
March 18, 2022

In 2021, rising commodity prices, significant inflows of budgetary and non-budgetary funds into the real sector of the economy, as well as the acceleration of consumer lending and the withdrawal of savings from the UAPF contributed to the recovery of the growth rate of the Kazakhstani economy to the pre-crisis level of 4% yoy. However, this could not, but spur inflation, which amounted to 8.4% at the end of the year.

In 2022, the main impact on the economy of Kazakhstan will be felt through geopolitical tensions, sanctions pressure against the main trading partner – the Russian Federation, as well as an increase in crisis phenomena in the global economy. We forecast the following macroeconomic parameters: Kazakhstan's GDP growth of 3.3%, inflation of 10-12%, exchange rate of 490 tenge per US dollar.

High oil prices and expansion of oil production along with continued fiscal stimulus will ensure the growth of Kazakhstan's GDP by 3.3% in 2022. High oil prices and an increase in oil production from 85.7 mln tons in 2021 to 88 mln tons in 2022 will support growth of the Kazakh economy. Also in the current year, the increase of state budget expenditures directed to support the economy will continue, including the inflow of the leftover of pension savings that is expected in the 1st quarter. However, the external economic situation is seriously complicated by close economic ties with the Russian economy, which is currently under severe Western sanctions, that indirectly suppress business activity in Kazakhstan and lead to a drop in household incomes driven the devaluation of the national currency and, further accelerating inflation. As a result, we expect Kazakh GDP growth to slow down to 3.3% yoy.

Increased exchange rate volatility under the pressure of external shocks. In 2021, the national currency depreciated by 2.6% yoy to 431.7 tenge per US dollar. The weakening of the USDKZT pair took place against the backdrop of an increase in oil prices (+50.2% at the end of the period to \$77.8 per barrel) and a strengthening of the US dollar (+6.4% to 95.67pp). The Russian ruble weakened only 0.6% against the US dollar last year compared to the 2.6% yoy depreciation of the tenge, but the quarterly weakening of the Russian currency was 2.1% qoq to 74.3 rubles per US dollar.

In 2022, the dynamics of the tenge exchange rate will be determined, on the one hand, by high prices for oil and metals exported by Kazakhstan, on the other hand, by the growth of geopolitical tensions and dependence on imports from neighboring countries, where the exchange rates will demonstrate volatility. At the end of 2022, according to our forecasts, the US dollar exchange rate will be at 490 tenge. At the same time, we expect increased exchange rate volatility in the short term, followed by stabilization in the 2nd half of this year.

The pace of inflation will accelerate. After reaching a maximum rate over the past 5 years of 8.9% yoy in September-October last year, consumer inflation slowed down to 8.4% yoy in December 2021. In the environment of high inflation rates in the countries-trading partners (global inflation accelerated almost three times to 5.7% yoy). The above factors will maintain their force in 2022, however, their effect will be intensified by global geopolitical tensions, the exchange of sanctions, and the transmission of inflation through the exchange rate channel. We expect inflation to accelerate to 10.0-12.0% in 2022 on the back of reduced supplies from companies affected by sanctions, as well as increased exchange rate volatility.

Monetary conditions will remain relatively tight in 2022. During 2021, the NBK raised the base rate by 75bp to 9.75%. In January 2022, the NBK hiked the base rate by another 50bp at once to 10.25% and in February raised it further to 13.5% as a monetary response to foreign economic and geopolitical shocks. Lift of interest rates to limit

currency speculation and foreign exchange interventions in the face of high exchange rate volatility were quite expected steps. In the medium term, continuation of such monetary conditions by the NBK will have a negative impact on the growth rates of the Kazakhstani economy. Taking into account the expected acceleration of inflation, the base rate of the NBK will settle at around 12-14% in 2022.

Main macroeconomic indicators	2020	2021	2022		
			Base	Pessimistic	Optimistic
Oil Brent, average, USD/bbl.	42.3	70.4	75.0	55.0	90.0
Real GDP, % yoy	-2.5	4.0	3.3	1.8	4.0
Exchange rate USDKZT, eop	420.7	431.7	490.0	528.0	469.0
Exchange rate USDKZT, average	413.0	426.0	461.0	480.0	450.0
CPI, % change yoy	7.5	8.4	10-12	13-14	9-10
Base rate, %	9.0	9.8	12-14	14-15	10-11
Budget balance consolidated, % GDP	-4.0	-3.1	-3.1	-3.8	-2.7
Current account, % of GDP	-3.7	-3.0	0.6	-1.9	1.0

High oil prices and a sharp increase in oil production accelerated economic growth in the 4th quarter

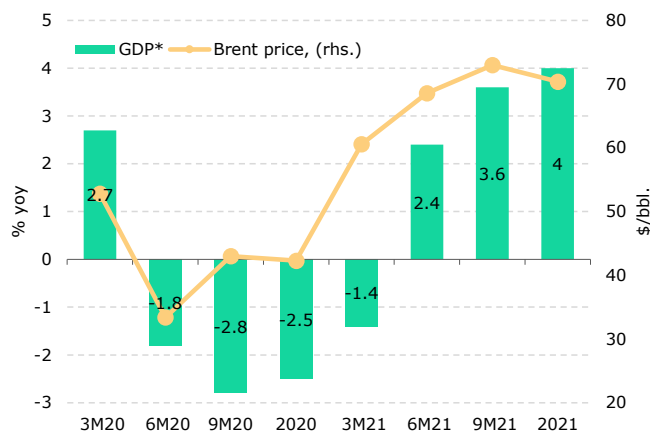
Growth of the Kazakhstani economy in 4Q2021 accelerated to 4.0% from 3.6% yoy for 9M2021. Thus, the economy boldly returned to pre-crisis growth rates (4.2% on average in 2017-2019). The economic growth was supported by the recovery of the world economy and, as a result, increased external demand for raw materials produced by Kazakhstan. According to the IMF, global GDP growth in 2021 reached 5.9% after a contraction of 3.1% in 2020. Stronger energy demand following the improvement of the economic situation contributed to an upsurge in world oil prices by 9% in the 4th quarter to almost \$80 per barrel on average per quarter and by 66% to over \$70 per barrel on average for 2021. Oil prices have not been at such high levels since the end of 2014. Following the completion of repairs at the Tengiz field, oil production in the republic increased by 16.9% qoq and by 11.3% yoy in 4Q2021. Such a high advance of production prompted acceleration of GDP growth at the end of last year.

We also note the effect of the low base of 2020, when the slump of Kazakhstan’s GDP came to 2.5% yoy, in addition, the Bureau of National Statistics in 2021 revised the initial estimates of GDP dynamics every quarter. Thus, at the end of 9M2021, the final estimates were improved from +3.4% yoy to +3.6% yoy.

The adaptation of the economy to quarantine restrictions, the severity of which remained approximately the same as in 4Q20, had a positive effect on the level of business activity. Thus, the service sector, as the most affected by quarantine restrictions in the economy, achieved 3.9% yoy growth in 2021, which was virtually even with the GDP growth of 4.0% yoy.

Partial withdrawal by the population of their pension savings in the amount of almost T2.3 trillion in 2021 acted as an additional driver for the growth of economic activity not only directly in residential real estate and healthcare spheres, but also through intersectoral relations in other branches of the economy. At the same time, the vast majority of pension savings in the amount of T1.4 trillion was withdrawn in 1H2021, in 3Q2021, the number of withdrawals decreased to T281 billion, but rose sharply to T600 billion in Q4 on the news of an increase in the withdrawal threshold in 2022.

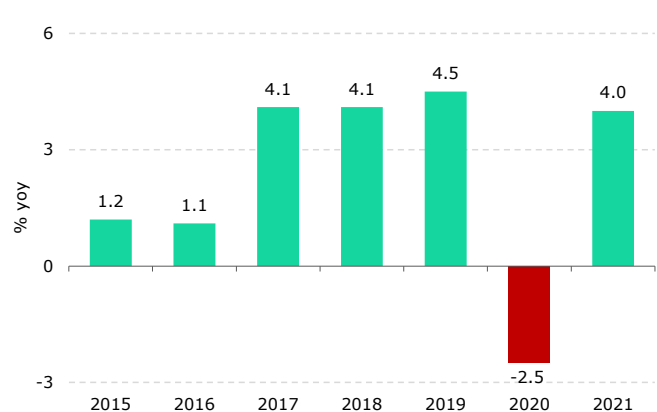
Fig. 1. GDP RK and oil prices



* GDP accumulated

Source: BNS

Fig. 2. GDP growth dynamics



Source: BNS

In addition to the construction and telecom, significant growth was achieved in trade and industry

In the fourth quarter of 2021, the economic recovery had a broader sectoral base, when all sectors, with the exception of agriculture, demonstrated positive growth dynamics, which was provided by both external and internal factors, in particular, recovering demand and partial stabilization of the situation with coronavirus. Growth drivers in the domestic market, thanks to government incentives, were primarily construction, telecommunications, manufacturing and trade. At the same time, the improved state of external demand boosted activity in the country's extractive industries and wholesale trade. In addition to rising oil prices, there was also a significant increase of metals prices in the world markets, as aluminum rose by 45% against a decrease of 5% in 2020, zinc increased in price by 32% against a 11% decline in 2020, and copper prices were up 51% after 3% rise in 2020.

Growth in the industrial output also accelerated gradually from 2.7% yoy in January-September to 3.8% yoy in 12M2021. At the same time, the extractive industry registered an increase of 1.7% yoy, and in the manufacturing

industry – by 5.5% yoy. It should be noted that growth in the manufacturing industry over the past five years has stayed at around 4%, and even in 2020, despite the pandemic, it amounted to 4.1%.

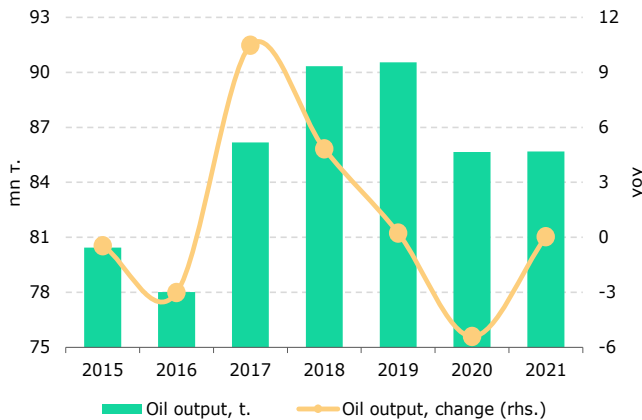
Favorable conditions in foreign markets, along with rising industrial production volumes, led to an increase in Kazakhstani exports in 2021 by 25.8% to \$52.7 bn. Non-resource commodity exports also showed significant growth, increasing by 24.6%.

Oil production in 4Q21 increased sharply to 23.3 mln tons (+16.9% qoq), after shrinking to less than 20 mln tons in Q3, as a result of scheduled repair at the Tengiz field. As a whole in 2021, the volume of oil and gas condensate output in the republic increased “symbolically” by 0.03% yoy and amounted to 85.7 million tons. While the Ministry of Energy of the Republic planned that the volume of oil production would reach 86 million tons. Taking into account the continued relaxation of restrictions under the OPEC+ agreement, hydrocarbon production in the country may increase by 2.7% to 88 million tons, which, however, will still be lower than in 2018-2019, when more than 90 million tons were produced per year.

After a “failed” 2020, oil quotes in 2021 won back their slump and reached \$70.4 per barrel on average for the year (+66%). Although the situation with COVID-19 remains uncertain, energy demand has increased significantly, while there has been a shortage on the supply side. As a result of outpacing demand growth over supply, the level of world stocks, according to the US Department of Energy, decreased by 1.4 million b/d last year, i.e. the market experienced a noticeable deficit, which has pushed oil prices up.

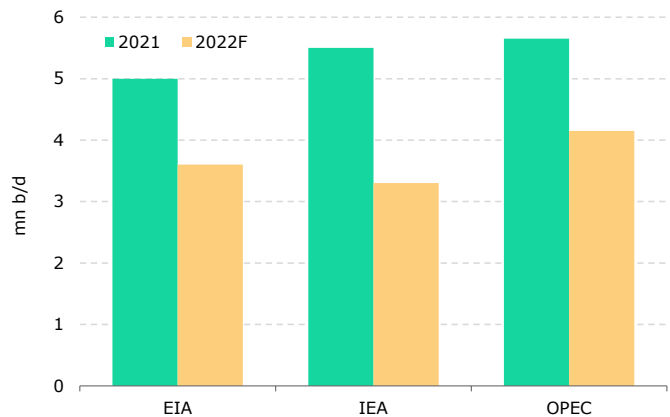
In 2022, forecasts of growth for hydrocarbons demand from leading expert organizations are at the level of 3.3-4.15 million b/d, while market participants have expectations that the oil market may return to a surplus in the first quarter of this year. Currently, oil quotes are at seven-year highs above \$90 per barrel and their growth to \$100 per barrel or more is not ruled out due to geopolitical tensions around the conflict between Russia and Ukraine. At the same time, it can be expected that sanctions against Iran’s oil shipments may be eased this year, which in turn may increase supply of oil in the world market. However, if the sanctions are lifted, Iran will most likely have to join the agreement of the OPEC+ countries to limit oil production (currently this country does not participate in the agreement) and, accordingly, OPEC will continue to control the supply of hydrocarbons to the world market.

Fig. 3. Oil output dynamics, RK



Source: BNS

Fig. 4. World oil demand estimate



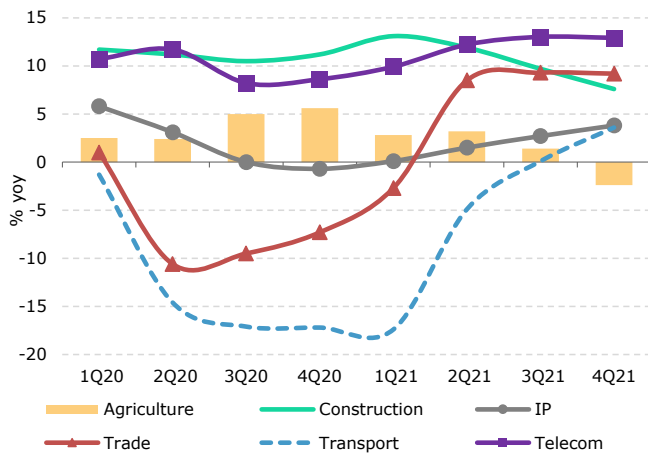
Source: EIA, IEA, OPEC

The boom in construction works began to gradually weaken in 2021, thus if in the first quarter growth exceeded 13% yoy, then at the end of the year it slowed down noticeably to 7.6% yoy. The slowdown in the construction industry was influenced by more moderate rates of development of investments in the construction of various infrastructure objects and facilities. In turn, the volume of commissioned residential real estate increased by 11.4% yoy to 17 million sq.m. – a new record, demonstrating a doubling of housing construction area compared to the level of 2015. This year, government agencies forecast housing construction at the same level of 17 million sq.m. as in 2021.

The transport sector, which has experienced the most protracted recession, in the fourth quarter 2021 accelerated to 3.6% yoy compared to 0.1% yoy in 9M last year.

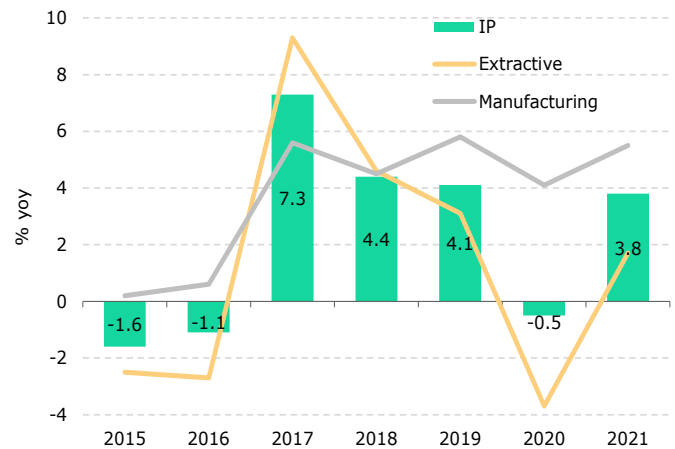
The decline in the output of products and services in agriculture in January-December 2021 amounted to 2.4% yoy, after a high growth of 5.7% in 2020. The decline in output was driven by a 6.7% yoy slump in crop production due to a “weak” harvest of grains.

Fig. 5. Output by sectors



Source: BNS

Fig. 6. Production by industry



Source: BNS

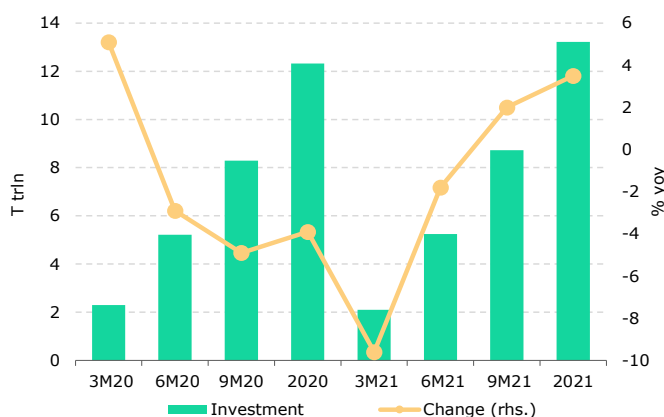
Expansion of investments in the 4th quarter of 2021

In the second half of 2021, investment in fixed assets returned to a positive growth zone after the protracted decline observed since the second quarter of 2020. At the end of the fourth quarter, investment growth reached 3.5% yoy. The volume of investments in the fourth quarter amounted to T4.5 trln, which is T0.5 trln more than in the same quarter of 2020. In general, for 2021, the total volume of investments in fixed assets amounted to T13.2 trln and exceeded KZT12.3 trln in 2020 when there was a 3.9% decline in investment. Investments in 2021 also turned out to be higher than in 2019, when their volume amounted to KZT12.6 trln. At the same time, we note that in the period 2017-2019 the average annual growth rate of investments exceeded 10% per year due to investments in the expansion and further development of the Tengiz oilfield.

The growth rate of investment in fixed assets in the extractive industry in 2021 decreased by 9.1% to T3.7 trln (T4.1 trln in 2020). In 2019, their volume amounted to T5.6 trln with a share of approximately 45% in the total volume of investments compared to 28% at the end of last year. According to the Chevron Corporation, which develops Tenghiz, in 2021 its investments amounted to \$2.6 bn, and \$2 billion (-17%) is expected to be disbursed this year.

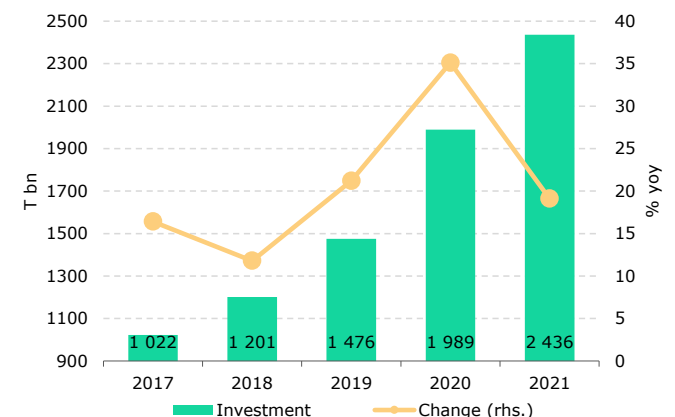
Investments in the manufacturing industry in 2021, on the contrary, showed an increase of 38.1% yoy (T1.6 trln vs. T1.1 trln a year earlier). Along with this, investments growth in agriculture amounted to 33.3% yoy, in construction 19.1% yoy, in trade 24.7% yoy, and in the real estate operations 17.9% yoy. In all these sectors, investment volumes exceeded the pre-crisis 2019 figures.

Fig. 7. Fixed capital investment



Source: BNS

Fig. 8. Investment in housing construction



Source: BNS

Restoring trade driven by durable goods

On the back of economic recovery and improved consumer sentiment, retail trade turnover in real terms increased by 6.5% yoy in January-December compared to a 6% yoy increase in 9M2021. Retail turnover in nominal terms for 2021 increased to T13.4 trln from T11.7 trln in 2020 (T11.3 trln in 2019). At the same time, the growth of retail

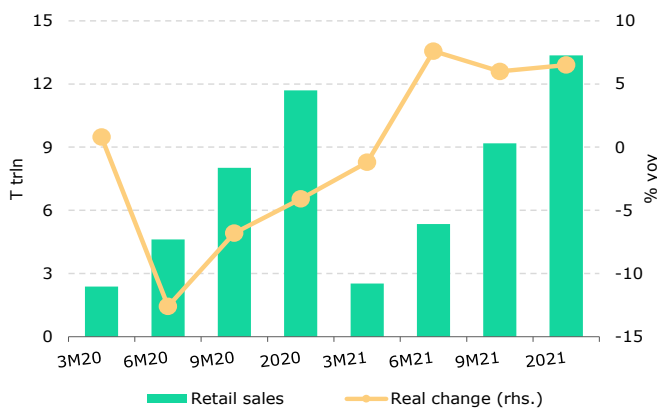
trade was primarily due to the turnover of non-food products, the sales volume for which increased by 9.6% yoy, while the increase in food products was recorded by only 1.0% yoy. Such a significant difference in the dynamics of these commodity groups is due to their outturn in the crisis year of 2020, when the opposite picture was observed – a decrease by 10.1% yoy in the turnover of non-food products, while at the same time the sale of food products saw an increase of 7% yoy.

It is obvious that after the recovery of economic activity to the pre-crisis level, the population increased the volume of purchases of durable goods, especially considering that in the crisis year of 2020 they saved more, which created pent-up demand. Thus, deposits of individuals in 2020 increased by T1.7 trln (+17.7%), while the increase in retail trade turnover was only T0.4 trln (+3.6%). Last year, retail deposits increased by KZT2.5 trln (+22.9%), while retail trade turnover increased by KZT1.7 trln (+14.2%).

An additional stimulus for the growth of household deposits and consumption was the withdrawal of pension savings, which in 2021 reached T2.3 trillion. Of course, most of these savings were used to buy housing, pay off or get a new mortgage. However, access to retirement savings temporarily increased the disposable income of the population and allowed for an increase in consumption. In turn, the increased demand for housing acted as a stimulus for the growth in housing construction, which was reflected in an increase in the incomes of the population employed in this and related spheres.

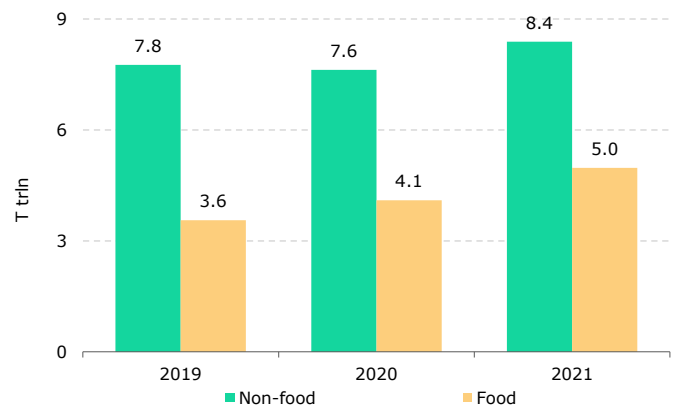
In addition, the economic recovery was accompanied by an increase in average nominal wages, which amounted to T275.6 thd in 4Q2021 (+18.2% yoy in nominal and +8.7% yoy in real terms), which stimulated the recovery of consumer activity of the population.

Fig. 9. Retail trade turnover



Source: BNS

Fig. 10. Retail sales by goods category



Source: BNS

Record inflation since 2017

In 4Q2021, consumer inflation slowed down to 2.0% from 2.4% in 4Q2020, while in 3Q2021 it accelerated to 1.6% from 0.7% in 3Q2020. Annual inflation also showed a slowdown to 8.4% yoy from 8.9% yoy in September and 8.7% yoy in November 2021. Growth in food prices slowed to 9.9% yoy (10.9% yoy in November 2021), and the cost of non-food items rose by 8.5% yoy (8.3% yoy in November 2021). Paid services increased by 6.5% yoy (6.4% yoy in November 2021).

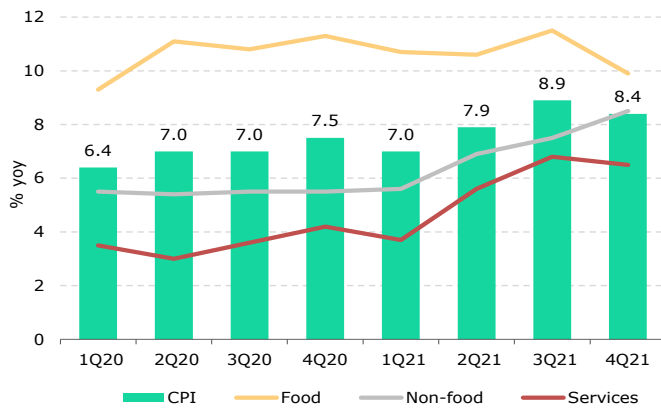
Overall, the consumer inflation, fixed at 8.4% at the end of 2021 – is the highest since 2017. The acceleration of inflation began in 2019 after reaching a minimum of 5.3% in 2018. Both external and internal factors contributed to the acceleration of price growth. Among them were an increase in oil prices by 66% yoy last year to \$70.4 per barrel (average price for the year) and an increase in the price of food in the world market by 28.1% yoy (FAO food price index – World Food Organization) up to a 10-year maximum.

The global nature of inflationary processes is clearly demonstrated by the dynamics of inflation at the world level, which, according to the Bloomberg, almost tripled in 2021 from 2.1% in 2020 to 5.7% in 2021. In the Russian Federation, inflation peaked since 2016 at 8.4% compared to 4.9% in the previous year, in the US inflation jumped from 1.4% to 7%, while in the Eurozone countries, deflation in 2020 gave way to a sharp rise to 5% in 2021. Thus, external inflation through the growth of imports of consumer goods, as well as through quotations of goods on the stock exchanges, is translated into prices in the domestic market of Kazakhstan.

Pressure on consumer prices was also due to the weakening of the national currency (average annual exchange rate), which lost 3.2% of its value against the US dollar in 2021 and 7.9% in 2020. Stimulation of the economy and its

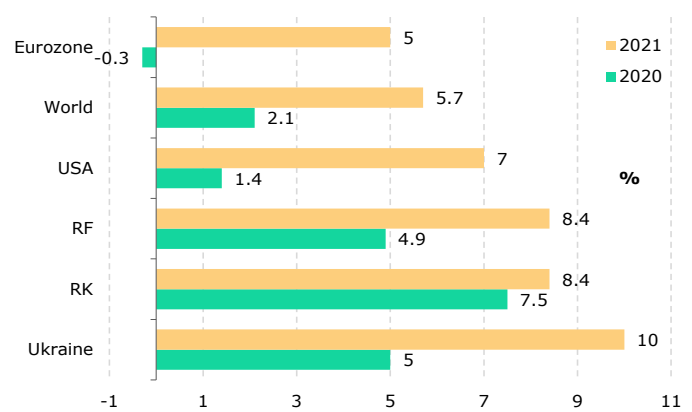
rapid recovery contributed to the growth of nominal wages in 2021 by 17% yoy. KZT2.1 trillion (~2.5% of GDP) entered the residential real estate market from the pension savings of citizens in 2021, which provoked an increase in real estate prices by 22%, while the cost of rent, which is a component of paid services, increased by 17.6% which ultimately affected the headline inflation rate. Thus, the acceleration of inflation rates occurred not only on the part of aggregate supply due to an increase in production costs, but also on the part of aggregate consumer demand and investment, which received a strong monetary impulse due to the growth in household incomes and the infusion of part of citizens' pension funds into consumer circulation.

Fig. 11. CPI, RK



Source: BNS

Fig. 12. Global inflation



Source: BNS

Potential risks for inflation in the republic remain and may materialize. Thus, an increase in the cost of fertilizers and their shortage or savings can lead to a decrease in the overall yield in the republic and the world. As a result, there will be a further increase in prices for agricultural products. Persistent gaps in supply chains, the emergence of new strains of coronavirus, a further rise in energy prices, geopolitical tensions and a slowdown in global economic growth – all this can lead to a longer maintenance of loose monetary policy and, as a result, high inflation in the republic and the world.

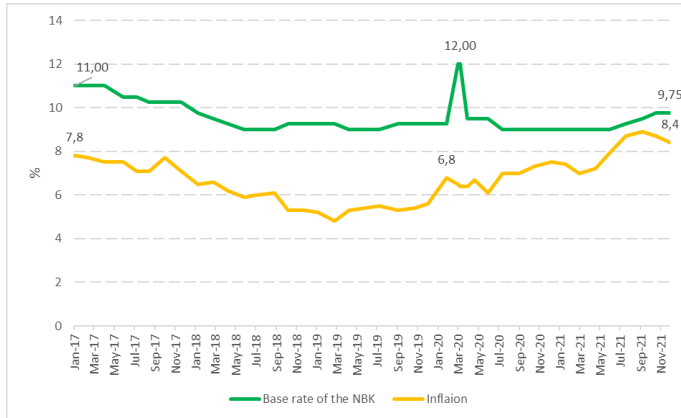
Interest rate policy – NBK tightens monetary conditions

During 4Q2021, the NBK tightened monetary conditions only once, raising the base rate from 9.50% in September to 9.75% in October. Subsequently, the rate remained at the same level until the end of the year. The liquidity management corridor remained symmetrical +/-1%.

The macroeconomic dynamics for the oil-producing countries (Russia and Kazakhstan) was similar and was characterized by an acceleration of inflationary processes not only on the supply side against the background of the recovery of the global and local economies, but also on the demand side against the backdrop of growing business activity, expanding consumer lending and budgetary impetus. Such macroeconomic dynamics was reflected not only in the acceleration of consumer inflation (Kazakhstan 8.4% yoy, the Russian Federation 8.4% yoy, Belarus 10.0% yoy, Kyrgyzstan 11.2% yoy), but also in the acceleration of prices of enterprises producing industrial products (Kazakhstan 46.1% yoy, RF 28.1% yoy, Belarus 14.3% yoy, Kyrgyzstan 5.6% yoy).

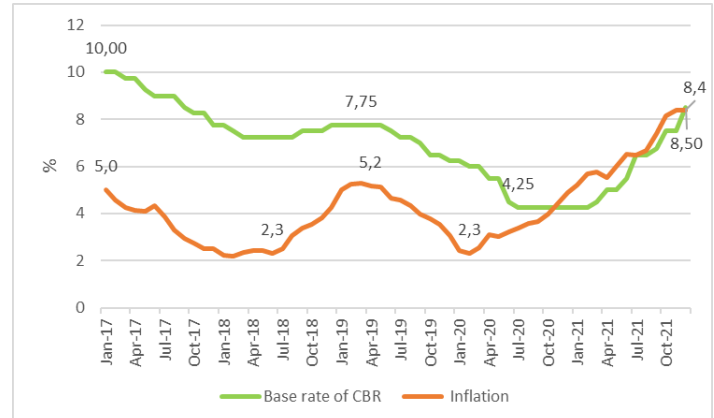
Along with the observed growth in inflation rates, there was heightened inflationary expectations on the part of the population. Relatively anchored household inflation expectations in Kazakhstan jumped sharply to 10.8% in November and stabilized at 10.3% in December, with actual inflation at 8.4%. In Russian Federation, household expectations were at a high level throughout last year (about 12%) and rose to 13.5% in November and to 14.8% in December against the backdrop of accelerating actual inflation rates to 8.4% yoy. The high rates of actual and expected inflation dynamics led the NBK and the Central Bank of the Russian Federation to gradually tighten monetary conditions. However, while the NBK raised the base rate by only 75bp last year, the CBR raised the key rate from 4.25% to 8.5% since March last year.

Fig. 13. Dynamics of the base rate in Kazakhstan



Source: NBK, Halyk Finance

Fig. 14. Dynamics of the key rate in the Russian Federation



Source: CBR, Halyk Finance

The dynamics of inflation in January 2022 in Kazakhstan and the Russian Federation continued to grow and reached 8.5% yoy and 8.7% yoy, respectively. In January, the NBK raised the base rate immediately by 50bp to 10.25%, and the CBR in February by 100bp to 9.5%.

In the current year, we are more concerned about inflation, because the risks of the pandemic persist, high energy prices contribute to continued growth of production costs, and expansion of demand due to the recovery of business and investment activity, growth in consumption due to lending to household consumer purposes, as well as inflation import through foreign trade channels – all this can make tangible alterations to the plans of the NBK. Moreover, significant role in maintaining a high inflationary background will be played by the growing geopolitical tension around the Russian Federation, which in recent years continued to increase the volume of imports to the Republic of Kazakhstan (35.4% in 2020 to 42.1% in 2021).

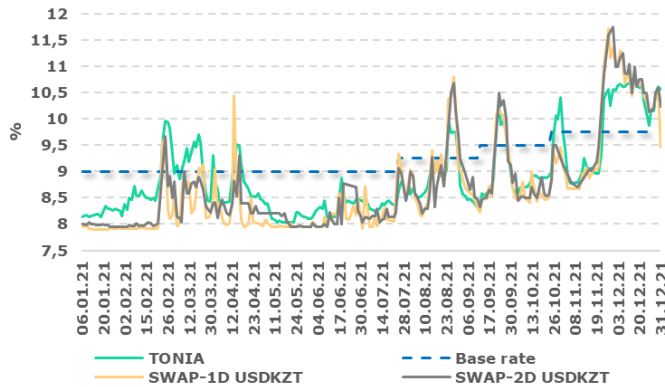
Money market – rising cost of money following tighter monetary policy

The rate on automatic REPO operations (TONIA) at the end of 2021 was at the level of 10.56% (8.98% at the end of 2021) with an average value of 9.61% in 4Q2021. (8.80% in 3Q2021). The volume of transactions of automatic REPO in 4Q2021 increased 3.4 times yoy and amounted to KZT39.103bn, while the average value of daily transactions for the period amounted to KZT620.7bn (KZT433bn in 3Q2021). The maximum daily volume of transactions on automatic REPO operations occurred at the end of December 2021 and amounted to KZT1,357 billion (KZT643.5 billion at the end of August 2021).

The volume of transactions on USDKZT overnight swaps in 4Q2021 increased 2.4 times yoy to KZT2,690bn. At the end of 4Q2021, the USDKZT overnight swap rate stood at 9.47% (8.28% at the end of 4Q2020) with an average rate of 9.59% (8.47% in 4Q2020). The maximum volume of transactions on USDKZT overnight swaps fell in the first days of November 2021 and amounted to KZT79.4 billion with an average quarterly sum of KZT44.8 billion (KZT82 billion in the last days of December 2020, the average quarterly value of the nominal volume of transactions is T20.9 billion). The volume of trades on two-day USDKZT swaps in 4Q2021 increased by 50.4% yoy to T580 billion. At the end of 4Q2021, the rate on two-day USDKZT swaps was at the level of 10.24% (7.99% at the end of 4Q2020) with a quarterly average of 9.71% (8.07% in 4Q2020).

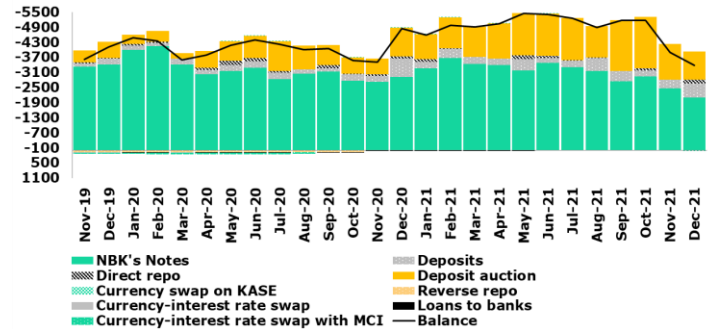
The maximum volume on two-day swaps occurred in mid-October and amounted to KZT33.8bn with an average quarterly value of KZT11.8bn (T25.2bn in the last days of December 2021, the average quarterly value of the nominal volume of transactions was KZT9.2bn). In 4Q2021, there was a noticeable decrease in the amount of withdrawn liquidity via NBK notes (62% in the structure of withdrawal instruments) by 23.3% qoq (-28.2% yoy) to KZT2.102bn. At the same time, the effective yield on NBK notes in circulation in December 2021 stood at 9.96% (10.21% in December 2020 and 9.77% in December 2019).

Fig. 15. Money market rates at the end of the period



Source: NBK, Halyk Finance

Fig 16. Withdrawal of excess liquidity



Source: NBK, Halyk Finance

The effective rate of the primary NBK notes settlements in December 2021 was 10.17% with the volume of placement of KZT1.340bn against the rate of 9.33% and the volume of attractions of KZT1.735bn in January. The yield on the placement of NBK notes for a period of 91-182 days was 9.93% and 9.96% in December 2020, respectively. In general, the volume of excess liquidity decreased by 30% yoy and at the end of last year that amounted to KZT3.392 billion.

Thus, in the money market in 4Q2021, there was an increase in the volume of transactions, while at the same time an increase in the cost of cash, which was inclined closer to the upper border of the NBK liquidity management corridor.

Tenge exchange rate – weakening was inevitable

As of the end of 2021, the national currency depreciated by 2.6% yoy to 431.7 tenge per US dollar (depreciated by 1.4% compared to 3Q2021, to 426.03 tenge per US dollar on average for 2021). The weakening of the USDKZT pair took place against the backdrop of an increase in Brent oil quotations at the moment to \$86.4 per barrel, followed by a correction to \$68.9 at the end of last year. The FX exchange operations for the National Fund also didn't help the national currency from weakening either. Thus, in 4Q2021, the volume of NBK foreign exchange operations decreased by 14.7% qoq to \$2.4 billion, while in annual terms the volume of these operations increased by 6.1% to \$9.6 billion. The quarterly decline in the NBK's participation in foreign exchange trading from 33.2% (taking into account foreign exchange interventions 35.9%) in Q3 to 23.0% (25.4%) in Q4 2021 partly reduced support for the national currency on the stock exchange.

In the foreign exchange market, in the segment of exchange trading of USDKZT pair, there was an increase of foreign exchange transactions by 23.1% qoq to \$10.6 billion in 4Q2021. In general, over the course of the year, the volume of trading in the USDKZT pair increased by 25.8% yoy and amounted to \$34.6 billion. The growth in trading volumes of the US dollar was due, on the one hand, to the post-COVID economic recovery, the growth of business activity, on the other hand, it was used as a hedge against the expected weakening of the Kazakh tenge following the Russian ruble. Demand for the US dollar was observed not only on the KASE, but also among the population. Thus, purchases of US dollars in exchange offices in November increased by 56.8% mom to T297.5 bn (\$687.4 m), and in December by another 28.1% mom to \$378.4 bn (\$872 m). On the country's money market, the volume of trading in one-day USDKZT swaps increased 2.4 times, and in two-day swaps by 50.4% yoy. Against the backdrop of rising demand for the US dollar and reduced sales of foreign currency for the National Fund, the NBK had to directly offer foreign currency in the domestic market via foreign exchange interventions in November and December. Thus, the net sale of foreign currency in November amounted to \$239.1 million, and in December \$252 million. Moreover, the weakening of the Kazakhstani tenge in 4Q2021 was facilitated by the quarterly outflow of non-residents from the government securities of Kazakhstan. Thus, in October 2021, the volume of government securities in nominal possession of non-residents reached a historical maximum and amounted to KZT863 billion. However, as of the beginning of January, it decreased to KZT595 billion, which is in principle comparable to the volume of ownership in January 2021 (\$604 billion).

U.S. dollar. Against the backdrop of growing demand for foreign currency within the country, there was a gradual strengthening of the US dollar versus the basket of leading world currencies. Over the year, the US currency strengthened by 6.5% to 95.67, and at the end of November last year, the DXY index reached its maximum since July 2020 at 96.87.

Russian ruble. The exchange rate of the Russian ruble versus the US dollar had a significant impact on the exchange rate of the Kazakhstani tenge. Thus, if the correlation coefficient between the tenge and the ruble in 3Q2021 was 65.1%, then in 4Q2021 it increased to 82.2%. The Russian ruble depreciated only 0.6% against the US dollar last year compared to the tenge weakening by 2.6% yoy, but in 4Q2021 the Russian currency depreciated 2.1% qoq to 74.3 Russian rubles per US dollar. Such a quarterly depreciation of the Russian ruble, along with other factors, affected the quarterly depreciation of the tenge against the US dollar by 1.4% qoq. At the same time, the depreciation of the tenge against the ruble during 4Q2021 at the moment reached 6.14 tenge per ruble and at the end of the year amounted to 5.77 tenge, which is generally comparable to the exchange rate of 5.62-5.72 at the beginning of the year, with an average annual value of 5.78 tenge.

Fig. 17. Change of quotes USDKZT vs Brent

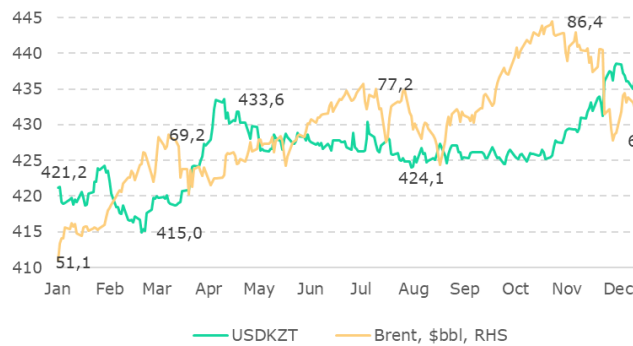
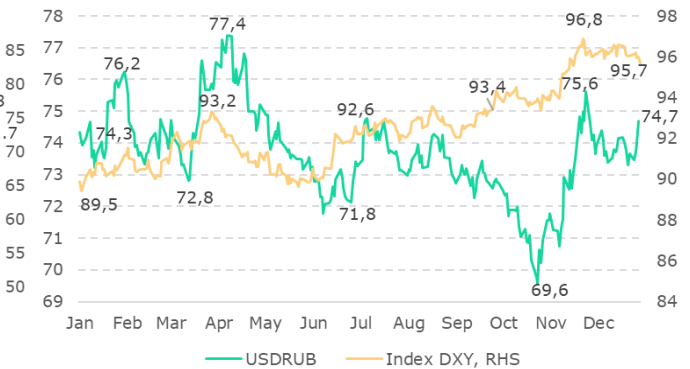


Fig. 18. Change in USDRUB and USD index



Source: Bloomberg, Halyk Finance

Source: Bloomberg, Halyk Finance

Such currency dynamics of the exchange rate for the RUBKZT pair in 4Q2021 was enabled by the growing hostile sanctions rhetoric from the United States and other countries in relation to the Russian invasion of Ukraine. Against the backdrop of escalating tensions, non-residents continued their withdrawal from the Russian government debt, while the Russian Ministry of Finance, not expecting demand for its securities, reduced government debt issuance in 4Q2021 by 67.4% qoq. So, for 2021, the Ministry of Finance of Russia placed 2,636.4 billion rubles or 94.4% of the planned volume, while the share of non-residents decreased by 1.1pp to 19.5%. The exchange rate of the Russian ruble was directly supported by the growth of oil prices, however, along with the growth of foreign exchange inflows through foreign trade channels (the volume of exports grew by 39.1% yoy in 9M2021 and amounted to \$380 billion, while the trade account surplus increased by 93.4% yoy and amounted to \$110 billion against the background of an increase in the value of exports by 63% yoy in 2Q2021 and by 71% yoy in the third quarter), there was an outflow of capital from the Russian Federation (net capital outflow in 2021, according to preliminary estimates of the CBR, increased by 42.8% yoy to \$72 bn) and expansion of foreign currency purchases in the domestic market in accordance with the budget rule (in 4Q2021, the Russian Ministry of Finance increased the volume of foreign currency purchases by 42.5% qoq to 1,338 billion rubles, which amounted to 43.1% total purchases of foreign currency in 2021), which affected the depreciation of the ruble in 4Q2021.

The dynamics of the exchange rate for the USDKZT pair in 2022 will be formed due to the high cost of oil on world trading platforms (the average value in 2022 will be \$75 per barrel), due to the currency exchange operations of the NBK for the National Fund (in the amount of about \$6.3-6.5 billion). The government securities market of the Republic of Kazakhstan will see a gradual withdrawal of non-residents from the state debt of the Republic of Kazakhstan against the backdrop of tightening monetary conditions by world banks (market participants expect the Fed to raise the discount rate 5 times this year), which will contribute to the outflow of foreign capital from emerging markets. The DXY index will be formed at the level of 96-97pp against the backdrop of transactional demand for money, the recovery of the global economy and trade. The geopolitical background around the Russian Federation will remain tense throughout the current year. Based on the projected macroeconomic and geopolitical picture of the development of events, we believe that the national currency will weaken to 490 tenge per US dollar by the end of this year.

Slight contraction of the current account deficit in 2021

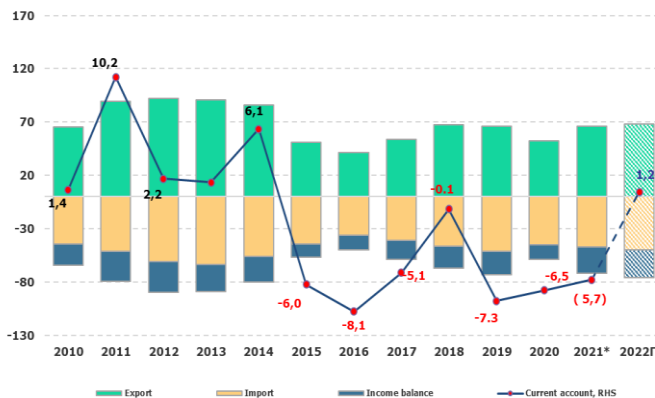
The current account of the Republic of Kazakhstan for 2021, according to the preliminary estimate of the NBK, developed with a deficit of \$5.7 billion (\$6.5 billion deficit for 2020). The current account deficit was observed for three quarters in a row, decreasing from \$1.5 billion in the first quarter to \$1.2 billion in the second and widening to \$1.4 billion in the third. In the fourth quarter, the current account deficit widened to \$1.6 billion.

Despite the 2021 balance of trade surplus rising by 101.4% yoy to \$20.7bn and the services account deficit narrowing from \$3.1bn to \$1.8bn, a 61.5% yoy widening of the primary income account deficit to \$24.2bn helped narrow the deficit of current account compared to 2020 by only \$826 million.

Growth of energy and metals prices in international markets (83.5% of the export structure in 2021) led to outstripping increase in exports (27.2% yoy to \$60.2 billion) over imports (6.6% yoy to \$39.4 billion), which, in turn, turn contributed to the growth of the balance of trade surplus by 101.4% yoy to \$20.8 billion. In the structure of exports, the share of mineral products has not changed over the past two years (66% of the nominal value of exports), while the share of metals in the structure has increased from 16% in 2020 to 17.5% in 2021. According to the Bureau of National Statistics of the Republic of Kazakhstan, the physical volume of exports of oil and gas condensate came to 65.6 million tons (-6.9% yoy), while the volume of exports in monetary terms increased by 31.1% and amounted to \$31.1 billion

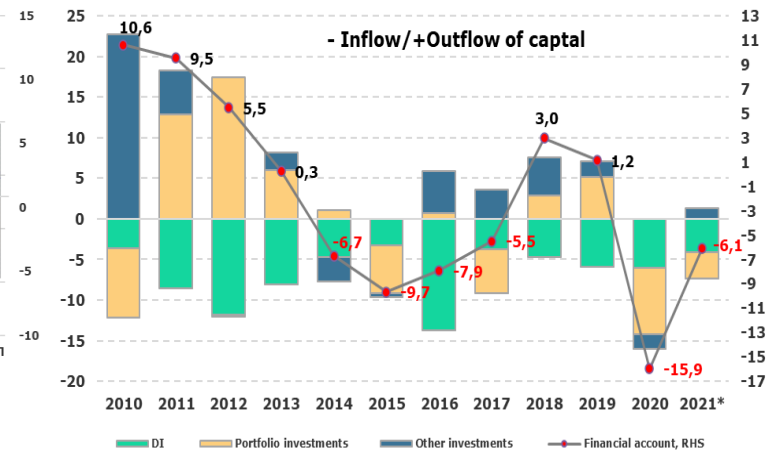
A 63.8% yoy increase in non-resident direct investment income in 2021 to \$22.3 billion led to a deepening primary income account deficit from \$13.6 billion in 2020 to \$22.3 billion in 2021.

Fig. 19. Reducing the current account deficit, \$bn.



Source: NBK, Halyk Finance, *evaluation

Fig. 20. Reduction of inflow on the financial account, \$bn.



Source: NBK, Halyk Finance

The secondary income account saw a shrinkage of surplus of \$1.3 billion in 2020 to a deficit of \$417 million in 2021.

Thus, the gradual recovery of foreign trade dynamics against the background of continuing restrictions associated with the mobility of the population, and a somewhat protracted recovery of business activity in the provision of international services, as well as the growth of capital outflow in the framework of direct and portfolio investment, contributed to a more restrained reduction in the current account deficit of the Republic of Kazakhstan.

The relative current account deficit to GDP for 2021 was 3.0% (-\$5.7 billion), down from a deficit of -3.8% (-\$6.5 billion) in 2020.

Financial account (excluding reserve assets of the NBK)

The financial account for 2021 saw a decline in capital inflows to \$6.1 billion (\$15.9 billion). Moreover, during the 3 quarters of last year, capital inflow only expanded from \$518 million in 1Q2021 to \$2.6 billion in the second and reached its maximum of \$3.7 billion in the third quarter. In 4Q21, there was a capital outflow of \$680 million.

The decrease in capital inflows in the financial account in 2021 was supported by a decrease in capital inflows in the direct investment account by 32.5% yoy to \$4.1 billion and by 59.3% yoy in portfolio investments to \$3.3 billion. expansion of capital inflows by 42.6% yoy to \$2.8bn, while short-term capital flows saw an increase in outflows from \$200m to \$4.1bn. Net incurrence of liabilities by the Government of the Republic of Kazakhstan and the NBK increased 3.2 times to \$3.9 billion.

The ratio of financial account capital inflows to GDP, according to our estimates, decreased from inflow of 9.3% (\$15.9 billion) in 2020 to 3.2% (\$6.1 billion) in 2021.

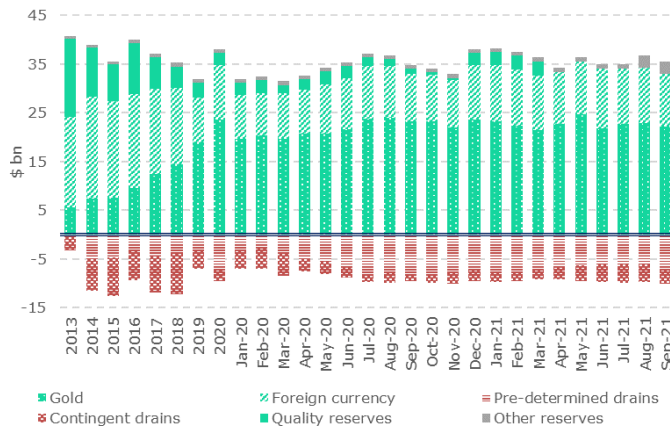
Consolidated international reserves continued to decline

The consolidated international reserves of the Republic of Kazakhstan at the end of 2021 amounted to \$89.7 billion, decreasing by 1.0% qoq (-5% yoy) due to the reduction in the nominal volume of the NBK's gross gold reserves by

3.2% qoq to \$34.4 billion (-3.5% yoy). The assets of the National Fund increased by 0.5% qoq to \$55.3 bn (-5.8% yoy).

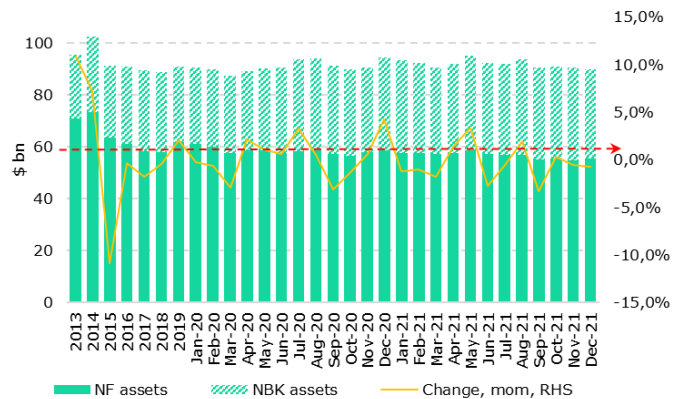
As part of the NBK's reserves, assets in hard currency decreased by 19.2% qoq to \$10.8 bn (-10.2% yoy). According to the IMF, in December 2021, in the structure of foreign exchange reserves, there was a decrease in assets in the Central Bank by 8.7% yoy to \$5.2 billion. Assets and deposits in hard currency decreased by 40.4% yoy and amounted to \$3.3 billion. On the other hand, gold holdings turned larger, whose volume in monetary terms increased by 6.5% qoq and amounted to \$23.5 bn (-0.2% yoy). The price of gold remained at a relatively high level during the last year and by the end of the year stood at \$1,829 per troy ounce (-3.2% yoy at the end of the period). The growth of this asset was mainly due to a physical increase of 3.7% yoy to 12.94 million troy ounces or 402.8 tons. The share of assets in gold at the end of last year was a record 68.5%, up from 66.2% a year earlier. Significant growth occurred in reserves in SDRs (special drawing rights – an IMF instrument), which, after the allocation of \$1.6 billion by the IMF to Kazakhstan (according to a quota of 0.24% in the fund), increased from \$505 million in July to \$2.1 billion in August. As of the end of last year, the volume of SDRs was \$2.05 billion.

Fig. 21. International reserves of the NBK



Source: IMF, Halyk Finance

Fig. 22. Consolidated reserves of Kazakhstan



Source: NBK, Halyk Finance

According to the Ministry of Finance of the Republic of Kazakhstan, inflows to the NF in January-December decreased by 37.5% in annual terms and amounted to T3.5 trillion (\$8.1 billion). Direct tax revenues from oil companies increased by 86% yoy to T2.6 trillion (\$6.1 billion). A significant increase in revenues is observed for CIT (+125.5% yoy) and rent tax on exports (+149.4% yoy). Mineral extraction tax increased by 32.4% yoy. In total, the share of these articles in the structure of receipts is 66%. Investment income from fund management decreased by 80.5% yoy to T799.5 billion.

In 2021, the fund's expenses decreased by 5.6% yoy and amounted to T4.5 trillion or \$10.6 billion. In 2021, the size of the guaranteed transfer to the state budget amounted to T2.7 trillion, but taking into account the targeted transfer in the amount of T1.8 trillion, the fund's expenses decreased slightly compared to 2020 – to T4.5 trillion in 2021 against T4.8 trillion in 2020. In 2021, the balance of receipts to the Fund was negative and amounted to T1.1 trillion (\$2.5 billion).

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