

Dear Askar Uzakpayevich!

Dear colleagues!

In conditions of worsening epidemiological situation and an uneven vaccination process, **a slowdown in growth of business activity in the world has been reported.**

***MODERATE RECOVERY PACE OF BUSINESS ACTIVITY
WORLDWIDE AND IN KAZAKHSTAN***

In July 2021 **global index of economic activity** fell to **55.7** from **56.6** in June.

In **Kazakhstan**, **business activity index** shrank by **0.8** to **50.8** due to a contraction in the service sector from **52.7** to **51.1** because of quarantine restrictions caused by deterioration of the epidemiological situation. Along with that, **for the first time since August 2019** all the subindexes are in a **positive area**.

Growing number of new coronavirus cases and vaccine rollout remain key factors in recovery of both the global economy and the economy of Kazakhstan.

Because of poor vaccine rollout and a growing number of Coronavirus infections in **emerging countries**, on July 27, 2021 **the IMF** revised GDP forecast for this year downward by **0.4 p.p. to 6.3%**. In **developed countries** thanks to the high vaccine rollout and continuing stimulus, the IMF expects a higher growth by **0.5**

p.p. to 5.6% in 2021. Forecast for global GDP remained at **6%** in 2021.

With deteriorating growth prospects for emerging countries, their economies are expected to recover by **late 2022**. Nevertheless, the IMF kept its forecast for economic growth in Kazakhstan at **3.2%**.

MARKET IMBALANCES CONTINUE TO EXERT THEIR PROINFLATIONARY PRESSURE

Despite the slowdown in business activity, **proinflationary pressure persists** worldwide. This trend exacerbates an **imbalance between supply and demand** against the background release of pent-up demand coupled with **an extension in delivery time**.

PMI delivery in all the countries is below **its** equilibrium value of **50 points** reflecting **an extension in delivery time** worldwide which increases inflation of costs.

According to the UN FAO, **global food prices** in July are falling for the second month in a row and reached **123 points**. Along with that, an annual growth of the FAO **food price index remains** at a high level making **29.1%**.

Inflation is projected to level off in **developed countries** by late 2021, meanwhile in emerging countries it will stay **above the target level until the end of 2022**, which is facilitated by proinflationary pressure from food, raw materials and weakening exchange rates.

INFLATION IN KAZAKHSTAN REACHED ITS RECORD HIGH FOR THE PAST 4 YEARS

Inflation in Kazakhstan, after it jumped to **7.9%** in June, continued its growth and in July 2021 reached **8.4%**, the highest figure since 2017. Accelerating inflation is becoming **steady** amid increasing **imbalances** in food markets, continued growth in **global prices for raw materials** and a high **inflationary background** in countries which are key trading partners, especially in Russia.

More than a half of the contribution to the annual rise in prices still comes from **food inflation**, which inched up from **10.6%** to **11.0%** in July 2021 due to mounting prices for **certain types of vegetables** which is unusual for summer months. Rising prices for **meat** and **vegetable oil** continue to exert an extra pressure.

Non-food inflation rose from **6.9%** to **7.2%** due to escalating prices for **durable goods** and **fuels and lubricants**.

Inflation of paid services accelerated from **5.6%** to **6.1%** against the background of higher **utility** tariffs and growing prices for certain **market services**.

Given a significant bulge of food prices, fuels and lubricants, rising electricity prices, stronger fiscal stimulation and increased inflationary expectations, according to preliminary estimates of the National Bank, inflation is expected to be within the range of **6-7%** by the end of 2021. Updated forecasts will be presented within an upcoming forecast round in August-September this year.

In conditions of a **significant** acceleration of inflationary processes, in order to ensure price stability within the monetary policy which is taking place, **on July 26, 2021** the National Bank decided to raise the base rate by **25 b.p.** up to **9.25%**.

TENGE APPRECIATION AGAINST THE BACKGROUND OF A GROWING OIL PRICE

In July 2021, tenge appreciated by **0.7%** to **424.45** KZT/ USD amid a **rising oil price**. Despite volatility during July, oil prices rose by **1.6%** to USD **76.33**.

Key factors that affected formation of the oil prices included **an agreement reached by OPEC+** to increase production on a monthly basis starting from August as well as data about **a decrease in US inventories and a growing demand** for fuel.

Tenge received an extra support from **conversion of assets of the National Fund** for allocation of transfers, sale by the quasi-public sector for an amount of USD **480 million**, and conversion of currency returns on the exchange market by exporters during the period of tax payments.

High growth **rates of imports of consumer goods** in conditions of recovering business activity continue to create **increased demand** for foreign currency and have **a restrictive impact** on appreciation of the tenge.

Since early August 2021, pressure on the oil market heightened because of uncertainties about prospects for the global economy amid growing incidence of delta strain of coronavirus. As of August 10, the oil price fell by **8.1%** down to USD **70.15**/barrel, while the exchange rate of the national currency was **425.83** KZT/USD, having lost **0.3%** of its value since the beginning of the month.

Thus, **unstable situation** persists in foreign markets. Oil volatility and changes in risk sentiment continue to put pressure on an exchange rate of the tenge.

INCOME OF THE NATIONAL FUND IS FORMED MAINLY FROM GROWTH OF THE STOCK MARKET

Assets of the National Fund at the end of July this year totaled USD **56.9 billion**, having decreased by USD **450 million** over the month.

In order to ensure allocation of transfers in July 2021 for an amount of **477 billion** KZT, foreign currency assets worth USD **1.11 billion** dollars were sold.

Receipts to the National Fund in July 2021 amounted to **40 billion** KZT, including USD **65 million** in foreign currency.

Investment income of the National Fund for July this year was positive and totaled USD **590 million**.

Despite **volatility** in the financial markets, **investment income** of the National Fund **compensated transfers to the republican budget by one third** and made USD **2 billion**, or **3.5%**, compared to USD **1.3 billion** in the same period last year.

STABLE RESERVES ARE ENSURED DUE TO A RISING GOLD PRICE

Gold and foreign exchange reserves this July made USD **35 billion** with a slight decrease from beginning of the month.

Gold portfolio grew by USD **960 million** mainly as a result of **a monthly increase** in value of gold amid uncertainty about an outlook for the global economy.

Assets in **freely convertible currencies** changed mainly due to contraction of correspondent accounts and foreign currency deposits of second-tier banks for an amount USD **655 million** and payment government debt for an amount of USD **126 million**.

Overall, **gross international reserves** amounted to USD **91.9 billion**, a USD **500 million** cut over the month.

RECOVERING GROWTH OF PENSION ASSETS AGAINST THE BACKGROUND OF FALLING WITHDRAWAL PACE

UAPF pension assets for July 2021 expanded by **42 billion** KZT, or up **0.3%**, to **12.8 trillion** KZT.

Pace of withdrawals by citizens of a part of their pension savings has slowed down by **5.3** times.

Number of satisfied applications of citizens as of July 31, 2021 totaled **403 thousand** for the amount of **1,685 billion** KZT, where **98.2%** of the volume was directed to improve housing conditions.

Investment income of pension assets since the beginning of this year made **821 billion** KZT. As a result, profitability was secured at the level of **6.5%** with **5.3% inflation**, at **10.6%** for 12 months with **8.4% inflation**.

GROWTH OF DEPOSITS AND STABILIZATION OF DOLLARIZATION

Since early 2021, **deposits** in the banking system grew by **13.8%** to **25.1 trillion** KZT, including corporate deposits by **14.5%**, up to **12.9 trillion** KZT, retail deposits by **13.0%**, up to **12.2 trillion** KZT.

Deposits in the national currency soared by 14.3% or **2 trillion** KZT to **15.8 trillion** KZT, mainly due to retail deposits, in foreign currency - by **12.8%** or **1.1 trillion** KZT to **9.3 trillion** KZT, mainly due to corporate deposits.

As a result, level of **deposit dollarization** in June 2021 reached **37.0%**.

IMPLEMENTATION OF ANTI-CRISIS INITIATIVES OF THE HEAD OF STATE

In order to restore the economy, implementation of anti-crisis initiatives of the Head of State goes on.

1. Under the **‘Economics of Simple Things’ Program** as of August 6, 2021 applications for an amount of **1.4 trillion KZT** were received, **1,020** loans worth **726 billion KZT** were issued.

2. Under the **Program of Concessional Lending to Business Entities** as of August 6, 2021 over **1 trillion KZT** were lent, including more than **390 billion KZT** due to revolving lending.

3. Under the **‘7-20-25’** program as of August 5, 2021 applications were received for an amount of **811 billion KZT**, **29.5 thousand** loans were extended for **354 billion KZT**.

DEVELOPMENT OF THE NATIONAL PAYMENT SYSTEM

Non-cash transactions are becoming more sought-after among the population. For 6 months of this year their volume surged by **2.3-fold** year-on-year reaching **29.8 trillion KZT**.

The population also continues to actively use online payments - **83%** of non-cash transactions were made through **online banking** year-to-date.

In line with **an instruction** of the Head of State, active efforts are underway to **establish National Payment System (NPS)**.

A preliminary agreement has been **reached** with international payment systems Visa and Mastercard to process KZT transactions in the NPS. Work has begun to reach agreements with international payment system Union Pay.

Within construction of the Instant Payment System, a **platform** has been developed to further **test services** and **integrate** them with second-tier banks.

The national payment system will allow to **cut cost** of instant payments by more than **two times**, to **increase** a share of cashless payments from **57%** to **65%** by 2025.

Thank you for your attention!