



Monetary Policy REPORT

MARCH 2021



NATIONAL BANK OF KAZAKHSTAN

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Monetary Policy Report is a quarterly publication of the National Bank, which contains the analysis of key macroeconomic factors affecting inflation as well as the forecast of macroeconomic parameters in the short- and medium-term horizon.

The Report is published in an electronic form on the official Internet-resource of the National Bank in the Kazakh, Russian and English languages.

The forecast of macroeconomic indicators was prepared on the basis of statistical information as at **26.02.2021**, and the analysis of macroeconomic indicators – as at **01.03.2021**.

On March 9, 2021, the National Bank made the decision to retain the base rate at **9.0%** per annum, with the interest rate band of +/-1pp. The decision was made on the basis of a detailed analysis of developments in the domestic and foreign economy, evaluation of the projected inflation dynamics and its consistency with the actual data as well as updated forecasts of key macroeconomic indicators in the medium term.

The COVID-19 pandemic continues producing a negative effect on the global economic development. The immunization process goes on slowly because of low volumes of vaccine production and difficulties with the transportation. The appearance of new viral strains and the continuing restrictions in many countries worldwide caused deceleration of the industry. There are less new export orders; the service sphere is still characterized by a feeble recovery pattern.

At the same time, according to the IMF's projections, in 2021 the growth rates of the global economy will accelerate to 5.5%, being futhered by an anticipated implementation of the stimulus package in developed countries. In 2022, the global economy is expected to somewhat slow down its growth rates to 4.2%. The recovery pattern in the economies of Kazakhstan's trading partners will keep on. Along with that, the Chinese economy will be recovering faster given the increased investment activity and consumption as well as the growing exports. In the EU member countries, the economic recovery will be restrained by the persisting restriction measures as part of the coronavirus-busting effort. In Russia, the effect of OPEC+ and a sluggish domestic demand will be curbing higher growth rates of recovery.

An external inflationary pressure in the short term will be heightened as a result of an expected acceleration of annual inflation in Russia. However, in the medium term the external inflation background will be moderate in view of the fact that inflation in the trading partner countries will be staying at its targeted levels.

As a result of the COVID-19 pandemic and quarantine restrictions that followed, in 2020 Kazakhstan's economy had suffered the greatest downturn over the last 25 years. So, based on performance in 2020, the economic contraction in real terms accounted for 2.6%. During 2020, the situation aggravated most in the second and the third quarters. The contraction rates in Kazakhstan's economy in the fourth quarter of 2020 slowed down to (-)2.0% in annual terms. In the fourth quarter of 2020, the investment activity somewhat recovered as a result of acceleration of investments into machinery, equipment and transport in the environment of growing investment imports. In the second half of 2020, the household demand showed a gradual recovery after a significant drop in the periods of strict lockdown; this is evidenced by the indicators of retail sales and the growing real wages in the economy as well as by the persisting social stance of the government's policy.

At the beginning of 2021, the economic recovery rates slowed down. According to preliminary data from the BNS ASPR, in January 2021 as compared to January 2020 the GDP contracted by 4.5% in real terms. The major negative contribution to the GDP dynamics was made by a larger contraction of production in the mining sector resulting from a drop in the volumes of extraction of oil and metals as well as a decline in the volumes of services in the sectors of trade and transport, and provision of professional and technical services and individual services. Positive growth rates are maintained in the government sector, construction, agriculture, in the manufacturing industry as well as in information and communication. It is worth mentioning that recovery in branches of the economy is not even and depends on the extent of recovery of the external demand for export production, on the necessity to observe quarantine restrictions, changes in the consumer and investment sentiment as well as on the amount of government support measures.

The actual inflation dynamics was in line with the National Bank's expectations. In February 2021, the annual inflation accounted for 7.4%. The main contribution to acceleration of inflationary processes was made by appreciation of certain foodstuffs in terms of price (oils and fats, eggs, sugar, fruit and vegetable production) in the environment of a limited supply, the rise in prices in the global commodity markets and producer prices within the country. Alongside with that, deceleration of the price growth for meat and meat products, bread and bakery and cereals that has been observed over the recent months stopped in February.

The curbing effect on the non-food inflation was exerted by the annual deflation of fuel and lubricants as a consequence of sluggish demand and a high base driven by a rise in excise taxes for gasoline at the beginning of 2020. A steady growth pattern of prices for clothes and footwear is persisting because of a modest consumer demand caused by the decreased real money income of the population, remaining quarantine restrictions for operation of trading facilities, due to the prohibition of public gatherings and banquets as well as due to a continuing regime of teleworking and online learning. The dynamics of import volumes and prices for imported clothes and footwear are the evidence of steady changes in the consumer preferences towards cheaper goods.

A reduction of prices for regulated utility services within the framework of taken government measures that is untypical for the beginning of the year was conducive to some deceleration of the service inflation. Alongside with that, prices of services provided by hairdressers, public catering establishments and home renovation services continue to grow within the structure of non-regulated services.

Inflation expectations remain volatile and rather unstable and this has especially manifested itself after the beginning of the pandemic. Largely, it was driven by a dramatic rise in prices of certain day-to-day goods, particularly, specific foodstuffs, medications and personal care products. Meantime, there is still a high degree of uncertainty among respondents – the third of the interviewed find it difficult to assess their expectations over the recent months.

Since end-2020, the global energy market has been demonstrating a growth of quotations caused by the start of immunization programs in some countries, by a limited supply of oil because of reduction of its production in the USA and observance of terms and conditions of the agreement by OPEC+ member countries. At the same time, development prospects of the global oil market are still contingent on a high degree of uncertainty associated with the further dynamics of the pandemic and effectiveness of immunization. In the present environment, in designing the medium-term forecasts as part of the "February-March 2021" forecasting round, Brent oil price that is considered as the baseline scenario was increased from 45 US Dollars per barrel to 50 US Dollars per barrel for 2021 and 2022.

Despite higher oil prices under the baseline scenario, the forecast of economic growth rates in 2021 was revised downwards. The main factor for the revision had been deterioration in the economic activity indicators in January 2021. The economic growth rates in 2021 will make up 3.4%-3.7% followed by their further acceleration to 3.7-4.0% in 2022.

In 2021, the economy will be recovering both against a low base of 2020 and in the environment of recovering domestic demand. The consumer demand will be supported by the growing real income of the population and wages, by expansion of the consumer lending. Implementation of investment projects, government anti-crisis programs and an overall recovery of the business activity in the real sector will be stimulating the investment demand. An additional support to the domestic demand will be provided by the ongoing growth of mortgage lending as well as by realization of the program on the use of retirement savings.

A short-term decline in exports will be driven by lower production volumes of oil and gas condensate. As the external demand recovers and limitations for oil production within the frames of OPEC+ transaction are loosened, the dynamics of exports will go up. The growth of government consumption will be feeble because of an expected reduction of spending on a major portion of

budget items. Imports will be recovering once the investment and consumer demand increases. Assessments regarding the economic growth in 2022 have not undergone significant changes. According to the National Bank's updates forecasts, during 2021 the annual inflation will be slowing as the situation in certain food markets stabilizes. By end-2021, the annual inflation will be near the upper boundary of the target band. In 2022, inflationary processes will continue slowing down, and the annual inflation will be building closer to the upper boundary of the target band of 4-6%. Short-term inflation forecasts have been revised slightly upwards as a result of the higher actual dynamics of inflation and the price growth in the global food markets. The dynamics of medium-term forecasts have not undergone significant changes. Assessments of the output gap show a gradual exhaustion of disinflationary effect on the part of consumer demand on inflationary processes. This is related to expectations about the economic recovery after a negative impact of the coronavirus pandemic, to the improvement of situation in the labor market and the growing wages. Pro-inflation risks associated with the persisting imbalances in certain food markets, with the intensified external inflation background in the environment of a longer growth in world food prices prevail over the forecasting horizon. Pro-inflationary pressure on prices may also cause a faster than expected recovery of the domestic demand. Apart from that, a further development of the situation with the spreading of coronavirus infection and effectiveness of the immunization process implies significant risks. Geopolitical risks associated with the intensifying sanctions rhetoric in respect of the trading partner countries are persisting; this can increase volatility in the global financial markets. Among external risks, a nosedive in energy prices because of the increased supply on the part of OPEC+ countries and countries outside of OPEC is also worth mentioning.



I. PROSPECTS OF THE DEVELOPMENT OF THE MACROECONOMIC SITUATION

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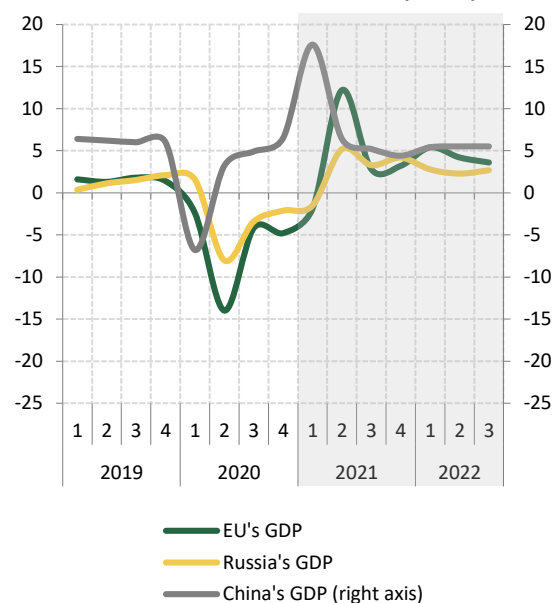
1.1. Forecast Assumptions

Immunization in some countries just as additional stimulative measures helped improve the development prospects of the global economy. However, because of the increased uncertainty regarding a further progression of the COVID-19 pandemic, a rapid recovery of the global economy is unlikely.

Recurrent outbreaks of coronavirus led to the tightening of restriction measures in many countries worldwide. According to expectations, this will become one of the reasons for a feeble upturn of the global economy at the beginning of this year. Nonetheless, by the middle of the year, the situation must improve significantly as a result of expanded availability of vaccines. Under the baseline scenario, the IMF anticipates that in 2021 the growth rates of the global economy will accelerate to 5.5%, followed by their slowdown to 4.2% in 2022. In case of a negative scenario, the distribution of vaccines is assumed to be very slow, both in developed countries and in developing countries. Hence, the global business activity in 2021 will be recovering slower as compared to the baseline scenario. The growth rates of the global economy are expected to come back to the baseline scenario's level in 2022 only. If the optimistic scenario is realized, in the environment of a faster and more effective introduction of vaccines the growth rates of the global economy in 2021-2022 will be higher than the baseline level.

The EU's economy, after a slowdown at the end of 2020 under the pressure of the COVID-19 pandemic, will most likely begin the current year with a feeble recovery. The Great Britain's exit from the EU despite the entry into the trade agreement may also cause the weakening of economic growth, especially at the beginning of the year. Further, as the immunization campaign expands, by the second quarter of 2021 restriction measures will be gradually liberalized

Figure 1. GDP Growth Rates in China, EU, Russia in Real Terms*, YoY, %



Source: Eurostat, National Bureau of Statistics of China, Rosstat, Consensus Ecs.

consequently, the activity will start to recover, although slowly.

A more active growth is expected in the second half of 2021; it will be accompanied by the growing private consumption against accumulation of savings and favorable terms of financing as well as by a better investment activity.

According to the forecasts of Consensus Ecs., the EU's economy in 2021 will go up by 4.1% (YoY) (a previous assessment of November 9, 2020 – a 4.5% growth) (Figure 1). In 2022, a more moderate growth of about 4.0% (YoY) is expected.

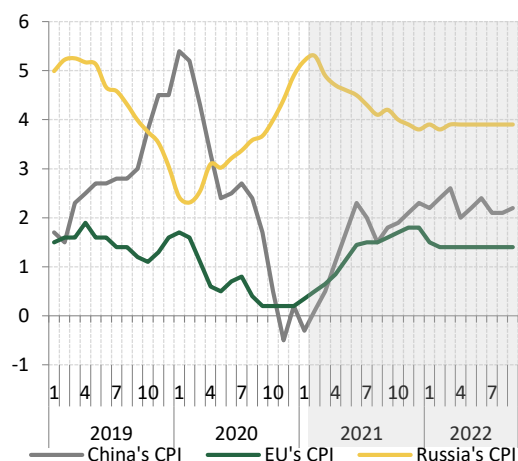
The Chinese economy keeps recovering. In 2021, Consensus Ecs. projects a growth of 8.4% (YoY) (a previous assessment of November 9, 2020 – a 7.9% growth) (Figure 1). However, such surge may be caused by a low base of 2020. In the first quarter of 2021, a two-digit growth is anticipated followed by the feebler dynamics until the end of the year. Nonetheless, a strong growth of exports given a steady demand for goods this way or other other associated with the pandemic as well as the increased investment activity and consumption should add a significant positivism. The most recent data show that consumption keeps improving; therefore, consumers will give up the idea of big savings in the nearest future and will turn their spending back to normal. A further recovery of the Chinese economy may be interrupted by a burst of viral diseases at the beginning of the year, by a further increase in bad loans at banks, a possible deterioration in the labor market as well as by a confrontation of relations with main trading partners. In 2022, the growth rates are expected to slow down to 5.5% (YoY).

As for the development prospects of the Russian economy, international organizations do not expect a dramatic shift in 2021 (Figure 1). First of all, they relate it to an anticipated retention of low dynamics of exports and of the mining industry because of the OPEC+ transaction. In addition, given a low real money income of the population as well as the expectations regarding feebler dynamics of the lending activity due to intentions of the Central Bank of Russia about gradual tightening of the monetary policy, the domestic consumption will remain suppressed. The growth of investment activity will be also limited. Despite a restraining effect of the above factors, the economic upturn will be supported by the easing of restriction measures, a smooth recovery of the global economy as well as by the upward dynamics of oil prices. According to the forecasts of Consensus Ecs., in 2021-2022, the growth rates of the Russian economy will be approximately at the same level. In 2021, the upturn will account for 2.8% (YoY) (a previous assessment of November 16, 2020 – a 3.1% growth), and in 2022 – 2.7% (YoY).

According to the IMF's projections, despite the expected recovery of the global economy in 2021-2022, a negative output gap will not be closed until 2022, exerting a restraining effect on inflationary processes.

As before, the inflation forecast regarding the EU remains moderate virtually throughout the forecasting horizon (Figure 2). A slower recovery of the EU's economy against recurrent outbreaks of COVID-19 will continue to have a restraining effect on the price growth. The exchange rate of the Euro against the US Dollar will be appreciating, eventually putting a downward

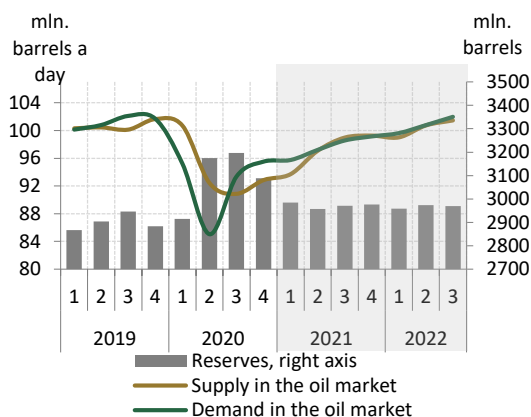
Figure 2. Inflation in China, EU, and Russia, YoY, %



Source: Eurostat, National Bureau of Statistics of China, Rosstat, Central Bank of Russia, Consensus Ecs., European Commission

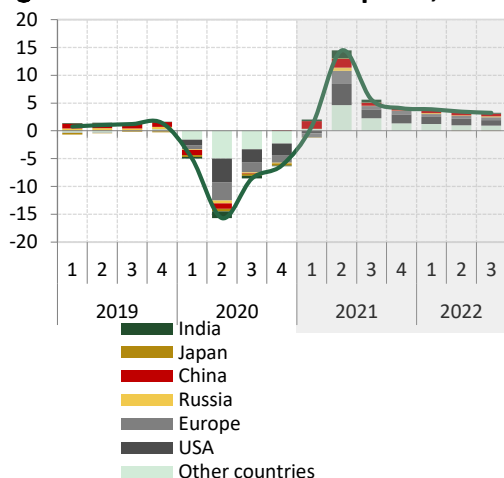
* actual inflation in the EU in December 2020 (YoY)

Figure 3. Dynamics of the Global Oil Market



Source: EIA

Figure 4. Global Oil Consumption, YoY



Source: EIA

pressure on the growth of import prices. A contribution to the growth of inflationary processes is expected on the part of higher energy prices and retention of the upward dynamics of inflation in Germany as a result of cancellation of the VAT reduction and introduction of new energy taxes.

According to the forecasts of Consensus Ecs., consumer prices in China during the next few months can come back to deflation for a short period because of the surge in prices of pork meat a year ago. Starting from the second quarter of 2021, inflation is anticipated to gradually accelerate. Meantime, during 2021-2022, inflation is expected to stand within the targeted level (Figure 2).

In Russia, according to expectations, after acceleration at the beginning of 2021, the effect of sporadic factors will be fully exhausted in a relatively quick way and inflation will go back to 4.0% already by the middle of the year (Figure 2). At the end of 2021, according to the forecasts of the Central Bank of Russia, the annual inflation will be staying within 3.7-4.2%. By 2022, inflation will come back to 4%.

According to the IMF' projections, **large central banks are expected to maintain their interest rates low until the end of 2022**, whereby financial conditions for emerging markets and developing countries in general will be improving. At the same time, given intensification of a number of risks and appearing signs of acceleration of inflation, some central banks in developing countries may come back to the neutral monetary policy in the near-term perspective.

Despite the positive features currently observed, development prospects of the global oil market are still subject to a heightened degree of uncertainty due to the overall immunization and the further dynamics of COVID-19 incidence worldwide.

International organizations are generally positive about the market balance in 2021-2022. The demand and supply are expected to be in balance throughout the forecasting period. The dynamics of global oil reserves will be stable;

however, a come-back to the pre-crisis levels is not expected even before the end of 2022 (Figure 3).

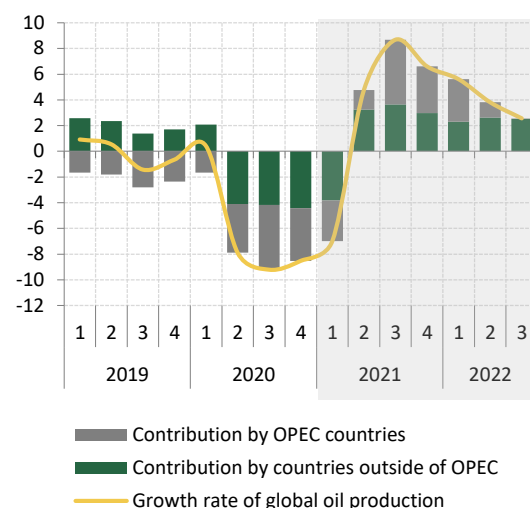
According to expectations, the global demand for oil will increase by 5-6 million barrels a day on average to 96-99 million barrels a day (Figure 4). At the same time, in the first quarter of 2021, the demand for oil will decline; this will be caused by new restrictions imposed because of COVID-19 in many countries of the world and by cancellation of all festivities as part of celebration of the New Year in China. However, by the second quarter of 2021, the demand for oil is anticipated to sharply increase in connection with a large-scale deployment of immunization programs, with a seasonal rise in oil consumption in the summer period as well as a further depreciation of the US Dollar against world currencies.

The global oil production in 2021 as compared to 2020 will go up by 3.2% and will amount to 97.3 million barrels a day on average during the year (Figure 5). Some international organizations revised the assessment of oil production by countries outside of OPEC, where the largest portion of growth falls on the USA.

Based on the expected dramatic recovery of the demand for oil coupled with the certainty of the market about effectiveness of the OPEC+ agreement, many international organizations increased their forecasts regarding the oil price in 2021. Despite the present positivism, relying on the updated forecasts about the oil price, the potential for a further rise in quotations looks somewhat limited. This is explained, first of all, by uncertainty about the overall immunization. In addition to the above risks, the pricing dynamics may be negatively affected by a further restoration of the shale industry in the USA, a rapid recovery of oil production in Iran as well as by the breach of discipline by some OPEC+ member countries due to their unwillingness to lose a share in the market.

Taking into account the existing epidemiological situation worldwide and projections of international organizations, in designing the macroeconomic forecasts for the period from the first quarter of 2021 to the third quarter of 2022, the **National Bank**

Figure 5. Global Oil Production, YoY, %



Source: EIA

considers three scenario-based options for the economic development: baseline, pessimistic and optimistic.

Under the **baseline scenario**, Brent annual oil price in 2021 will be 50 US Dollars per barrel on average and will stay at this level until the end of the forecasting period.

Under the **optimistic scenario**, the oil price will grow from its current levels to 60 US Dollars per barrel; this will be explained by faster recovery of the global economy and the emerging high shortage in the global oil market.

Under the **pessimistic scenario**, in 2021 the price of oil will go down to 40 US Dollars per barrel and will stay at this level until the end of the forecasting period; this will be driven by a deteriorated epidemiological situation worldwide, by a longer development of a collective immunity, by a lengthy and slow recovery of the global economy and imbalances in the oil market.

1.2. Dynamics of Economic Development under the Baseline Scenario

Based on performance in the “February-March 2021” forecasting round, the National Bank revised its expectations regarding the dynamics of Kazakhstan’s economic development in 2021. So, in 2021, the GDP growth rates will account for 3.4%-3.7% (the previous forecast is 3.7%-4.0%). Such revision is associated with the low level of economic activity in January 2021 (below the National Bank’s expectations in December).

At the end of 2020, Kazakhstan’s economy had shown certain recovery of economic activity that had been accompanied by deceleration of the rates of GDP contraction. However, in January 2021 the curtailment of production in the mining sector increased just as in the sectors of trade and transport, in the provision of professional and technical services and individual services.

In future, according to the National Bank’s assessments, the business activity in economic sectors will revive; the revival, among other factors, will be depending on the recovery of external demand for export products, on the pace of quarantine restriction lifting, improvement of the household and business sentiments, and expanded consumption and the investment activity.

In 2021, the expanding consumer demand whose growth is anticipated from the beginning of 2021 will be the driver for the economic recovery. The consumer demand will be demonstrating the positive dynamics due to the recovering gain in wages and real income of the population owing to a gradual revival of the business activity in the sectors as well as the wage raise to the public sector employees anticipated in 2021. Revival of the consumer lending will support the growth in the household demand. The peak of increase in the household demand will take place in the second quarter of 2021 because of a lower base of 2020 (a downturn in the second quarter of 2020 – by 17.6%).

A positive contribution is anticipated on the part of gross formation, which will be moderately growing given a further implementation of industrial programs, the construction project for the town of Turkestan and the restoration of investment activity in the mining sectors of the economy. A positive contribution will be made by the increased investments into residential construction given the continuation of government mortgage programs. A program allowing a withdrawal of a part of retirement savings implemented jointly with the UAPF will serve as an additional stimulus for a further growth of investments into residential construction. However, there is still some degree of uncertainty associated with the extension of a large project in Kazakhstan at the TCO oil

field (FGP/WPMP) and the investment project at the KPO. If an unfavorable epidemiological situation in the oil fields persists, there will be the risks of deceleration of investments in the economy in 2021.

The government consumption will be also making a positive contribution to the GDP growth as a result of a moderate growth in the general government's current expenditures.

The dynamics of real exports that will be negative in the first half of 2021 due to lower production volumes of crude oil were subjected to a considerable revision. At the same time, a higher oil price (50 US Dollars per barrel under the baseline scenario) and the recovering growth of the global economy will be preventing a more sizable reduction in exports.

From the second half of this year, exports are expected to reach weakly positive levels by the end of 2021. The increase in exports will be accompanied by the growing exports of metals, particularly non-ferrous metals, owing to the recovery of economic growth in China.

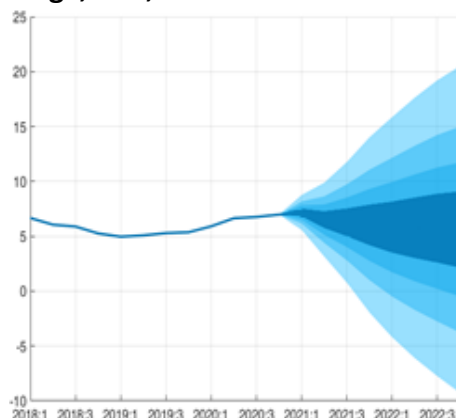
Given the recovering consumer demand, the rise in imports is anticipated that would be limiting the contribution of net exports to the GDP growth.

Forecasts about the GDP growth for the medium term perspective have not undergone significant changes as compared to the previous forecasting round.

In 2022, the GDP growth rates will accelerate and will account for **3.7%-4.0%**. The economic activity will be accelerating given that the epidemiological situation will be improving further being associated with a wider coverage with the COVID-19 immunization and due to the increasing external demand driven by the upturn of economies in the trading partner countries. Alongside with that, the easing of limitations on the terms and conditions of the OPEC+ transaction followed by termination of the agreement between oil countries will lead to expansion of oil and gas condensate production volumes as compared to 2021. This will have an additional upward effect on the GDP growth rates due to a swift increase of exports and the investment activity. In 2022, the consumer demand will continue its upward path owing to the persisting positive dynamics of real income of the population and the consumer lending. At the same time, some restraining effect on the dynamics of economic activity will be exerted by a weakly negative fiscal impulse within the framework of gradual budget consolidation that assumes a reduction in expenditures on a major portion of the functional structure items except spending on social security, education, healthcare, debt servicing, and official transfers.

Over the short-term, an output gap will be still negative due to the sluggish dynamics of exports given low volumes of oil and gas condensate production as well as a neutral fiscal impulse.

Figure 6. Inflation, Quarterly Average, YoY, %



Source: NBRK's forecast

From the second half of 2021, the output gap will be in a weakly positive zone staying at that level until the end of the forecasting period.

According to the National Bank's forecasts, at the end of 2021 inflation will slow down to the upper boundary of the target band – 4-6%. It is expected that some acceleration of the growth in price of non-food products and services will be offset by the reduced growth rates of food prices in the second half of the year.

A forecasted disinflation of the food component during 2021 will be largely related to the exclusion of high figures of a monthly price growth from the calculations in 2020 and an expected comeback of the monthly growth rates to their historical values. Meantime, the persistently high growth in prices of certain goods and appreciation of world food prices will be putting a pro-inflationary pressure with the retention of significant risks for acceleration of the food inflation.

In 2021, once the epidemiological situation improves and the economic activity recovers, the consumer demand is expected to gradually expand, thus successively exhausting disinflation pressure on non-food products. At the same time, a shift in the consumer sentiment towards cheaper imported goods in the environment of reduced purchasing capacity of the population will be exerting a restraining effect.

Over a short term, a moderate growth in prices of paid services is anticipated that will be driven by retention of the existing pricing in the market of regulated utility services as well as by the rise in prices of certain types of non-regulated services once the demand increases given the easing of quarantine restrictions.

Medium-term forecasts of the annual inflation have not undergone significant changes as compared to the assessment made a quarter before. **Inflation will keep decelerating while setting closer to the upper boundary of the target range of 4-6% during 2022.**

Deceleration of the inflation dynamics will be taking place amidst a weak external inflationary pressure accompanied by expectations about non-achievement of the target levels by inflation in China and the EU and the buildup of inflation in Russia close to its targets. In addition, world food prices are expected to be gradually declining after their significant growth in the recent months. An additional effect on normalization of world prices of cereals will be exerted by expansion of winter-wheat area in the USA, EU and Russia. At the same time, a restraining effect on disinflationary processes in 2022 will be produced by the occurrence of output gap at weakly positive levels given the recovering domestic and foreign economic activity (Figure 6).

1.3. Alternative Forecast Scenarios

Due to the existence of risks associated with the development prospects of the global economy and the corresponding dynamics of the demand for raw commodities, in addition to the baseline scenario, the National Bank considered alternative scenarios of oil prices.

As a pessimistic scenario, the National Bank considered the scenario where **oil prices fall to 40 US Dollars per barrel in 2021 and stay at this level until the end of 2022.**

Realization of this scenario will be caused by deterioration in the epidemiological situation in the world, a weaker recovery of the global economy in 2021-2022 and the persistence of imbalances in the oil market.

If the pessimistic scenario is realized, a negative course of external demand on the part of Kazakhstan's main trading partners (the EC, China, Russia) will limit the recovering dynamics of exports. A subsequent decline in revenues of enterprises in the mining sector will cause a reduction in production and investments that will have a negative effect on such sectors as construction, transport, trade and other services, and further, the economy as a whole. Feeble dynamics of the real money income of the population (because of the decreased economic activity and the growing inflation) will be negatively influencing the consumer demand. As a result, recovery of Kazakhstan's economy in 2021-2022 as compared to the baseline scenario will be more modest. **In 2021, due to a low base of 2020, the economic growth will account for 3.0%-3.3%, and in 2022 – 3.3%-3.6%.**

Due to a more suppressed condition of the economy, the pressure on the part of demand will be having a disinflationary nature. Nonetheless, the higher dynamics of inflationary processes as compared to the baseline scenario will be caused by a weaker real exchange rate of the tenge, a possible disruption in supplies of imported products and the corresponding boos in inflation expectations. During 2021-2022, inflation will be building above the target band.

At the same time, in case of the optimistic scenario realization, the path of oil prices will reach **60 US Dollars per barrel in 2021 and 2022.** The dynamics of oil prices will be supported by a more rapid recovery of the global economy amidst a successful immunization and the corresponding excess of demand over supply in the global oil market. If the optimistic scenario of oil prices is realized and if there is a high external demand on the part of trading partner countries, the growth rates of

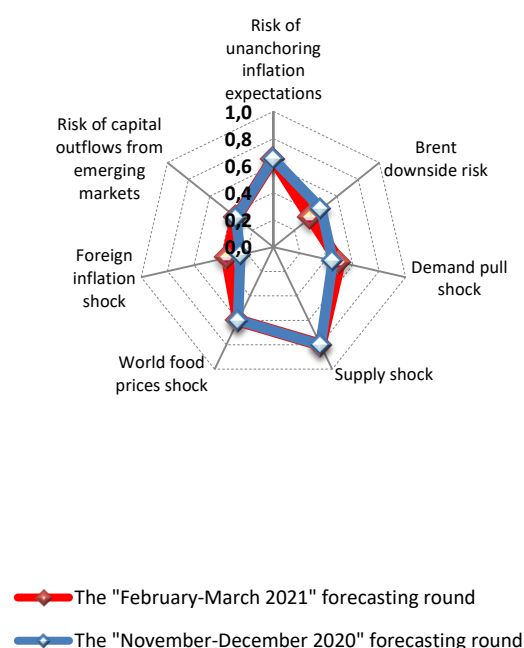
Kazakhstan's economy will be higher than under the baseline scenario due to higher domestic demand and net exports. **The GDP growth will account for 3.6%-3.9% in 2021 and 3.9-4.2% in 2022.** The stronger dynamics of the real effective exchange rate of the tenge and a smaller external inflationary pressure, mainly owing to a lower inflation in Russia, will promote faster rates of deceleration of inflation than under the baseline scenario. By the end of 2021, inflation will enter the target band of 4-6% and will stay within the band until the end of the forecasting horizon.

1.4. Risks in the Medium Term

At the moment, risks of inflation acceleration in Kazakhstan remain high and the risk profile had not undergone significant changes as compared to the previous forecasting round. Deterioration of situation with COVID-19 worldwide given the emergence of new viral strains and/or ineffective immunization may become an obstacle for recovery of the global economy, may cause the fall in oil prices and disruptions in supplies of goods and services. Internal demand and supply shocks also remain high. The effect of the above factors can lead to acceleration of inflation in Kazakhstan (Figure 7).

In general, a downward pattern of the number of COVID-19 incidences worldwide, the beginning a massive immunization and adherence to the OPEC+ agreement by its member countries serve as significant factors for maintaining the oil prices at above 50 US Dollars per barrel. Hence, the risk that oil prices would nosedive below 40 Dollars has been revised downwards. Nonetheless, this risk is still quite pronounced because of a possible ineffectiveness of vaccines in fighting the spreading of COVID-19 and its new strains, a poor discipline in observing the OPEC+ agreement in view of a potential loss of a market share, and the increasing supply from Iran and the USA.

Figure 7. Judgement-Based Risk Map of Inflation



Source: NBRK's calculations

A risk of importing inflation from Kazakhstan's trading partner countries has slightly increased. Despite a low inflation in the EU and China, a continuation of inflation acceleration in Russia as the main supplier of imported goods may result in the price growth in Kazakhstan. Nonetheless, in the medium term once inflation in Russia goes back to its target, such risk looks less pronounced than in the short term.

The risk of capital outflow from developing markets to developed countries remains equally high. The spreading of COVID-19 in developing countries can be more significant both as a consequence of a less developed healthcare system and because of a smaller access to vaccines. In addition, the strengthening of sanctions against a number of developing countries, first of all Russia, should not be excluded. These factors may lead to depreciation of currencies in developing countries, including Kazakhstan.

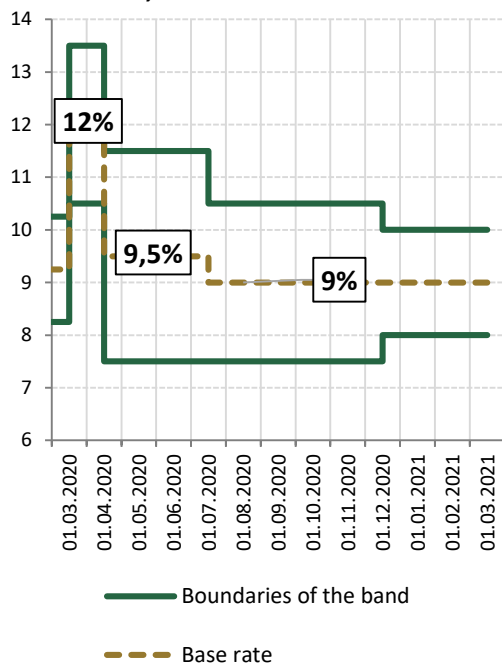
Among internal factors, the risk of inflationary pressure on the part of demand slightly increased given some improvement in the labor market, the growth of real wages and the recovering dynamics of consumer lending. Withdrawal of retirement savings from the UAPF may additionally expand the money supply and accelerate inflation. In the environment of the observed price growth in certain food markets and a possible tightening of restriction measures within Kazakhstan and abroad, the risk of inflation acceleration on the part of supply factors remains high.

Finally, there is still a risk of unanchoring inflation expectations in the medium term perspective given the persistence of high food inflation and their strong dependence on the exchange rate movements.

II. MONETARY POLICY



Figure 8. Base Rate Band in 2020-2021, %



Source: NBRK

II. MONETARY POLICY

2.1. Decisions on the Base Rate

On December 14, 2020, in its last decision in 2020, the National Bank retained the base rate at 9% while narrowing the interest rate band to ± 1 pp. (Figure 8). The key factors for the decision made had been fundamental instability in the oil market, high and poorly anchored inflation expectations, along with the existing uncertainty about the epidemiological situation in the country and worldwide. At the same time, a stable situation in the money market enabled to narrow the base rate band to the pre-epidemic level. As a result, the more stable dynamics of expectations among the market participants and less volatility of interest rates in the money market are expected.

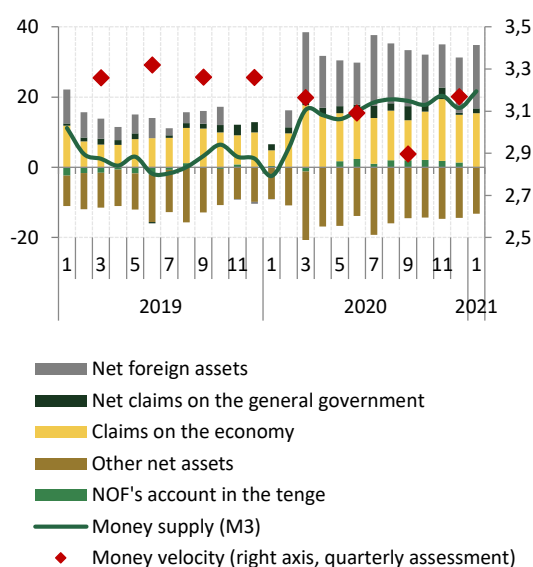
On January 25, 2021, the National Bank made its regular decision to retain the base rate at 9%. The decision was determined by a shift in the balance of risks towards pro-inflation factors, by the heightened external and internal inflationary pressure, the increasing risks of a further rise in food prices and by a high level of the expected inflation. The persisting uncertainty associated with the coronavirus infection in the country and worldwide has also become an important factor.

In February 2020, inflation accounted for 7.4%, and it kept building above the established target band of 4-6%. In 2021-2022, the National Bank's main objective will be to reduce and stabilize inflation within the target range of 4-6%.

2.2. Money Supply

Implementation of the anti-crisis measures as well as the recovering lending activity in the economy contribute decisively to the growth in money supply. The reserve money keeps gaining momentum. Money velocity accelerated, and the money multiplier went up.

Figure 9. Money Supply, as % YoY



Source: NBRK

In the fourth quarter of 2020, money velocity accelerated after its deceleration in the prior quarters.

Revaluation of foreign assets and capitalization of the “Kazakhstan Sustainability Fund” JSC remain the main factors that determine the dynamics of money supply (in January 2021 – a 21.6% growth, YoY). In the fourth quarter of 2020, within the frames of expansion of the economic support programs, an additional capitalization of the “Kazakhstan Sustainability Fund” JSC of 560 billion tenge was accomplished, as part of implementation of the President’s anti-crisis initiatives. As a result, the contribution from capitalization of the “Kazakhstan Sustainability Fund” JSC to the money supply during 2020 increased to 9.0 pp, which accounts for 53.3% of the overall growth in the money supply (16.9% YoY).

A positive contribution to the money supply is also being made by the increase in claims on the economy as a result of the growth in lending, specifically retail lending.

The **reserve money** in annual terms continues to accelerate, mainly owing to transferable deposits at the NBRK. The contribution by cash outside the NBRK to the reserve money has stabilized (Figure 10).

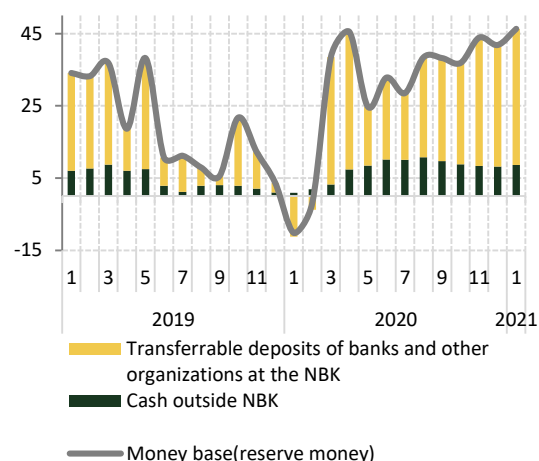
The **money multiplier** (the ratio of money supply to the reserve money), despite a minor growth in January 2021 to 2.8, is still at a low level as compared to a year before (in January 2020 – 3.3) (Figure 11). Overall, expansion of the reserve money exceeds the growth of money supply thus leading to a low level of the money multiplier.

2.3. Money Market

At the beginning of 2021, liquidity surplus in the money market increased considerably. The bulk of liquidity was withdrawn via short-term notes and deposit auctions. Amendments have been made to the calculation of TONIA with a view to increase representation of the indicator.

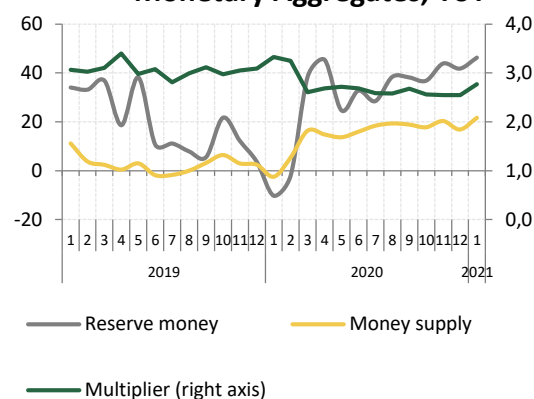
The change in the calculation methodology and the growing liquidity surplus resulted in lower volatility of the money market rates.

Figure 10.
Reserve Money, as % YoY



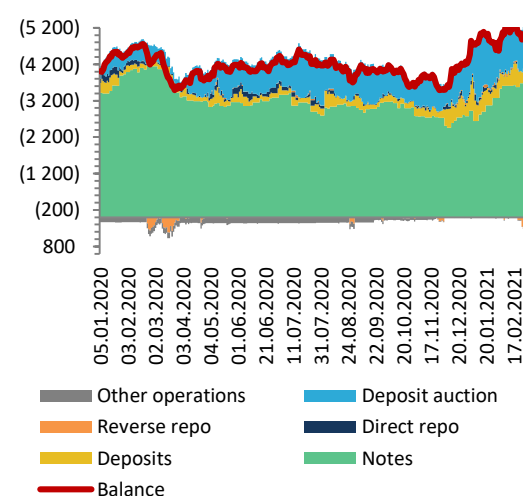
Source: NBRK

Figure 11. Growth of Monetary Aggregates, YoY



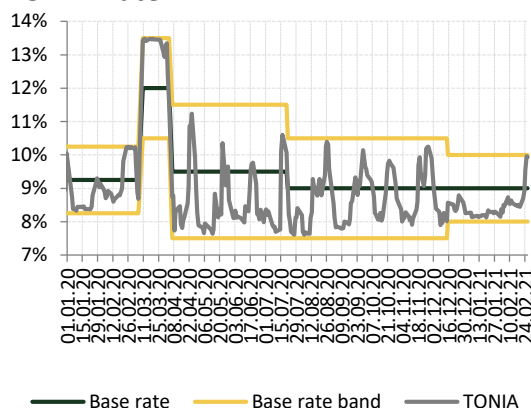
Source: NBRK

Figure 12. Exposure on the NBRK’s Operations in the Domestic Market



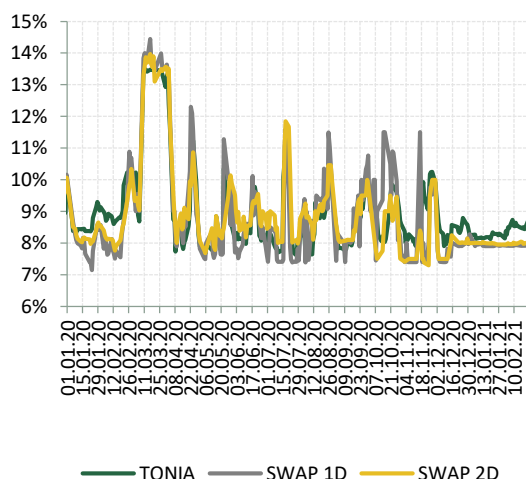
Source: NBRK

Figure 13. Interest Rate Band and TONIA Rate



Source: NBRK, KASE

Figure 14. Dynamics of money market rates



Source: NBRK, KASE

Liquidity surplus in the money market at the end of this February reached 5.0 trillion tenge. Excess liquidity is withdrawn via short-term notes, deposits and deposit auctions (Figure 12).

With this background, **notes** stopped to show the downward trend that had been observed since the middle of the last year due to exclusion of the issuance of 12-month notes and limitation of the issuance of notes with maturity of 182 days. The growth in the volumes of notes during February 2021 accounted for 12.3%, mainly owing to 28-day and 91-day notes (YoY, a 11.3% reduction). At the same time, the percentage of 6-month and 12-month notes decreased to 26% as at the end of February.

The volume of **deposit auctions** went down but their share in the structure of the NBRK's operations was fluctuating around 23% during the reporting period.

The target money market rate TONIA (overnight rate on repo operations with securities of the government securities basket) was setting within the target band of the base rate.

Volatility of TONIA decreased given the growing liquidity surplus as well as due to the change in the calculation of TONIA indicator. So, from December 28, 2020, the amendment was made to the calculation of TONIA indicator that relates to the trimming of transactions with the minimum and maximum return (5% minimums and maximums). Such change in the calculation is aimed to increase representation of the target rate by designing a risk-free benchmark in the money market.

With a view to translate an intra-day value of weighted average rate of return on overnight repo operations, a new interest rate was introduced – **TRION**, which takes into account the volume of trades with a central counterpart only.

Despite the decreased volatility, TONIA was demonstrating the growth that is typical for a month-end at the periods of tax payments (Figure 13).

Following TONIA, volatility of interest rates on **swaps** also decreased demonstrating, however, a low sensitivity in the periods when TONIA was going up (Figure 14). Volumes of trades in the swap market increased.

2.4. Foreign Exchange Market

Dynamics of the exchange rate of the tenge against the US dollar have been forming under favorable external conditions, and, mainly, positive conditions in the oil market. The progress in the vaccination process against COVID-19 that enhances hopes for a faster recovery of the global economic activity. It is also of paramount importance for currencies of developing countries, including the tenge.

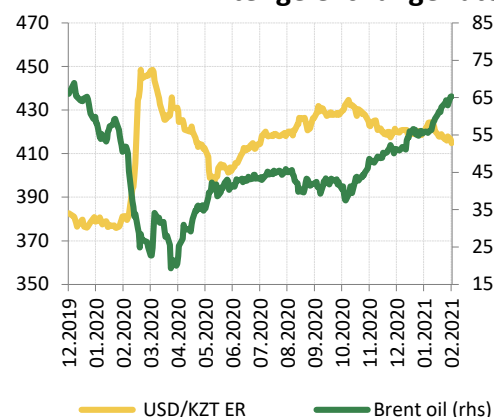
The beginning of vaccination against coronavirus worldwide in December 2020 set a positive tone in financial and commodity markets. As a result, the market participants adjusted their expectations towards a V-shaped recovery of the global economy.

Also, at the end of December 2020 announcement about the approval of the stimulus package for the US economy of 900 million US dollars provoked the rise of key financial indicators to record-high figures by the beginning of 2021. Apart from that, in January 2021 it was reported that the US President J.Biden proposed an additional fiscal package, which is estimated at 1.9 billion US dollars. Ahead of this news, the US Dollar Index was depreciating, and gold prices went down moderately (Figure 15).

Depreciation of the US dollar alongside with a strict abidance of arrangements by OPEC+ member countries led to a stabilization of oil prices at the level above 50 US dollars per barrel in December 2020. In 2021, oil prices continued to rise, exceeding the 60 US dollars' mark in February of this year - for the first time since the start of the pandemic. An important precondition for the growth in the market value of oil had been the January decision of OPEC+ about reduction of oil production in February-March of this year (Figure 16).

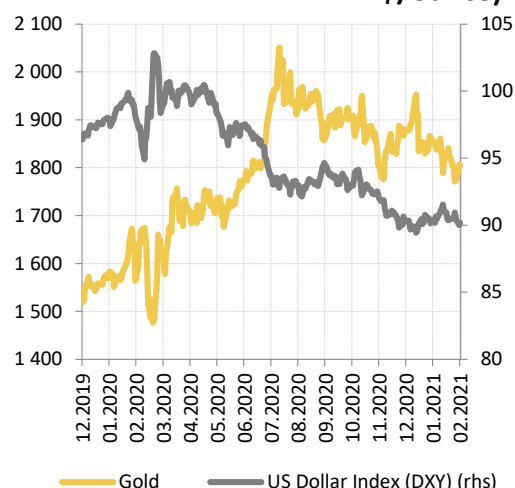
Despite a short-term volatility in the global stock markets at the end of January 2021, as a result of a surge in speculative transactions on the part of non-professional market participants, during the period from December 2020 to February 2021 global investors demonstrated a moderate interest in risk assets, as a result of which the majority of EM currencies demonstrated an appreciation trend.

Figure 15. Brent oil prices and the tenge exchange rate



Source: Bloomberg, KASE

Figure 16. US Dollar Index, gold (US \$/ounce)



Source: Thomson Reuters

Due the above external factors, the exchange rate of the tenge during the fourth quarter of 2020 appreciated by 2.6% from 431.81 to 420.73 tenge per the US dollar. Overall, in 2020 the exchange rate of the tenge depreciated by 10% to 420.91 tenge per the US dollar due to the current account deficit on the country's balance of payments, which is estimated at 5.9 billion US dollars, according to preliminary data.

The tenge has been appreciating since the beginning of 2021, having reached 417.09 tenge per the US Dollar by the end of February (Figure 16).

Conversion of the National Fund's assets as part of the transfer allocations to the Republican budget along with the sales of a fracture of FX export proceeds by companies of the quasi-government sector exert positive influence on the tenge pricing. In December 2020, in February 2021 there was an increased supply of foreign exchange currency associated with the period of tax payments initiated by the local companies. In the period under review, the National Bank did not conduct any foreign currency interventions.

2.5. Stock Market

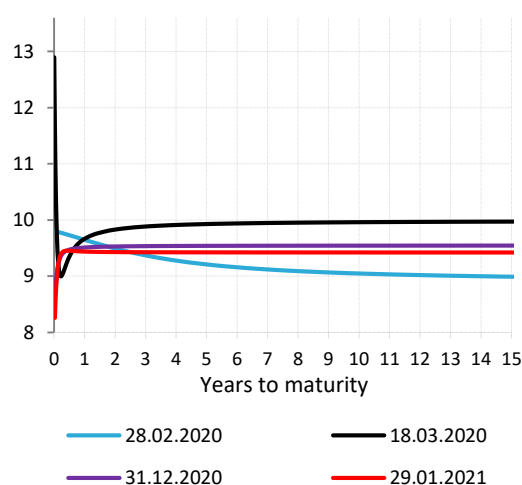
Bond yields continued to demonstrate a downward trend. In January of this year, a dramatic growth in foreign capital inflow into the government securities was observed. A passive placement of government securities at the end of 2020 was followed by an active debt financing by Kazakhstan's Ministry of Finance in January-February 2021.

The yield on corporate bonds is also going down amidst the easing monetary conditions.

The KASE Index has hit a fresh all-time low due to the growing stocks of KAZ Minerals and "Kazatomprom" NJSC against the growth in the commodity markets.

In January-February 2021, Kazakhstan's Ministry of Finance borrowed 536.3 billion tenge in the primary market, by issuing short-term and long-term government securities

Figure 17. Change in the Risk-Free Yield Curve, %



Source: KASE

with the yield from 8.99% to 10.4% per annum.

A risk-free yield curve continued to go down in the long-term segment reflecting the growing demand for government securities both on the part of domestic investors and non-residents. At the end of this February, the share of non-residents in government securities went up to 4.1% from 1.6% in November 2020.

Performance index on **corporate bonds** continues to smoothly go down following the government securities due to persistently easing monetary conditions (Figure 18).

The weighted average yield on placed corporate bonds continued its downward trend – from 11.32% in November 2020 to 10.51% in February 2021 (in December 2020 – 11.22%, in January 2021 – 10.72%). There were two placements in December 2020, where performance was much lower than the market – CMC against 6% and ACC – against 5% (Figure 19).

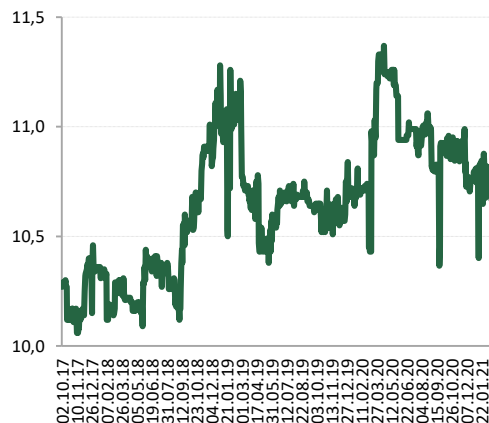
In the **equities market**, the KASE Index has hit a fresh all-time high in February 2021 (2959 by 17 February of this year) (Figure 20). The main growth drivers for the index were the stocks of KAZ Minerals and “Kazatomprom” NJSC.

Stocks of KAZ Minerals went up given recovery of the Chinese economy, which is the main consumer of copper, and due to the growth of copper futures. Positive changes in the commodity market had a relevant influence also on the demand for stocks of the uranium-producing company. The ETF URA Index advance and suspension of operations in the Cigar Lake uranium mine (Canada) because of an outburst of coronavirus also had a positive effect on the stock price of “Kazatomprom” NJSC.

2.6. Deposit Market

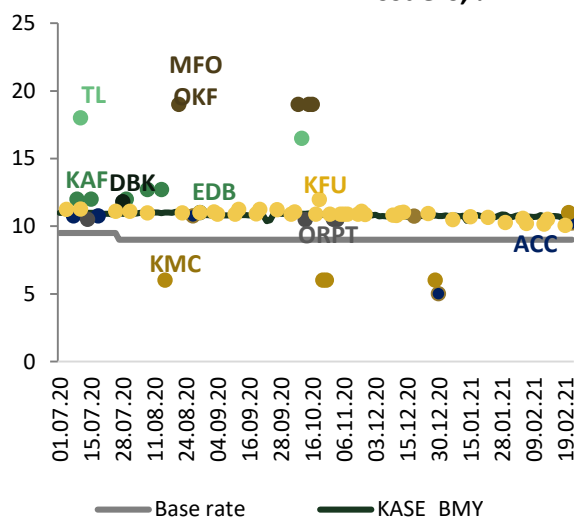
Interest rates on corporate deposits in the tenge at the shortest and longest ends are growing, while interest rates in the medium-term segment remain at their existing levels. Interest rates on retail deposits in the tenge do not change in the medium-term segment while rates in the long-term segment are growing. The annual growth of deposits is going on because of uprise of deposits in the tenge.

Figure 18. Yields on Corporate Bonds, %



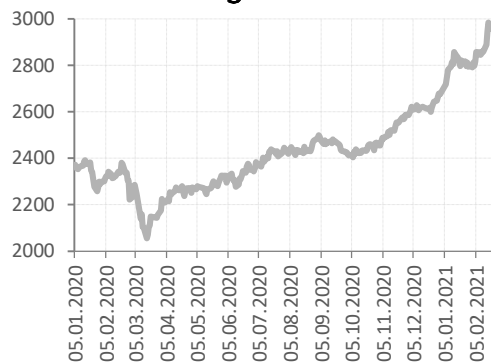
Source: KASE, NBRK

Figure 19. Annual Returns of Issuers, %



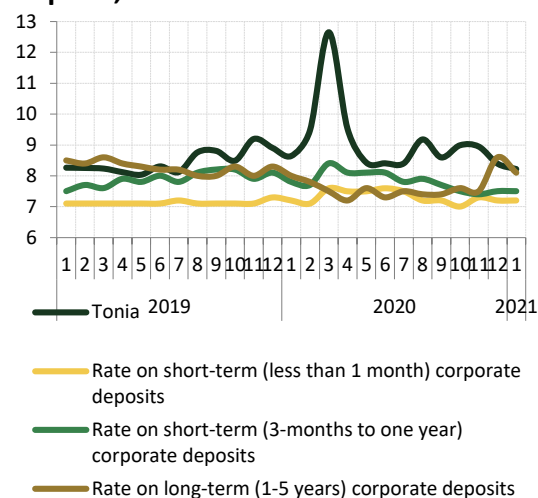
Source: KASE, NBRK

Figure 20. KASE Index



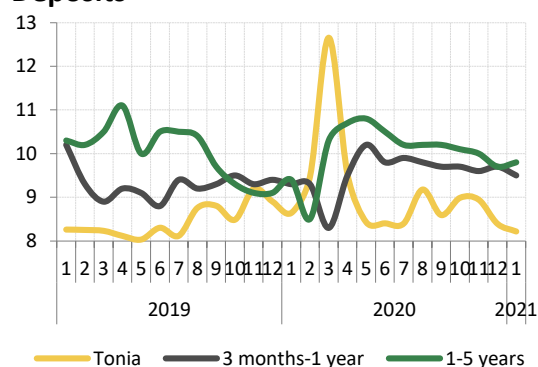
Source: KASE

Figure 21. Rate on Corporate Deposit, %



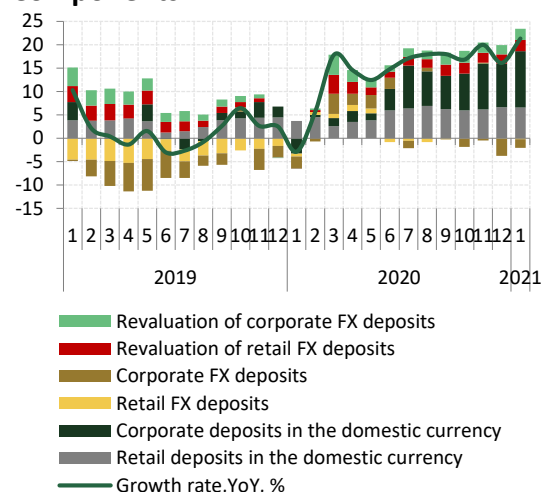
Source: NBRK

Figure 22. Rates on Retail Deposits



Source: NBRK

Figure 23. Contribution to the Growth in the Deposit Volume by Components



Source: NBRK

Dollarization of deposits went down to its minimums over the recent 7 years.

Despite the fact that the **weighted average interest rate on short-term corporate deposits in the tenge** (to 1 month) increased from 7.0% in October 2020 to 7.2% in January 2021, their share in attracted time deposits decreased from 88.5% to 84.3%.

The percentage of **corporate deposits in the tenge with maturities from 3 months to 1 year** doubled while their interest rates remained unchanged at 7.5%. Rates on long-term deposits (1-5 years) whose share remains low (2%), w

In general, there are the signs that the corporate sector is n willing to place deposits with longer maturities.

t Given the retention of the base rate and of maximum KDIF rates, **interest rates on short-term retail deposits in the tenge** (from 3 months to 1 year) are maintained within 9.5% – 9.7%. Rates on **long-term retail deposits in the tenge** (with maturity from 1 to 5 years) decreased from 10.1% to 9.8% at end-January 2021 (Figure 22).

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a Deposits in the tenge in October 2020 – January 2021 went up by 9.9% to 14.27 trillion tenge, and deposits in foreign currency went down by 6.2% to 8.40 trillion tenge. As a result, dollarization of deposits at end-January 2021 accounted for 37.1%, which is the minimum since June 2013 (Figure 24).

The share of corporate foreign currency deposits decreased by 5.4 pp, and of retail deposits – by 2.0 pp, which resulted in a more significant dedollarization of corporate deposits

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as compared to retail deposits (in January 2021 – 35.4% and 39.0%, respectively).

2.7. Credit Market

Against the background of the soft monetary policy and implementation of government programs, the cost of credit resources is decreasing.

The loan portfolio is expanding owing to a positive contribution of the retail sector. Mortgage lending is the main growth driver in the retail sector whereas in the corporate sector – loans to small and medium-sized businesses.

The weighted average interest rate on corporate loans in the **tenge** in the short-term segment in January of this year decreased by 0.4pp to 11.4% from 11.8% in January of last year, and in the long-term segment – to 12.1% from 15.4% (Figure 25). In addition to the eased monetary conditions, implementation of government concessional lending programs is conducive to reduction of loan interest rates.

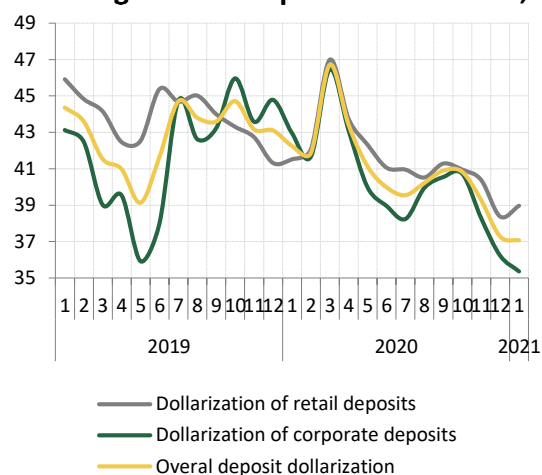
Interest rate on consumer loans, after a seasonal decline at the end of 2020, returned to the level of 20.9% in January of this year. **The rate on mortgage loans** keeps setting below the base rate level because of the subsidizing as part of various government programs (7.9% in January 2021).

Given the eased monetary conditions as well as the subsidized mortgage lending which makes the major contribution to the growth of retail lending (by 13.3% over the year), in January of this year the annual growth of the loan portfolio accounted for 6.7% (Figure 26).

In the structure of total loans, **retail loans have been** prevailing over loans to the corporate sector since November 2020 (in January of this year, the share of retail loans was 52.1%).

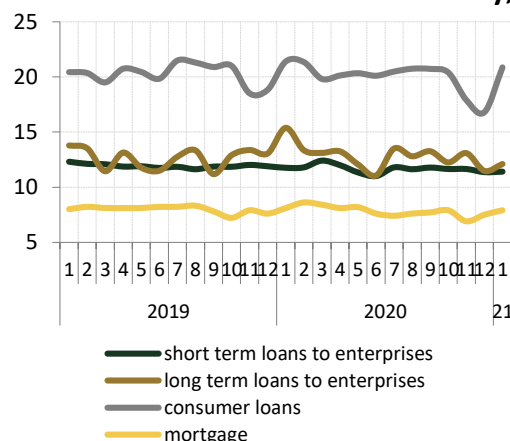
Mortgage loans in January of this year went up by 34.5% YoY or 619.1 billion tenge, amounting to 2.413 trillion tenge. According to the bank survey, at the beginning of 2021 many banks expect the increase in demand for mortgage loans, in connection with the possibility of an early withdrawal of a part of retirement savings

Figure 24. Deposit dollarization, %



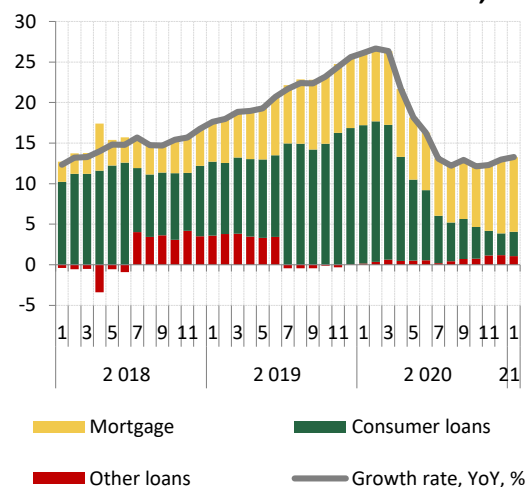
Source: NBRK

Figure 25. Interest rates on loans in the domestic currency, %



Source: NBRK

Figure 26. Contribution by sectors to the annual growth in loans to businesses, %



Source: NBRK

with an aim to buy or renovate a home.

Consumer loans, after their deceleration to 4.3% in December 2020, in January 2021 accelerated to 4.7%, amounting to 4.433 trillion tenge.

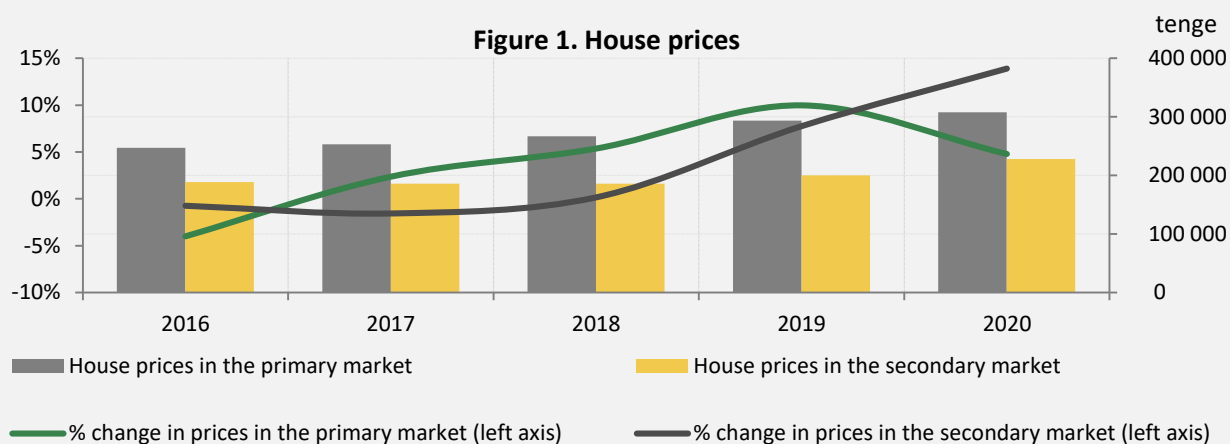
The corporate loan portfolio, after decline in December 2020 due to the undertaken measures aiming to improve the asset quality (charging off the ATF Bank's loans provided to businesses), is recovering. In January of this year the growth was 0.4% YoY, the loan portfolio to businesses amounted to 6.994 trillion the tenge at end-January of this year.

Due to implementation of the government programs focused on supporting the business, **loans to the small business** are expanding and they increased by 23.6% in annual terms.

According to the bank survey, in the fourth quarter of 2020 the demand for loans on the part of businesses continued to grow, particularly on the part of small businesses. Banks have been actively competing for borrowers: they launched new products, filled new niches, and made the loan disbursement more convenient.

Box 1. Mortgage Lending and the Growth in Prices of Residential Property

The construction sector served as one of the key drivers that prevented the domestic economy from a deeper downturn in 2020. However, the construction boom of the recent years was accompanied by the growth in housing prices that accelerated after 2015. Despite a recession in the economy in 2020, over the year the prices for residential property in Kazakhstan increased by 4.8% in the primary market, whereas in the secondary market their rise was almost triple – at 13.9%, which was also nearly two times that the inflation rate (7.4%) (Figure 1).



Source: BNS ASPR

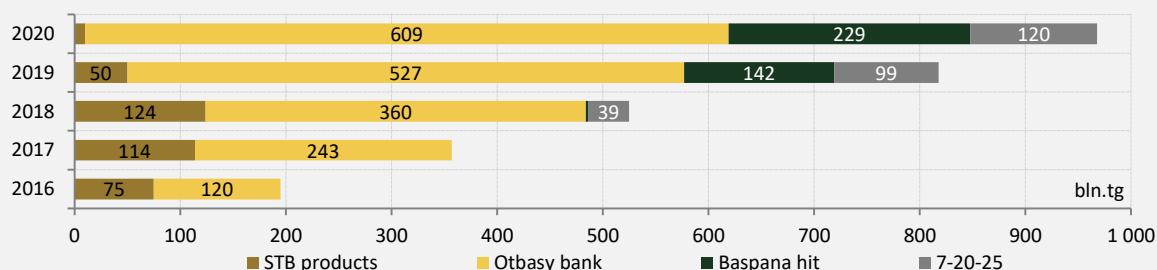
Acceleration of price growth for residential property started from 2018, when the growth rate in the secondary market entered the positive zone. The accumulated price growth over the last three years accounted for 21.5% in the primary market, and 22.9% – in the secondary market.

The main reasons for the growth include the increasing demand on the part of the population amidst the growing income of the people and concessional government housing programs, an imbalance between the demand and supply in the real estate market as well as a low level of housing per capita and commissioning of residential property in certain regions.

Government mortgage programs, such as “7-20-25” and “Baspana Hit”, represent an important factor for the rise in housing prices along with the active expansion of the Otbasny Bank’s loan portfolio. Due to implementation of government programs, the interest rate on mortgage loans went down from 9.3% in December 2016 to 7.5% in December 2020. The growth of mortgage portfolio accelerated in annual terms from 9.0% in 2016 to 34.3% in 2020, having reached 2.4 trillion tenge in December 2020.

Otbasy Bank acted as the main government agent encouraging mortgage lending; its share in the mortgage market increased from 38% in 2014 to 56.5% in 2020. Including other programs, the share of government participation (through Otbasy Bank, “7-20-25” and “Baspana Hit”) in mortgage lending went up from 61% in 2016 to 99% in 2020 (Figure 2).

Figure 2. Issued mortgage loans under government programs



Source: NBRK

In order to assess the impact of mortgage lending on the real estate market, a regression analysis has been performed based on a regression model. The analysis was performed on the basis of average annual data about the rates of housing price growth (in the primary and secondary markets) during the period from 2000 through 2020. Prices of real estate were divided into two segments – in new-built quarters and in the secondary market.

Equation 1. Prices of new housing:

$$p_new = 0.17*m + 0.49*p_new(-1)$$

t-stat. (4.14) (4.69)

p_new – prices of new housing,

m – a change in the volume of mortgage loans disbursed,

p_new(-1) – a price for new housing in the previous period.

Equation 2. Prices of secondary housing:

$$p_second = 0.24*m + 0.46*p_second(-1)$$

t-stat. (3.94) (4.65)

p_second – a change in prices for secondary housing,

m - a change in the volume of mortgage loans disbursed,

p_second(-1) – a price for secondary housing in the previous period.

Calculations show that the secondary housing market is more sensitive to the volumes of provided mortgage loans as compared to the new housing. The elasticity ratio of the price growth for new housing on disbursed mortgage loans is equal to 0.17, for secondary housing – 0.24. In other words, the increase in the growth rates of mortgage lending by 1% leads to a 0.24% growth in housing prices in the secondary market, and a 0.17% – in the primary housing market. A high price elasticity in the secondary housing market versus the mortgage may be related to the fact that the primary market is also affected by the pricing policy of construction companies. In addition, banks are more likely to provide loans for an existing home rather than for that in the buildings under construction due to lower risks. At the same time, it is important to note a more sizable growth in the volumes of mortgage loans under the “Baspana Hit” program (secondary housing) than under the “7-20-25” program (new housing).

In 2021, withdrawal of retirement savings may become an additional factor in supporting the domestic demand and the rise in housing prices, first of all, for renovations conducted when purchasing a residential property and for repayment of mortgage loans. In January 2021, the mortgage loan portfolio and housing prices kept growing. During the first month of 2021, prices for new housing went up by 3.0% (7.3% over the year), for resale of housing with all modern conveniences – by 5.0% (17.9%) with a 1.7% growth of the mortgage loan portfolio (34.5%).



III. MACROECONOMIC CONDITIONS

III. MACROECONOMIC CONDITIONS

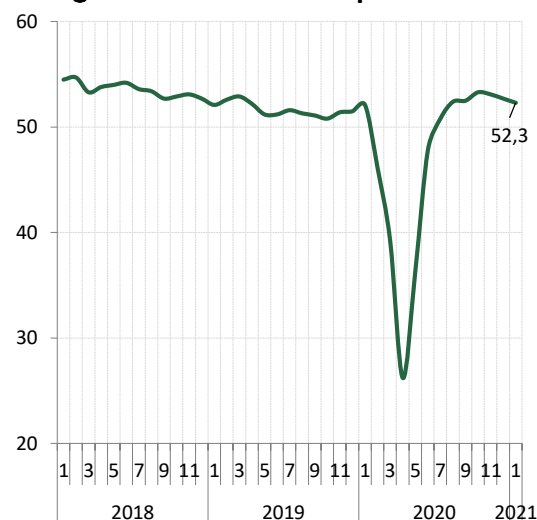
2.1. External Sector

The tightening of restriction measures because of the spreading of COVID-19 is negatively affecting the business activity worldwide. **For the first time since November 2020, based on performance in January 2021, the activity slowed down in the industry** (Figure 27). Curtailment of new export orders also resumed. Slower production growth rates in the industry were observed in China (a second consecutive month) and in Germany, the indicator decreased in Japan, Thailand and Malaysia. At the same time, the outstripping production growth rates are observed in the USA, India, and Italy. Since November 2020, the service sphere has been still characterized by feeble dynamics.

The current situation in the countries – Kazakhstan's trading partners was divergent. Economies in the EU and Russia because of the recurring outbursts of coronavirus at the end of 2020 were still characterized by negative dynamics. The Chinese economy, being actively supported by the industrial sector, investments and foreign trade as well as due to the recovering domestic demand and the growth in retail trade, went up by 2.3% at the end of 2020 (YoY).

During the recent three months, given the start of immunization in some countries of the world and the achievement of agreement between the OPEC+ member countries, world oil prices went up by more than 30%. In February 2021, the positive dynamics continued, **Brent quotations reached 65 US Dollars per barrel** (Figure 28). The existing positive market sentiment is supported by a high discipline of the OPEC+ member countries, by reduction in reserves and production in the USA because of cold weather conditions as well as by the expectation about implementation of the stimulus package for supporting the US economy.

Figure 27. Global Composite PMI



Source: Bloomberg

* – an index value of more than 50 means an increase in the indicator, less than 50 means a decrease, equal to 50 means its invariability

Figure 28. Prices for Brent crude oil, US Dollars (monthly average)

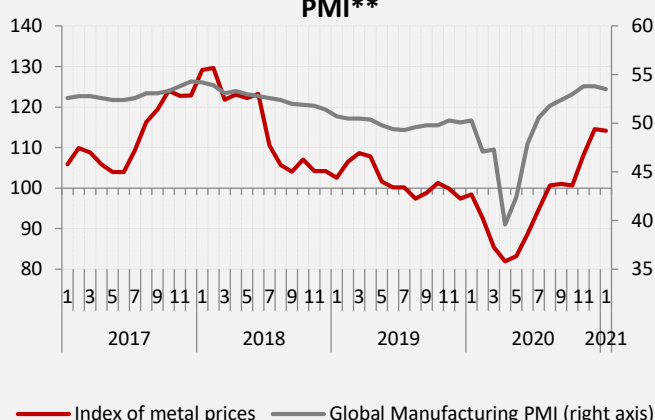


Source: U.S. Energy Information Administration (EIA)

Box 2. The Current Situation in the Global Market of Non-Ferrous Metals and Prospects of its Development

The global market of non-ferrous metals has been under the pressure over the last two years. In 2019, a decline in metal prices was caused by the trade war between the USA and China. The outburst of COVID-19 and measures undertaken to fight its spreading had driven a further drop in prices. From the time when the virus started to spread and as the activity in the industrial sector was decreasing, prices of metals were steadily going down (Figure 1). Starting from the middle of 2020, metal prices have been demonstrating the recovering dynamics as a result of easing of restriction measures as well as due to depreciation of the US Dollar against other world currencies. However, the impact of coronavirus on the pricing dynamics of non-ferrous metals appeared to be divergent. Despite a decline in prices of the majority of metals, at the end of 2020 the price growth was observed only in prices of copper (Figure 2).

Figure 1. Arithmetic average index of metal prices* and Global manufacturing PMI**

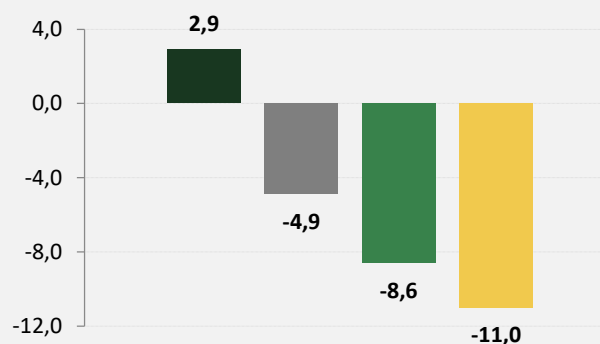


Source: Thomson Reuters, Bloomberg

* for copper, aluminum, zinc, lead (January 2015=100, %)

** An index above (below) 50 indicates expansion (contraction)

Figure 2. Metals price changes, % (2020 to 2019)



■ Copper ■ Aluminium ■ Lead ■ Zinc
Source: Thomson Reuters

Copper. The COVID-19 pandemic brought copper prices down to a greater extent than in the times of atypical pneumonia (SARS). However, the fall turned out to be less deep and lengthy than during the global financial crisis of 2008-2009 when the monthly rates of the landslide of prices accounted for nearly 50%. In the period of corona-crisis, copper prices have stabilized quickly enough. From their minimum in April 2020, prices grew nearly by 3000 US Dollars and exceeded 9000 US Dollars per ton by the end of February 2021. A sharp recovery of prices was promoted by a higher demand on the part of China¹ and by the growing export orders

for metal products as well as by a high demand on the part of Germany due to the recovering activity in the manufacturing industry. In addition, the growth of quotations was supported by curtailment of production volumes of the metal in Chile and Peru² as a result of mine shutdowns because of the spreading virus and strikes.

According to the forecasts of Consensus Ecs., in 2021-2022, the demand and supply of copper will be generally in balance. In the short-term perspective, copper prices are expected to be under the pressure of speculative transactions. In the medium-term perspective, this effect is expected to weaken and the prices will slightly decline.

Figure 3. The growth of aluminum prices and aluminium production in China



Source: The International Aluminium Institute

¹ According to the data from Statista, in 2019 consumption of copper by China accounted for 51% in the global consumption of copper, consumption by the EU countries – 17%, and by the USA – 12%.

² According to different information sources, approximately 30% in the global copper production falls on Chile, and about 20% - on Peru, while China provides up to 10% of the metal production.

Aluminum. After the two-year negative dynamics, prices of aluminum have gone up since October 2020 given the increased production volumes in China as one of the main consumers of aluminum in the world³ (Figure 3). In turn, this is closely related to the improving situation in the car manufacturing and sale in China and worldwide. However, in January 2021, the rise in prices of aluminum somewhat slowed down because of the decreased activity in the Chinese industry. According to projections of international organizations, in 2021 the prices of aluminum are expected to continue growing gradually. Along with that, large reserves of the metal as well as an anticipated increase in supply on the part of China and other large aluminum producers will keep exerting a restraining effect.

Zinc. Since the global demand for stainless steel in production of which zinc is used is growing and as a result of increasing expenditures of countries on infrastructure projects in order to support their economies after a downturn because of COVID-19, the price of zinc went up. The rise in prices of zinc was supported by disruptions in supplies from the South African mines as well as by expectations about a quick recovery of the global economy given a massive immunization. According to the forecasts of Consensus Ecs., in 2021 the expected growth in the supply may limit a further growth in prices of zinc. Nonetheless, no dramatic decline in prices is anticipated.

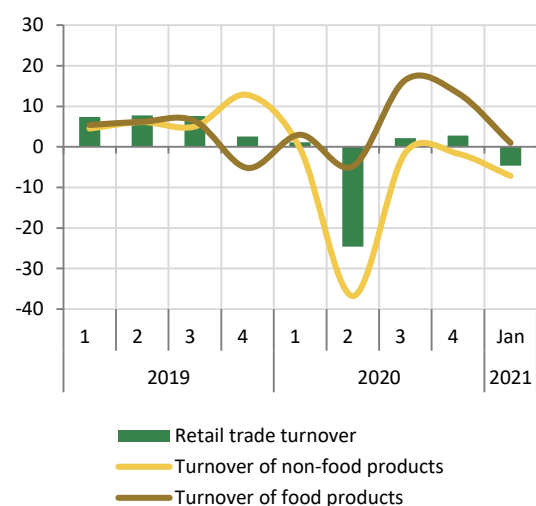
Lead. Curtailment of the global car manufacturing has negatively affected not only the prices of aluminum, but also the prices of lead which is mainly used in the battery production. This factor, just as a big supply of the metal, resulted in an ongoing drop in its prices from the end of 2019. At the end of 2020 – beginning of 2021, the price growth started to recover. The further pricing dynamics of lead will be largely dependent on the demand for cars and, respectively, for batteries. According to the forecasts of Consensus Ecs., by the end of 2022 prices of lead will slightly decline from 2100 US Dollars per ton at present to 1900 US Dollars per ton.

Expectations about a further recovery of the global economy, including economies of Kazakhstan's trading partners as well as the generally positive dynamics in the metals market will help increase the external demand for export products and recover the economic activity in the country⁴.

³ According to the data from Statista, in 2018 China's consumption of aluminum within the global consumption of the metal accounted for 67.4%, and consumption by the US – for 13.7%.

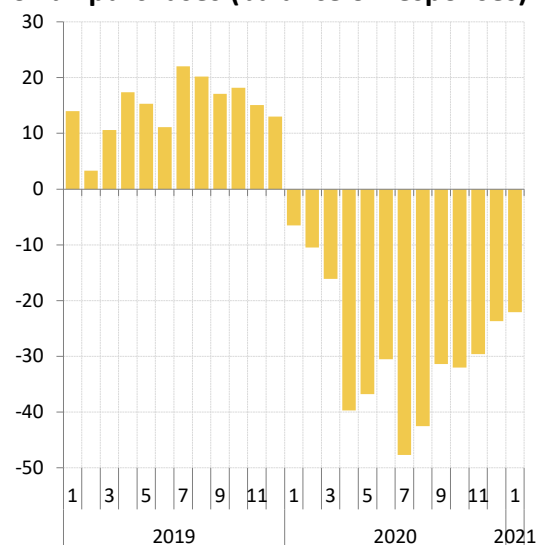
⁴ According to the data from the BNS ASPR, at the end of 2020 the share of non-ferrous metals in the total volume of exports was 10.3%, where copper accounted for 6.0%, zinc – 1.3%, aluminum – 1.1% and lead – for 0.2%.

Figure 29. Retail turnover, YoY, %



Source: BNS ASPR, NBRK's calculations

Figure 30. Assessment of the Ease of big purchases (balance of responses)⁵



Source: Fusion LAB

2.2. Economic Activity and Domestic Demand

The household demand, after its significant downfall in the periods of strict lockdown, started to gradually recover from the second half of 2020 in the environment of deferred demand.

Recovery of the household consumer activity is confirmed by the retail trade dynamics that demonstrated positive growth rates in the second half of 2020 (Figure 29). In the structure of retail sales, significant recovery is observed in the food trading due to the growing production and imports of foodstuffs. So, the retail sales of foodstuffs in the third and the fourth quarters of 2020 went up by 16.5% and 13.3%, respectively. At the same time, the turnover of non-food products continues to demonstrate negative dynamics, however, the rates of decline reduced significantly. Such dynamics are observed amidst revival of the consumer lending to the population, where the rates of decline also decelerate.

Consumer sentiment of the people regarding relatively big purchases is an evidence of the recovering dynamics of non-food turnover. As compared to periods of strict quarantine restrictions, negative responses of the interviewed decreased significantly (Figure 30).

In January 2021, the dynamics of retail trade demonstrated a decline again as a result of contraction in the non-food trade turnover. However, the food sales retain its positive dynamics.

⁵The assessment of the ease of big purchases is conducted on the basis of the question: "In your opinion, is the present time generally good or bad for big purchases/expenditures?"

According to the National Bank's surveys, expectations of the population regarding the prospects of development of the economic activity in January 2021 over a short-term have improved significantly and are demonstrating an upward trend. These assessments have been very negative during the periods when quarantine measures had been tightened and were improving once restrictions were lifted.

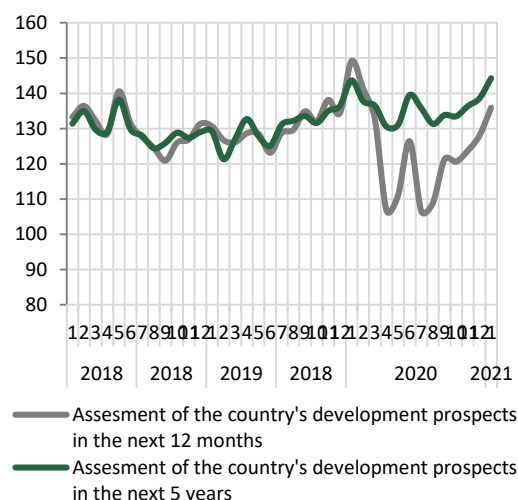
Expectations of the population about the economy's development over a longer term (5 years) remain stable and are significantly exceeding short-term expectations (Figure 31).

Dynamics of receipts to account of individuals, although demonstrating recovery as compared to the period of strict restrictions, are still in the negative zone. Revival of the household consumption was supported by the growth of real wages in the economy in the fourth quarter of 2020. So, real wages in the economy went up by 6.5%, including at large and medium-sized enterprises – by 6.2%, and at small enterprises – by 9.1% (Figure 32).

The rise in real wages persists in the branches of the government sector. As compared to the dynamics that were observed in the third quarter, in the fourth quarter of 2020 wages in the industry, transport, arts and entertainment, and trade started to grow.

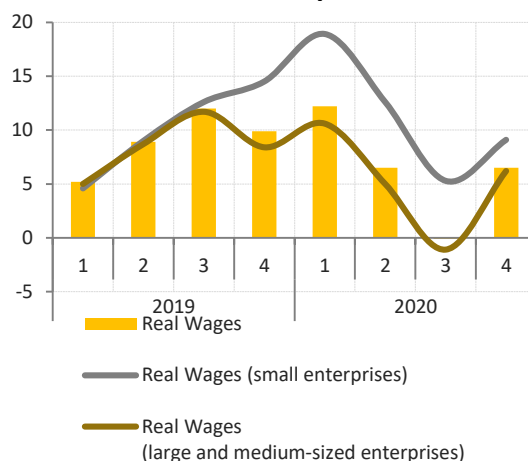
A sizable downturn is observed in the sector of administrative and ancillary service and professional, scientific and technical activities (Figure 33). The negative dynamics of labor compensation are observed in such sectors as construction, real estate operations, and financial and insurance activities.

Figure 31. Assessment of economic development prospects⁶



Source: Fusion LAB

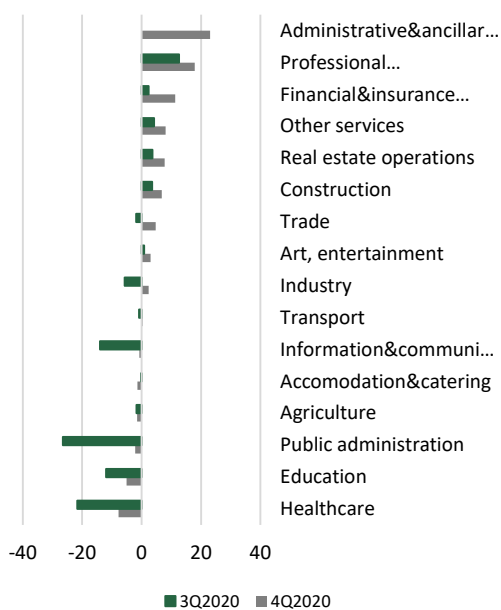
Figure 32. Real wages by size of enterprises, YoY, %



Source: BNS ASPR

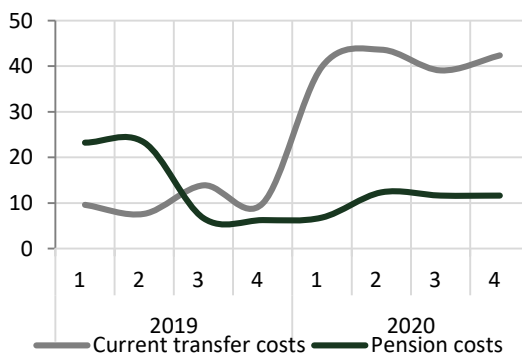
⁶⁶ The assessment of the economic development prospects is conducted on the basis of questions: "Speaking about the country's economic conditions in general, what kind of time would be the next 12 months and the next 5 years for the country, in your opinion?" The numerical value represents the balance of responses that are calculated as the difference between the percentage of positive responses and negative responses +100. The values of indices may change within the range from 0 to 200. The value above 100 – predominance of positive assessments, below 100 – of negative assessments.

Figure 33. Real wages, YoY, %



Source: BNS ASPR

Figure 34. Expenditures of the republican budget for transfers, YoY, %



Source: BNS ASPR

In 2021, the raise of wages is planned for the public sector employees that is medical professionals, teachers and the staff of the social welfare system (785 thousand teachers – by 25%, 247 thousand medical staff – by 30%, 38 thousand employees of social and medical establishments of the social security system – to 45%).

In the structure of income of the population, during 2020 income from social transfers demonstrated growth due to the steady social focus of the government policy (Figure 34). At the beginning of 2020, the basic pension was indexed by 7%, additionally from April 2020, the solidarity pension was raised by 5%. Apart from pensions, in 2020 the growth of national budget spending for other types of transfers accelerated. Generally, during January-December 2020, the national budget spending for social welfare and social security went up by 18.3%. In 2021, a 7% annual indexation of pensions was also conducted.

The dynamics of investment activity in 2020 were associated with negative consequences of the COVID-19 pandemic. At the end of 2020, the decline in fixed capital investments was 3.4% (Figure 35).

A decline in investments in 2020 was primarily related to an investment slump in the mining industry (by 26.4%) because of a temporary suspension of a large investment project in the Tengiz oil field (FGP and WPMP).

Against this backdrop, the share of the mining industry in total investments decreased considerably (from 44.6% in 2019 to 33.6% in 2020).

A negative contribution was made by the decline in investments in the sectors of trade and construction (by 23.7% and 35.8%, respectively).

A deeper downdrift of investments was curbed by the positive dynamics of investments in other sectors of the economy. Excluding the contribution by the mining industry, investments in the economy went up by 14.8%.

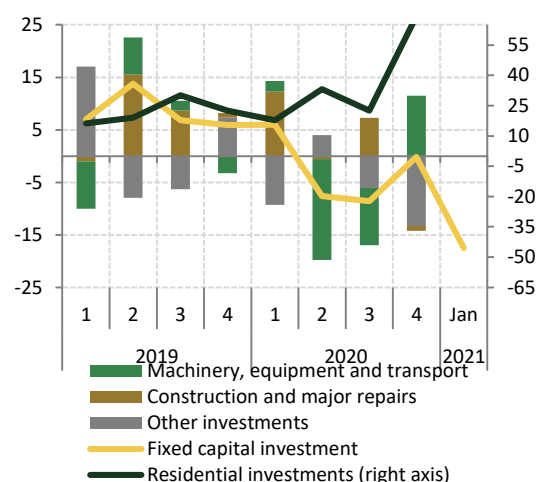
However, some recovery of the investment activity observed in the economy by the end of 2020 (U-shape) stopped in January 2021 (Figure 35). At the beginning of this year, fixed capital investments decreased by 17.5%, which is also largely related to the decline in investments in the mining industry. A downturn in the sector was driven by the decreased volumes of construction of the ore mining and processing plant in Eastern Kazakhstan, lower volumes of Karachaganak Expansion projects and reduced volumes on FGP/WPMP in the Tengiz oil field.

Along with that, investment activity of the population represented by the dynamics of investments into residential construction remains high. In the fourth quarter of 2020, investments into residential construction increased by 69.3%. Such significant acceleration is secured by various government mortgage programs implemented in the country (“7-20-25”, “Baspana Hit”, the program of the Housing Construction Savings Bank). It was only in Atyrau region where a decline in investments was observed (by 31%) because of a reduction in the commissioning of new residential buildings (by 10.4%).

The government’s share in investments into residential construction in 2020 accounted for 20.6%, whereas the major portion of investments falls on own funds of developers and the population – 42% and 30%, respectively.

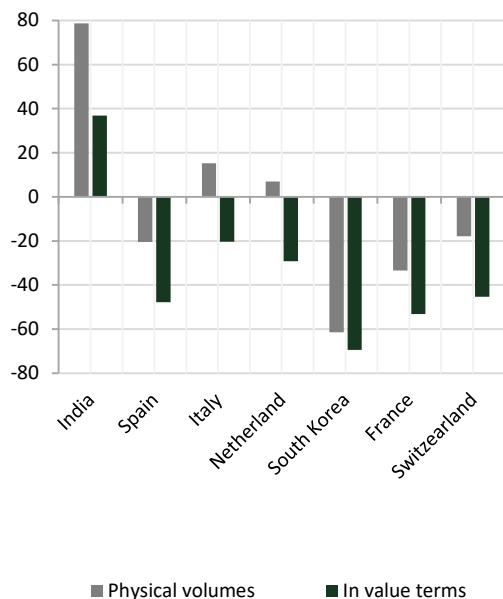
Due to the growing investments in 2021, the total floor area of commissioned residential buildings increased by 16.8%. In terms of growth, the leaders on a regional basis are the cities of Nur-Sultan (a 72.6% growth) and

Figure 35. Investment activity indicators, YoY, %



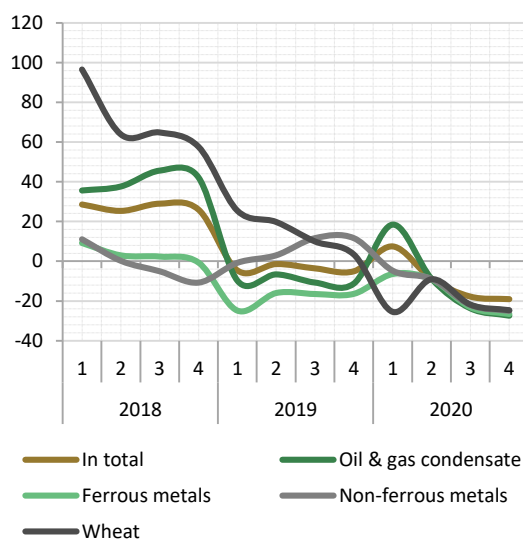
Source: BNS ASPR

Figure 36. Oil exports by country in 2020, YoY, %



Source: BNS ASPR

Figure 37. Export by main groups of goods by cumulative total, YoY, %



Source: NBRK

Shymkent (a 23.9% growth) and Northern Kazakhstan region (by 22.4%). A decline is observed in Atyrau and Kyzylorda regions only.

According to preliminary data from the BNS ASPR, in January-December 2020 the foreign trade turnover made up 85 billion US Dollars and decreased by 13% as compared to January-December 2019, where exports went down by 19.1% (47.0 billion US Dollars), and imports decreased by 4.1% (38.1 billion US Dollars).

The decline in exports was observed in all key commodity groups except the products of chemical industry. The main contribution to the reduction in exports was made by a curtailment of oil exports by 29.4% (YoY). On a country-by-country basis, the value exports are falling: to Spain – by 47.9%, to Italy – by 20.3%, to the Republic of Korea – by 69.5%, to France – by 53.2% (Figure 36).

At the same time, oil exports in kind slightly increased (by 0.8%), including to Italy – by 15.2%, to China – by 55.4%, to India – by 78.7%. Therefore, the value exports of oil fell because of a decline in the oil price.

In the group of non-ferrous metals, since the beginning of 2020 exports of aluminum have decreased by 10%, zinc – by 15.1% and lead – by 47.6% (Figure 37). However, if physical volumes of aluminum exports have not undergone significant changes (a decline by 3% and 1%, respectively), a notable reduction in kind was also typical for lead (by 18.4%) due to the decrease in supplies to Vietnam by 20.3% and to the Netherlands – by 41.9%.

It is also worth mentioning the expansion in physical volumes of copper exports by 4.4%, primarily to China, and of silver – by 12.8%, a large portion of which was exported to the Great Britain.

As per ferrous metals, exports of ferro-alloys went up by 4.5% in kind but decreased in value terms by 12.1%.

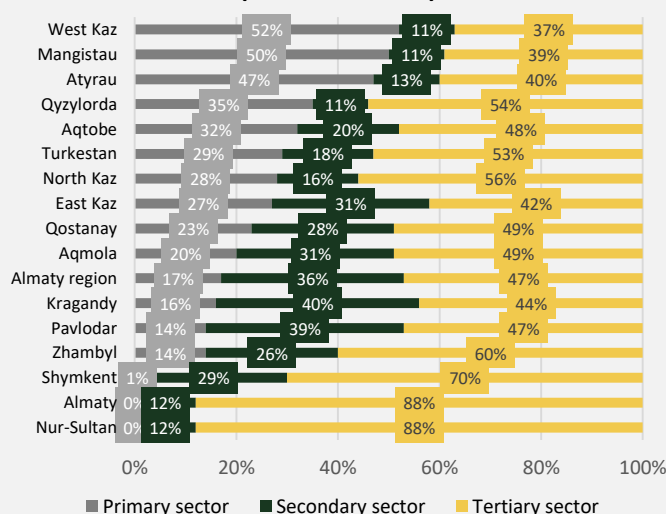
Reduction in imports in 2020 occurred among main trading partners: from the EAEU member countries – by 7.3%, including from Russia – by 7.1%, from the EU countries – by 5.5%,

and from China – by 5.9%. In the meanwhile, there is a sharp expansion of imports from Germany by 20.5% and from the Republic of Korea – by 41.1%, where the shares in total imports accounted for 4.7% and 12.8%, respectively.

In the group of foodstuffs, there was an increase in imports in kind of meat (by 4.5%), milk (by 22.3%), cane sugar (by 25.3%), alcohol beverages (by 62.9%) and soft drinks (by 38.1%) and tobacco (by 36.4%). In the group of non-food products, imports of medications went up by 14.5%, of detergents – by 16.9%, linoleum – by 16%, clothes – by 27.2% and computing machinery – by 31.9%. In addition, it is important to mention a reduction in physical volumes of imports of natural gas (by 69.6%), benchboards, panels, and consoles (by 56.7%) and a dramatic increase in imports of refrigerating equipment and freezers by 94.4% and air pumps or compression pumps – by 50%.

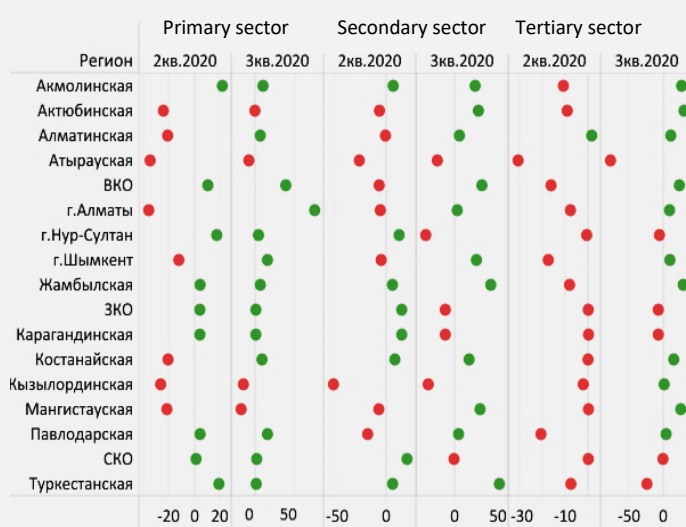
Box 3. Regional Development in Kazakhstan in the Periods of Lockdowns

Figure 1.
Share of sectors in GRP, %
(9 months 2020)



Source: BNS ASPR, NBRK's calculations

Table 1. Growth / decline of economic sectors by region



Source: BNS ASPR, NBRK's calculations

According to updated information from the BNS ASPR, a 2.6% (YoY) reduction in Kazakhstan's real GDP in 2020 was caused by a decline in production volumes of the tertiary sector that is the service sector (by 5.6% in real terms).

Depending on specialization of each region, the distribution of three-sector model of the economy in the regions of Kazakhstan varies. For example, more than 50% of GRP falls on the tertiary sector in the cities of national importance, and Zhambyl and Northern Kazakhstan regions (Figure 1).

The dynamics of the secondary sector (the manufacturing industry and construction) in 2020 was positive. The list of regions with a high share of the secondary sector includes Almaty, Pavlodar, Karaganda, Akmola and Eastern Kazakhstan regions.

Branches of the primary sector of the economy, namely agriculture and the mining industry, showed divergent dynamics. The growth in the plant production and animal production ensured a 5.6% (YoY) advancement of agriculture at the end of 2020. Based on performance of 9 months of 2020, the key regions where production of agricultural products accounts for a significant share in their GRP are Northern Kazakhstan region (the share of agriculture in the region's GRP – 28%), Turkestan (22%), Almaty (17%), Akmola (16%), and Kostanai regions (10%).

On the contrary, in 2020 the mining industry showed a decline of 3.7% (YoY) that was driven by the reduced production of crude oil and metals. The primary sector of the economy accounts for more than 50% of GRP in Mangystau, Western Kazakhstan and Atyrau regions.

As a result of the existing divergent dynamics in the development of economic sectors of Kazakhstan, the situation in the regions in the periods of lockdown was also not homogenous. In the second quarter of 2020, when the tightest restriction measures were in effect in the country, the positive investment activity was retained in such regions as the city of Shymkent, Nur-Sultan, and in Turkestan, Akmola, Zhambyl, Western Kazakhstan and Northern Kazakhstan regions (Figure 2).

Figure 2. Dynamics of real GRP in the second and third quarters of 2020,%, YoY



Source: BNS ASPR, NBRK's calculations

At the same time, in the second quarter of 2020, a considerable downturn of the tertiary sector of the economy was observed in all regions of the country, except Akmola region (Таблица 1).

In the third quarter of 2020, as restriction measures were eased, the situation in the regions started to improve, except for the regions with a high share of the primary sector. The negative dynamics of economic activity was also persisting in the cities of national importance. A recession in large cities is connected with the continuing negative dynamics in the service sphere, given a high share of the tertiary sector in the GRP. In the second and the third quarters of 2020, a downturn in Atyrau region was caused by negative dynamics in all sectors of the economy, especially in the primary sector, as a result of decreased volumes of crude oil production.

In other regions, recovery was associated with the reviving business activity in the service sphere, especially in trade and real estate operations, due to the easing of quarantine restrictions (Table 1).

Box 4. Food Industry in Kazakhstan

Figure 1. Dynamics of the food industry, yoy

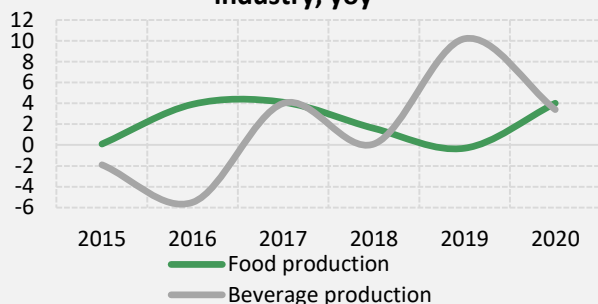


Figure 2. Shares in food production

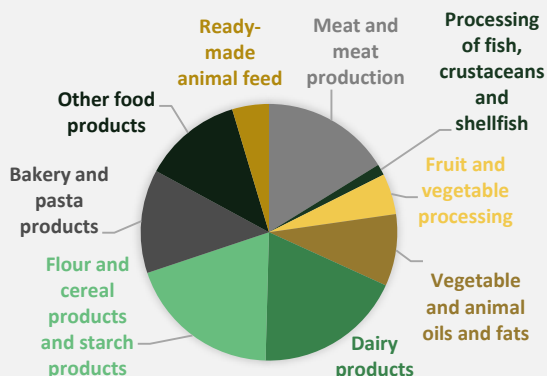


Figure 3. IFI of fixed capital investment in food production, in % YoY

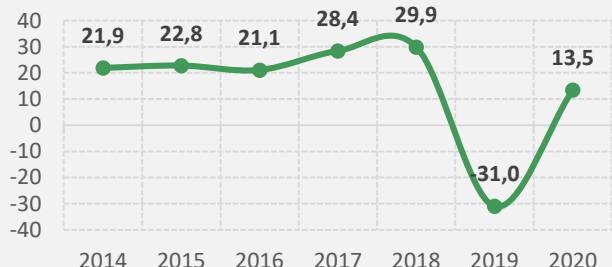
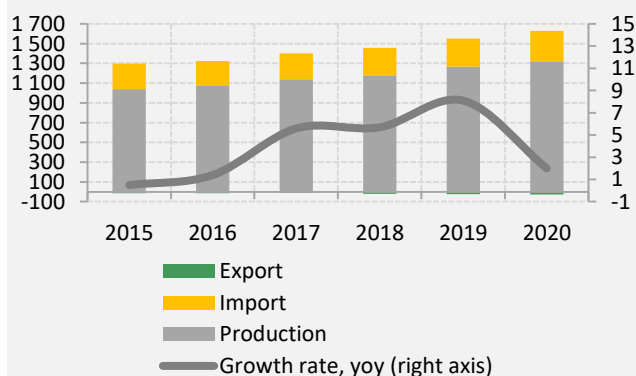


Figure 4. Production of meat products



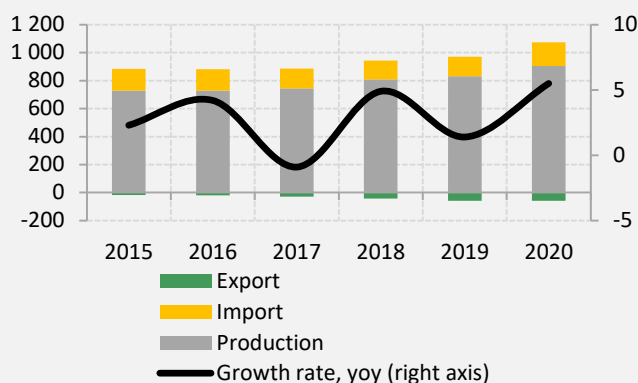
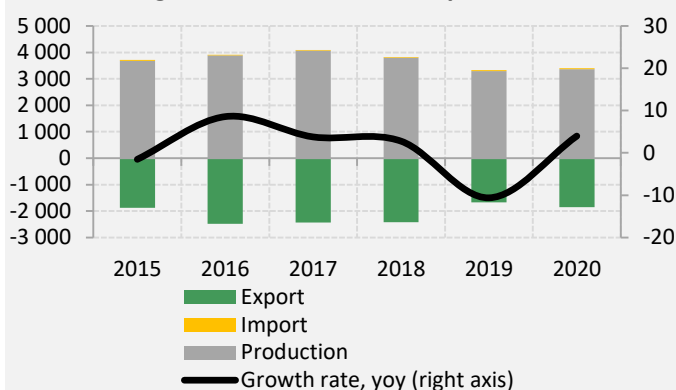
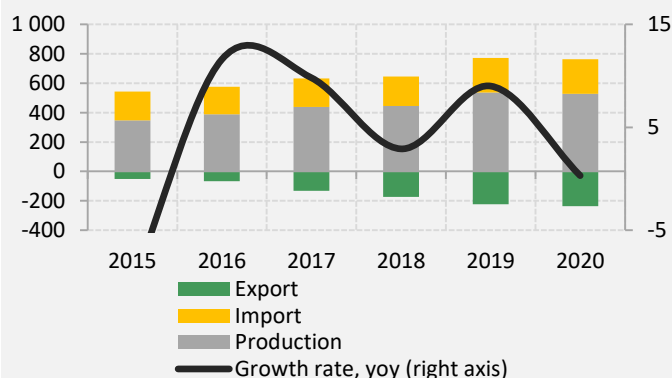
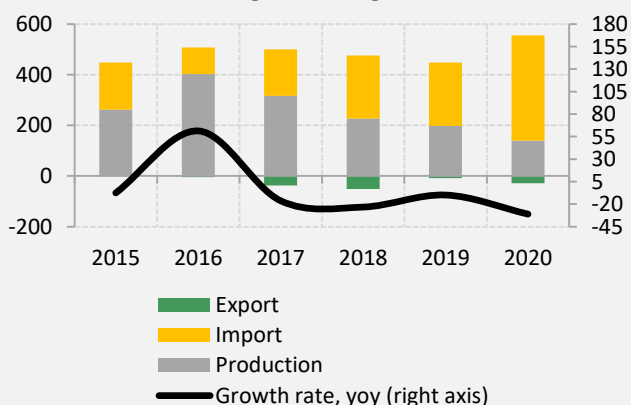
The development of food industry is one of the main priorities of the country's economic policy, which is aimed at diversification of its economy. An active policy for industrial and innovation development of Kazakhstan⁷ implemented since 2010 is focused on structural change in the manufacturing industry, on increasing exports of processed goods including products of the food industry. According to the data from the BNS ASPR, in 2020 the relative share of the food industry in the structure of industrial production accounted for 9.6%, and in the manufacturing industry – 19.7%.

Over the last six years, the development of the food industry was characterized by moderate rates of growth. So, the production of foodstuffs was increasing by 3.9% on average on an annual basis, and production of beverages – by 4.3% (Figure 1). The number of enterprises has not changed significantly. In 2019, the percentage of enterprises engaged in the production of food and beverages in the manufacturing industry was 19% and 2%, respectively. On a region-by-region basis, the main food producing enterprises are located in the city of Almaty (the share – 12%), in Kostanai (13%) and Almaty regions (15%), and enterprises producing beverages – in the city of Almaty (15%) and Almaty region (51%).

In the food production, the following industries account for the major share: the flour-milling industry (in 2020 its share was 19.4%), production of dairy products (18.6%), and meat processing (16.2%) (Figure 2). In the structure of beverage production, the production of soft drinks, mineral waters and other bottled waters (63%) and beer (26%) is prevailing. It is worth noting that the domestic food consumption is almost fully satisfied by the domestic production.

Despite sizable investments into the food industry (Figure 3), the major portion of production is characterized by a low processability. There is still a need in capital investments for modernization and reconstruction of production enterprises as well as for the production of foodstuffs with high value added (cheese products, confectionery, processed meat products, fruit and vegetable preserves).

⁷ Government programs for industrial and innovation development of the Republic of Kazakhstan for 2010-2014, 2015-2019, 2020-2025

Figure 5. Dairy products**Figure 6. Flour and cereal products****Figure 7. Vegetable oils****Figure 8. Sugar**

Source: BNS ASPR

and export volumes went up (Figure 7). Coupled with the rise in world prices of vegetable oils, the imbalance in the domestic market led to acceleration of growth in prices of vegetable oils.

Own funds of enterprises account for the major portion of capital investments into the food production (about 70-75%).

In 2020, due to negative impact of the coronavirus pandemic, inflationary pressure in Kazakhstan had intensified; this was largely caused by appreciation of foodstuffs in terms of price because of a heightened demand for certain goods, a limited supply as a result of disruptions in the supply chains of raw commodities and products, and the growing world food prices. A heightened demand and limited imports resulted in the increased domestic production of foodstuffs. At the same time, the imposition of quarantine measures as part of fighting against the spreading of coronavirus, including shutdowns of restaurants and prohibitions to conduct public events led to a sharp reduction in the production of alcohol beverages.

Production of milk and meat in Kazakhstan is characterized by a high percentage of private farm households. So, in 2020 over 50% of cattle meat and poultry meat in live and slaughter weight, and about 75% of unpasteurized milk was produced by private farm households. It is worth mentioning that the domestic production of poultry meat and meat products remains insufficient and is covered by imported products (Figure 4). At the same time, the government subsidy programs for development of pedigree livestock farming and poultry breeding promote the enlargement of output of meat and meat products.

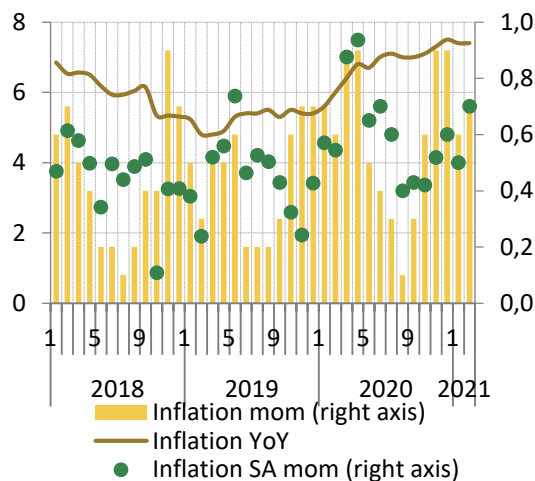
Production of dairy products has been increasing alongside with the meat production. Over the last four years, exports of dairy products (pasteurized milk and cream, cheese, creamery butter) has been expanding (Figure 5).

The dynamics of production of milled products and cereal products depend on the outcomes of agricultural season, on weather conditions. So, due to a low wheat crop because of the draught in Kostanai region in 2019, the reduction of flour production made up 10.6% (YoY). In turn, this had driven the rise in prices of milled product producers, and later resulted in appreciation of bread and bakery, macaroni and pastries in terms of price at the end of 2019 – 2020. Meantime, Kazakhstan is one of the world's large producers of wheat; this conditions a significant portion of exports in the source-and-use table of the country (Figure 6). The main points of destination of exports of wheat and wheat flour are Tajikistan, Uzbekistan and Afghanistan.

In the domestic market, production of vegetable oil in 2020 had not virtually changed as compared to the previous year; however, volumes of imports decreased

Production of sugar accounts for a significant portion (the share – 13%) in the production of other foodstuffs. Starting from 2017, the output of sugar has been decreasing, which is connected with a decline in profitability of production and a shutdown of sugar plants. As a result, the domestic consumption is almost fully covered by imports whose volumes increased. In 2020, 75% of the domestic sugar consumption was secured by imports from Russia (Figure 8).

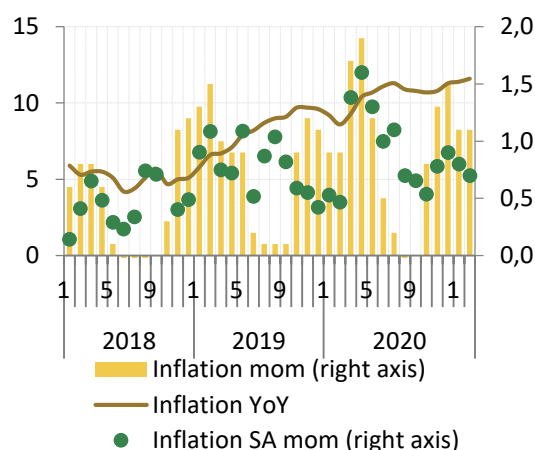
Figure 38. Inflation dynamics, %



Source: BNS ASPR, NBRK's calculations

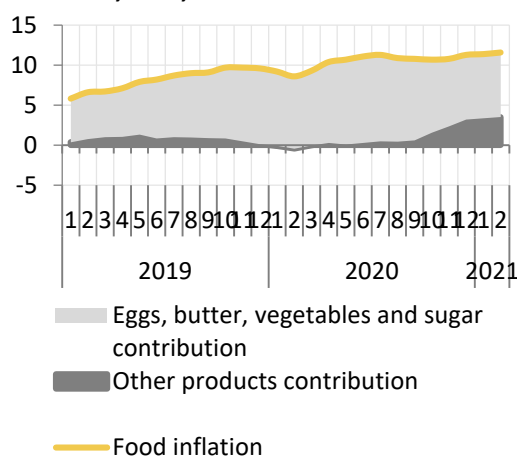
* Seasonal adjustment has been performed by using the X-12-ARIMA method from 2011 till present.

Figure 39. Food inflation dynamics, %



Source: BNS ASPR, NBRK's calculations

Figure 40. Contribution of particular products into food inflation, YoY, %



Source: BNS ASPR, NBRK's calculations

2.3. Inflation

In February 2021, the annual inflation made up 7.4%, keeping above the target rate of 4-6% (Figure 38).

Inflationary processes were building up, first of all, due to an accelerated growth in food prices in February 2021 by 11.6%. Non-food and service components of inflation have slowed down to 5.2% and 3.9%, respectively.

From October 2020, after their slowdown in August-September 2020, the rise in prices of **foodstuffs** continued to accelerate (Figure 39). The current acceleration of the food component is associated with the price growth in certain commodity markets, particularly, in the markets of eggs, vegetable oil, vegetables and sugar (Figure 40).

Acceleration of the annual rise in prices of eggs over the recent months (in February 2021 the price growth in annual terms accounted for 32.9%) was taking place against a concurrent upturn in the producer prices (by 44.5%) in the environment of increased prices for forage and the decreased supply caused by the after-effects of the bird flu. So, in 2020 production of eggs decreased by 8.4% as compared to 2019. However, in spite of a concurrent curtailment of exports (by 51%) and expansion of imports (by 80%), realization in the domestic market went down by 2.6% (Figure 41).

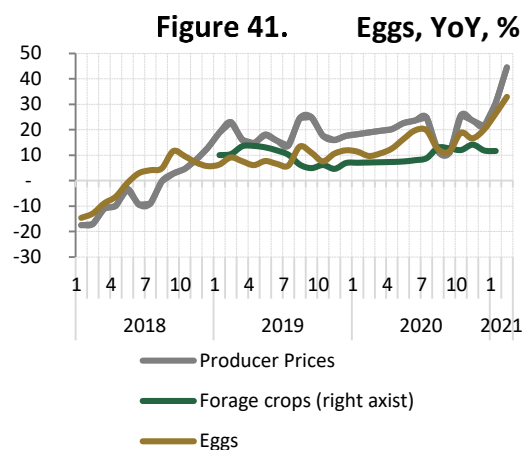
In February 2021, the annual growth in prices of vegetable oils accelerated to 40.6%. A continuing rise in prices of vegetable oil is a worldwide trend caused by reduction in supply in the global market as a result of a poor harvest (in the 2020-2021 season). So, in January 2021 the FAO Vegetable Oil Price Index was 138.8 points, having increased by 27.7% as compared to the corresponding period of 2020, which is the maximum since May 2012. Hence, prices of vegetable oil imports in annual terms in December 2020 grew up by 56.4%. The appreciation of the commodity in terms of price led to the annual growth of the domestic producer prices by 37.3% in February 2021 (Figure 42).

An additional proinflationary pressure is put by a higher growth in exports and a decline in imports. So, given the increased differential between external and domestic prices, exports have gone up by 33.8% (mainly to Mongolia, Uzbekistan and Tajikistan), and imports went down by 12.3% (mainly from Russia); therefore, realization in the domestic market decreased by 10.8%.

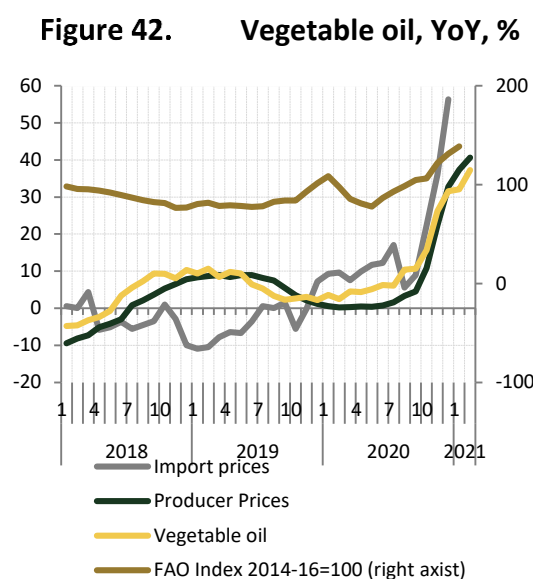
In February 2020, the growth rates of vegetable prices in annual terms accounted for 13.8%. In the structure of vegetables, a significant rise in prices of potatoes (in February 2020 by 22.9%), cucumbers (by 21.7%) and tomatoes (by 11.3%) was observed. The growth in consumer prices of vegetables furthers the rise in producer prices of fresh vegetables (by 7.9%) against the increase in electricity tariffs for producers. Concurrently with this, in February 2021, the annual growth rates of fruit prices slowed to 12.7%, thereby partially offsetting the acceleration of vegetable price growth.

In February 2021, the growth rates of consumer prices for sugar in Kazakhstan accelerated to 39.1%, being caused by the impact of both internal and external factors. The major portion of the consumer refined white sugar in Kazakhstan is secured with imports (according to the data from the BNS ASPR, in 2020 the share of sugar imports in the overall sales volume in the domestic market accounted for 74.9%). The main share of such imports falls on the Russian sugar; this increases the dependence of domestic prices on prices in Russia where price hikes of sugar have been lately observed (in January 2021, the rise in sugar prices in Russia made up 64% YoY), being caused by the decreased supply.

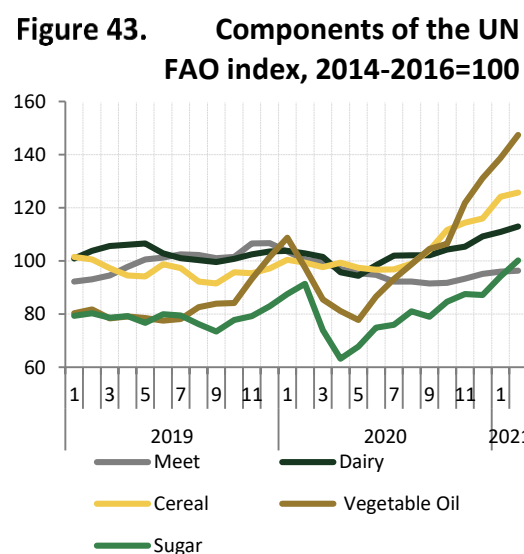
An additional pro-inflationary pressure is put by the growing world prices. The FAO Sugar Price Index in January 2021 was 94.2 points, which is by 7.6% higher than in the corresponding period of 2020.



Source: BNS ASPR

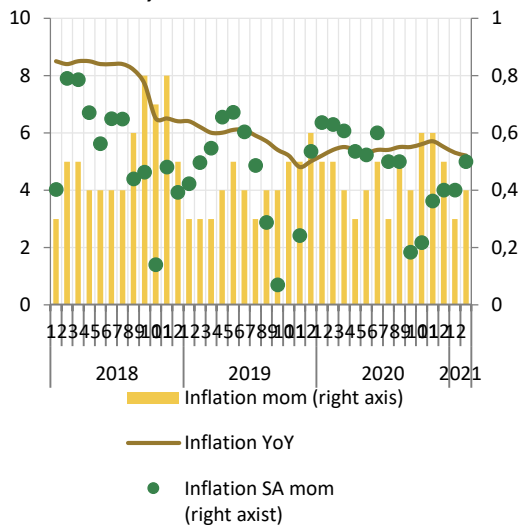


Source: BNS ASPR, FAO OOH



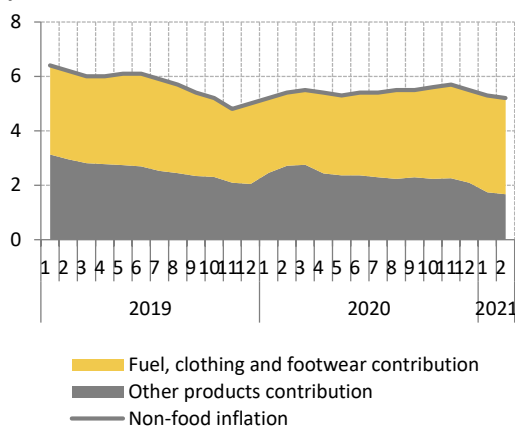
Source: FAO UN

Figure 44. Dynamics of Non-food Inflation, %



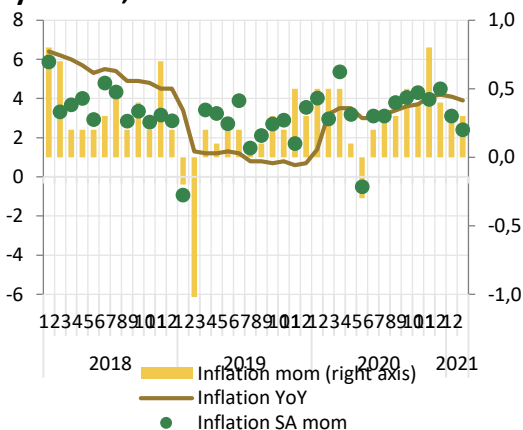
Source: BNS ASPR, NBRK's calculations

Figure 45. Contribution of particular products into non-food inflation, YoY, %



Source: BNS ASPR, NBRK's calculations

Figure 46. Service inflation dynamics, %



Source: BNS ASPR, NBRK's calculations

Along with that, the domestic production of sugar also decreased (by 29.2% in 2020, YoY) due to a 4% reduction in the crop of sugar beets in 2020.

The rise in prices of other foodstuffs was largely determined by the dynamics of world prices. In January 2021, the FAO Food Price Index, after its eight-month growth, accounted for 113.2 points, which is by 10.5% higher than in January 2020 and has been the maximum since July 2014.

The index is going up due to the rise in world prices of virtually all components. So, in January 2021, the growth versus the same period of 2020 in the price for vegetable oils accounted for 27.7%, for cereals – 23.6%, for sugar – 7.6%, and for dairy products – 7%. Despite an abundance of domestic foodstuffs, in the periods of shocks and the upturn of world prices for various foodstuffs, the increase in the differential between external and domestic prices may become a reason for heightened exports, which, in turn, may lead to the increase in the domestic prices (Figure 43).

In February 2020, the non-food inflation slowed to 5.2% in annual terms (Figure 44). Acceleration in the growth rates of many goods is observed. However, the annual deflation of fuel and lubricants as well as the stable dynamics of prices for clothes and footwear in the environment of a sluggish consumer demand caused by reduction in real money income of the population, by retention of quarantine restrictions for operation of trade facilities and retention of lockdown in certain regions of the country, serve as a constraining factor (Figure 45).

In February 2021, the annual price growth of fuel and lubricants went down by 2.4%. In the environment of limited domestic demand for this commodity, in 2020 exports increased by 9.5 times as compared to 2019. According to preliminary data from the BNS ASPR, based on performance in 2020, the key countries importing Kazakhstan's gasoline were Afghanistan,

Kyrgyzstan and the Netherlands. An additional statistical effect is produced by the high base of the beginning of the last year when the price of gasoline had grown due to the growing excise taxes.

At the same time it should be noted that the trend of a shift in consumer preferences of the population towards cheaper imported goods, namely clothes and footwear, is persisting thus producing an additional disinflationary pressure. So, according to the data from the CS MNE, in 2020 as compared to 2019, physical volumes of imports of clothes and footwear were growing faster than the value imports. Alongside with that, reduction in the people's income, teleworking and online learning have caused a lower demand for such goods.

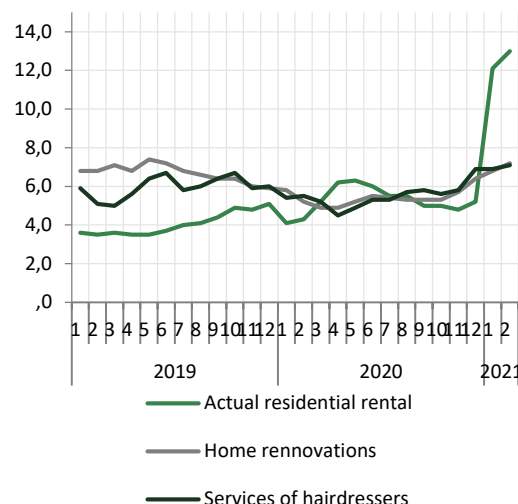
At the same time, there is deceleration in annual growth rates of prices for the goods, which appreciated in terms of price since the beginning of the pandemic. So, the annual price growth for pharmaceutical products slowed down to 9.3%, for detergents – to 9% and for furniture – to 5.7%.

In February 2020, the annual inflation of **paid services** to the population was 3.9% (Figure 46). In the structure of service inflation, the annual deceleration of tariffs for regulated utility services accounted for 0.1% (in November 2020 – a 2.4% growth), being related to reduction of electricity prices in the cities of Almaty, Shymkent and Karaganda region.

At the end of 2020 – beginning of 2021, there had been a significant inflationary pressure on the part of non-regulated services due to acceleration in annual inflation of residential rental (February 2021 – a 13% growth), services of hairdressers (7.1%) and home renovations (6.7%) (Figure 47).

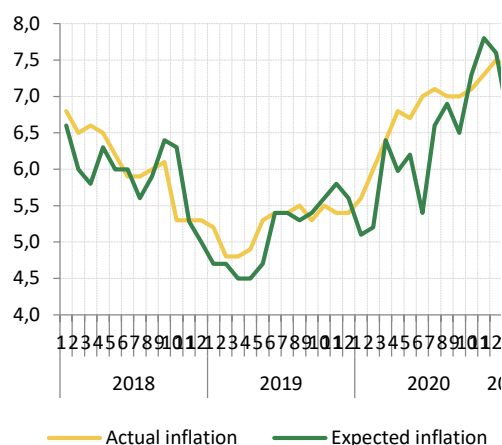
A sizable rise in the cost of residential rental in January 2021 is related to the increase in prices for rental of housing with all modern conveniences and exclusion from the calculation of the change in prices for rental of housing lacking amenities as a result of the consumer basket revision in 2021.

Figure 47. Inflation of paid services, YoY, %



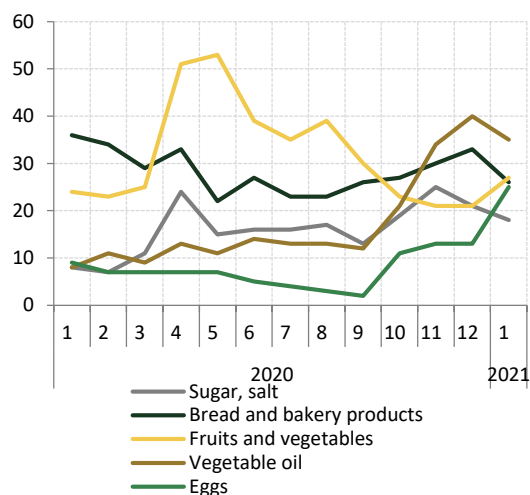
Source: BNS ASPR

Figure 48. Inflation and Expected Inflation, YoY, %



Source: BNS ASPR, FusionLab

Figure 49. Share of respondents to point out fast growth in prices over the past month, %



Source: FusionLab

In January 2021, inflation expectations were decreasing. Meantime, their dynamics remain volatile, which was especially manifested from the beginning of 2020 on, against the backdrop of negative influence of the pandemic.

In January, a quantitative assessment of inflation for a year ahead made up 6.7% as compared to 7.8% in November 2020 (Figure 48).

According to the public poll, 43% of respondents anticipate that inflation will retain its existing rate and will go up in the next 12 months (in November 2020 – 51%).

There is still a high degree of uncertainty among respondents – one third of the interviewed find it difficult to assess their expectations in the recent months.

The majority of respondents continue to point out a fast growth in food prices (91%), where the percentage of the interviewed who noted a significant rise in prices of eggs and vegetables increased. The percentage of those who mentioned a surge in prices of vegetable oil, sugar, bread and bakery in the recent months somewhat decreased in January (Figure 49).

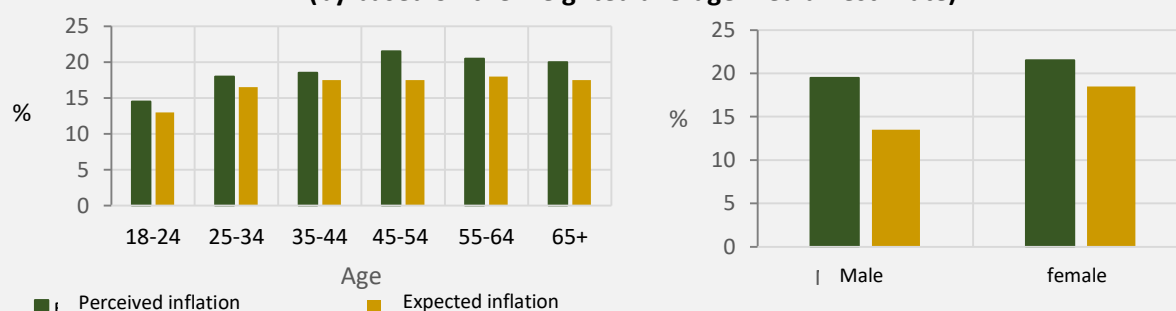
Box 5. The Impact of Social and Demographic Characteristics on Perception of Inflation and Inflation Expectations

The public poll conducted to assess inflation expectations encompasses a block of characteristics of respondents: age, type of occupation, income, education and others. The outcomes of polls show that social and demographic characteristics are to a different extent influencing the formation of perception and expectations about inflation among different groups of the population.

The poll outcomes show that the older the respondent, the higher is his/her perception of the inflation rate (Figure 1). In general, with the increase of a respondent's age by one year, the assessment of inflation perception goes up by 0.24 pp. However, when a respondent is closer to the elderly age, the assessments of perceived and expected inflation slightly decrease.

Women are prone to assess inflation higher than men (Figure 1). It may be determined by the fact that in households, women are frequently doing shopping more than men are, and are better aware of prices. Particularly, they are more frequently buying foodstuffs whose prices are characterized by high volatility. According to the poll outcomes, women notice the rise in food prices to a larger extent than men do (on average during 2020 – 90% women versus 82% men). In their perception of pricing dynamics of certain goods, women more frequently notice the growth in prices of foodstuffs, home care products whereas men notice the rise in prices of fuel and lubricants and cars, construction materials, and household appliances. Meantime, in case of supply-side shocks, the difference in the level of perceived food inflation between women and men is less noticeable.

Figure 1 Perceptions and expectations for inflation by age and sex in January 2021
(by based on the weighted average median estimate)



Source: FusionLab, NBRK's calculations

As the polls show, earnings also influence the assessment of inflation by the population. So, households with higher earnings give smaller assessments of the perceived and expected price growth. This is connected with the fact that a consumer basket of high-income and low-income population groups varies significantly. In the basket of high-income groups, non-food products and services prevail and in the low-income groups – foodstuffs are dominating. According to statistical data from the BNS ASPR, the percentage of expenditures on foodstuffs in the first and tenth decile groups⁸ is 55% and 34%, respectively.

The highest inflation expectations are among retired people and the lowest – among students. Employees and the self-employed population have lower inflation expectations. There are no differences of assessments by Kazakhstani households based on the education criteria. A married person is generally giving heightened assessments of the expected inflation as compared to bachelors. Specifically, assessments by married men are by 2 pp higher than those made by bachelors, whereas there is less significant difference in assessments among women with different status. The household size and the number of children have an insignificant influence on the assessment of inflation expectations

⁸ The first group includes 10% of the population with the lowest money income, and the tenth group – 10% of the population with the highest money income.

Box 6. Where Inflation is Moving?

In the course of monetary policy implementation under the inflation targeting regime, the National Bank is thoroughly monitoring and analyzing a broad dynamics pattern of price indices in the economy, including the part of the economy which characterizes steady trends of price growth and which is cleared from the impact of temporary and administrative factors. It is important to study the dynamics of such indices in terms of the monetary policy, since the latter is capable of influencing the steady trends in inflation only.

One of such indices is the basic consumer price index (“BCPI”), which is calculated by the BNS ASPR on a monthly basis using 3 methods. These methods are based on the exclusion from the aggregation of consumer price index of one and the same set of goods and services (a maximum exclusion – fruits and vegetables, utilities, railway transport, communication, gasoline, diesel fuel, coal)⁹.

The absence of a common approach to the calculation of BCPI is explained by the fact that there is no unique opinion in the research literature about how to calculate one core inflation indicator so that it would simultaneously meet the criteria of low volatility (was cleared off from the impact of temporary factors), could predict future inflation and would have a close correlation with fundamental variables (the growth of money supply, deviation of the GDP growth from its potential, and wage indexation).

To this end, in analyzing the BCPI it is important to base on several core inflation indicators in parallel that are calculated by using different methods. The National Bank, following the international experience, in addition to the indicators published by the BNS ASPR, calculates its own indicators of core inflation. In doing so, the basis for calculation of such indicators had been the procedure of deseasonalization of various subgroups of the consumer basket¹⁰. An advantage of using the deseasonalized data is the possibility of identifying the price dynamics of the current month and of not relying only on the annual indicator that takes into account the accumulated price growth over the prior months.

The first such indicator had been a traditional method of excluding the same 7 components that are used by the BNS ASPR (a seasonally adjusted BCPI). The second and the third modified core inflation indicator in each month excludes from the calculation 8 and 13 the most variable subgroups over the last two years. The fourth indicator trims 10% maximum and minimum price changes in that month, the fifth indicator – 25% maximum and 15% minimum price changes, and the sixth indicator represents the median of such changes (Figure 1).

As is shown by the dynamics of various annualized¹¹ core inflation indicators, from autumn of 2019 and up to the spreading of COVID-19, inflationary processes in Kazakhstan had been generally building within the target band. After imposition of quarantine measures in connection with the pandemic, the fall in oil prices, depreciation of the tenge in March-June 2020, there was a hike in prices for meat, bread and bakery and cereals, dairy products, as well as non-food products except fuel and lubricants and certain non-regulated services. The more moderate dynamics of the headline inflation in May-June 2020 was driven by the reduction of prices for utility services, railway and air transport services.

After a gradual lift of quarantine restrictions and exhaustion of the impact of external shocks, inflationary processes started to slow down and to build close to the upper boundary of the target band until October 2020. Also, such deceleration was nurtured by a pent-up consumer demand in the environment of decreasing economic activity in the country that was expressed in a feeble price growth for non-food products and non-regulated services.

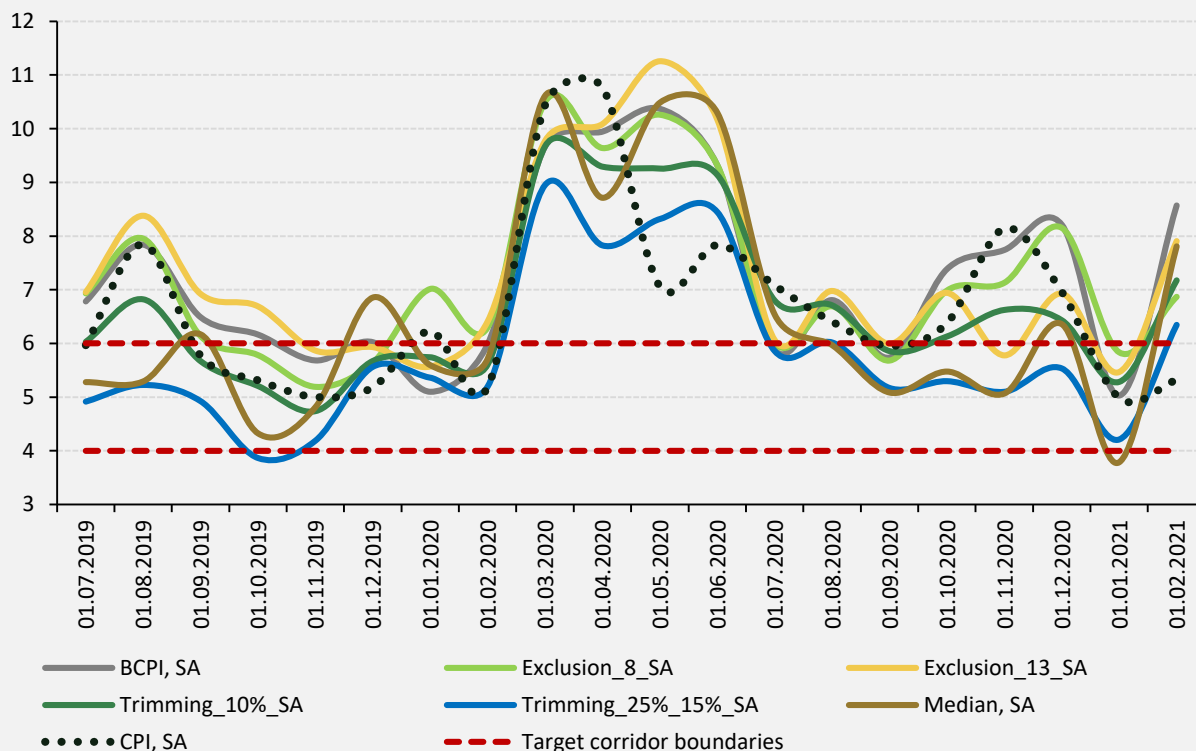
⁹ Before 2020, the core inflation indicators calculated with the exclusion of 5 maximum and 5 minimum price changes and a predetermined portion of goods and services (8 per cent right and left from the ordered distribution of price changes, the median of such distribution) had been published.

¹⁰ These methods are described in detail in the publication by Orlov K., Yerzhan I., “Specifics of Seasonal Adjustment of the Consumer Price Index for Kazakhstan”, 2019 (www.nationalbank.kz).

¹¹ The annualized value means the retention of price growth rates in the current month throughout the next year.

By the end of the year, against the backdrop of growing food prices (sugar, oils and fats, eggs), clothes and footwear as well as certain non-regulated services, different core inflation indicators accelerated. Such acceleration may be related to both external and internal shocks in the food markets and to an outlining recovery of the consumer demand (the improving situation in the labor market, growing real wages, the recovering dynamics of the consumer lending).

Figure 1. Estimates of annualized core inflation by various methods, % m/m.



Source: NBRK's calculations based on data of BNS ASPR

In January 2021, all core inflation indicators, along with the headline inflation, demonstrated a slowdown that was caused by a generally moderate rise in prices of foodstuffs and non-regulated services.

At the same time, in February 2021 such disinflationary processes did not get continuation. The effect of the upward factors of end-2020 still exists, and core inflation assessments came back to the path of end-2020, turning out above the deseasonalized headline inflation. Such discrepancy is stemming from the reduction of utility prices, which, by virtue of their variable nature, are usually excluded from the calculation of core inflation indicators. There is still a high growth in prices of certain foodstuffs in the economy and the dynamics of prices for other non-regulated goods and services may indicate a gradual recovery of the consumer demand.

In conclusion, it is worth mentioning that this or the other assessment of core inflation cannot fully reflect a fundamental behavior of prices in the economy. With this in mind, the National Bank will go on with additional research in this area.

2.4. Labor Market

In the fourth quarter of 2020, the situation in the labor market started to improve; this is evidenced by the decreased rate of unemployment and reduced numbers of the temporary unemployed population in the economy (Figure 50).

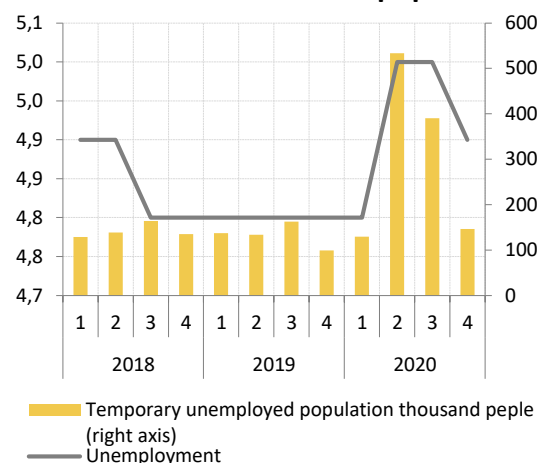
In general, the impact of the pandemic on the labor market was limited. Largely, it happened due to government employment protection programs, first of all in the sectors mostly affected from imposition of quarantine measures. The greatest negative effect on the labor market was exerted in the second and the third quarters of 2020. In the fourth quarter of 2020, key labor market indicators had virtually come back to the level of the first quarter of 2020.

So, the unemployment rate in the fourth quarter of 2020 made up 4.9%, which was related to deceleration of the rates of reduction of the employed population in the economy.

The numbers of temporary unemployed population, after the peak in the second and the third quarters, came back to the pre-crisis levels from 533 thous. in the second quarter of 2020 to 136 thous. in the fourth quarter of 2020 (Figure 50).

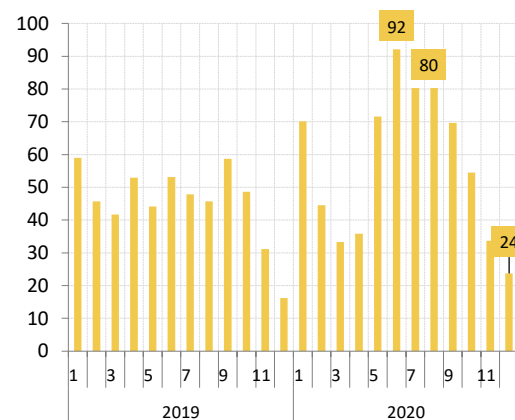
The improvement of situation in the labor market is proved by the reduced number of individuals who applied to the public employment authorities, which, after a significant increase in the periods of lockdown in connection with the growth of the temporary unemployed and unemployed population also moved back to the pre-crisis figures by the end of 2020. The highest demand was observed in June 2020, when the number of individuals applying to the employment authorities totaled 92 thousand. Since September 2020, given a partial lifting of restrictions and resumption of operations by enterprises in the real sector, the number of applications fell below 70 thousand individuals, and in December – reached 24 thousand individuals (Figure 51).

Figure 50. The unemployment rate and the temporary unemployed population



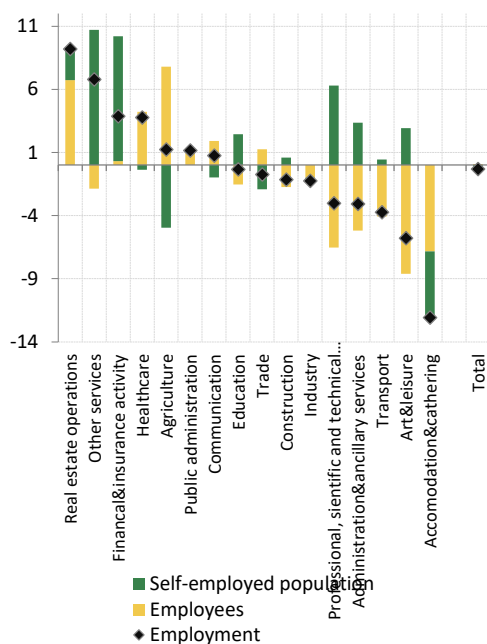
Source: BNS ASPR

Figure 51. Individuals who applied to the public employment authorities as job seekers, thousand people



Source: BNS ASPR

Figure 52. Contribution to employment of employees and self-employed population by types of economic activities for the 4th quarter of 2020, YoY, %



Source: BNS ASPR, NBRK's calculations

Reduction of employment in the fourth quarter of 2020 by 0.3% (YoY) was observed as a result of decline in the numbers of the self-employed population (by 1.8%), while the number of employees in the economy slightly increased (by 0.1%).

A decline in employment was observed in many branches of the real sector (Figure). The largest reduction was in the accommodation and catering services (by 12.1%), where the numbers of employees and the self-employed population were decreasing concurrently (Figure 52).

The decreasing employment as a result of reduction in the number of self-employed personnel was observed in the sector of transport (by 3.7%), activities on ancillary and administrative service (by 3.1%), professional, scientific and technical activities (by 3.0%), construction (1.2%), the industry (by 1.2%) and education (by 0.3%); however, the self-employed population in these sectors increased.

At the same time, despite the situation with the pandemic, the numbers of employed population in some sectors of the service sphere were going up. The increase in employment in agriculture, public administration, information and communication, healthcare and real estate operations was observed as a result of the growing number of employees.

The growth of employment associated with the increase in the self-employed population was noted in the financial and insurance activities and other services.

The fact that employees and the self-employed workers are gradually turning back to the full-time working day also points to the improvement of the situation in the labor market. So, if in the second and the third quarters of 2020 the number of employees who worked over 7 hours a week reduced as compared to the first quarter of 2020 by 600 300 and 537 100 individuals, respectively, in the fourth quarter of 2020 the difference had been less than 100 000 individuals.

The labor productivity in 2020, according to the National Bank's assessments on the basis of data from the BNS ASPR, decreased in the environment of a concurrent decline in the gross value added in the economy and the employment (Figure 53).

The growth of labor productivity in the first group of branches, that is in the construction sector, in the manufacturing industry, communication, agriculture, education and public administration to a large extent was connected with the growing GVA in the sectors.

In the sectors of arts and entertainment and accommodation and catering services, the labor productivity was going up due to the decreasing employment in the sectors (Figure 53, Group II).

Reduction of the labor productivity in the third group of sectors is largely connected with a decline in the added value in the sectors that were mostly affected by consequences of the COVID-19 pandemic.

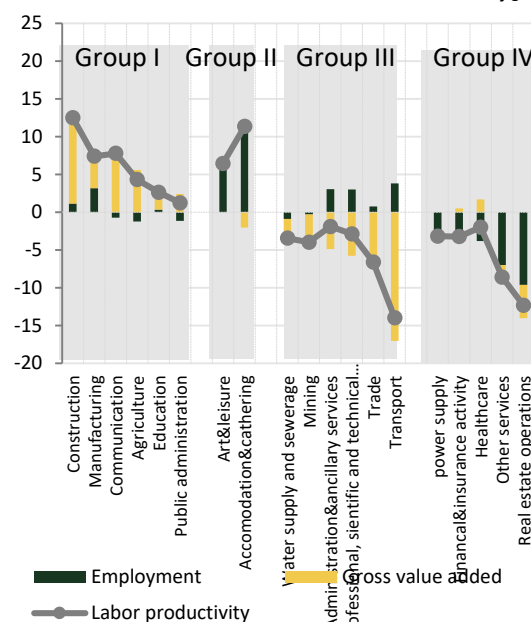
A decline in the electricity supply, financial and insurance activities, healthcare, real estate operations and other services is related to a significant growth of employment in these sectors (Group IV, Figure 53).

2.5. Fiscal Policy

In 2020, due to deterioration of the business activity because of the existing restriction measures undertaken to curb the spreading of coronavirus infection, the fiscal policy in Kazakhstan had a social stance.

The anti-crisis measures of the government were aimed mainly to support the SMEs and prevent shutdowns of enterprises as well as to curb the unemployment and support the socially vulnerable groups of population. This was accompanied by the growing budget spending for social welfare and social security, the public order, education and healthcare as well as by diminution of tax revenues including the corporate income tax and taxes on international trade.

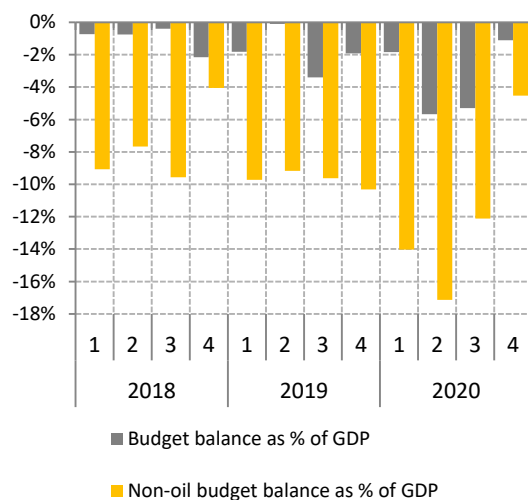
Figure 53. Labor productivity by types of economic activities for 2020, %



Source: BNS ASPR, NBRK's calculations

* - the rate of change in employment is taken with the opposite value, since an increase in employment with a constant GVA leads to a decrease in labor productivity

Figure 54. Overall and Non-Oil Deficit of the National Budget, % of GDP



Source: Ministry of Finance PK, NBRK's calculations

In 2020, in order to support the economy and implement anti-crisis measures, a guaranteed transfer of 4.8 trillion tenge was allocated to the budget from the National Fund, whereas in 2019 the guaranteed transfer amounted to 2.7 trillion tenge, and the earmarked transfer – 370 billion tenge.

In 2020, the national budget deficit made up 2.2 trillion tenge, having increased by 68.6% as compared to 2019. Expansion of the budget deficit, first of all, was driven by the outstripping growth of expenditures over revenues.

During 2020, the non-oil budget deficit (budget deficit excluding transfers from the National Fund and export customs duties for crude oil) amounted to 7.5 trillion tenge, which is by 36.5% greater than in the corresponding period of 2019 (Figure 54).

During 2020, the national budget revenues increased as compared to 2019 by 12.6% and amounted to 11.9 trillion tenge. The main reason for the growth in revenues is the increase in receipts of official transfers by 54.8% (the share in budget revenues accounted for 45.0%) and non-tax revenues by 3.5 times (the share – 8.2%).

The expansion of non-tax revenues is driven by the increase in dividends from the “NWF “Samruk-Kazyna” JSC on government’s stake in the national ownership as well as by the receipt of lump-sum payments from KPO B.V. as part of compensation of Karachaganak Project contractors for the arbitration on the Fairness Index.

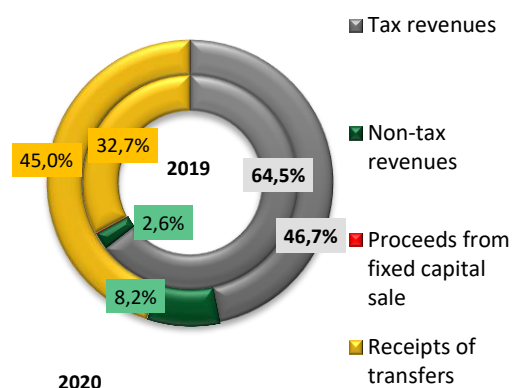
During 2020, **tax revenues went down** (by 18.4%) because of the imposed restriction measures to fight the spreading of coronavirus and because of the decreased economic activity.

A decline in tax revenues occurred as a result of measures taken by Kazakhstan’s government to support businesses and income of the population whereby small and medium-sized businesses in the mostly affected sectors of the economy had been exempted from taxes and other mandatory payments from the payroll fund, as well as due to the transfer of proceeds from the corporate income tax paid by small and medium-sized businesses to the local budgets.

Proceeds from fixed capital sale decreased by 5.4 times. (Figure 55).

During 2020, the national budget spending amounted to 13.7 trillion tenge, having increased by 19.5% as compared to 2019. The main contribution to the increase in the national budget spending has traditionally been made by expenditures for social welfare and social security (the share – 28.2%), with their growth accounting for 18.3%. A 39.0% (the share – 12.1%) rise in spending on healthcare was driven by anti-epidemic measures taken as part of the struggle with the spreading of coronavirus and by the raising of labor compensation for the medical staff. Also, there was an increase in expenditures on education – by 56.2% (the share – 7.0%) due to the pay boost to teachers, official transfers – by 32.8% (the share – 15.4%), and debt servicing – by 12.4% (the share – 5.6%).

Figure 55. Structure of the State Budget Revenues



Source: Ministry of Finance RK



BASIC TERMS AND DEFINITIONS

Core Inflation – means the inflation which excludes transitory price changes subject to certain factors of administrative, event-related and seasonal nature. The base rate – is the National Bank's key monetary policy instrument which enables to regulate nominal interbank interest rates in the money market. By setting the base rate level, the National Bank determines a target value of the targeted interbank short-term money market rate in order to achieve the goal of ensuring the price stability in the medium term.

Gross Fixed Capital Formation – is the growth in non-financial assets which have been used in the process of production for a long time. Gross fixed capital formation includes the following components: a) acquisition, less retirement, of new and existing fixed assets; b) costs for major improvements of tangible produced assets; c) costs for improvement of tangible non-produced assets; d) expenses in connection with the transfer of title for non-incurred costs.

FX Swap means a foreign exchange transaction which involves the concurrent purchase and sale of a certain amount of one currency in exchange of another currency with two different value dates.

Gross Domestic Product (GDP) is an indicator that reflects the market value of all final goods and services produced during a year in all sectors of the economy within the territory of the country for consumption, exports and saving, irrespective of the national identity of the used production factors.

Reserve Money includes cash issued into circulation by the National Bank, other than cash at the cash departments of the National Bank, transferrable and other deposits of banks, transferrable deposits of non-bank financial organizations and current accounts of government and non-government non-financial organizations in the tenge at the National Bank.

Money Supply (M3) is determined on the basis of consolidation of balance sheet accounts of the National Bank and banks. It consists of cash in circulation and transferable and other deposits of non-bank corporate entities – residents and the population in the domestic and foreign currency.

Dollarization of the Economy means the situation where a foreign currency (largely – the US Dollar) starts to be used for transactions within a country or in certain sectors of its economy, pushing out the domestic currency from the domestic money turnover, and acting as the means of saving, measure of value and the legal tender.

Inflation – is an increase in the overall price level of goods and services. In Kazakhstan, inflation is measured by the consumer price index.

Consumer Price Index – is the change in the overall price level of goods and services purchased by the population for consumption. The consumer basket of Kazakhstan used for calculation of inflation reflects the structure of household spending and contains goods and services which represent the largest portion in the consumption of population. The CPI is calculated as the ratio of the cost of a fixed set of goods and services in current prices and its cost in the prices of the previous (base) period. The index is calculated by the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan.

Inflation Targeting – is a monetary policy regime which is oriented at achieving a target inflation rate.

Composite Indicator – is a generalizing indicator which is used to reflect short-term trends in the development of the real sector of the economy. Composite indicator as possessing the forward-looking feature is used to reflect a cyclical change and to identify turning points when recovery and downturns in the economy occur and change. A composite indicator is built on the basis of the outcomes of survey among enterprises which participate in the market research conducted by the National Bank.

Reverse Repo is the purchase of a security with the commitment to sell it after a specific period of time and at a specific price. The National Bank conducts reverse repo operations with a view to provide the tenge liquidity to banks against the pledge of securities in line with the National Bank's list of collateral.

Open Market Operations are regular operations of the National Bank in the form of auctions for liquidity provision or withdrawal in the money market with a view to set interest rates around the base rate.

Standing Facilities refer to monetary policy instruments for adjustment of volumes of liquidity, which resulted from the open market operations. Standing facilities are provided as part of bilateral arrangements where the National Bank is one party to the transaction. Such operations are conducted at the initiative of banks.

Potential Output reflects the level of output in the economy that can be reached subject to full utilization of inputs and full employment. It reflects the volume of production which can be manufactured and realized without creating prerequisites for the change in the price growth rates.

Consumer Basket means a sample of goods and services which characterizes the standard level and the structure of monthly (annual) consumption of an individual or a family. Such sample is used to calculate the minimum subsistence level, based on the cost of the consumer basket in current prices. The consumer basket also serves as a comparative basis for estimated and real consumption levels and also as the basis to determine the purchasing capacity of currencies.

Direct Repo is the sale of a security with the commitment to repurchase it after a specific period of time and at a specific price. The National Bank conducts direct repos with a view to withdraw excess liquidity in the tenge.

Free Floating Exchange Rate. According to the IMF's current classification, under the floating exchange rate framework a central bank does not establish any pegs including operating ones for the level or the change in the exchange rate, allowing the exchange rate to be determined by the market factors. In doing so, the central bank reserves the opportunity to periodically intervene in the foreign exchange market in order to smooth out the volatility of the domestic currency exchange rate or to prevent its dramatic movements as well as to ensure the financial system.

Output Gap. Deviation in GDP expressed as a percentage of a potential output. Expresses the difference between an actual GDP and potential GDP for a certain time interval. Serves as an indicator which reflects the effectiveness of resources utilized in the country. If an actual output exceeds the potential one (a positive gap), other things remaining equal, the trend of acceleration in the price growth rates would be anticipated because of the overheating of the economy.

TONIA Rate – represents a weighted average interest rate on one-day repo opening transactions made on the stock exchange with government securities in the automatic repo sector.

LIST OF KEY ABBREVIATIONS

bp – basis point

BNS ASPR - Bureau of National Statistics of the Agency for Strategic Planning and Reforms

GDP – gross domestic product

GPIID - the Government Program for Industrial and Innovation Development

EU – the European Union

ECB – the European Central Bank

CPI – consumer price index

KASE – the Kazakhstan Stock Exchange

KSF – the “Kazakhstan Sustainability Fund” JSC

NBRK – the National Bank of the Republic of Kazakhstan

VAT - value-added tax

OPEC – Organization of the Petroleum Exporting Countries

Rosstat – the Russian Federal State Statistics Service

REER – real effective exchange rate

IMF – the International Monetary Fund

bln. - billion

mln. - million

MNE – the Ministry of National Economy

MoA RK – the Ministry of Agriculture of the Republic of Kazakhstan

MED – the Ministry of Economic Development of the Russian Federation

thous.– thousand

TCO - Tengizchevroil

CB RF – the Central Bank of the Russian Federation

FAO – Food and Agriculture Organization of the United Nations

US Fed – the Federal Reserve System