

News digest for

03/13/2023-03/26/2023



Budget amendments of Kazakhstan for 2023 were adopted by senators

Source: https://tengrinews.kz/kazakhstan_news/popravki-v-byudjet-kazahstana-na-2023-god-prinyali-senatoryi-493760/

Source: Ministry of Finance, Ministry of National Economy, Jusan Analytics calculations



Budget revenue
24 087.7 billion tenge
(22 308.3 billion tenge in the initial budget)



Budget expenditures
27 296.2 billion tenge
(25 437.7 billion tenge in the initial budget)



Budget deficit
-3 208.6 billion tenge
(-3 129.4 billion tenge in the initial budget)



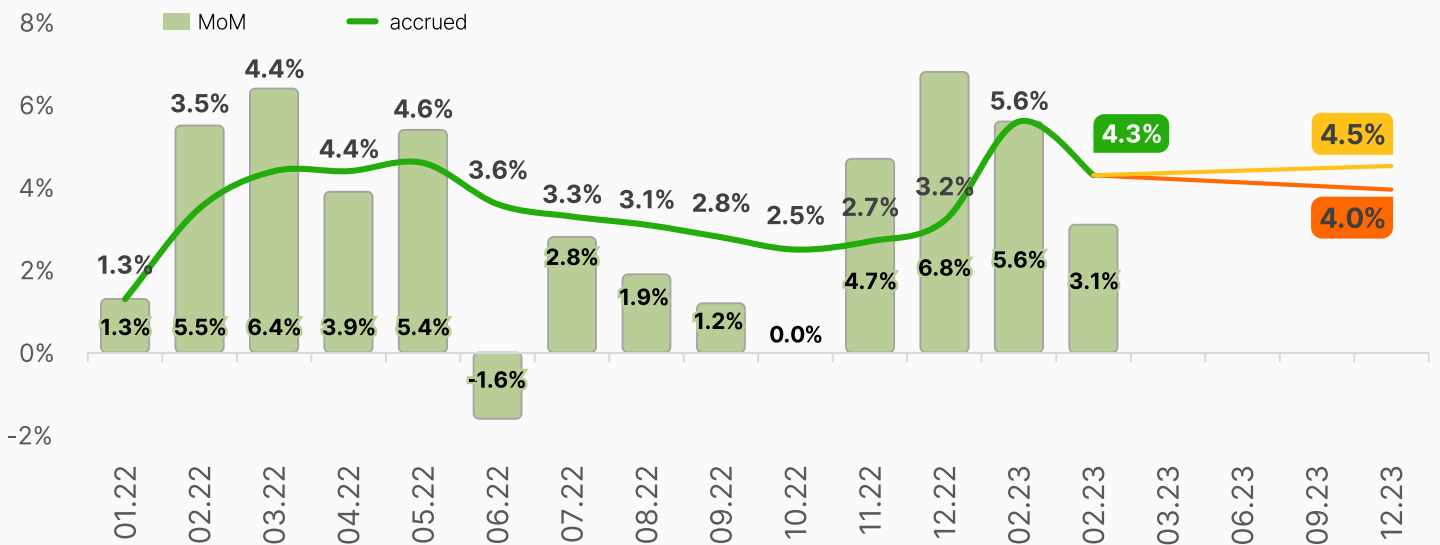
Klara Seidakhmetova

Analyst

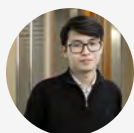
“The Senate has considered amendments to the budget for 2023. According to the updated budget, the budget revenue has been revised upward by 1.7 trillion tenge. This will be ensured by an increase in the tax by almost 900 billion tenge and an additional increase in transfer receipts from the National Fund by 800 billion tenge. At the same time, the expenditures will grow by almost 2 trillion tenge. The budget money is projected to support the social sphere, the development of agriculture, the real sector, the implementation of a national project to modernize healthcare in rural areas, etc. As a result of almost uniform growth of the revenues and expenditures, the planned deficit will remain at the level of -3 trillion tenge or 2.7% of GDP.

The budget revision means the expansion of state stimulation of the economy, which will positively impact its growth. We have revised the projected range of economic growth from 3.8-4.3% to 4.0-4.5% by the end of 2023 if there are no shock events.”

Source: BNs of the Agency for Strategic Planning and Reforms, Jusan Analytics outlook



Financial sector as of 03/27/2023



Sunggat Rysbek

Analyst

“ On March 19, news broke that **UBS agreed to buy back all shares of Credit Suisse** at 0.5 Swiss francs. The panic after the SVB bankruptcy affected the decline in confidence of the entire banking sector in the United States and Europe. First of all, this affected Credit Suisse, which on March 14 published its annual report for 2022, which states that the bank has identified "significant shortcomings" in the financial reporting control and has not yet stopped the outflow of clients. The share prices fell by 23.7% after the main shareholder refused to increase bank capital.

On March 22, the US Federal Reserve raised its key rate by 25 bps to 5.00%. Initially, the rhetoric of its representatives signalled a possible increase in the key rate by 50 bps. However, due to concerns about growing risks in the global banking sector that could escalate into a recession, the Fed decided to raise the rate by only 25 bps. At the same time, the press release states that the US banking system is reliable and stable. The Committee expects that bringing inflation back to the 2% level over time may be required additional policy tightening.

Following the US Federal Reserve, **the Bank of England raised the base interest rate by 50 bps to 4%** on March 23. The Central Bank's decision was also expected since the UK Bureau of National Statistics published inflation data the day before the decision. While there was a decrease in the inflation rate for several months in a row, the inflation there rose to 10.4% by the end of February.

Deutsche Bank shares fell by 8.53% on Friday. The main reason for such a rapid decline was the increase in the cost of credit-default swaps of Deutsche Bank **above 220 bps**, which is the highest since 2018. The record one-day CDS growth caused panic and affected the stock quotes of other banks: Commerzbank shares fell by 5.45%, and Societe Generale by 6.13%.

On Monday, it became known that **First Citizens BancShares Inc. will acquire the bankrupt Silicon Valley Bank.** The deal involves the purchase of SVB assets worth about \$ 72 billion at a discount of \$16.5 billion. First Citizens will also commit to service deposits in the amount of \$56 billion.

At the same time, the US authorities are considering the possibility of **expanding the emergency lending** program, which will provide additional support to banks. And due to this, there is a flow of deposits from small and medium-sized banks to larger ones. Sof-window facilities provided to small and medium-sized banks will help them to get through the panic and contribute to the market recovery.

In general, the main reason for raising rates is still the fight against inflation. However, the main problem has been preventing a banking crisis since mid-March. SVB's bankruptcy significantly affected the takeover of Credit Suisse, Switzerland's largest bank, and the resulting panic in the market forced the Fed to soften its rhetoric. **The US Federal Reserve has faced a dilemma between fighting inflation and maintaining financial stability.** Given that the Central Bank allocates additional funds to maintain liquidity and prevent bank bankruptcy, we expect this problem to be resolved soon, and then the Central Bank will continue the cycle of raising the key rate. ”



The volume of deposits in February decreased by 796 billion tenge



Sunggat Rysbek

Analyst

“The outflow of deposits still took place in February, their volume decreased by 796 billion tenge and amounted to 29.8 trillion tenge. A significant outflow is observed by legal entities (-778.8 billion tenge), while the outflow of individuals amounted to 17.5 billion tenge. At the same time, there is an influx of tenge deposits of individuals (+178.7 billion tenge), and this reduced the total outflow of retail deposits.

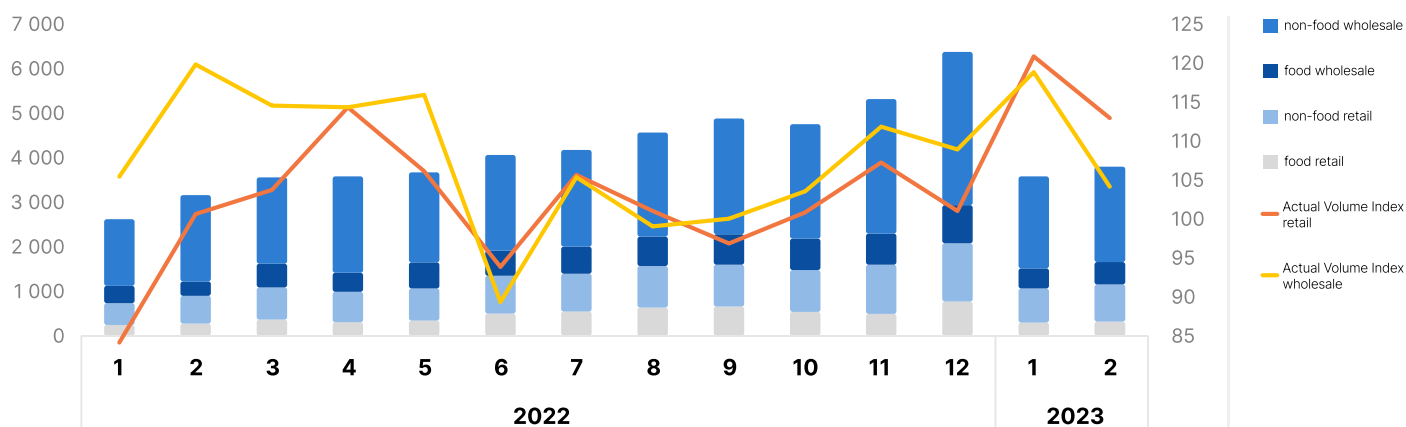
The reduction in foreign currency deposits is mainly due to the exchange rate revaluation and a significant strengthening of the tenge, which contributed to the flow from foreign currency household deposits to tenge ones. The inflow in tenge deposits of individuals is also explained by the state reimbursement.

Despite the maintenance of the base rate, the outflow of deposits of legal entities may signal possible problems, which are more likely to be explained by a reduction in corporate sector revenues, or a shift in emphasis from saving funds on deposits towards the purchase of government short- and medium-term bonds.”

The volume of retail trade for two months reached 2.2 trillion tenge

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

Domestic trade indicators



Aizhan Alibekova

Analyst

“The retail volume index decreased from +20.8% to 12.9% by the end of February 2023. However, these figures are significantly higher than the previous statistics of the end of 2022 and are explained by the effect of a low base at the beginning of 2022 due to the drop in the trade sector activity because of January events. And the domestic wholesale market demonstrates a similar picture.

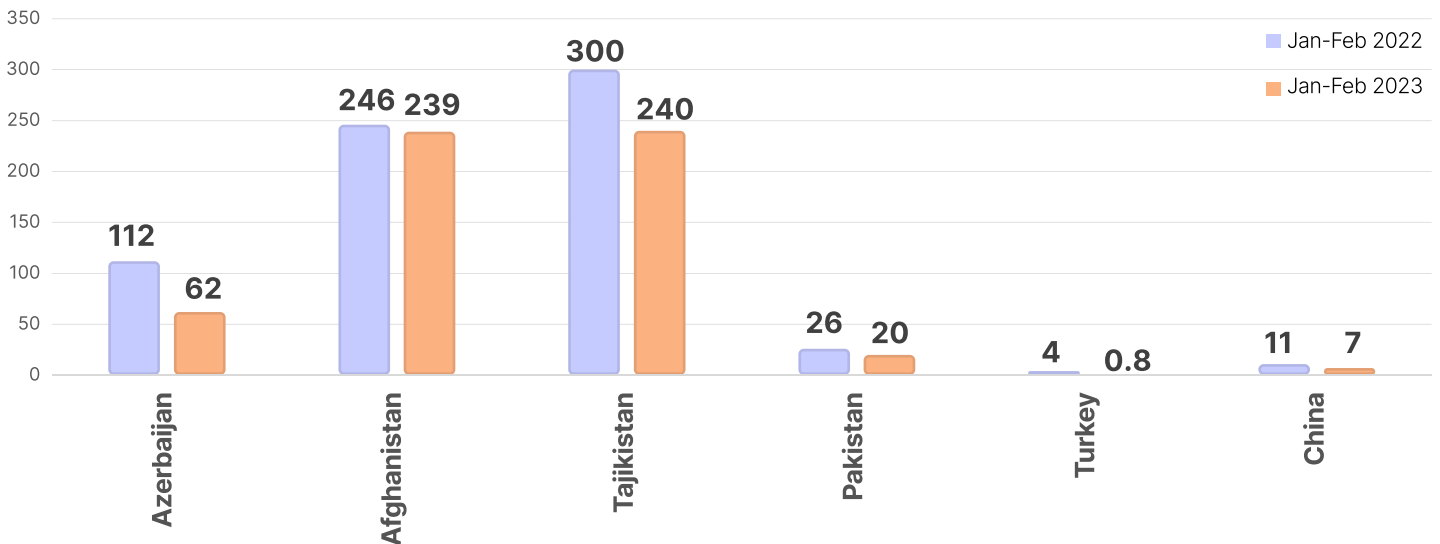
We note also the situation in domestic trade. The increase in the volume of food products trade in January-February 2023 is even lower than the growth rate of food prices. This gives cause to assert that we see a decrease in the volume or quality of consumption of food products to meet other needs, the prices of which are also rising.

According to official statistics, the volume of purchases of cars, clothing, computers, peripheral equipment and software, and electrical household appliances is growing significantly in the domestic trade of non-food products. And there are high risks for this group of goods that the final consumers may be citizens of a neighbouring country whose economy is under sanctions for high-tech goods and services purchase. Summing up, it is possible to assume a decrease in consumer activity in Kazakhstan hidden by this effect due to the loss of purchasing power due to a long period of rising prices.”

Kazakhstan expects China and Iran to open up for wheat exports

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

Dynamics of wheat exports in January-February 2023, thousand tons



Abylay Assylkhan

Analyst

“The Ministry of Agriculture of Kazakhstan reported a record harvest over the past 10 years – 23 million tons of grain and legumes (+27% compared to 2021), and the wheat harvest has increased by 30%.

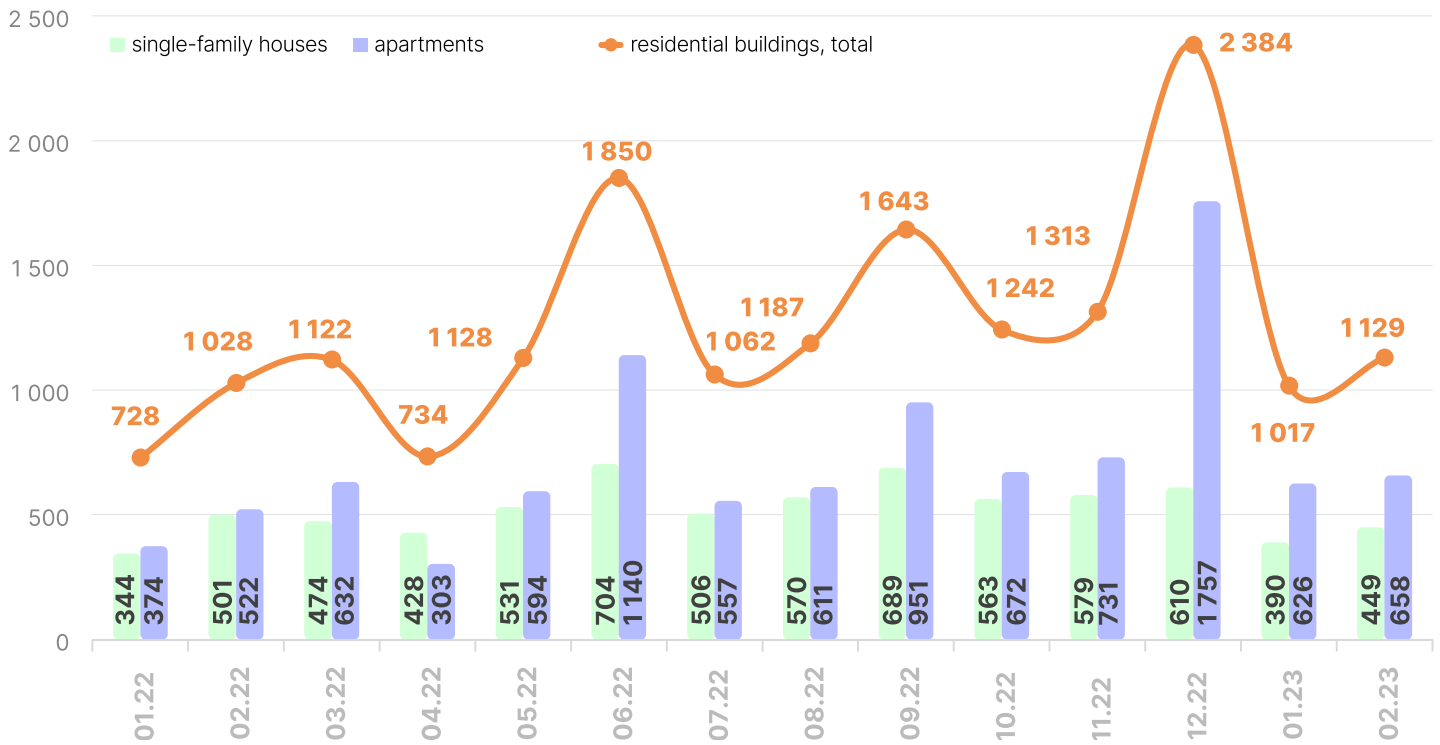
Having cropped a record grain harvest in 2022, Kazakhstan had faced difficulties with exporting it due to logistics and the entry of Russian grain into Central Asia. The third-class grain from the elevator is at 114-117 thousand tenge per ton in the northern regions of Kazakhstan, and Russian wheat is exported at 95 thousand tenge per ton.

Today, the Kazakh Grain Union and the authorized bodies of the Celestial Empire are developing the issue of increasing Kazakh grain supply to China. Kazakhstan exported 7 thousand tons of grain in the first 2 months of 2023. The main obstacle is the inability to ship grain hoppers, and the cost of container transportation is much higher. Following representatives of the Kazakh Grain Union, Kazakhstan can export more than 1 million tons per season to China by solving the logistics problem.”

How much housing has been commissioned in Kazakhstan

Source: <https://krisha.kz/content/news/2023/skol-ko-zhil-ya-vveli-v-kazahstane>

Commissioning of apartment buildings, thousand m2



Gulnaz Aldibekova

Analyst

“According to the Bureau of National Statistics, the volume of new housing construction increased by 22% YoY in the first two months of this year. At the same time, most square meters of housing were commissioned in Almaty city (423.5 thousand square meters), Astana city (424.8 thousand square meters) and Aktoobe region (134.7 thousand square meters).

Following official data of the Ministry of Industry, the volume of housing commissioning will be reduced to 15.3 million sq. m. by the end of 2023. The expected decrease is caused by the high cost of construction (in February 2023 amounted to 172.3 thousand tenge, which is 25% more than in February 2022), lack of engineering infrastructure, and bankruptcy of developers. The market survey of the National Bank of Kazakhstan showed that 35.6% of construction companies in the country are at a critical level by reliability, and only 25.9% are completely stable.

The introduction of state programs to support housing construction and mortgage lending will continue to provide the population with housing in the country.”



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

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