0	2.7
Government consumption	15.5	12.8	0.5	1.2
Gross fixed capital investment	13.8	-0.3	1.2	0.8
Exports, goods & services	2.0	-12.1	-0.2	-0.4
Imports, goods & services	14.9	-10.7	5.9	1.2
Inflation	5.3	6.8	8.0	10.5
Current account balance % of GDP	-4.0	-3.7	-3.0	0.6
Net foreign direct investment % of GDP	3.1	3.4	2.1	1.7

- ✓ **The International Monetary Fund and the World Bank project Kazakhstan's GDP growth at 2.3% in 2022** (official target 2022: 2.1%).
- ✓ Spillovers from Russia's economic downturn will disrupt Kazakhstan's supply chains and dent its growth prospects. Kazakhstan relies on Russia for 10% of its exports and 40% of imports (at 3% and 7.5% of GDP respectively). Trade disruptions, lower business confidence, foreign investment flows and currency volatility will affect growth.
- ✓ Growth could also be lower due to the closure of Kazakhstan's main oil pipeline in March, through which ~80% of Kazakhstan's oil is exported. Based on the reported repair timeframes (of up to a month), oil export volumes could fall by about 5%-6% in 2022.
- ✓ High commodity prices, the rise in budget spending and improvement on the pandemic situation will support Kazakhstan's growth. A small current account balance is expected in 2022 supported by higher oil prices and lower demand for imports.

# Emerging economies in Central Asia and Europe are expected to shrink by 4.1% in 2022

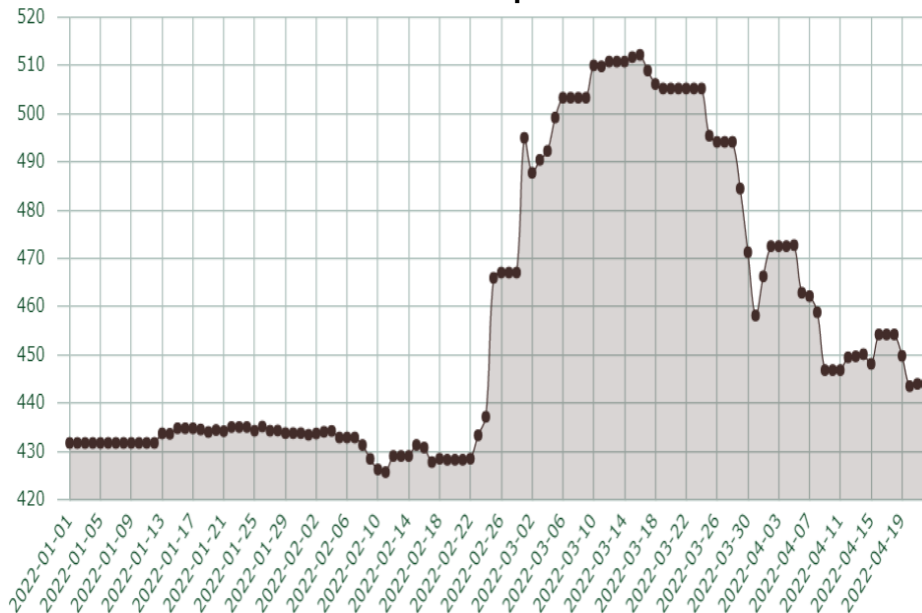


- ✓ **The emerging economies of Central Asia and Europe are projected to shrink by 4.1% in 2022 vs. pre-war forecast of 3.0% growth.** Ukraine’s economy is expected to contract by 45.1% this year, while Russia’s economy is projected to fall by 8%-12%.
- ✓ **Belarus, Kyrgyzstan, Moldova and Tajikistan are expected to enter into a recession,** while growth projections have been downgraded in all economies due to spillovers from the war, weaker-than-expected growth in the euro area, and commodity, trade & financing shocks.
- ✓ Russia and Ukraine account for ~40% of wheat imports in the region. Russia is also a major export destination for many countries in the region. Meanwhile, **remittances from Russia are close to 30% of GDP of Kyrgyzstan and Tajikistan.**

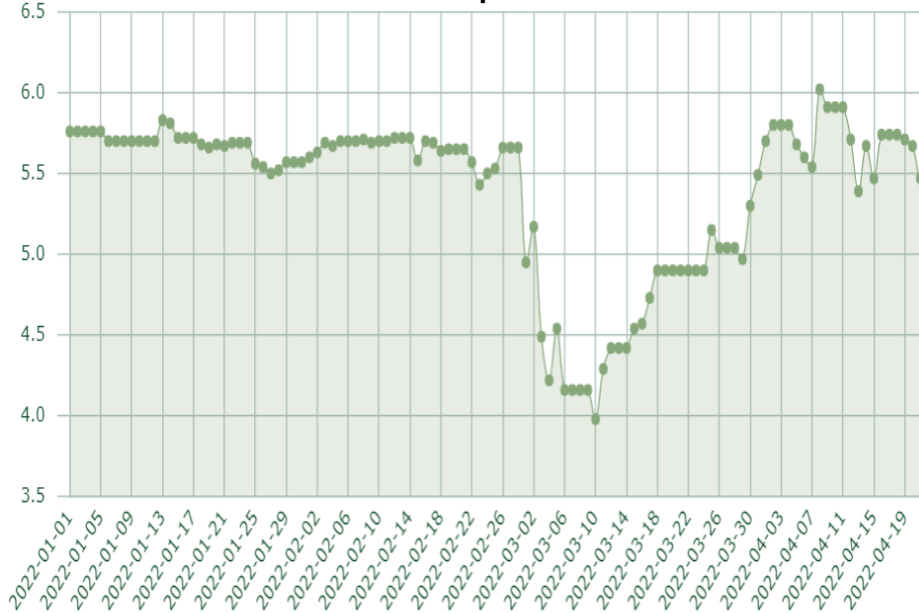


# USDKZT exchange rate quoted at 444.04, tenge continued to strengthen by 3.1% month-to-date

USDKZT Exchange Rate, year-to-date, as at 22 April 2022



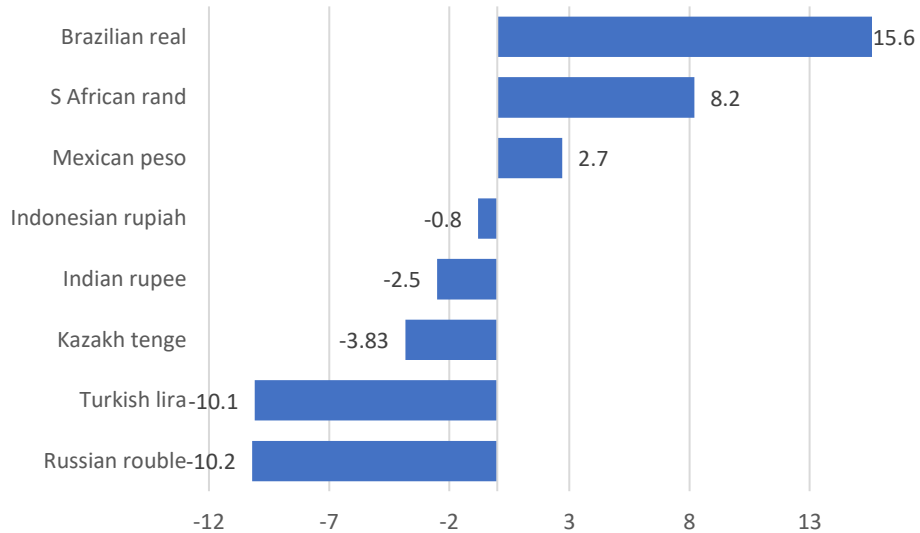
RUBKZT Exchange Rate, year-to-date, as at 22 April 2022



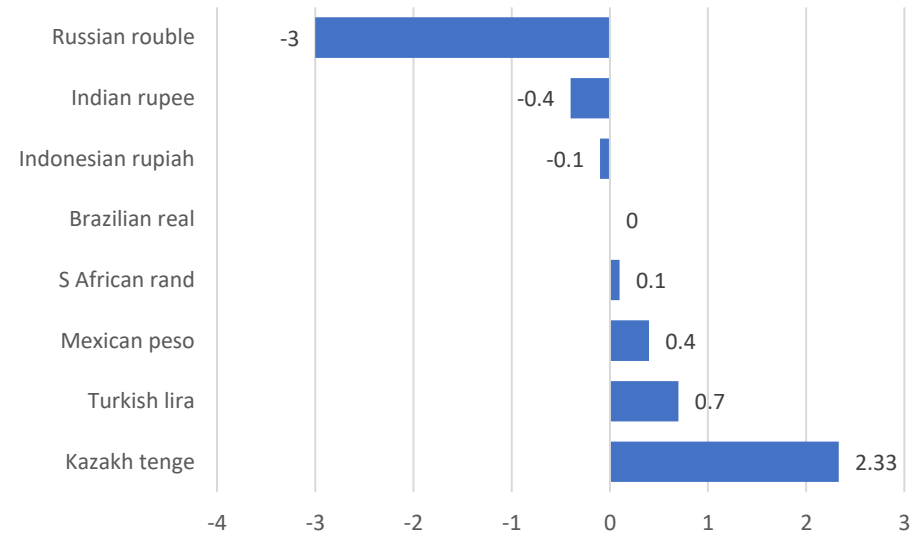
- ✓ The USDKZT exchange rate continued to strengthen by 3.1% month-to-date and was quoted at 444.04 on 22<sup>nd</sup> April, reflecting the relative decline in geopolitical tensions, FX sales from exporters and decrease in FX demand from the population.
- ✓ Earlier in March, the tenge see-sawed due to the volatility in global markets, it touched a low of 512.17/USD before easing to 467/USD towards end-March.
- ✓ The National Bank carried out FX interventions of USD990.5mln in March, of which National Fund transfers to budget was at USD891mln while partial sale of FX earnings by quasi-public sector entities amounted to USD233.4mln.
- ✓ Meanwhile, the RUBKZT exchange rate was quoted at 5.76 on 22<sup>nd</sup> April.

# Emerging market currencies were mostly weaker against USD amidst expectations of aggressive US interest rate hikes in coming months

EM Currencies Performance vs. USD, year-to-date as at 15 April, %



EM Currencies Performance vs. USD, 8-15 April 2022, %

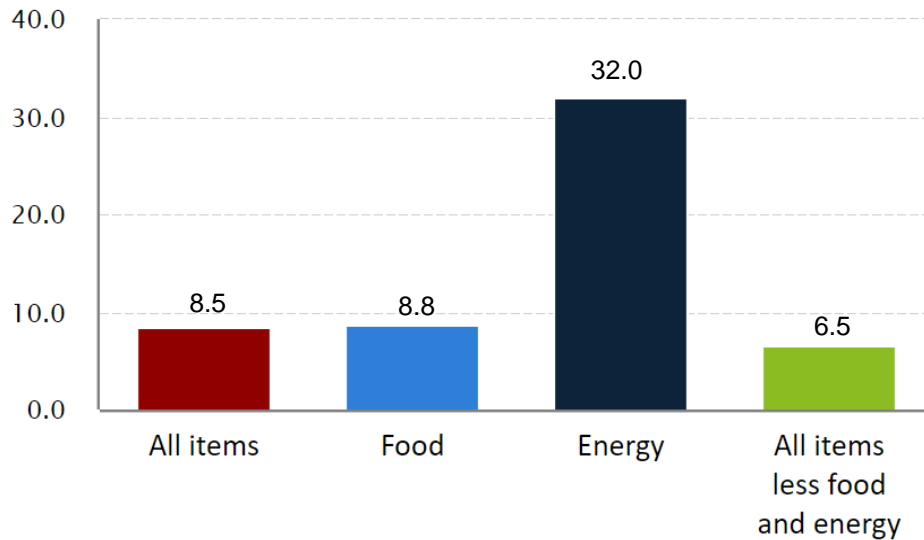


- ✓ **Emerging market currencies performance against the dollar were mixed.** The US reported inflation of 8.5% in March, slightly below market expectations. US Treasury yields eased from the recent highs and the USD retreated vs. global currencies. However, market anticipation of aggressive Fed monetary tightening remains.
- ✓ During 8-15<sup>th</sup> April, the Turkish lira strengthened by 0.7% amidst reports of the CBRT's plan to increase the share of mandatory conversion of FX earnings by exporters (from 25% to 40%). The Mexican peso was up by 0.4% amidst easing of the US Treasury yields and a global weakening of the USD. The South African rand gained 0.1% as commodity prices remained strong.
- ✓ Elsewhere, the Indonesian rupiah weakened by 0.1% against the backdrop of lower risk sentiment in global markets, while the Indian rupee weakened by 0.4%. The Russian rouble fell by 3% after the CBR's decision of cutting its key interest rate from 20% to 17%.

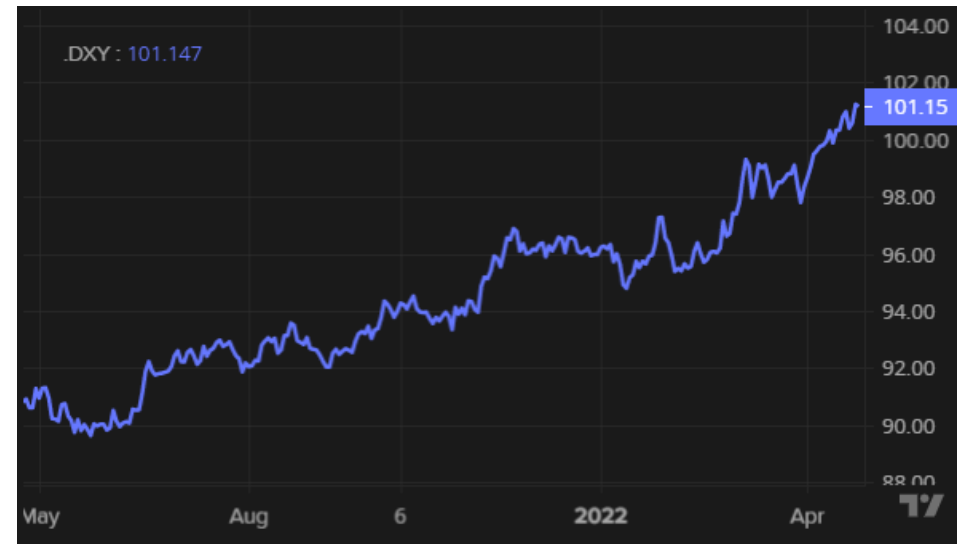


# US' inflation accelerated to a new height of 8.5% in March, with market expectations of aggressive Fed monetary tightening in 1H22

US' Inflation by Key Components, March 2022, %



US Dollar Index, 1-Year Trend, as at 22 April 2022



- ✓ **US' inflation accelerated to a new height of 8.5% YoY in March**, up from 7.9% YoY in February, and is expected to remain elevated in 2022.
- ✓ The futures market is pricing in 50bps rate increases for the nearest 3 US Fed policy meetings, followed by 25bps rate increases for the remaining 3 policy meetings in 2022. **The Fed Fund Target Rate is now expected to reach 2.0%-2.25% by July and 3.0% by end-2022.**
- ✓ The US Treasury 10-year benchmark yield last traded at 2.968% on 22<sup>nd</sup> April, the highest since December 2018. Ten-year yields have widened by 146bps year-to-date.
- ✓ **The dollar index stood at more than a two-year high of 101.33 on 22<sup>nd</sup> April**, the highest since March 2020, supported by market expectations of aggressive US Fed monetary tightening. **The dollar index has gained 5.7% year-to-date.**

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