

News digest for

03/27/2023-04/02/2023



Speech by the Head of State Kassym-Jomart Tokayev at the Opening of the First Session of the Parliament of the VIII Convocation

Source: <https://inbusiness.kz/ru/news/vystuplenie-tokaeva-na-pervoj-sessii-parlamenta-priyamaya-translyaciya>



Klara Seidakhmetova

Analyst

“ We decided to highlight following **key economic tasks in the future work of the Parliament**, which were announced by the President at the past Session of the Parliament:

- A set of measures to support small and medium-sized businesses
- Transparent tax system – differentiation of CIT and VAT rates
- Well-thought-out and balanced budget policy - reduction of debt servicing costs, transfer receipts from the National Fund
- Development of the tourism – investments in the sector

Stimulating business activity

- Increasing investments in geological exploration and development of mineral deposits
- Diversification of the economy
- Differentiated gas tariffs
- Development of the manufacturing focused on the domestic market – goods self-sufficiency

Production potential maximization

- National Infrastructure Plan
- Development of the energy market
- Improving housing affordability
- Rural development – over 1,500 projects for 143 billion tenge
- Digitalization of the Government Representative branch

Infrastructure development

- Development of agriculture and water sector
- Issuance of micro-loans to the rural population at 2.5% per annum for 5-7 years
- Access to subsidies for the purchase of equipment and agricultural machinery - 1 trillion tenge is allocated

Assuring food security

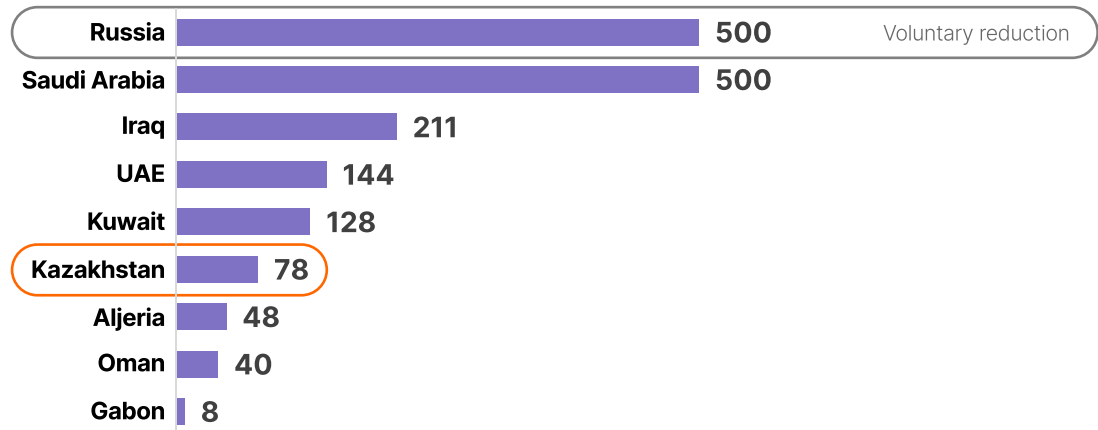
- Improvement of medical infrastructure – it is planned to build 600 facilities in villages
- Training and selection of teachers
- Development of the sports industry – the use of PPP mechanisms

Improving the quality of human capital assets

OPEC+ countries plan to cut oil production

Source: <https://kapital.kz/economic/113885/ob-yem-roznichnoy-torgovli-za-dva-mesyatsa-dostig-2-2-trln-tenge.html>

The volume of estimated production cuts by countries, (thousand barrels per day)



Source: opec.org



Aizhan Alibekova

Analyst

“Despite pressure from the United States, OPEC+ members decided to reduce production by 1.66 million barrels per day (about 2% of global demand) from May 2023. The decision of 9 out of the 23 OPEC+ members was due to a proactive approach to the risks of lowering prices due to the projected less weak growth in energy demand in 2023. Fell short of expectations of the soon-delayed demand impact for raw materials from China.

The announced decline in output temporarily pulled the power over the oil market to sellers and it supports oil quotes. The decision impressed the market largely due to the surprise effect, and benchmark oil prices reacted with a rapid increase in quotations by 5%. The prices simply returned to the level of December 2022 – mid-March 2023, that is, until the moment of the mini-banking crisis in the United States and Europe.

If we analyze its further impact on market conditions, we note that as usual, this reduction is due to a reduction in country production quotes, that were not met by OPEC+ members earlier. Therefore, the decline in oil output will not be as significant as it seems at first glance but is more of a verbal intervention to maintain oil prices above \$ 80 per barrel.

Ultimately, the contribution of this decision will smooth out the supply and demand imbalance in the oil market soon and will provide some support to the prices and revenues of oil producers. In the medium term, especially if we include the concerns of a global economic recession, the impact on the structure of commodity markets will be blurred according to our expectations. Among other things, this artificial reduction in supply carries inflationary risks, such as high oil prices will increase pressure on the final cost of goods and services and reinforcing the need to continue the cycle of tightening monetary conditions. Keeping interest rates at a high level creates risks for the global economy and may cause an additional reduction in aggregate oil demand. ”

Financial sector as of 03/31/2023



Sunggat Rysbek

Analyst

“ **Central banks** with government agencies continue to assist banks in short-term loans or repurchases of their bonds at a below-market rate. The Swiss government has approved a \$118 billion assistance plan for UBS. This will allow the bank to buy out Credit Suisse. At the same time, there is a significant increase in the central banks' balance sheets. For example, the ECB's balance sheet on March 24 increased from 3 to 7.8 billion euros, while the monetary base increased by 46.6 billion to 5.8 trillion euros. Providing substantial monetary support to banks is against the current policy of central banks to reduce inflation.

There is a flow of deposits from small and medium-sized US banks to large ones. According to the Fed data, small and medium-sized banks lost \$ 120 billion of deposits, and the deposit inflows to large banks amounted to \$ 67 billion on March 15. In total, the net outflow of funds from the US banking system amounted to \$ 98 billion.

Given the decline in institutional confidence, clients who did not choose large banks sent funds to money market funds. According to the Institute of Investment Companies, the inflow of funds to money market funds during the week after the collapse of SVB amounted to \$121 billion, which **was the largest inflow since the beginning of 2020, followed by another \$117 billion for the week ending March 22.**

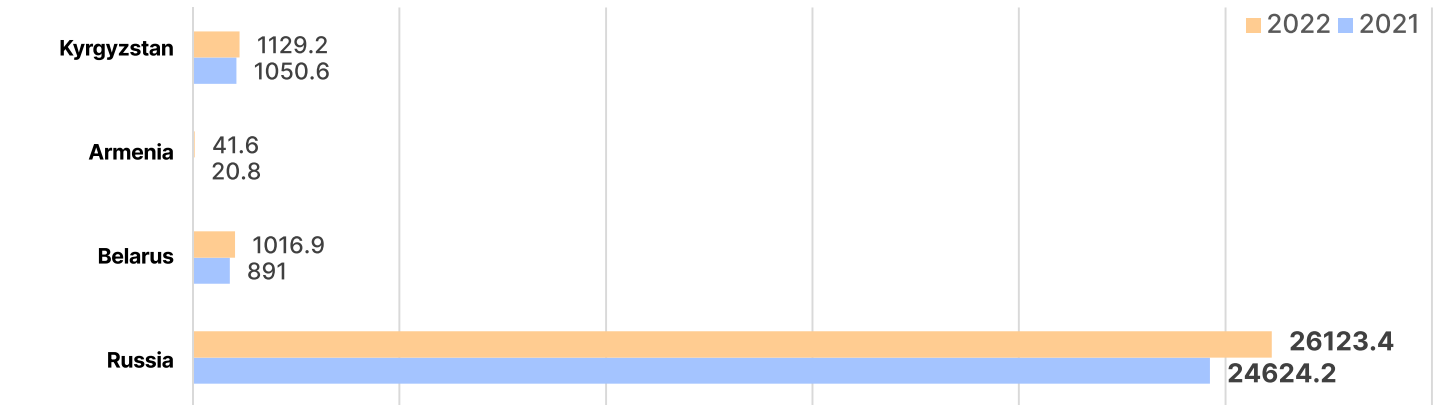
Depositors' concerns have grown amid government statements. If the US government announced that it would protect all deposits at the beginning of the panic, then the US Treasury Secretary Janet Yellen recently announced that she **was not considering universal insurance of Americans' bank deposits.**

The expenses of the Federal Deposit Insurance Fund (FDIC), which amounted to \$23 billion in recent bank failures, also increase the pessimism. Moreover, the FDIC intends to increase bank contributions to cover losses to support its Deposit Insurance Fund for \$ 128 billion. This measure strengthens the role of large banks, which will have to face the consequences, and they are engaged in consulting problem banks and participating in restoring confidence in banking.”

Kazakhstan introduces mandatory registration of accompanying invoices in trade with the EEC countries

Source: https://tengrinews.kz/kazakhstan_news/kazakhstan-vnedryaet-obyazatelnoe-oformlenie-snt-torgovle-494511/

Kazakhstan's trade turnover with the EEC countries, million dollars



Source: NBK



Abylay Assylkhan

Analyst

“Mandatory registration of accompanying invoices in mutual trade with the EAEU countries is being introduced from April 1, 2023 to reduce shadow turnover and exclude tax losses. Previously, the accompanying invoices were implemented in a pilot mode from December 2020 voluntarily.

We note that the registration of the accompanying invoices is provided in electronic form before crossing the border (via Electronic Digital Signature), which excludes the possibility of processing documents for nominees, fictitious recipients and senders of goods, bankrupts, liquidated persons, etc. Thus, the implemented system allows automation of the controlling process of the goods' movement across the border.

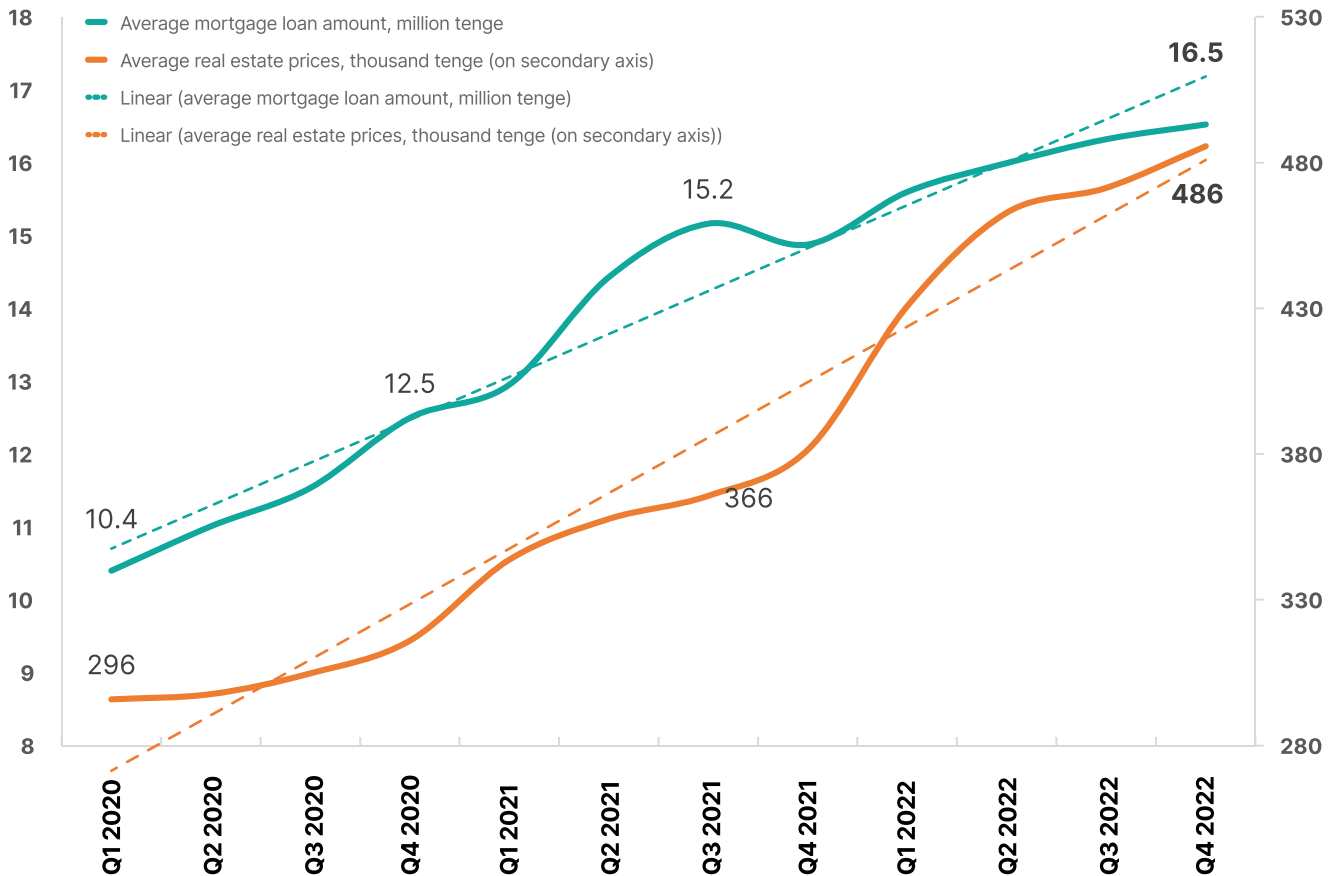
In addition, from April 1, 2023, the accompanying invoices must be issued when selling goods onshore only for 4 categories of goods: biofuels, alcoholic beverages, petroleum products, and goods subject to traceability (refrigerators, freezers and washing machines).

Recall that 21% of the total turnover of Kazakhstan fell on the EEC countries in 2022. At the same time, 87% of the turnover with the EEC countries accounted for Russia. Kazakhstan's imports from Russia fell by 4.7% in March-December 2022.”

How much money did Kazakhstan citizens borrow from banks to buy housing

Source: <https://informburo.kz/novosti/kazakhstan-ozidaet-otkrytiya-kitaya-i-irana-dlya-eksporta-psenicy>

Dynamics of the average mortgage loan amount and real estate prices



Gulnaz Aldibekova

Analyst

“ The volume of the mortgage portfolio in Kazakhstan amounted to 4.9 trillion tenge as of March 1, 2023, which is 1.6% more than at the beginning of the year.

7.7% more (96.5 billion tenge) mortgage loans were issued in February 2023 compared to the previous month, while most of it fell on Astana (27 billion tenge) and Almaty (26 billion tenge) cities. The smallest volume of mortgages issued in February was noted in Zhetysu (448 million tenge), North Kazakhstan (941 million tenge), Turkestan (468 million tenge) and Ulytau (120 million tenge) regions.

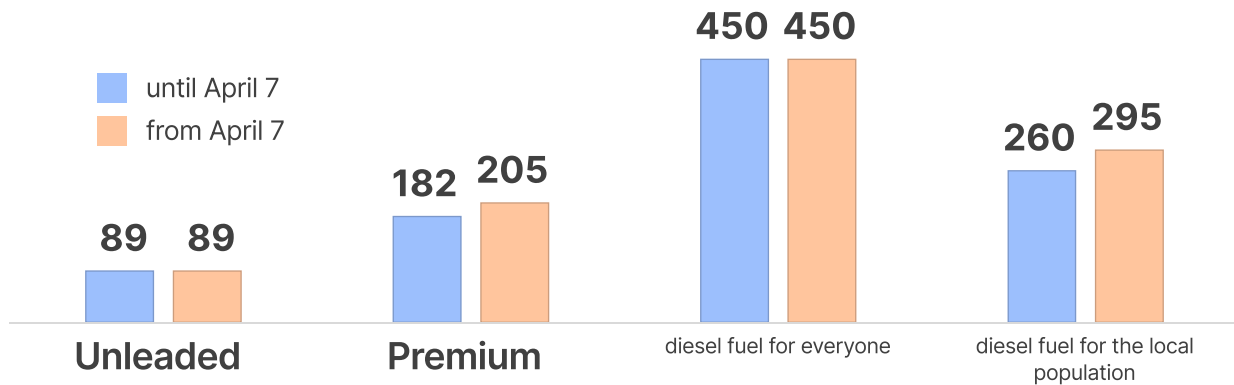
The increase in mortgage loan issuance is most likely associated with an increase in real estate prices since there has been a decrease in the real estate market activity in the last few months.

Expected that the extension of the "7-20-25" program and the introduction of new soft-window facilities will positively impact accelerating the growth rate of mortgage loans.” ”

New prices for gas, gasoline and diesel fuel in Kazakhstan. A Draft Order was released

Source: https://tengrinews.kz/kazakhstan_news/novyye-tsenyi-gaz-benzin-diztoplivo-kazahstane-poyavilsya-495377/

Changes in POL prices, tenge



Abylay Assylkhan

Analyst

“ In our opinion, the decision to raise fuel prices is forced. Even though the gasoline output has increased by 70% and diesel fuel by 33% over the past 5 years, the Kazakhstan market has faced the risk of POL shortage. The main factor of the deficit is the low petroleum, fuel and lubricant prices in Kazakhstan, which are a consequence of administrative restrictions. For example, diesel costs 45% more in Russia, 64% more in Kyrgyzstan, and 2 times more in Uzbekistan. And as a result, regulated fuel prices cause asymmetry, which creates unfavourable price incentives for the export of domestic POL outside the country and hinders the industry development by artificially limiting the revenue of producers.

Currently, there are restrictions on the retail cost of fuel in Kazakhstan: unleaded is 89 tenge per liter, prices for premium gasoline are 187 tenge per liter in Kostanay and North Kazakhstan regions, and 182 tenge per liter in other regions. Diesel fuel costs 230-260 tenge per liter for Kazakhstan citizens and 450 tenge per liter for non-residents. After the increase in fuel prices, the situation will be as follows:

- 89 tenge per liter for unleaded;
- 205 tenge per liter for premium;
- and 450 tenge per liter for diesel fuel (summer, off-season); 295 tenge per liter upon a driver's license issued in Kazakhstan and in the amount of up to 100 liters per day; 295 tenge per liter upon driver's license and a vehicle registration certificate for trucks, specialized cars and buses issued in Kazakhstan and in volume up to 300 liters per day.

In general, the POL cost increase (gasoline by 11%, diesel fuel by 20%) will have a proinflationary effect on the cost of goods and services of both domestic and imported production. The growth of the proinflationary burden will fall on the end consumers, worsening their purchasing power. On the other hand, the long-term limitation of the fuel producer revenues reduces their investment attractiveness and thereby affects the prospects for the production and supply of fuel to the domestic market. This imbalance needs to be overcome now, to avoid even greater consequences that may follow in case of a POL shortage in the country. According to the recent example of sugar prices in 2022, even a slight reduction in supply caused a rush in demand and an increase in prices. And needless to say about POL, which plays a much more significant role in the structure of the economy and domestic consumption. Therefore, further price "freezing" is irrational both from an economic and social side since it only postpones the crisis point and significantly worsens its consequences.

For sure, the increase in fuel prices will cause a change in the assumptions of inflation and business activity outlooks. Given the sensitivity of society and business representatives to this problem, it is necessary to completely rethink the approach providing for the intervention in the market pricing process to achieve a disinflationary effect, the side result of which is the emergence of so-called "hidden inflation" and certain imbalances accumulation.”



Auhors: Aizhan Alibekova, Abylay Assylkhan, Gulnaz Aldibekova, Klara Seidakhmetova, Sunggat Rysbek

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