MACROECONOMIC REPORT FOR Q1 2025

GROWTH ACCELERATION AND STABILITY RISKS

Analytical center

Macroeconomic report for Q1 2025: growth acceleration and stability risks

2 May 2025

In the first quarter of 2025, Kazakhstan's economy demonstrated a noticeable acceleration. GDP growth reached 5.8% due to expansion in the transport, construction, and manufacturing sectors. Growth was further supported by a transition from a slowdown to growth in oil production and large-scale government spending.

Fiscal policy remains expansionary: state budget revenues increased due to a rise in tax and non-tax collections, while expenditures also showed steady growth, partly owing to the implementation of major infrastructure projects. However, inflows to the National Fund have begun to decline amid falling tax revenues from the oil sector, while withdrawals remain at a high level.

The base rate is expected to remain at its current high level until the end of the year. The tenge strengthened in the first quarter thanks to supportive measures. However, a weakening is expected by year-end due to external economic risks and internal factors.

According to our forecasts, GDP growth will reach 5.3% by year-end. A key growth driver will be the full launch of the Tengiz oil field expansion project. Other drivers include high government spending. At the same time, growth restraining factors remain, including adjustments to oil production plans to meet OPEC+ commitments, tight monetary policy, potential declines in oil prices, and global market volatility amid US actions.

Executive summary

Economic growth accelerated significantly in the first quarter

Kazakhstan's economy experienced significant acceleration in the first quarter of 2025: according to preliminary government estimates, real GDP grew by 5.8% yoy (compared to 3.8% yoy in Q1 2024). The short-term economic indicator (STEI) reached a 10-year high of 8.3% yoy. Key growth drivers included transport and construction, where government-funded infrastructure projects enabled growth of 21% yoy and 16.9% yoy, respectively. Industry overall rose by 6.7% yoy. The manufacturing sector grew by 8.7% yoy, supported by expansion in metallurgy, electronics, and machinery manufacturing. After a decline at the end of 2024, the mining sector posted 6.1% yoy growth, mainly due to increased oil production following the test launch of the Future Growth Project (FGP) at the Tengiz oil field. Trade growth slowed to 6.3% yoy, possibly indicating a return to its long-term trend after the abnormal surge seen in the second half of 2024.

According to our forecasts, GDP growth in 2025 will remain high – at around 5.3%. The main driver will be increased oil production following the full-scale launch of the FGP at the Tengiz field. Additional support will come from the implementation of major infrastructure projects, elevated government spending, and continued transfers from the National Fund. However, several constraining factors remain: relatively low levels of new investment, tight monetary policy, and global market volatility. It is important to note that our forecast is based on an average oil price of $70 per barrel. Revisions to oil production plans, the effects of trade conflicts, and a potential decline in global oil prices may impact the achievement of the projected growth rate.

Fiscal stimulus measures continue

In the first quarter of 2025, fiscal expansion remained active: state budget revenues reached KZT 7 trillion, increasing by 16.2% yoy, primarily due to higher tax collections (+18.6% yoy). Non-tax revenues also saw a substantial increase, more than doubling compared to the same period in 2024. Government budget expenditures rose by 9.5% yoy in Q1, reaching KZT 6.7 trillion. Fiscal stimulus measures continue, including the implementation of major infrastructure projects in select sectors.

Withdrawals from the National Fund (NF) remain at a high level. In the first quarter, they totaled KZT 1.45 trillion, closely mirroring the dynamics of 2024. This does not include bond-based withdrawals. Inflows to the NF declined by nearly half yoy – from KZT 1.2 trillion to KZT 631 billion – mainly due to lower tax revenues from the oil sector. Continued global market volatility and the projected decline in oil prices may lead to a reduction in the NF's investment income, which covers a substantial gap between withdrawals and inflows (KZT 1.78 trillion in 2024, excluding the purchase of Kazatomprom shares for KZT 467 billion and bonds issued by Samruk-Kazyna companies for KZT 238 billion). Against this backdrop, compliance with countercyclical fiscal rules is becoming a key condition for maintaining the sustainability of the fund and ensuring the predictability of fiscal policy.

The National Bank tightened monetary conditions

In the first quarter of 2025, inflationary pressures intensified: in March 2025, annual inflation reached 10% (compared to 8.6% in December 2024), while quarterly inflation accelerated to 3.9%, up from 2.7% in Q4 2024. A significant contributor to the inflation increase was the rise in utility tariffs. Other key factors included fiscal stimulus and a sharp depreciation of the tenge at the end of last year and in January of this year, which led to a rise in imported inflation.

The National Bank (NBK) strictly tightened monetary conditions by raising the base rate from 15.25% in January to 16.5% in March. According to the regulator, this decision was based on revised forecasts for inflation and GDP growth, as well as the results of data analysis and risk assessment. In April, the base rate remained unchanged.

We expect inflation to return to a downward trajectory in 2025, driven by the diminishing effect of the one-time utility tariff hikes in February and March 2025, the high base rate, easing inflationary pressure from consumer demand, and the waning impact of the tenge's depreciation in late 2024 and January 2025. At the same time, domestic risks such as weak fiscal discipline, high National Fund transfers, and tenge volatility – as well as external risks including declining oil prices – could exert pressure on price stability. According to our estimates, annual inflation may reach 9-10% by the end of 2025 under the baseline scenario. Inflation levels throughout the year will depend on the extent to which these inflationary risks materialize. Judging by the NBK's recent statements, the base rate is expected to remain at 16.5% until year-end. However, based on our inflation forecast, we consider 15% to be the optimal base rate level by the end of 2025.

The tenge began to strengthen in response to supportive measures

In the first quarter of 2025, the tenge appreciated following a weakening at the end of the previous year. By the end of March 2025, the USD/KZT exchange rate stood at 503.4, compared to 523.5 in December, an appreciation of 3.8% over the quarter. Yet, the average monthly exchange rate reached 510.7 KZT per USD, which was higher than in the previous quarter. Key factors behind the tenge's strengthening included large-scale foreign exchange sales from the National Fund ($2.2 billion), partly to finance infrastructure projects; the introduction of mirrored gold operations; mandatory repatriation and sale of FX earnings by quasi-state companies; the temporary suspension of FX purchases for the Unified Pension Fund (UAPF), and a seasonal decline in demand for foreign currency.

These measures are largely temporary and aimed at stabilizing short-term volatility in the national currency. To ensure long-term resilience, structural reforms are needed, including liberalization of FX operations, development of market liquidity and hedging instruments, and expansion of the pool of professional FX market participants. According to our forecasts, assuming an average oil price of $70 per barrel, the tenge could weaken to 550-560 KZT per USD by the end of 2025. The tenge's dynamics will continue to be influenced by fundamental factors, the volume of FX sales from the National Fund, and external geopolitical conditions.

Halyk Finance forecasts

Key macroeconomic indicators	2023	2024	Forecast 2025
Oil Brent, average, USD/bbl.	82,6	80,7	70,0
Oil output, mln t.	90,0	87,6	95-97
Real GDP, % yoy	5,1	4,8	5,3
Exchange rate USDKZT, eop	454,6	523,5	550-560
Exchange rate USDKZT, average	456,3	469,4	540,0
CPI, % change yoy	9,8	8,6	9-10
Base rate, %	15,75	15,25	16,5
Current account, % to GDP	-3,4	-1,3	-2,8

THE ECONOMY POSTED RECORD GROWTH RATES IN THE FIRST QUARTER

In the first quarter of 2025, Kazakhstan's economy accelerated: according to preliminary government estimates, real GDP growth reached 5.8% yoy, significantly above the figure recorded in the same period of 2024 (3.8% yoy). The short-term economic indicator, which reflects the performance of key sectors, showed its strongest increase in the past ten years – 8.3% yoy.

The highest growth rates were observed in the transport sector (+21% yoy) and construction (+16.9% yoy), which together account for about 11% of GDP. Sectors with a larger share in GDP grew at a more moderate pace: trade (19% of GDP) expanded by 6.3% yoy, and industry overall (26% of GDP) grew by 6.7% yoy. Growth in the mining sector (+6.1% yoy) was largely driven by increased oil production. In the manufacturing sector (+8.7% yoy), growth was supported by higher output in selected manufactured goods. Meanwhile, a slowdown was recorded in the energy sector (-2.8% yoy) and telecommunications (-0.4% yoy), while agriculture posted moderate growth of 3.7% yoy.

Figure 1. GDP growth by sector, % yoy

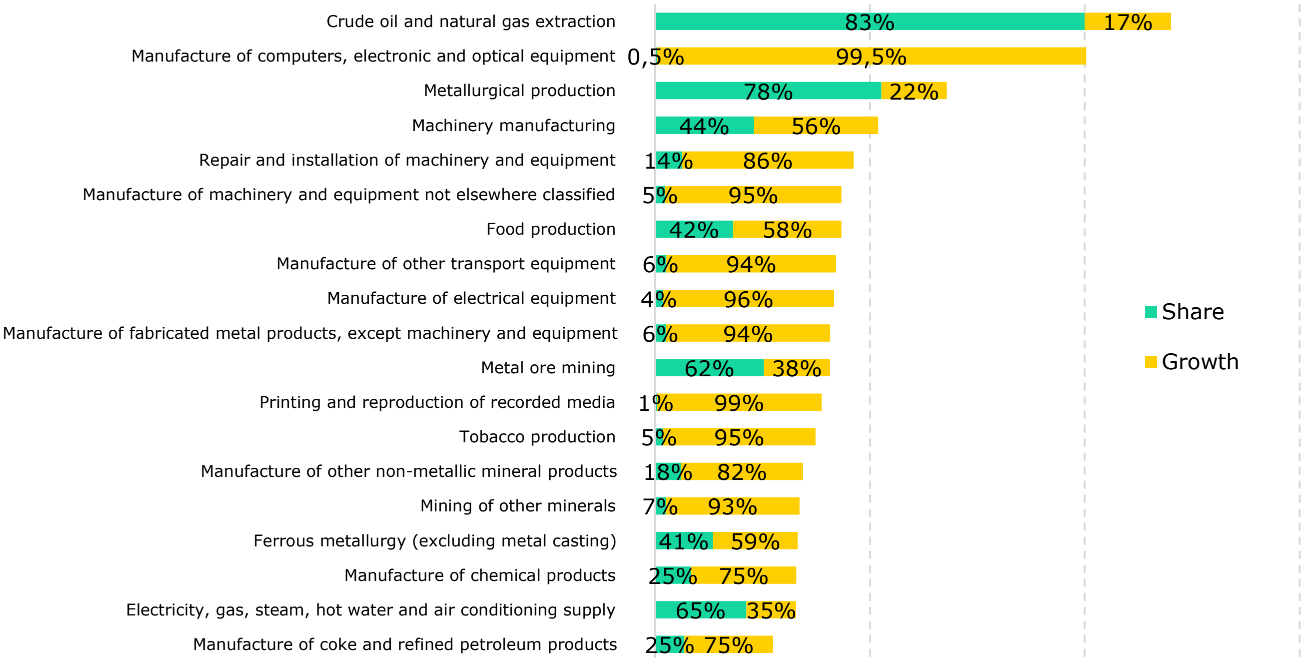
	2024	1M2025	2M2025	3M2025
GDP	**4,8**	**-**	**-**	**5,8**
STEI	**6,2**	**4,5**	**7,3**	**8,3**
Trade	9,1	3,9	6,0	6,3
Manufacturing	5,9	3,7	8,9	8,7
Mining	-0,2	1,3	4,1	6,3
Transport	8,5	19,0	21,3	21,0
Construction	13,1	12,7	12,8	16,9
Agriculture	13,7	3,8	3,2	3,7
Telecommunications	5,0	-0,5	0,0	-0,4

Source: BNS, MNE

Oil production and metallurgy made the largest contribution to industrial growth

To assess each sector's contribution to overall growth, we considered not only growth rates but also each sector's share in total output, calculating the weighted contribution of each component. The main contributors were crude oil and natural gas extraction (share – 30.4%, growth – 7.2% yoy) and metallurgical production (share – 16%, growth – 1.4% yoy). Machinery manufacturing also made a notable contribution: with a 7% share, the sector grew by 17.7% yoy. Food production increased by 13.2% yoy with a 5.6% share. Computer and electronics manufacturing, although accounting for only 0.5% of total output, doubled in volume.

Figure 2. Composite contribution of sectors to industrial growth in Q1 2025



Source: BNS

Growth in certain industrial categories was driven by several external factors, the most important of which were last year's increase in fixed capital investment and price dynamics. Investments in modernization and expansion of production facilities generally have a delayed effect on output, ranging from several months to two years. In 2024, fixed capital investment grew by 7.5% yoy, which likely had a positive impact on industrial growth in the current year.

Extensive growth in the mining sector

After a slowdown in the final quarter of 2024, the mining sector regained momentum with 6.1% yoy growth, mainly due to increased production of coal (+12.1% yoy), crude oil (+7.4% yoy), and other minerals (+20.3% yoy). Metal ore mining, which accounts for roughly 20% of the sector, showed modest growth of 1.7% yoy.

Prices in the mining sector remained unchanged compared to both Q1 2024 and Q4 2024. However, physical output (in volume terms) of crude oil and ore rose by 7.8% yoy and 7.2% yoy, respectively, indicating that sector growth was entirely driven by increased production volumes.

Oil production volumes, boosted by the test launch of the Future Growth Project at the Tengiz oil field, exceeded OPEC+ quotas throughout the first quarter. However, oil exports in value terms declined by 21% yoy in the first two months of 2025. In March, average daily oil output (1.852 million barrels/day) exceeded the February level (1.816 million barrels/day). Due to Kazakhstan's commitments to OPEC+, average daily oil output will be reduced starting in April, which is likely to negatively affect growth in both the mining sector and overall industry in the coming periods.

Growth in the manufacturing sector

In the first quarter of 2025, the manufacturing sector grew by 16.6% yoy. The main contributors were machinery manufacturing (+17.7% yoy), manufacture of fabricated metal products, excluding machinery and equipment (+28.7% yoy), and tobacco production (+25.4% yoy). Prices in the manufacturing sector rose by 9.7% yoy during the reporting period, while physical output increased by 16.6% yoy.

An abnormal surge (over tenfold) in one category – production of measuring instruments – accounted for a substantial share of the increase in physical output. Excluding this category, growth in Q1 would have been 12.3% yoy. During the same period, imports of these products from third countries and exports to Russia also increased.

Trade growth is starting to slow down

Following strong growth in the second half of 2024, the trade sector's growth slowed to 6.3% yoy, mainly due to wholesale trade (+7% yoy), particularly in non-food and industrial goods. Retail trade growth fell to 4.8% yoy, aligning with the sector's historical average growth of 4% over the past decade, and indicating a return to its long-term trend after the sharp spike in December (+9.8% yoy).

The slowdown in trade may be linked to reduced fixed capital investment in the sector (down to 6% yoy), weak real income growth, and slower expansion of consumer lending. A seasonal decline in imports was also observed: imports for the first two months of 2025 dropped by 1.1% yoy.

Infrastructure projects support growth in the transport sector

Substantial growth in the transport sector (+21% yoy) was driven by state-funded infrastructure projects: 60% of all investment in the sector came from the state budget. Freight turnover increased by 14.3% yoy (mainly by rail), while passenger turnover rose by 14% yoy (mostly in road transport).

Additional momentum came from maritime and coastal transport, which surged by 56% yoy to 1.02 million tons, likely reflecting increased transit flows along the Trans-Caspian International Transport Route (also known as the Middle Corridor). Another growth driver was pipeline transport (+17.7% yoy), which was likely supported by increased oil output.

Growth in non-residential construction

In the first quarter of 2025, the construction sector posted 16.9% yoy growth. Non-residential building and structures construction increased by 11.6% yoy and 29.3% yoy, respectively. High construction rates in these segments were likely supported by stare funding. Meanwhile, residential construction stagnated, with service volumes showing zero year-over-year growth. However, the physical volume of newly commissioned housing increased by 7.4% yoy, and prices for new housing rose by 4.9% yoy. Thus, the residential construction sector is experiencing stagnation amid rising consumer prices.

Other sectors

In agriculture, growth reached 3.7% yoy in Q1 2025, driven by a 4% yoy increase in livestock output. This was mainly supported by an 18.2% yoy increase in cattle numbers and an 11.1% yoy rise in milk production. Agricultural growth was accompanied by falling prices in the sector.

The communications sector saw a 0.4% yoy decline during the same period, continuing its year-long downward trend. This was mainly due to a further decline in mobile communications, which dropped by 19.7% yoy in Q1 (following – 15.8% yoy in 2024) as the mobile market approached saturation. At the same time, the sector was supported by internet services, which rose by 13.3% yoy.

Our forecast

We forecast that Kazakhstan's economy will maintain strong growth in 2025, reaching 5.3% for the year. The main growth driver will be the full-scale launch of the Tengiz field expansion project in the coming quarter, supporting continued recovery in the mining sector. Significant contributions will also come from large infrastructure projects and high spending by the government and the National Fund – transfers from the NF are set at KZT 5.25 trillion for 2025.

On the other hand, investment in fixed capital – despite growth in Q1 2025 – remains relatively low. The earlier surge in trade growth is also beginning to slow, which could constrain GDP growth. Amid high inflationary risks driven by fiscal stimulus and exchange rate fluctuations, the National Bank is likely to maintain the current base rate through the end of the year, potentially limiting GDP growth. It is important to note that our forecast assumes an average oil price of $70 per barrel. Revisions to oil production plans, geopolitical tensions, trade conflicts, and volatility in global oil prices could all affect the achievement of the forecasted growth.

GROWTH IN FIXED CAPITAL INVESTMENT IS DRIVEN BY GOVERNMENT SPENDING

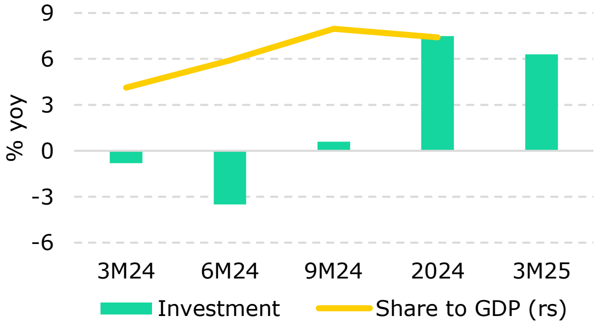
In Q1 2025, fixed capital investment (FCI) increased by 6.3% yoy, slightly below the 7.5% yoy growth recorded in 2024. Just half of total capital investment comes from large and medium-sized enterprises, with FCI from large enterprises declining by 7.9% yoy. The majority (67.5%) of expenditures were directed toward construction and major repairs of buildings and structures, while 28% went to the purchase of machinery, equipment, and vehicles.

By sector, the overall decline was driven by a 28% yoy drop in FCI in the mining sector, possibly due to the completion of the Tengiz oil field expansion project. Negative dynamics were also observed in construction (-16.4% yoy), agriculture (-9.2% yoy), and trade (-6% yoy).

Growth in FCI was observed in non-extractive sectors. In the manufacturing sector, investment grew by 20.2% yoy, with the largest contributions coming from metallurgical and chemical production, and the highest growth rates seen in electronic equipment, textile, and tobacco production.

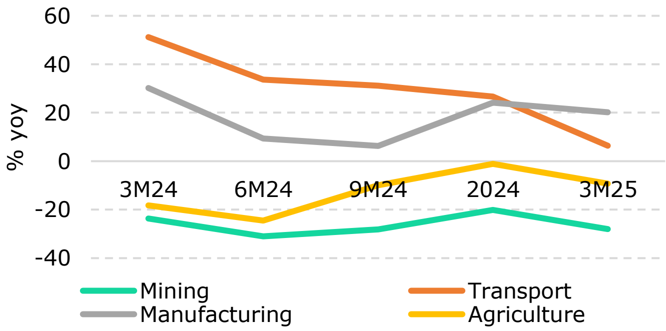
Significant growth in FCI was also observed in the transport sector (+6.4% yoy), education (up 6.3 times), public administration (+65.2% yoy), administrative services (+63.7% yoy), financial services (+45.5% yoy). Investment in real estate activities grew by 2.9% yoy. This sector now accounts for the largest share of total investment (20.6%), surpassing both the mining sector (19.2%) and the transport sector (13.4%).

Figure 3. Fixed capital investment



Source: BNS

Figure 4. Investment by sector



Source: BNS

The share of budget funds in the structure of investment financing has shown an upward trend, while the share of enterprises' own funds has been decreasing. During the reporting period, budget funds accounted for 21.6% of total FCI, increasing 2.5 times year-on-year. The share of bank loans in FCI financing remains low – at 3.3%. Enterprises' own funds remain the dominant source of investment, accounting for 67.5% of total FCI in Q1 2025. Excluding budget funds, investment declined by 8.3% yoy, highlighting the volatility of such growth and its dependence on state support.

The increase in budget funding for FCI is primarily due to higher government spending in the transport sector. In Q1 2025, state expenditure in this area rose almost eightfold. It is also worth noting that investments financed from enterprises' own funds include the resources of state-owned companies, which, in essence, often constitute quasi-budgetary funds.

As previously mentioned, the main reasons for the decline in FCI in Q1 were related to the drop in investment in the mining sector. Within this, oil sector investment, being dominant in total volumes, also significantly affected investment trends in other sectors, such as trade, where FCI declined by 6% yoy. The investment-to-GDP ratio remained low throughout 2024, fluctuating between 11% and 15%, far below the long-term target of 30%. To increase investment activity, it is essential to revise the current diversification strategy, focusing on reducing dependence on oil and redirecting resources toward more innovative and high-tech sectors.

GLOBAL VOLATILITY MAY AFFECT THE INVESTMENT INCOME OF THE NATIONAL FUND

In the first quarter of 2025, state budget revenues amounted to KZT 7 trillion, increasing by 16.2% yoy (or KZT 1 trillion). This growth was mainly due to tax revenues, which rose by 18.6% yoy (or KZT 0.8 trillion). Non-tax revenues more than doubled compared to the same period last year – from KZT 128 billion to KZT 299 billion. On the expenditure side, the state budget also showed stable growth: government expenditures in Q1 totaled KZT 6.7 trillion, up 9.5% yoy (or KZT 585 billion). Active fiscal expansion continues, including through National Fund transfers and large infrastructure projects in select sectors.

As of the end of March 2025, the National Fund's assets (cash execution) stood at KZT 33.1 trillion, up 13.6% yoy (or KZT 3.9 trillion). However, inflows to the NF in Q1 2025 amounted to only KZT 631 billion6 almost half of the volume recorded in the same period last year (KZT 1.2 trillion). The primary reason for this decline was reduced direct tax revenue from oil sector companies: from KZT 1.2 trillion to KZT 622 billion. The steepest drops were seen in corporate income tax, which fell from KZT 627 billion to KZT 249 billion, and in mineral extraction tax, which declined from KZT 112 billion to KZT 27 billion.

Despite falling revenues, withdrawals from the NF remained at a consistently high level. In Q1 2025, they amounted to KZT 1.45 trillion, comparable to the same period in 2024. These funds are used for both regular transfers to the republican budget and infrastructure project financing. It should be noted that this amount does not include bond-based withdrawals, which should also be factored in, as they impact the level of the NF's foreign exchange assets.

Given the NF's high dependency on the oil sector, the outlook for its revenue component remains uncertain. If oil prices follow the projected downward trend, inflows may shrink further. An additional source of uncertainty is the current situation in global financial markets: high volatility limits the stability of the NF's investment income, which is primarily generated from foreign assets. Notably, even with an average oil price of $81 per barrel in 2024, non-investment inflows to the NF were lower than withdrawals by KZT 1.78 trillion (excluding the purchase of Kazatomprom shares for KZT 467 billion and bonds issued by Samruk-Kazyna companies for KZT 238 billion). It underscores the growing importance of adhering to countercyclical fiscal rules, both to ensure the long-term sustainability of the NF's assets and to improve the predictability of fiscal policy.

MODERATE GROWTH IN WAGES AND HOUSEHOLD INCOME

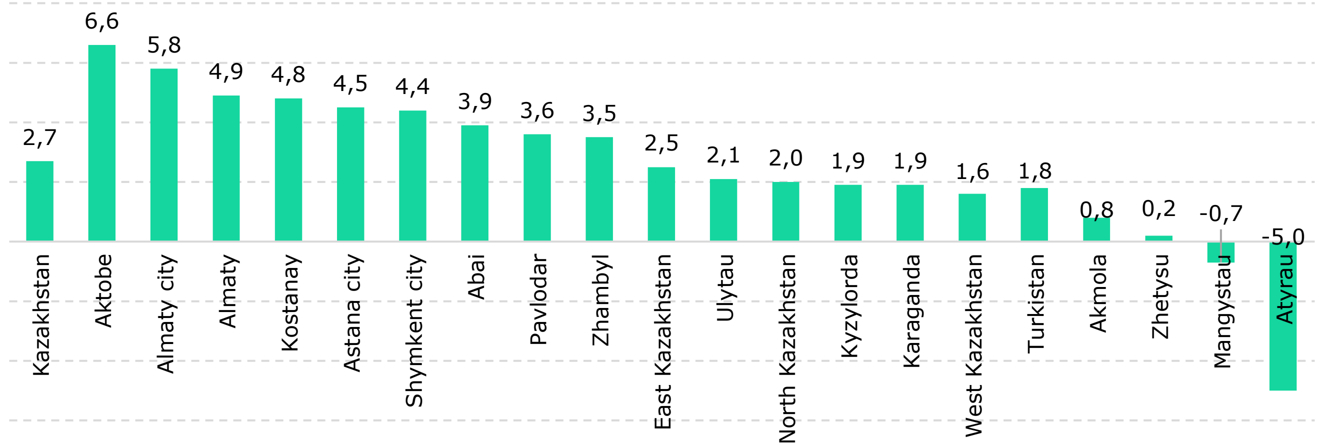
Employment and wage dynamics

According to the latest data, as of the end of 2024, the number of people employed in the economy totaled 9.2 million, of whom 7 million (76%) were employees, 2.2 million (24%) were self-employed. The unemployment rate stood at 4.7%, with unemployment among women higher at 5%, compared to 4.3% among men. The long-term unemployment rate was also higher among women (1.3%) than among men (0.8%).

In the fourth quarter of 2024, the average nominal wage amounted to KZT 435,000, rising by 10.5% year-on-year in nominal terms and by 1.8% in real terms. The recovery of historical real wage growth rates among employees (which averaged 9.3% during 2020–2022) remains slow, due to persistently high inflation and insufficient productivity gains. The median wage, notably lower than the average, stood at KZT 309,000 in Q4 2024, indicating a fairly uneven distribution of wages among employees.

Regional wage trends demonstrate a decline in Atyrau and Mangystau regions, where employment is traditionally concentrated in the oil and gas industry. This is largely due to the extractive nature of the local economies and the slowdown in the mining sector at the end of last year. As a result, the moderate growth in real wages and household income (with wages accounting for 65.9% of total income) was largely driven by sectoral imbalances in the economy and low labor productivity.

Figure 5. Real wage growth by region in 2024, % yoy

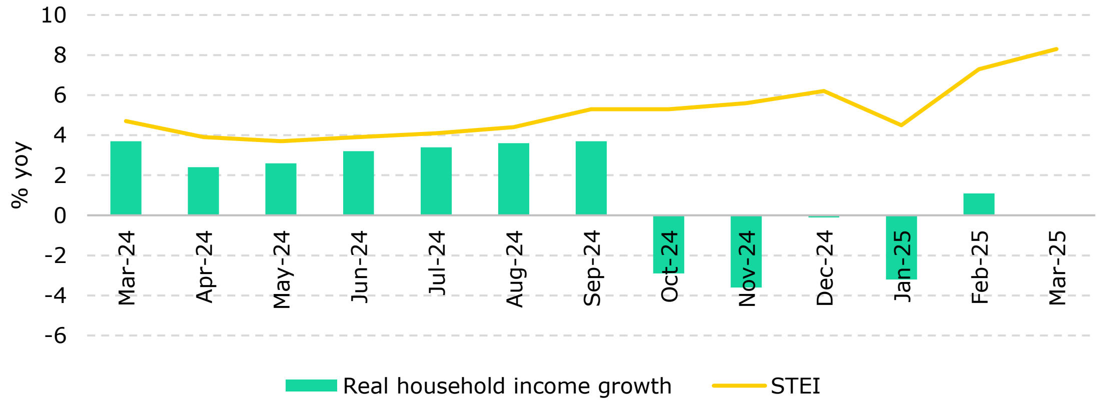


Source: BNS

Household income dynamics

Real household incomes showed limited growth in the first two months of the current year (+1.2% yoy): in January, they were in negative territory, declining by 3.2% yoy, while in February a slight increase of 1.1% yoy was recorded. The dynamics of real incomes were significantly affected by the depreciation of the tenge at the end of 2024 and rising prices, which have also impacted the poverty level – measured at 4.8% in Q4 2024.

Figure 6. STEI and real household income growth



Source: BNS

Accurate assessment of poverty and the implementation of sound social policy are among the state's most important tools, and they are becoming even more critical in 2025. At the extended government meeting held in late January 2025, plans were announced to increase taxes and reduce government spending, which could affect real household incomes. In addition, price liberalization is planned this year in several markets, including fuels and lubricants, which may create additional pressure. Overall, support for socially vulnerable groups must remain a priority of the state budget. At the same time, the payment of benefits and other social transfers should be targeted, with only those truly in need receiving such assistance.

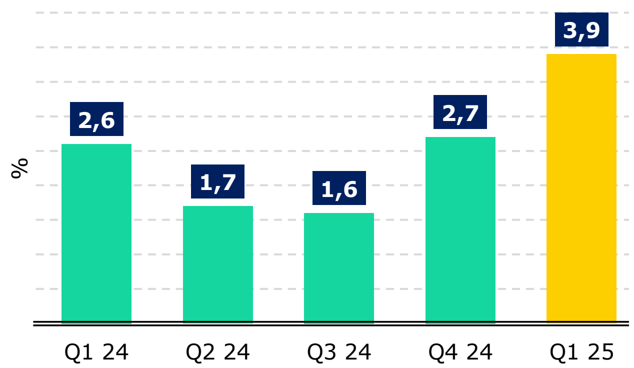
TIGHTENING OF MONETARY CONDITIONS

In the first quarter of 2025, the National Bank of Kazakhstan (NBK) tightened monetary conditions. After maintaining the base rate at 15.25% in January, the monetary regulator raised it to 16.5% in March. According to the NBK, this decision was based on updated forecasts for inflation and economic growth, as well as an analysis of actual data and the overall risk balance. At its most recent meeting in April 2025, the Monetary Policy Committee left the base rate unchanged.

In March 2025, inflation accelerated to 10% yoy (compared to 8.6% yoy in December 2024). On a quarterly basis, inflation rose sharply to 3.9%, up from 2.7% in Q4 2024. The main drivers of price growth during the reporting period were higher tariffs for paid services, particularly regulated utilities, and the significant weakening of the tenge in late 2024 and January 2025.

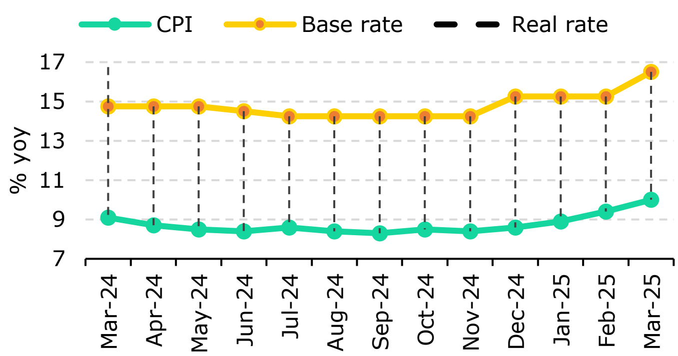
Among external inflationary factors were high global food prices, as well as exchange rate volatility of the Russian ruble, which contributed to price growth in Russia. However, in our view, the main causes of the inflation acceleration in Q1 2025 were domestic factors. Most notably, the increase in key utility tariffs placed substantial inflationary pressure on the economy. Another important factor was the depreciation of the national currency at the end of 2024 and beginning of 2025, which had a delayed effect on prices through the import channel. Against the backdrop of fiscal stimulus and exchange rate volatility, the National Bank maintained a tight monetary policy stance.

Figure 7. Quarterly inflation



Source: BNS

Figure 8. Inflation and base rate dynamics



Source: BNS, NBK

According to our forecast, inflation should return to a downward trajectory in 2025, supported by a high base rate, the diminishing impact of tenge depreciation and the one-time increase in tariffs. In March, early signs of inflation stabilization were observed, driven by market-based services and the non-food component: monthly inflation slowed to 1.3% compared to 1.5% in February. Both core inflation and seasonally adjusted inflation also started to decline. Moreover, inflation expectations among households and professional market participants showed improvement. The 12-month forward inflation expectation fell to 12.6% in March, down from 14.6% in December. The median perception of past 12-month inflation also declined to 12.2% from 13.2% in December, while actual annual consumer inflation stood at 10%.

At the same time, there are several serious risks to price stability. Domestically, these include continued growth in government spending and high withdrawals from the National Fund. Externally, elevated market volatility and growing global uncertainty – driven in part by US trade policy – present additional risks. Inflationary pressure also persists in Kazakhstan's external environment due to high inflation in Russia, the country's key trading partner, and elevated global food prices. Furthermore, volatility in global oil markets – driven by discriminatory trade policies – may further lower oil prices and weaken the national currency.

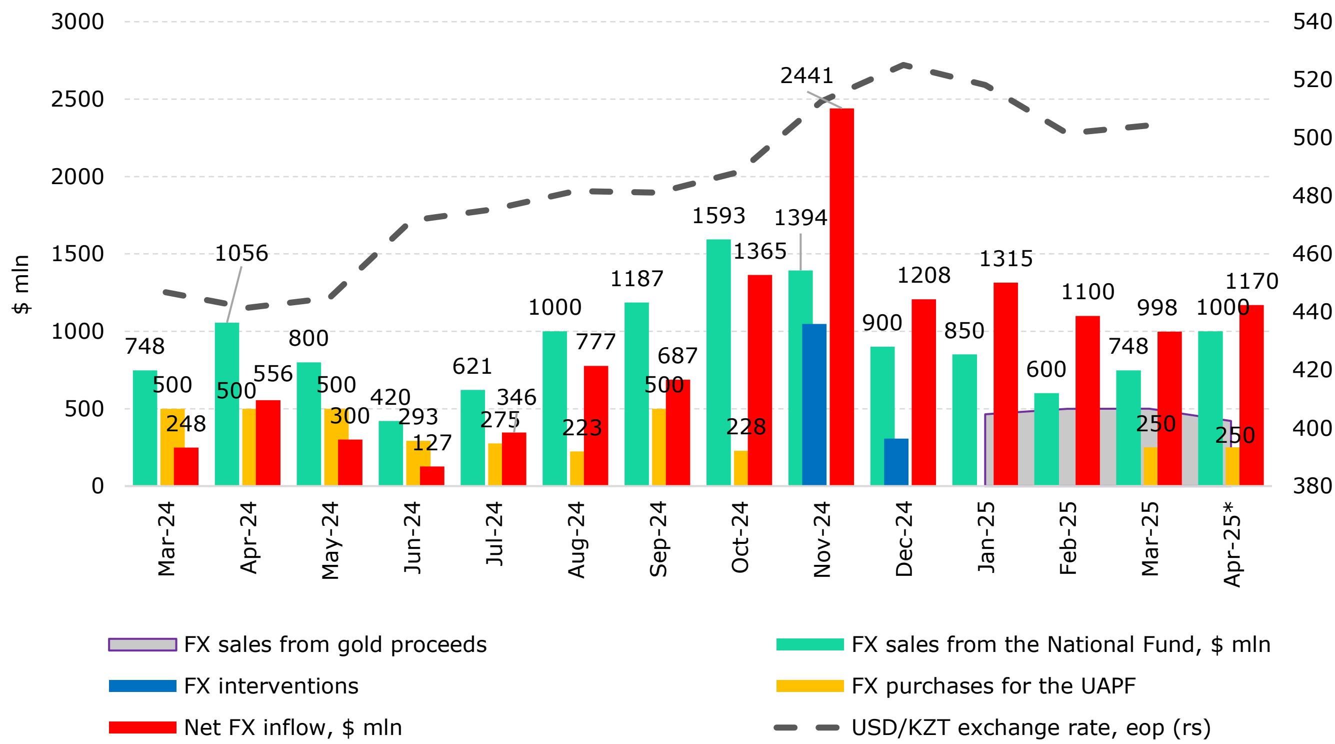
In our opinion, under the baseline scenario, annual inflation may reach 9–10% by the end of 2025. However, we stress that current conditions are characterized by heightened uncertainty and downside risks to global demand, again tied to US trade policy. These factors have already led to a notable drop in oil prices and a surge in financial market volatility. Judging by the NBK's statements, the base rate is expected to remain at 16.5% through the end of the year. Yet, based on our inflation forecast, we consider 15% to be the optimal base rate level by year-end. This would allow the fight against inflation to continue without putting excessive pressure on domestic demand and lending to the real sector.

THE NATIONAL CURRENCY STRENGTHENED

After a period of volatility in late 2024, the national currency began to appreciate in the first quarter of 2025. As of the end of March, the USD/KZT exchange rate stood at 503.4, compared to 523.5 in December, an appreciation of 20 tenge or 3.8% over the quarter. The average monthly exchange rate in Q1 2025 was 510.7 KZT per USD, compared to 499.9 in Q4 2024.

This appreciation of the tenge at the beginning of the year was driven by several factors. First, there was a high volume of FX sales from the National Fund to finance budget transfers. In Q1, FX sales from the NF totaled around $2.2 billion, including funding for the construction of the Taldykorgan–Usharal gas pipeline via a bond issued by Samruk-Kazyna JSC. Second, starting in January 2025, a new "mirroring" mechanism was implemented, requiring the sale of FX proceeds from gold that had been purchased from local mining companies. Additionally, since late 2024, a regulation has been in place requiring quasi-state sector entities to sell 50% of their foreign currency earnings. Furthermore, in January and February, FX purchases for the foreign currency share of UAPF pension assets were temporarily suspended. These measures, combined with a seasonal decline in demand for foreign currency early in the year, helped support the tenge.

Figure 9. USD/KZT exchange rate and NBK foreign exchange operations



Source: NBK
** NBK plan for April 2025*

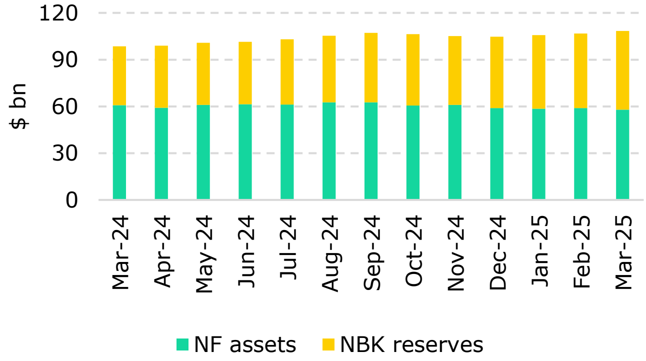
Overall, the measures described above are mostly temporary in nature and are aimed at stabilizing the national currency amid internal and external shocks. To establish a more sustainable exchange rate for the tenge and to develop the FX market, a shift toward comprehensive structural reforms is necessary. First and foremost, foreign exchange liberalization is required, implying a reduced role of the monetary regulator in exchange rate formation. It is also essential to expand market liquidity, lower administrative barriers for market participants, develop derivative FX instruments, and broaden the range of active participants, including institutional investors and corporations. These steps would improve the resilience of Kazakhstan's FX market to external shocks and reduce dependence on administrative and other interventions.

As for exchange rate expectations, they are now shaped by both fundamental factors and domestic decisions, particularly fiscal ones. Overall, we expect some weakening of the tenge to around 555 KZT per USD by the end of 2025. It is important to note that this forecast is based on an average oil price of $70 per barrel. The overall exchange rate dynamics in 2025 will also depend on the volume of FX sales from the National Fund, as well as external economic and geopolitical developments.

KAZAKHSTAN'S INTERNATIONAL RESERVES INCREASED DUE TO MONETARY GOLD

As of the end of March 2025, Kazakhstan's consolidated international reserves amounted to $108.3 billion, reflecting an increase of 3.5% since the beginning of the year. Since January, the foreign currency assets of the National Fund declined by 1.5%, while convertible foreign currency reserves fell by 3.5%. In contrast, the value of monetary gold within the reserves rose sharply by 22.2%, which drove the overall increase in reserves. This may be attributed to higher global gold prices. According to the NBK, local gold refineries are expected to produce 67 tonnes of gold in 2025, of which 8 tonnes had already been sold on international markets since the start of the year.

Figure 10. Consolidated reserves of Kazakhstan



Source: BNS

The adequacy of Kazakhstan's international reserves remains high. The reserves exceed almost all key benchmark thresholds: the volume is equivalent to more than seven months of imports, covers 53% of broad money liabilities, and amounts to 121% of external debt payments due within the next 12 months. The reserves also substantially exceed the thresholds established under the IMF's ARA-EM framework.

At the same time, the ongoing decline in the National Fund's foreign currency assets since the end of 2024 is a point of concern. Given the forecast for a potential decline in oil prices this year and next, as well as continued volatility in global markets, these developments could affect the short- and medium-term indicators of the National Fund, which in turn may impact the overall reserve position.

Appendix 1. Selected macroeconomic indicators of Kazakhstan

	2020	2021	2022	2023
GDP, KZT tn	70,6	84,0	103,8	120,6
GDP, $ bn	171,1	197,1	243,6	264,3
GDP, % yoy	-2,5	4,3	3,2	5,1
Industrial production, % yoy	-0,5	3,6	1,2	4,3
Oil output, mln t.	85,7	85,9	84,2	89,9
Investment, % yoy	-3,9	3,7	9,2	13,7
Average monthly wage, KZT thousand	213,0	250,3	309,9	358,0
Average monthly wage, $	498,0	587,5	672,9	784,6
Inflation, % yoy	7,5	8,4	20,3	9,8
Non-oil fiscal balance, % to GDP	-13,1	-9,6	-9,3	-9,7
State debt, % to GDP	29,2	26,2	24,4	22,5
Export of goods, $ bn	44,1	65,8	85,6	79,9
Import of goods, $ bn	38,1	41,6	50,6	59,7
Current account, % to GDP	-6,4	-1,3	3,1	-3,2
NBK international reserves, $ bn	35,6	34,4	35,1	36,0
Foreign currency assets of the National Fund, $ bn	58,7	55,3	55,7	60,0
Oil Brent, average, USD/bbl.	42,3	70,4	99,8	82,6
Exchange rate USDKZT, eop	420,7	431,7	462,7	454,6
Exchange rate USDKZT, average	413,0	426,0	460,5	456,3

	6M2024	9M2024	2024	3M2025
GDP cumulative, % yoy	3,2	4,1	4,8	5,8
Industrial production cumulative, % yoy	2,6	3,1	2,8	6,7
Retail trade cumulative, % yoy	5,6	7,3	9,8	4,8
Investment cumulative, % yoy	-3,5	0,6	7,5	6,3
Inflation, % yoy	8,4	8,3	8,6	10,0
Base rate, %	14,50	14,25	15,25	16,50
Exchange rate USDKZT, eop	471,5	479,2	523,5	503,4

Source: BNS, NBK, MoF RK, World Bank, Halyk Finance

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