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MACROECONOMIC OUTLOOK 2025

KAZAKHSTAN

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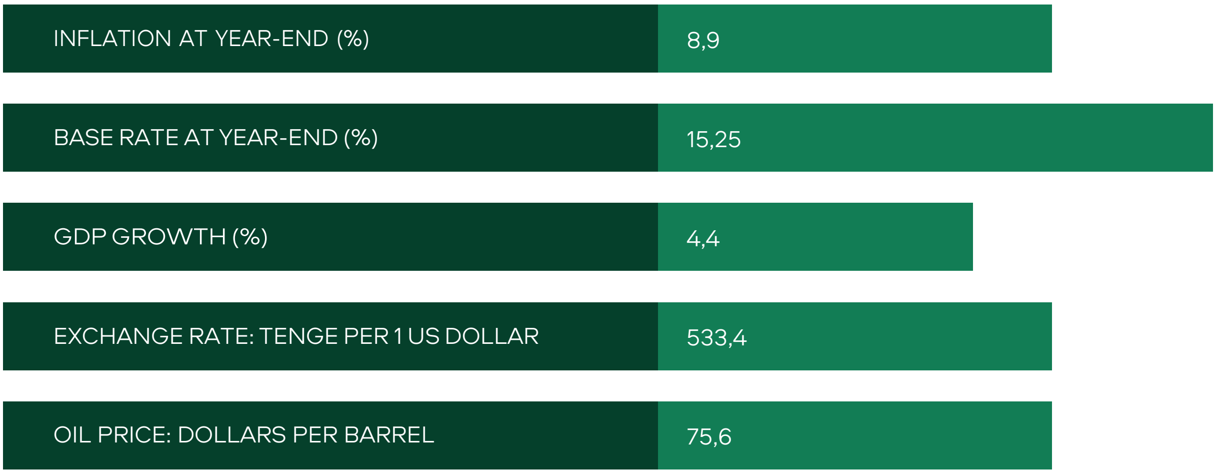
2025

Kazakhstan Macroeconomic Indicators Overview



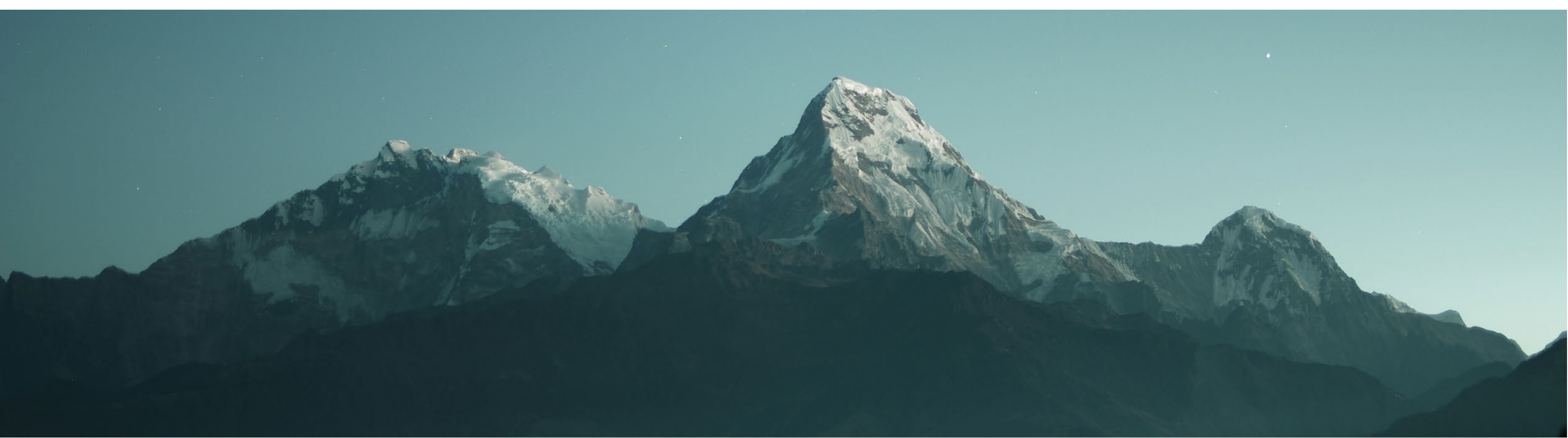
The economic landscape in Kazakhstan for 2025 is shaping up to be a mixed bag, with encouraging developments alongside ongoing challenges that could test the nation's financial resilience.

Annual inflation is projected to reach 8.9% , reflecting a gradual stabilization of prices compared to previous years. However, despite this slowdown, the base rate —set by the National Bank of Kazakhstan—will remain elevated at 15.25% . This decision is aimed at curbing inflationary pressures and maintaining macroeconomic stability.

Gross domestic product (GDP) growth is forecasted to hit 4.4% , signaling a positive rebound after several years of economic uncertainty. This growth will likely be driven by an improved external economic environment and a rise in domestic consumption.

The exchange rate is expected to weaken slightly, with the tenge forecasted at 533.4 tenge per 1 US dollar . This depreciation reflects ongoing volatility in global markets and limited economic diversification. However, stable oil prices at $75.6 per barrel will continue to support export revenues, providing a critical source of budgetary stability.

In summary, 2025 is poised to be a year of gradual recovery and stabilization for Kazakhstan. Nevertheless, significant macroeconomic challenges—such as high inflation, a relatively weak national currency,—will require sustained efforts to maintain financial discipline and diversify the economy.



Bakbergen Toktasyn,
macroeconomist of the department of analytics and research at BCC Invest

Inflation Overview

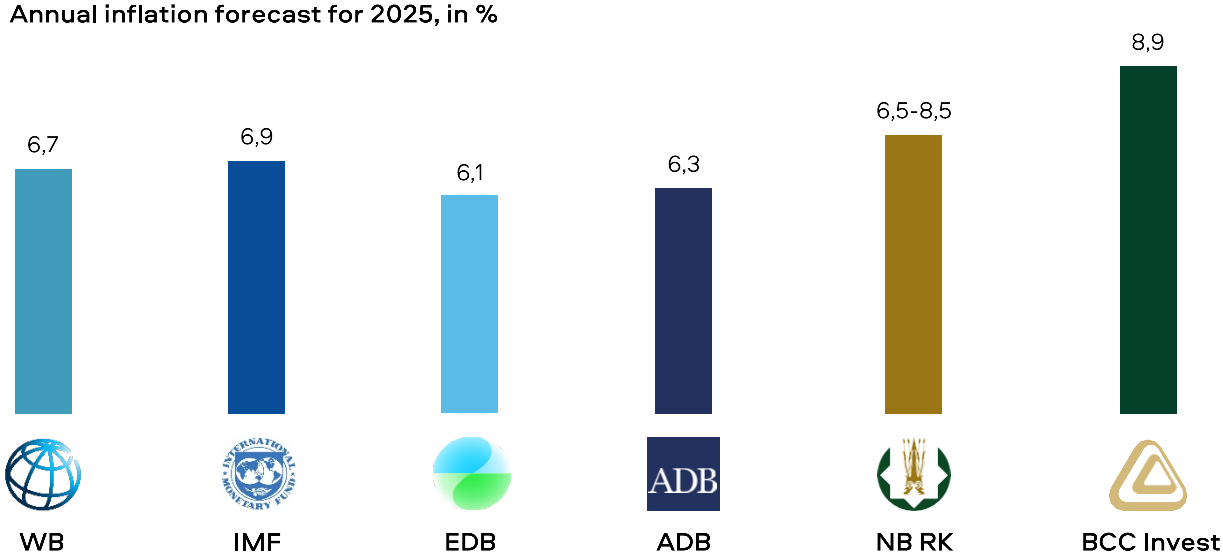
Annual inflation is the change in prices in the economy over a year compared to the same period the previous year. Rising prices are driven by a variety of factors, including higher production costs—such as increased prices for raw materials, wages, and tariffs—and broader risks to financial stability, like geopolitical uncertainty, currency depreciation, and rising consumer insolvency. Both excessively low and high inflation can hinder economic activity by reducing incentives and dampening demand.

For Kazakhstan, as with any country, there is an optimal inflation rate that fosters sustainable economic growth without triggering runaway price increases. The National Bank of Kazakhstan set an annual inflation target of 5% starting in 2023. However, achieving this goal has proven challenging. Following the global coronavirus pandemic and the fallout from Russia's military actions in Ukraine, inflation soared to a staggering 21.3% in February 2023—the highest level seen in Kazakhstan since the early 2000s.

Thanks to the efforts of the National Bank and the Government of the Republic of Kazakhstan and the effect of a high base, inflation began to ease, dropping to 8.4%. Despite this progress, inflationary pressures persist, particularly in the services sector, where price growth remains stubbornly in the double digits as of 2024.

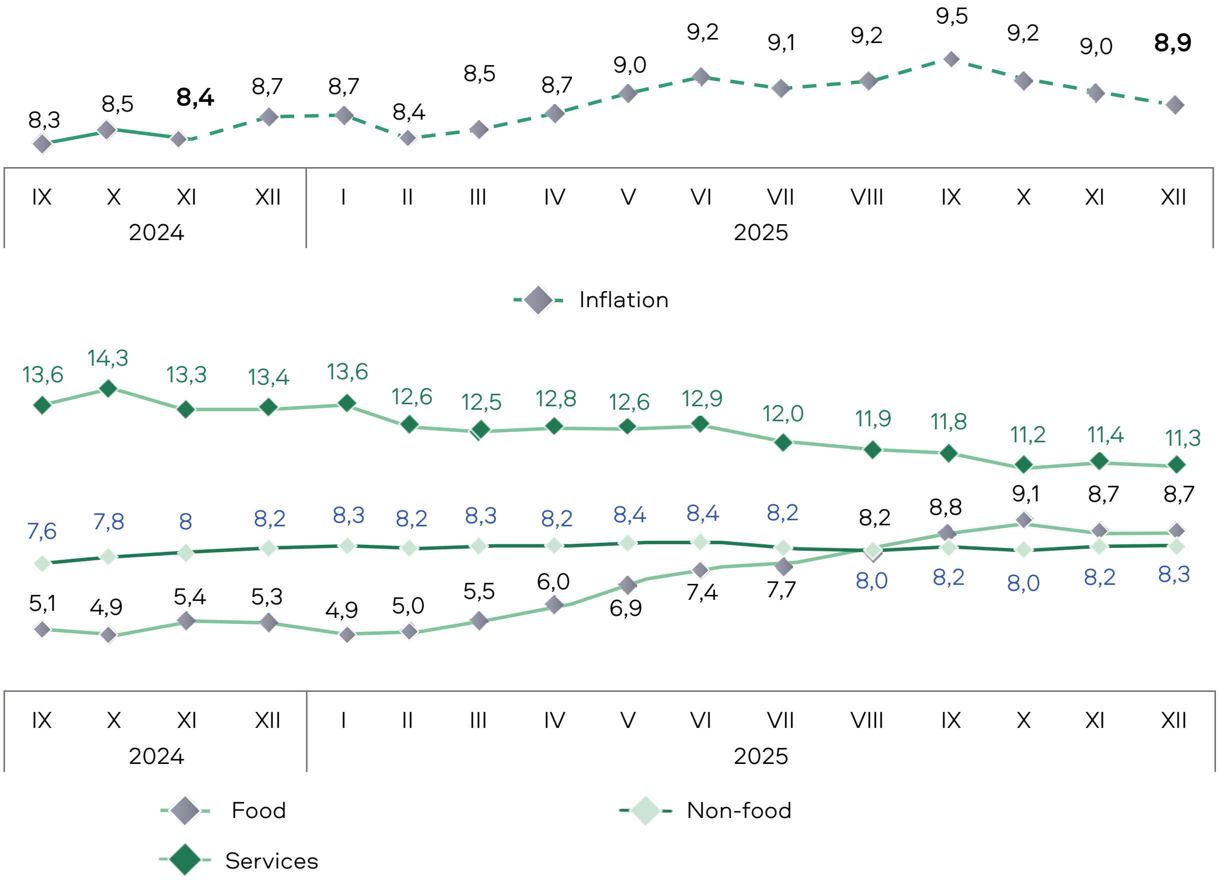
By the end of 2025, the NB projects inflation to settle within a range of 6.5-8.5%. International organizations have issued a consensus forecast of 6.5%. However, analysts at BCC Invest predict a slightly higher figure of 8.9%, citing inefficiencies in the transmission mechanism and structural distortions in the economy.

Annual inflation forecast for 2025, in %



BCC Invest analysts' expectations for inflation dynamics

2025 Annualized Inflation and key components forecast, %



Source: Office of National Statistics

According to analysts at BCC Invest's Department of Analytics and Research, annualized key components are expected to range in 2025, with food inflation between 4.9% and 9.1%, non-food inflation hovering between 8.0% and 8.4%, and the service sector experiencing price increases, with inflation ranging from 11.2% to 13.6%

Headline inflation will be in the range between 8.4%-9.5%, settling around 8.9% annualized pace by the end of 2025.

Core inflation in Kazakhstan reflects the dynamics of free prices excluding administrative and seasonal factors. In 2024, core inflation remained at the level of 8.0-8.2% from May to November, indicating a steady persistence of inflationary processes, in contrast to the decline observed in 2023.

Continued preservation of moderately tight monetary conditions will continue to limit the demand for consumption of goods and services by economic agents, which in turn should slow down the country's economic growth and inflation. In addition, a set of measures to control and reduce inflation, approved by the government, will also contribute to the saturation of supply in the market, which, all other things being equal, should meet the growing demand of citizens.

Base Rate Overview

The base rate is the key interest rate set by the National Bank of Kazakhstan to influence borrowing and deposit costs across the economy. It plays a critical role in determining the cost of loans for businesses and households, as well as the returns that banks offer on deposits. The main purpose of the base rate is to maintain price stability and control inflation.

In 2023, the National Bank of Kazakhstan raised key rate to 16.75% to control inflation, which has reached its peak of 21.3%. This measure was aimed at reducing consumer demand and stabilizing the Tenge exchange rate. A high base rate makes loans more expensive, which restrains activity in the borrowing market, but at the same time encourages people and companies to keep their funds in banks, thereby reducing the pressure on inflation.

At its most recent meeting in 2024, the Monetary Policy Committee decided to hike the benchmark interest rate from 14.25% to 15.25%. However, analysts at BCC Invest caution that the effectiveness of this policy move may be constrained by structural issues within the economy, coupled with heightened volatility in external markets. Against this backdrop, three potential scenarios for the trajectory of the base rate have been developed as downward adjustment to a range of 13.5%-14.0% and a further increase to 15.5%-16.5%.

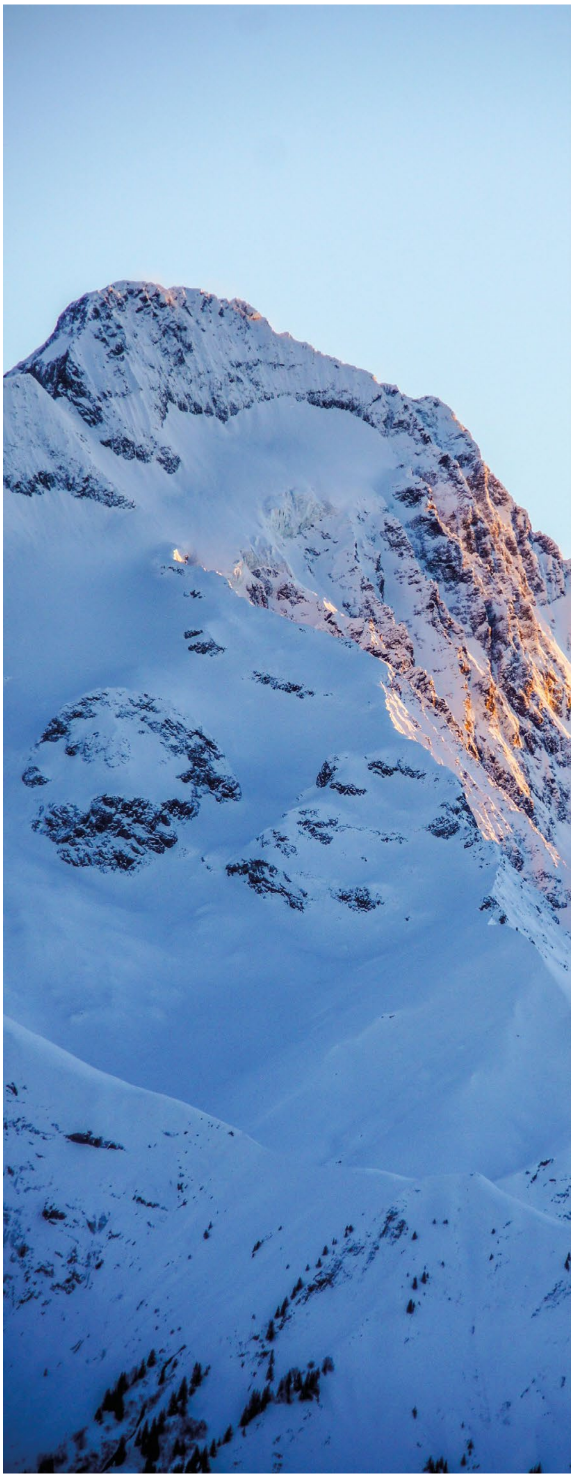
BCC Invest analysts' expectations for further dynamics

On November 29, the National Bank of Kazakhstan concluded its final monetary policy committee meeting for 2024, announcing a 100-basis-point increase in the benchmark interest rate, bringing it to 15.25%. Looking ahead to 2025, the National Bank has scheduled eight key rate decisions, set to occur on the following dates: January 17, March 7, April 11, June 5, July 11, August 29, October 10, and November 28. Against the backdrop of exchange rate volatility, uncertainty surrounding inflation dynamics, and the impact of fiscal stimulus measures on the economy, analysts at BCC Invest have identified three potential scenarios for the trajectory of the base rate.

In the baseline scenario, if our inflation forecast is realized and speculative sentiment in the currency market is reduced, the base rate will range from 15.25 to 15.75% in 2025. We expect the base rate to remain unchanged in the first half of next year, followed by a summer rate hike of 25-50 basis points as inflation continues to rise. Then, due to a slowdown in inflation due to seasonal factors, we expect the base rate to fall to 15.25%. Thus, 2025 will start with a base rate of 15.25% and end with a base scenario rate of 15.25%.

Under negative scenario, should the national currency continue to weaken, the regulator may be compelled to increase the base rate by 100 to 250 basis points as early as January 17, 2025. Given that a significant portion of the country's imports consists of finished goods, a substantial depreciation of the national currency would directly impact domestic price levels, potentially accelerating inflationary pressures. In line with the principles of optimal interest rate management, a substantial hike in the base rate would aim to curb demand among economic agents, thereby helping to stabilize inflation countrywide. This approach mirrors the dynamics observed in 2023, when the base rate remained elevated during the first half of the year before gradually declining. By the end of 2025, under this scenario, the base rate is projected to settle within a range of 15.5% to 16.5%.

Under the positive scenario, the current short-term weakening of the national currency is expected to stabilize, followed by a gradual strengthening. Concurrently, core inflation is anticipated to exhibit a downward trajectory, contributing to an overall deceleration in inflationary pressures. In this context, the regulator would have greater flexibility to implement a more pronounced reduction in the base rate, with average cuts ranging between 25 and 50 basis points. In addition to reducing inflation, a lower base rate will make credit resources of second-tier banks available, which will stimulate economic growth of the economy. Assuming a favorable external economic environment, the base rate by the end of 2025 could settle within a range of 13.5 to 14.0%.



GDP Overview

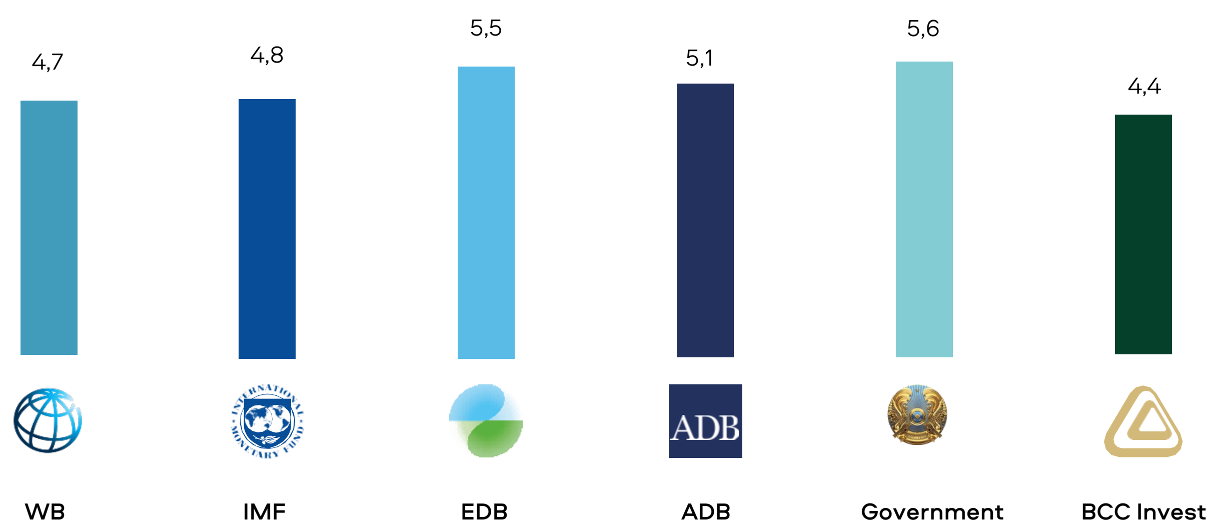
Gross Domestic Product represents the total value of all goods and services produced within a country over a specific period, typically a calendar year. GDP serves as a key indicator of a nation's economic health and growth potential, illustrating how effectively a country is utilizing its resources. An increase in GDP generally signals rising production levels, higher incomes, and improved living standards, while a decline often points to underlying economic challenges. Nominal economic growth shows how much prices and output have grown together, while real growth *(or GDP volume index)* takes into account only the change in output, excluding the impact of the price component. Real growth reflects the quantitative change in output, not its value.

Kazakhstan's economy has faced significant challenges over the past few years, including the coronavirus pandemic and the consequences of the war between Russia and Ukraine. GDP growth accelerated to 5.1% in 2023, driven by increased investment and consumption in the economy, thanks to the efforts of government authorities and the country's recovery. However, the Government's forecast for 2024 and 2025 assumes economic recovery with GDP growth rates of 6.0% and 5.6%, respectively. The consensus forecast of international organizations for 2024 is 4.0% and 5.0% for 2025.

The primary drivers of GDP growth include consumer spending, investment in the economy, government expenditures, and foreign trade. In Kazakhstan, export of raw materials such as oil and metals plays a significant role, which makes the economy vulnerable to fluctuations in global prices. Therefore, an important direction is to diversify the economy by fostering the development of non-resource sectors such as agriculture, manufacturing and the IT sector.

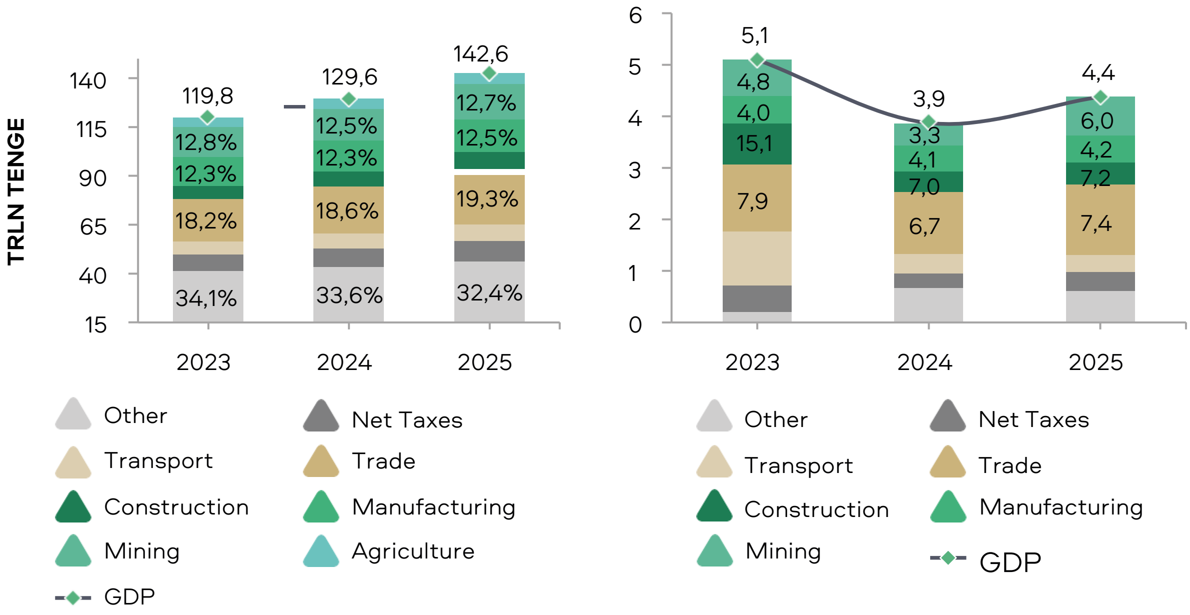
According to projections by BCC Invest analysts, real economic growth in Kazakhstan is expected to reach 3.9% in 2024 and accelerate to 4.4% in 2025. In nominal terms, the economy is forecasted to expand to 129.6 trillion tenge in 2024 and further to 142.6 trillion tenge in 2025. The main drivers will continue to be the services sector, particularly the "Wholesale and retail trade" and "Transportation and warehousing" industries In the goods-producing sector, growth is also expected to accelerate on the back of a 7.6% or 6.9 million tons increase in oil production.

2025 GDP Forecast, %



BCC Invest analysts' expectations for GDP dynamics

2024-205 Kazakhstan GDP Forecast By Main Sectors



Source: Office of National Statistics

According to analysts at BCC Invest's Department of Analytics and Research, the national economy will reach 129.6 trillion tenge in 2024 in nominal terms, with a growth of 3.9% in real terms. The key driver of development will also be the sector of production of services, reaching 73.0 trillion tenge or 56.3% of nominal GDP, with the production of goods worth 47.1 trillion tenge or GDP 36.3%.

In developing their forecast, analysts considered business cycle in the economy performance, which can be determined by finding the output gap of the economy. The output gap is the difference between actual GDP and potential GDP, which reflects the maximum possible output at full utilization of resources without creating inflationary pressures. The potential output was calculated using the Hodrick-Prescott filter with equal to 1600, since the analyzed data have quarterly periodicity. According to results, the economy grew by 5.1% in 2023 while being overheated, which according to the theory of economic cycles led to the economy cooldown in 2024 and lower growth rate.

The forecast also incorporates trends in Brent oil prices, using the Bloomberg consensus as a baseline. Oil prices are expected to average $78.3 per barrel in 2024Q4, followed by a stable average of $78 per barrel until 2025Q3. However, prices are projected to decline slightly, averaging $75.6 per barrel in 2025Q4

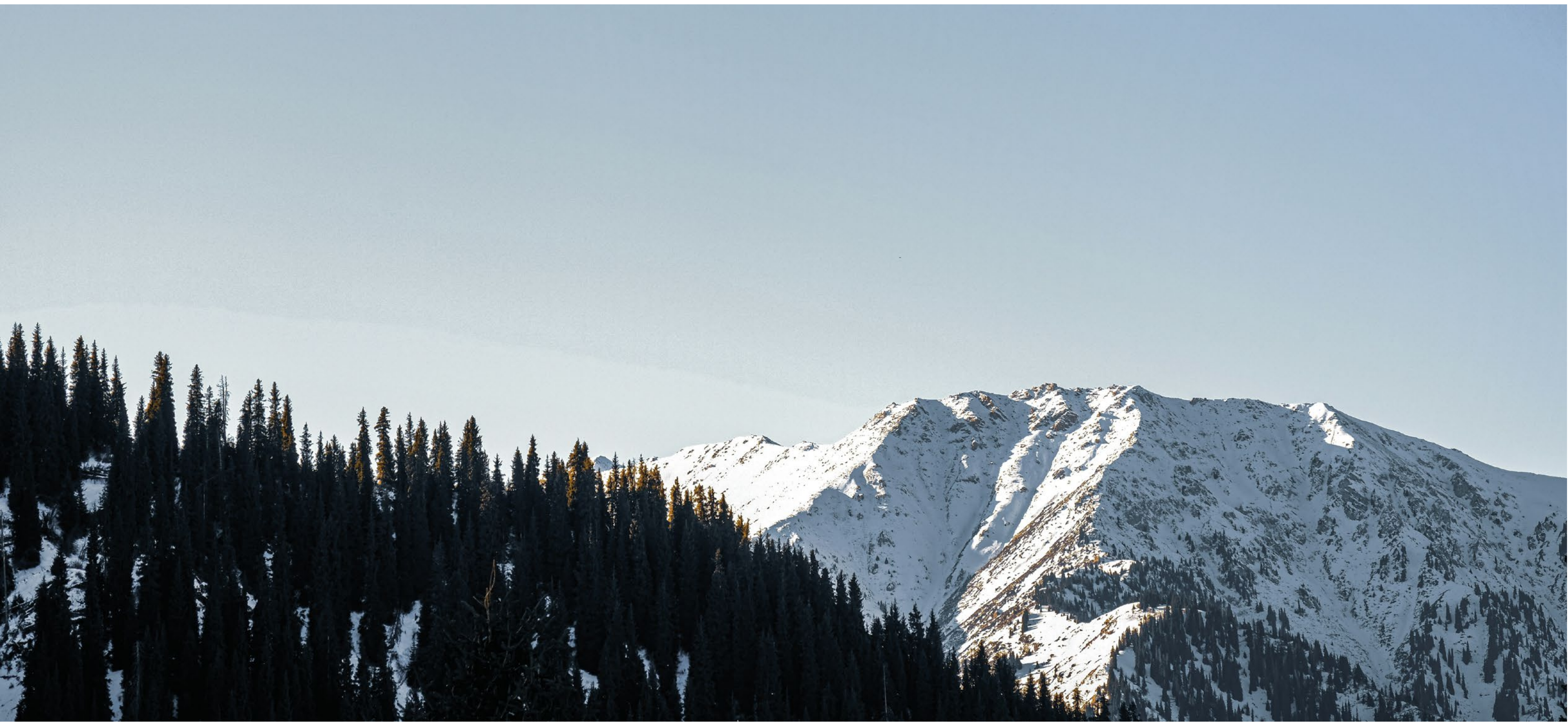
According to the forecast of the social and economic development, oil production volumes will grow by an average of 3.1% annually through 2029. Production volumes will grow from 90.3 million tons in 2024 to 104.8 million tons in 2029, i.e. an increase of 16.1%, or 14.5 million tons.

Exchange Rate Overview

The exchange rate of the Kazakhstani Tenge against the U.S. Dollar is an important indicator of the country's economic stability, which affects the prices of goods and services and the level of inflation. In recent years, the tenge has demonstrated significant fluctuations against the dollar. Over the last six months, the average monthly USD/KZT exchange rate increased by 8.2%, which indicates the weakening of the tenge.

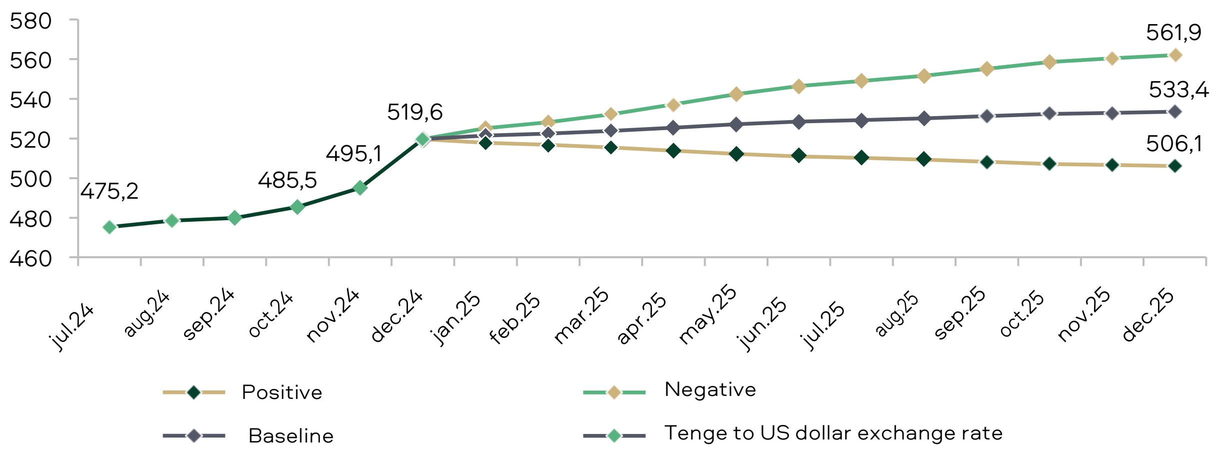
Analysts forecast further gradual weakening of tenge in the coming years. According to the base scenario of BCC Invest, by the end of 2025 the rate will reach KZT533.4 per dollar, annual rate in 2025 is expected to average KZT528.1. The positive scenario assumes a slight strengthening to 506.1 tenge per dollar by December 2025, while the negative scenario predicts a significant weakening to 561.9 tenge per dollar.

The main factors influencing the Tenge exchange rate are global oil prices, inflation, geopolitical situation and domestic economic indicators. For consumers, a weaker Tenge means higher prices for imported goods and services, which could lead to higher inflation and reduced purchasing power. Therefore, it is important to monitor the exchange rate dynamics and take measures to protect your savings, for example, by diversifying them in different currencies or investment instruments. For example, by investing in mutual funds offered by BCC Invest.



BCC Invest analysts' expectations for further dynamics

Tenge To US Dollar Exchange Rate Forecast Up Until 2025



Source: BCC Invest forecast

According to analysts at BCC Invest's Department of Analytics and Research, a gradual weakening of tenge is expected in 2025, which is reflected in three forecast scenarios: positive, basic and negative.

The baseline scenario assumes that the exchange rate will reach 533.4 tenge per dollar by the end of 2025, while the exchange rate will gradually increase during the year. The optimistic scenario assumes a slight strengthening, and by December 2025 the exchange rate will be 506.1 tenge per dollar. The pessimistic scenario assumes a significant weakening of the tenge, and by the end of the year the exchange rate may reach 561.9 tenge per dollar.

The main factors of tenge weakening in 2025 may be the continuation of inflationary risks, decrease in export revenues in the context of possible deterioration of the global economic environment and weak compliance with the budget rule, which may lead to an increase in transfers from the National Fund due to the growth of government expenditures, resulting in increased pressure on the national currency. Despite this, the baseline scenario predicts that the monetary policy measures of the National Bank of Kazakhstan will help to partially limit the weakening of the exchange rate, keeping it within the range of moderate growth.

Given the macroeconomic risks, economically active participants need to have a clear understanding of measures to adapt their activities in the face of uncertain exchange rate volatility.

Oil Dynamics Overview

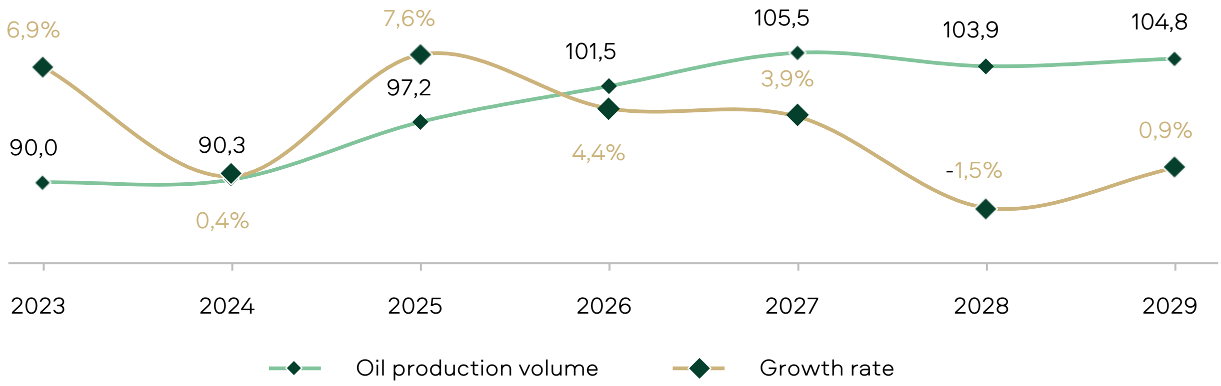
The oil market is a key component of Kazakhstan's economy as oil remains one of the country's main export commodities. Changes in the global oil market directly affect budget revenues, the exchange rate and overall economic growth. As oil prices fluctuate globally, it is important to understand how these fluctuations affect Kazakhstan's financial stability and development opportunities.

Oil prices have been volatile in recent years, driven by the geopolitical situation, the coronavirus pandemic and changes in global demand. The main factors affecting the oil market are global supply and demand and the policies of OPEC+ countries. Kazakhstan, as part of the OPEC+ agreements, must adhere to oil production quotas, which helps to regulate global prices, but at the same time limits the potential for increased production.

According to the Government's plans, oil production will only increase from 90.3 million tons in 2024 to 104.8 million tons in 2029. Thus, production will increase by 16.1% or 14.5 million tons over five years. According to the consensus of world experts' forecasts, the oil price will steadily decline and will reach the level of 75.6 dollars per barrel by the end of 2025.

Government and market expectations for further oil dynamics

Dynamics of oil production forecast, mln tons



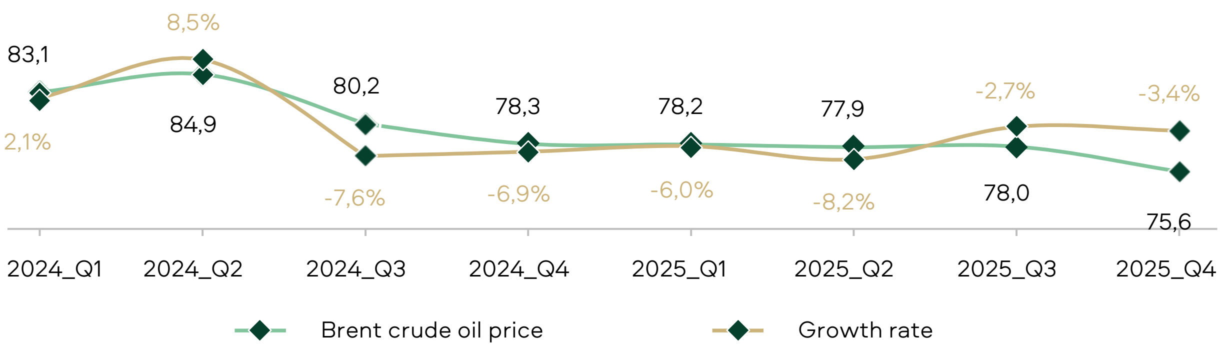
Source: Forecast of the social and economic development

According to forecast of the social and economic development, the average annual oil production from 2024 to 2029 will be 100.5 million tons, with a peak of 105.5 million tons expected in 2027. The average annual growth rate for production will be 2.6%, with a peak growth rate of 7.6% in 2025.

According to the forecast of the social and economic development, the average annual price of Brent crude oil will be $80 per barrel in 2024 and $75 per barrel in the following years. This is a moderately optimistic forecast, given possible price fluctuations due to global economic and geopolitical factors.

The expected increase in production is accompanied by risks associated with changes in global demand and the impact of climate change on the energy sector. As OPEC+ countries reduce production to support prices, Kazakhstan will have to be flexible and adapt its plans between its own ambitions to increase production and the need to comply with quotas.

Dynamics of consensus forecast for oil price, USD per 1 barrel



Source: Forecast of the social and economic development

According to Bloomberg, the world's largest banks, government agencies and some research organizations forecast a decline in the price of Brent oil against the backdrop of declining global demand. Based on the consensus forecast, the average price per barrel of oil for the fourth quarter of 2025 is projected to settle at 75.6 US dollars.

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