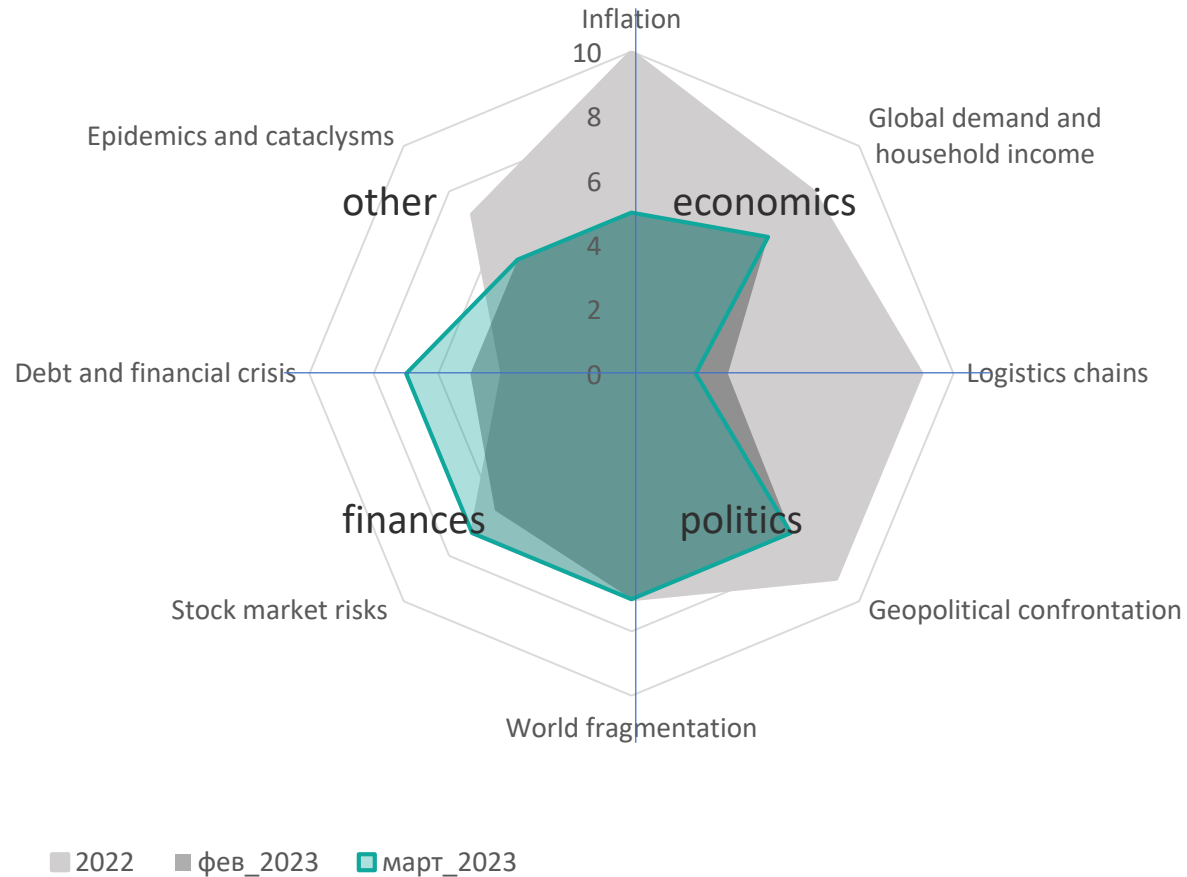


Business Environment and Trends Overview

March 2023

External conditions

Challenges and problems web



Major trends:

The risk area has expanded and the risk rating has changed. Now **it is headed by a possible destabilization of the financial situation**

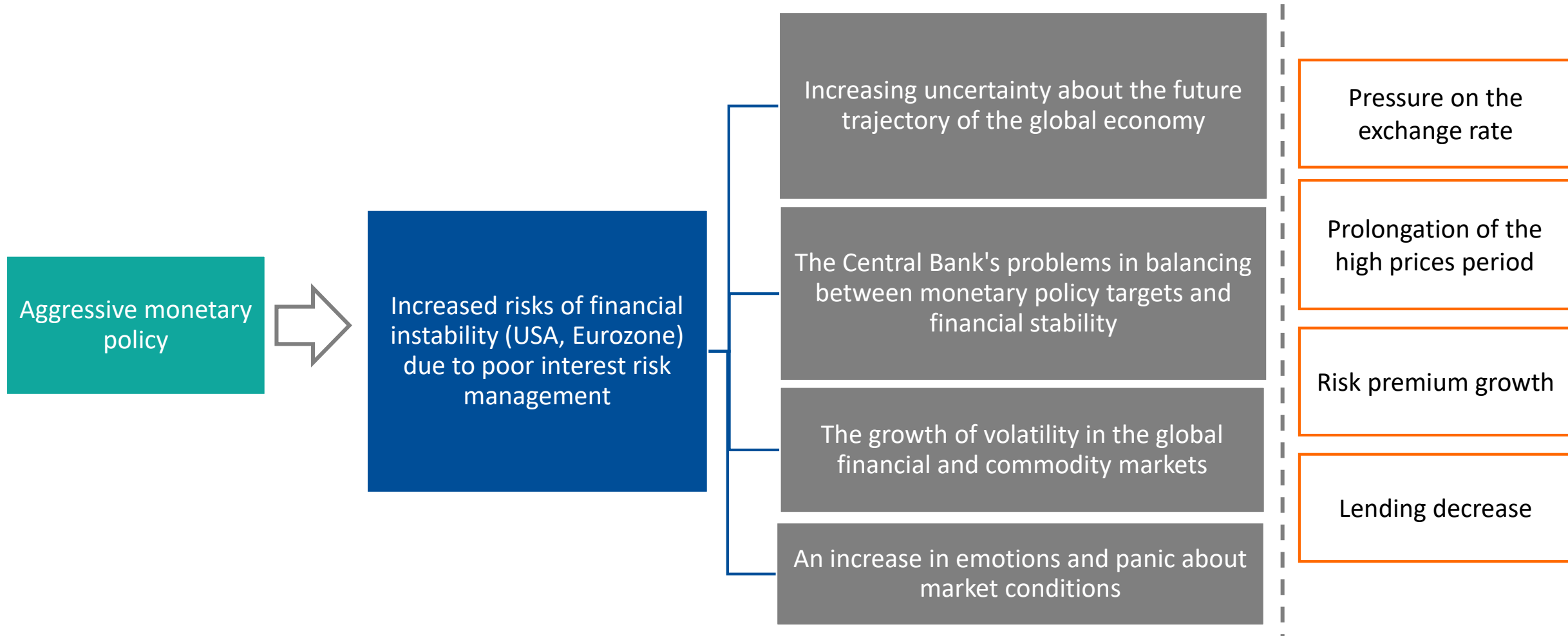
The assessment of some risks looks less gloomy:

- Inflation and its expectations are declining
- Chains are being restored
- Aggregate demand turned out to be more resistant to the restraining monetary measures
- Additional shocks caused by the struggle for stability are possible

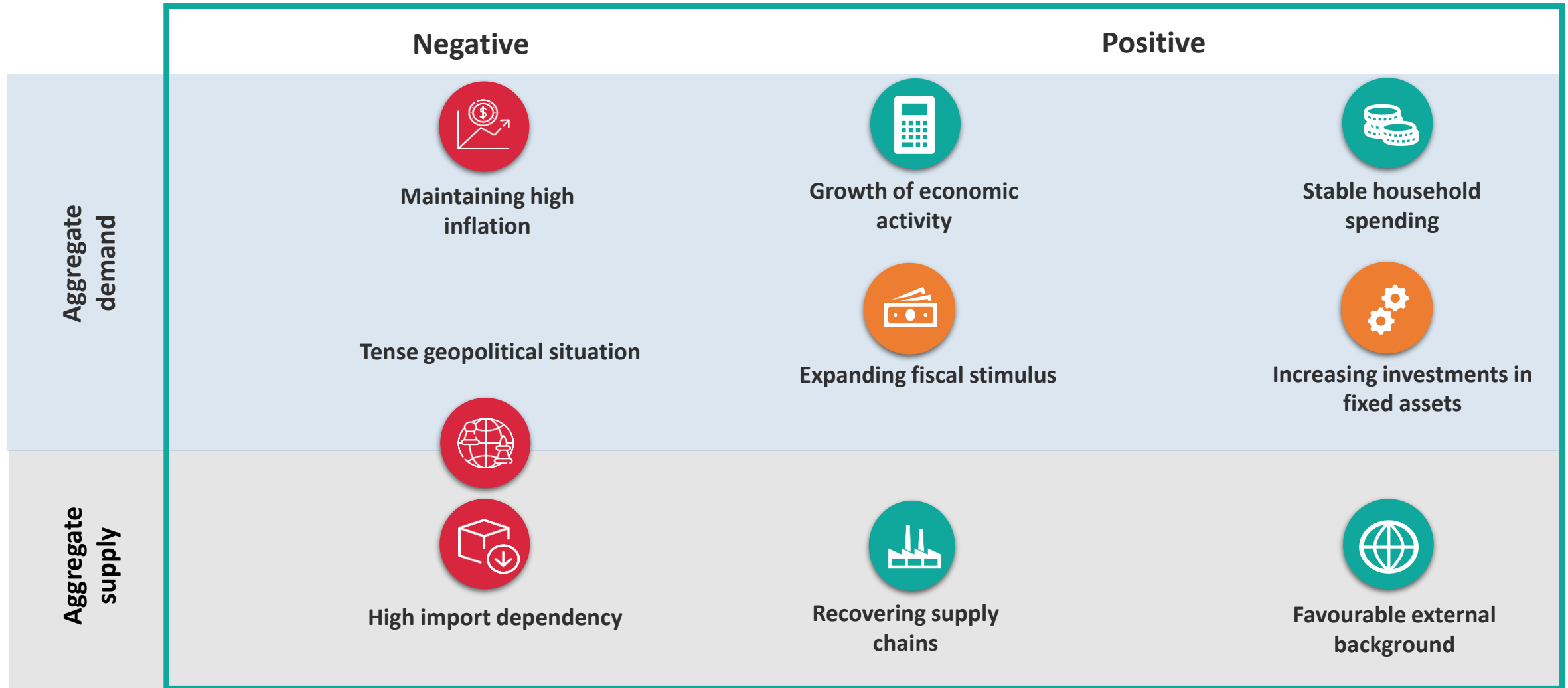
! Mini-crisis in the US and EU banking systems may slow down the economic activity

! The spread between the current yield of 3-month US Treasury bills and their yield in 18 months is inverted by 134 points and is a **signal of a struggling economy**

External conditions and their influence



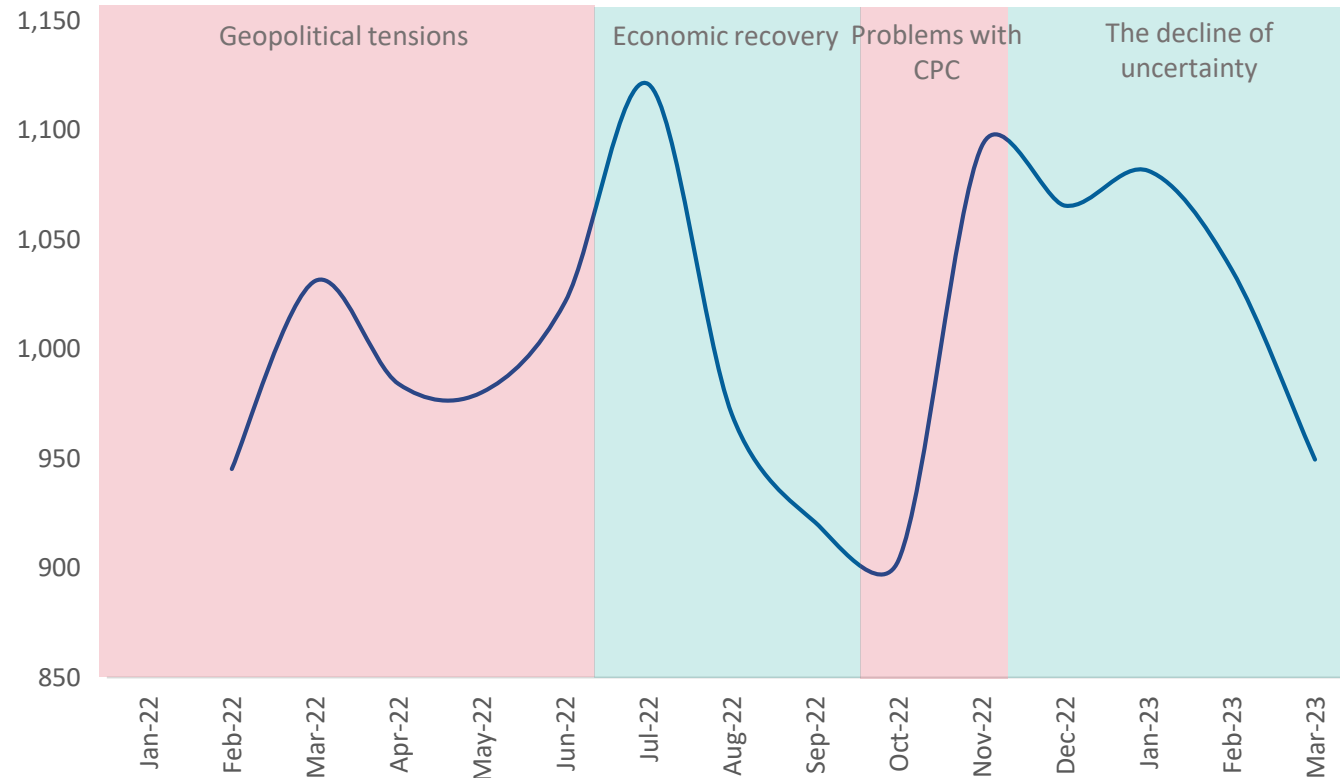
Prospects of Kazakhstan's economy



Source: Jusan Analytics calculations

External factors for March 2023

CDS spread between Kazakhstan and the USA



CDS spread is an indicator of risk assessment by investors

This is the difference between the 10-year government bonds of Kazakhstan and 10-year US government bonds

Investors' belief in positive economic recovery in Kazakhstan

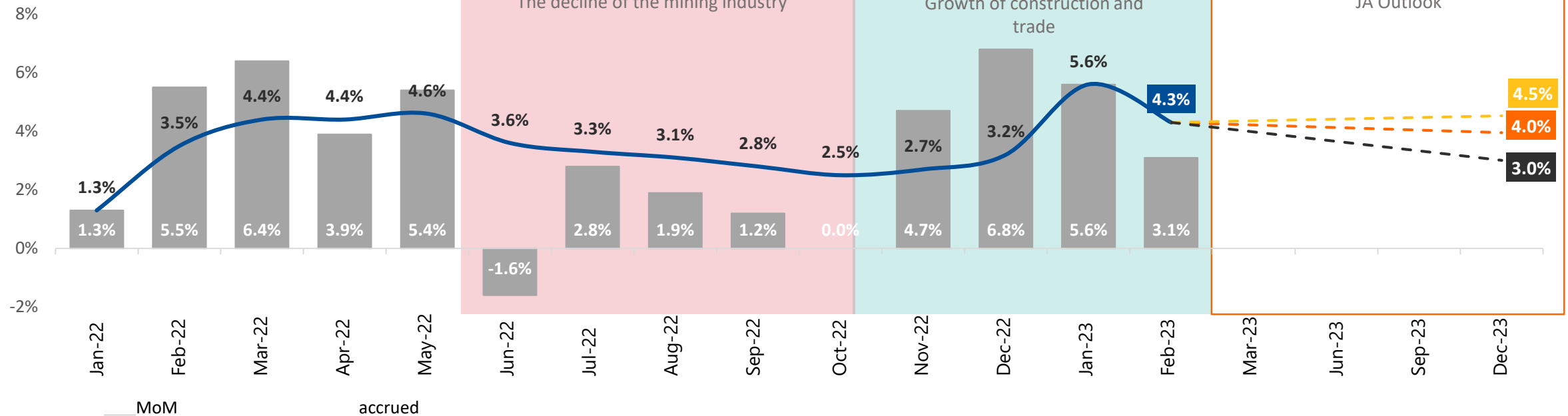
The spread value has returned to the level at the beginning of 2022

Favourable terms for international loans

Improving the investment potential of Kazakhstan

Economy of Kazakhstan

Real GDP growth, %



Outlook for 2023:

4.0 ▲ - 4.5% ▲

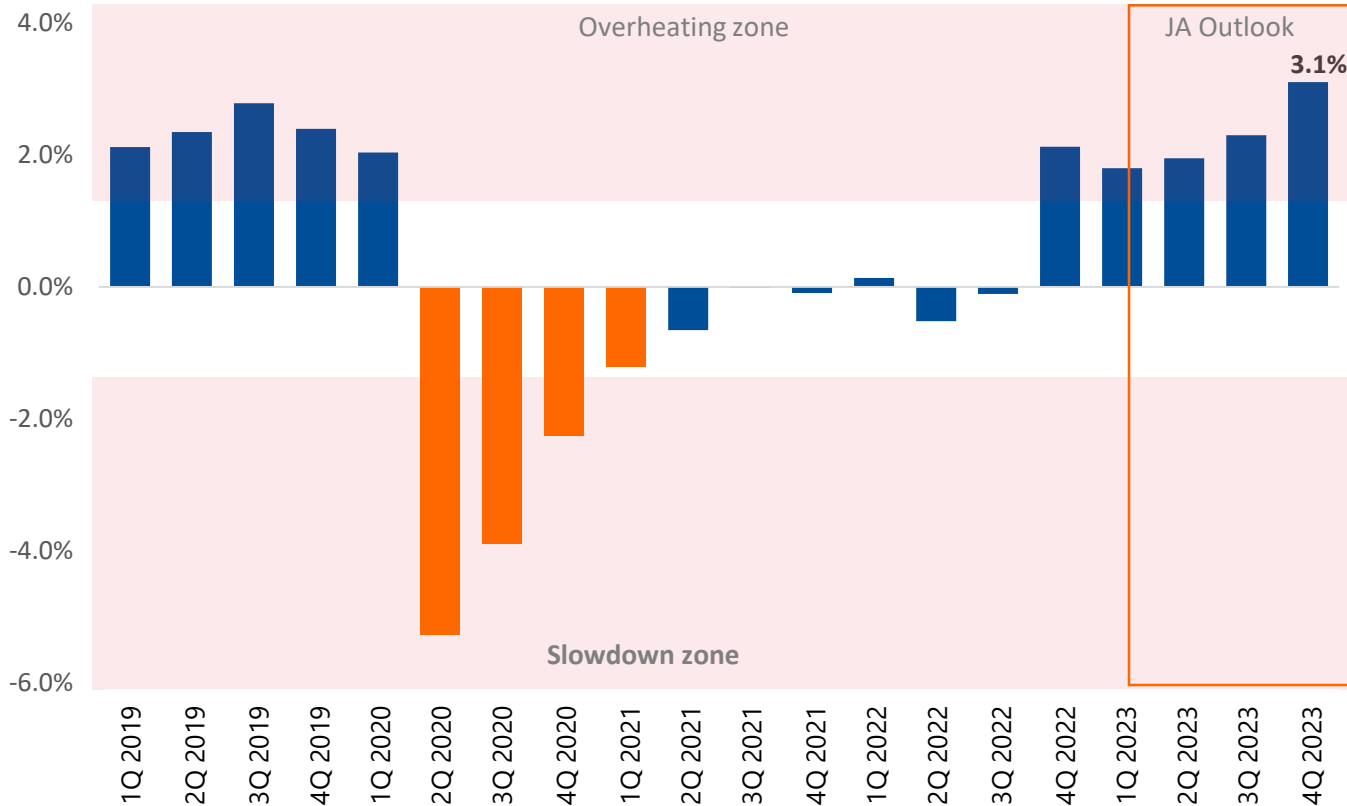
Long-term GDP growth: 3.6-3.8%

Factors

- Expanding fiscal stimulus
- Growth of investment activity
- Stabilization of the mining industry
- Gradual easing of price pressure
- The growth of the labour market and the opening of new industries

Overheating or slowdown of the economy

Deviation of economic growth from its potential level, %



Outlook for 2023:

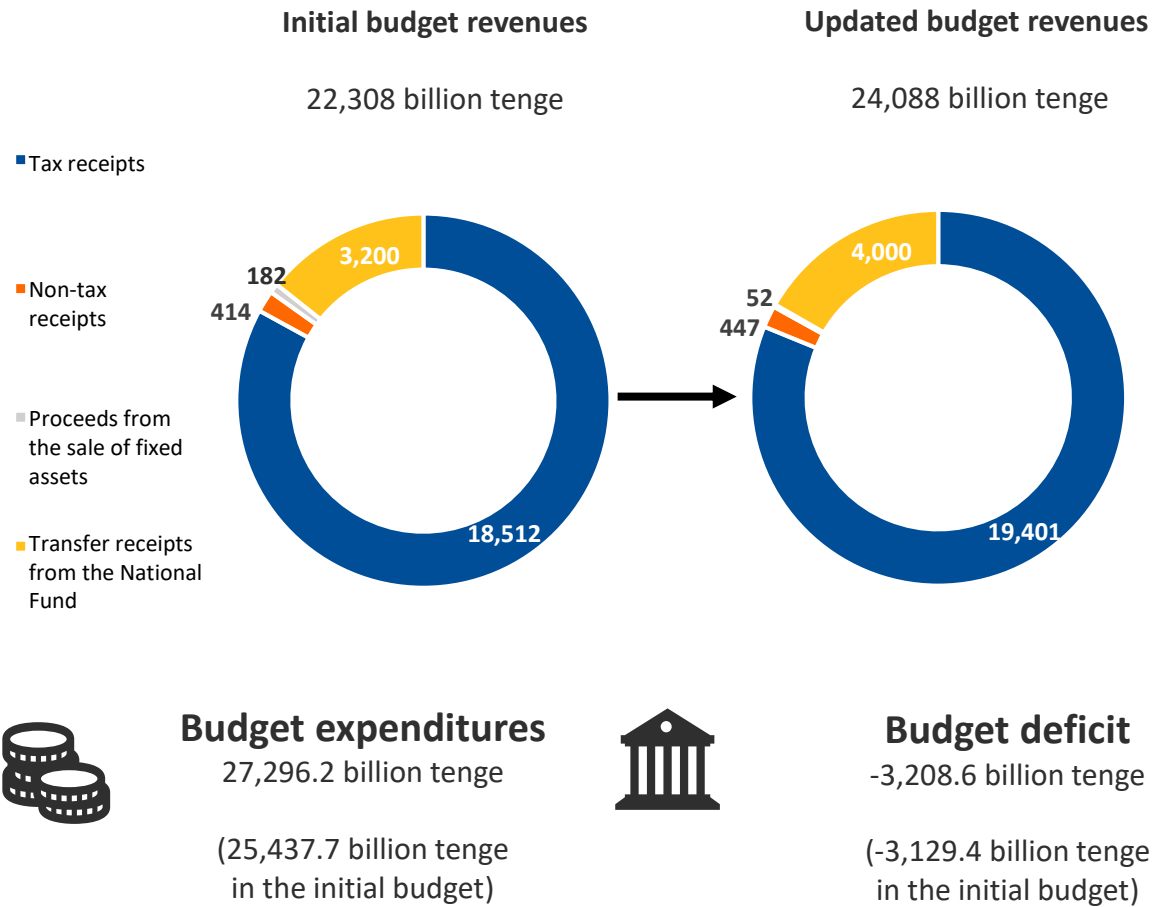
The economy **will be in an overheating zone** due to:

- expansion of fiscal stimulus;
- export growth due to increased oil production and settlement of supply problems;
- growth of investments in fixed assets;
- maintaining high rates of consumer lending

What a positive gap gives:

- + demand for lending resources from businesses;
- maintaining proinflationary pressure;
- maintaining high base rate values;
- + high values of GDP growth and business activity

Fiscal policy



Fiscal policy in 2022:

- 55% of all expenses are directed to the social sphere
- 5% of expenditures are to the development of the manufacturing sector
- increase in the debt servicing costs share to 6.3%
- approval of countercyclical budget rules

The budget for 2023 was revised in March:

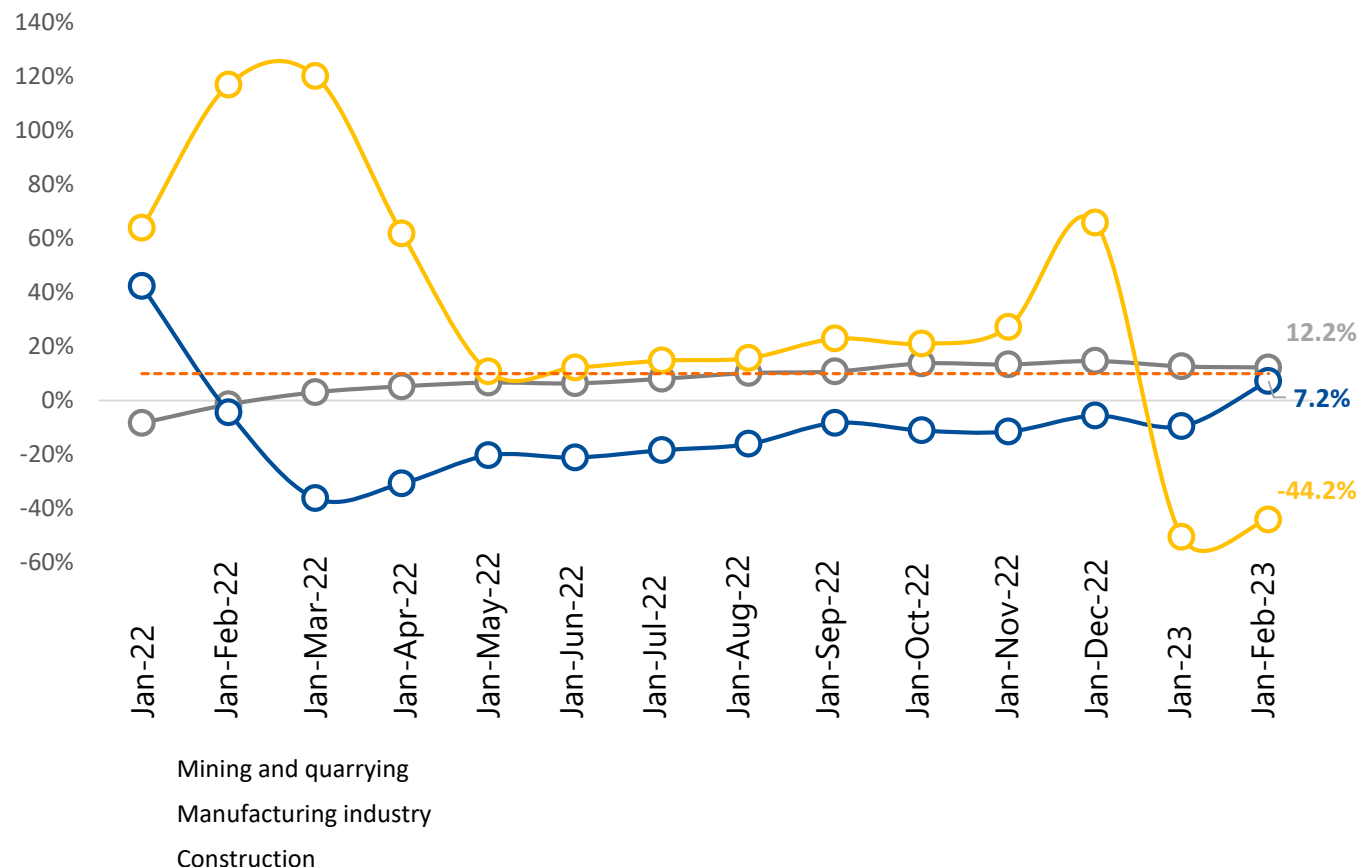
- budget revenues have been revised upward by 1.8 trillion tenge;
- receipts of transfers from the National Fund are increased by 800 billion tenge;
- the growth of budget expenditures by 2 trillion tenge to support the development of regions, agriculture, the real sector and the social sphere

As a result, the budget deficit remains at the level of -2.7% of GDP

Investments in fixed assets

Business demand

Investments in fixed assets, % YoY



Investments in fixed assets amounted to 1.6 trillion tenge in January-February 2023 (+19.2% YoY)

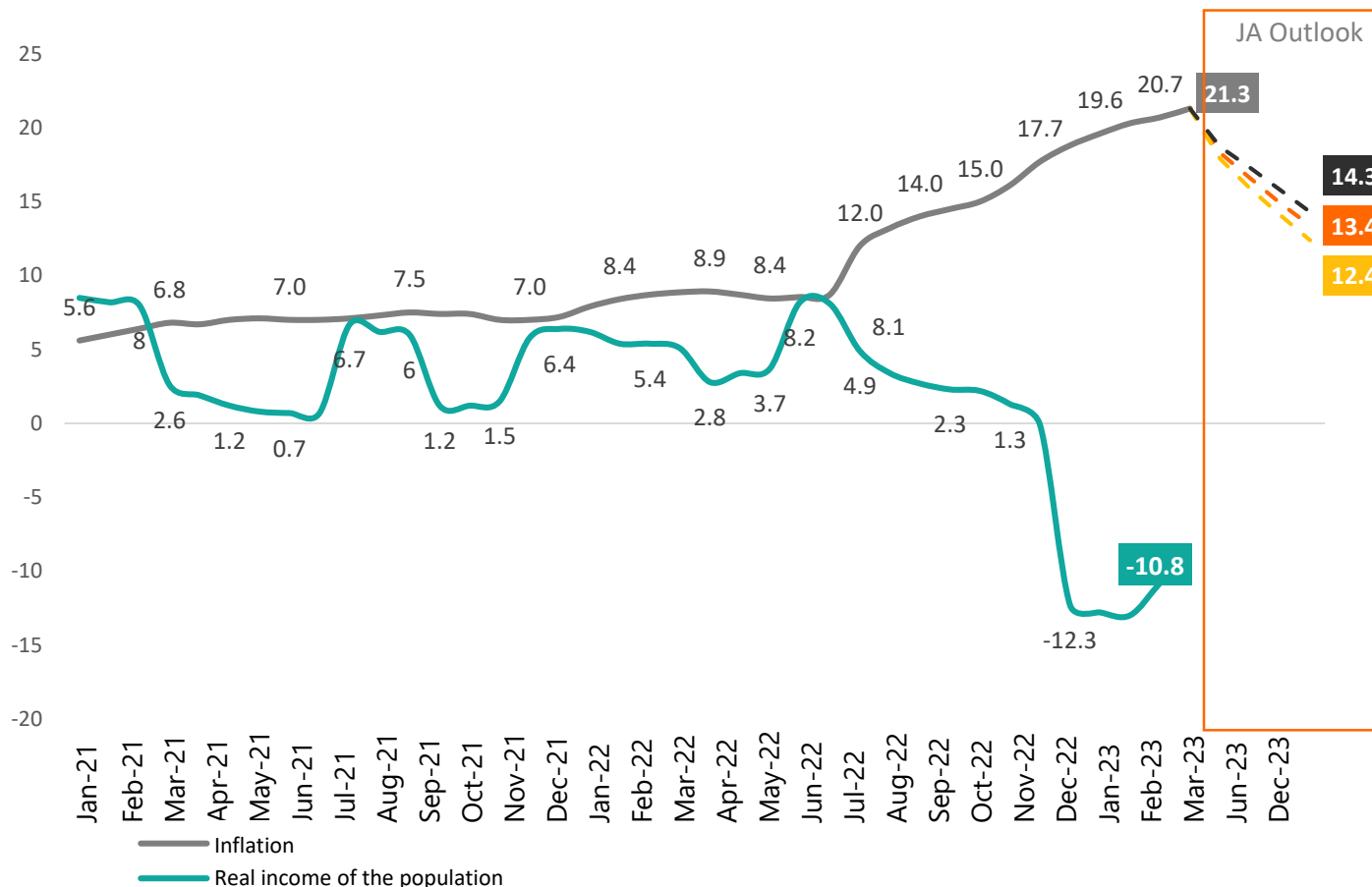
The construction shows a decline due to the high base last year, while the manufacturing sector **is gaining activity**

Expectations for 2023:

- Rehabilitation of investment activity
- Growing demand for long-term loans for businesses
- The growth of business investment activity is **an increase in pressure on the exchange rate and imports** by the purchase of equipment

Inflation and household income

Inflation and real income of the population, % YoY



Outlook for 2023: inflation will decrease to 12.4 ▼ - 14.3% ▼

- Inflation slowdown in the main partner countries
- Gradual decline in world food prices
- The impact of restraining monetary conditions
- Stable tenge exchange rate

NBK outlooks on inflation:

9-12% ▼ in 2023,
6-8% in 2024, and 4-6% in 2025.

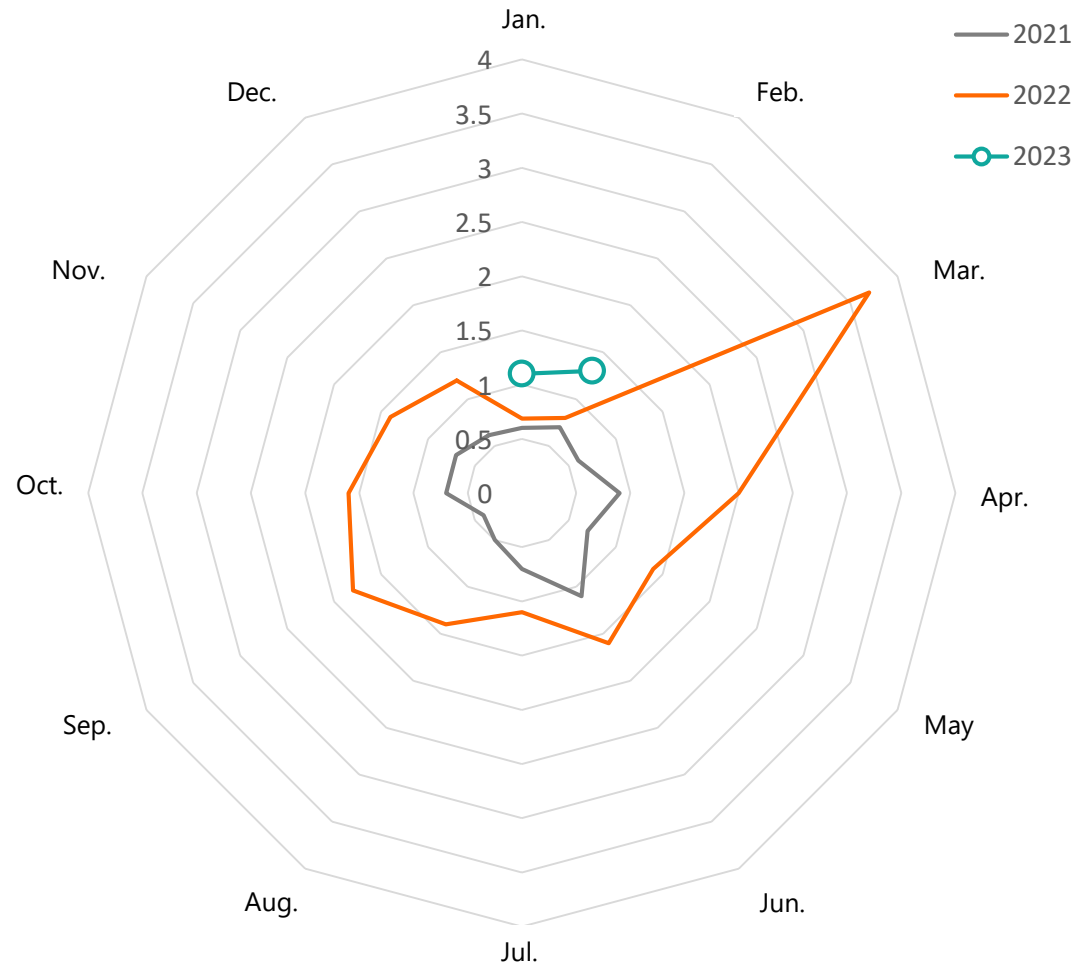
Expectations of business representatives according to the NBK questionnaire:

12.2% ▲ in 2023 году, 8.8% in 2024, and 7.2% in 2025

Recovery of real incomes of the population due to indexation of nominal incomes at the beginning of the year

Inflationary pressure

Price growth rates, % MoM



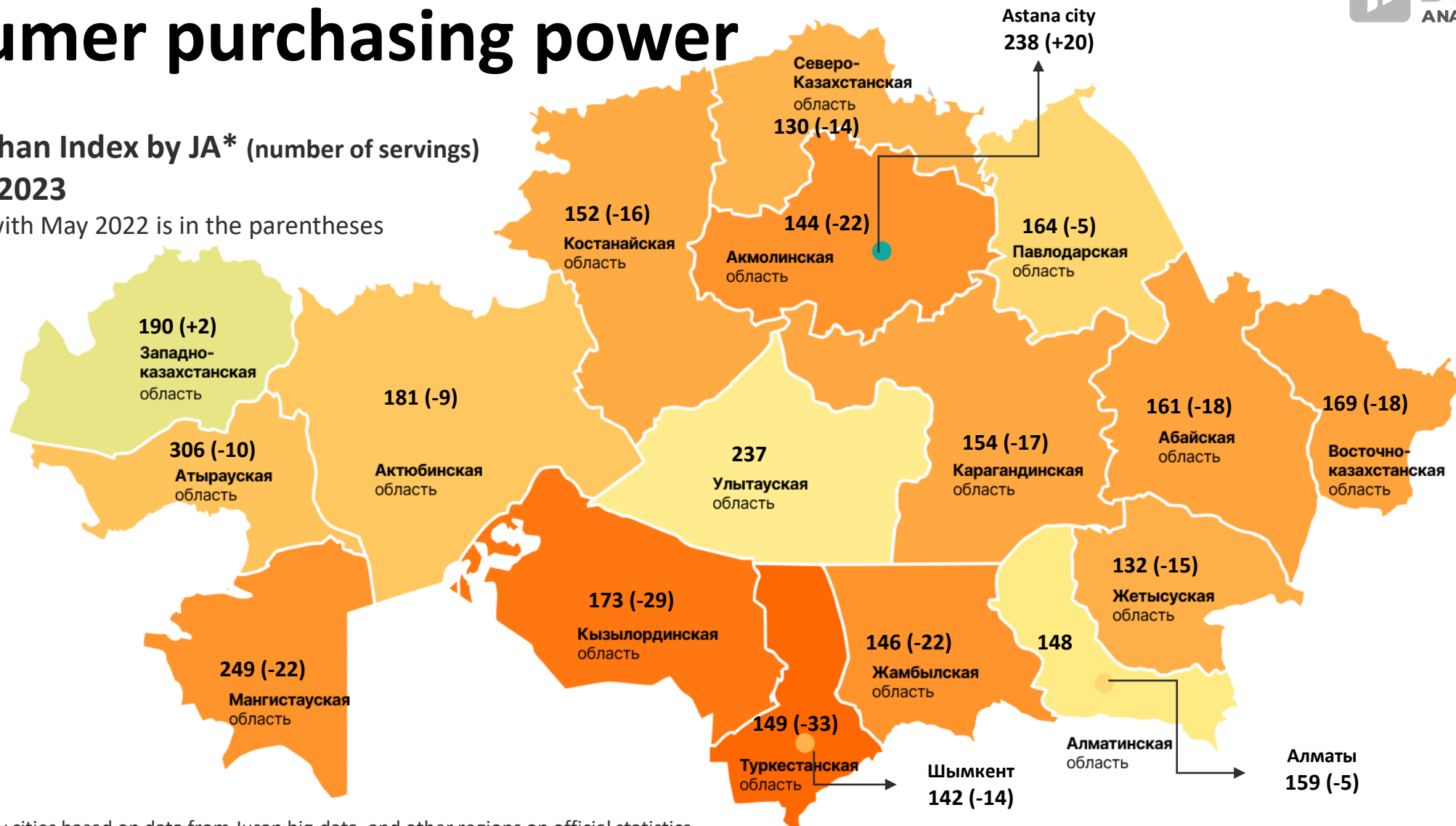
Pro-inflationary environment:

- Underlying price pressure maintains an uptrend
- Household expectations are declining, but there is no stability yet
- The heterogeneity of the price response to the monetary policy change and the next wave of fiscal stimulus cause the **constant inflation in the economy**

Consumer purchasing power

The Dastarkhan Index by JA* (number of servings)
in February 2023

the difference with May 2022 is in the parentheses



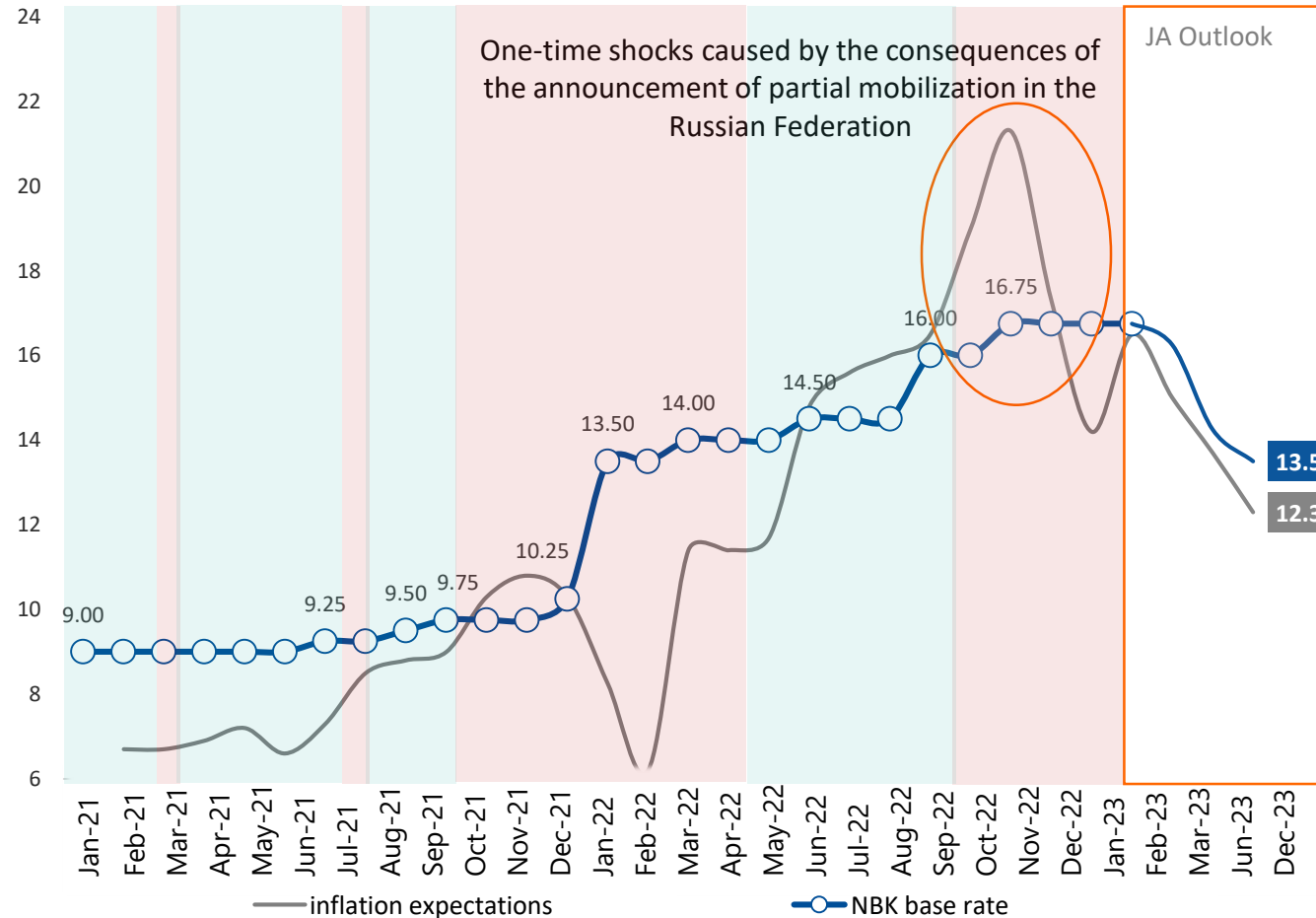
*For Astana and Almaty cities based on data from Jusan big-data, and other regions on official statistics

The Index allows you to estimate the level of personal inflation based on the most popular food products compiled as part of national dishes set

Source: Jusan-big data, BNS of the Agency for Strategic Planning and Reforms, Jusan Analytics calculations

Monetary policy

Inflation expectations and base rate*, %



*The colour on the chart indicates:

- stimulating monetary conditions
- contractionary monetary conditions

Source: NBK, Jusan Analytics calculations

The reaction of the NBK to high inflation

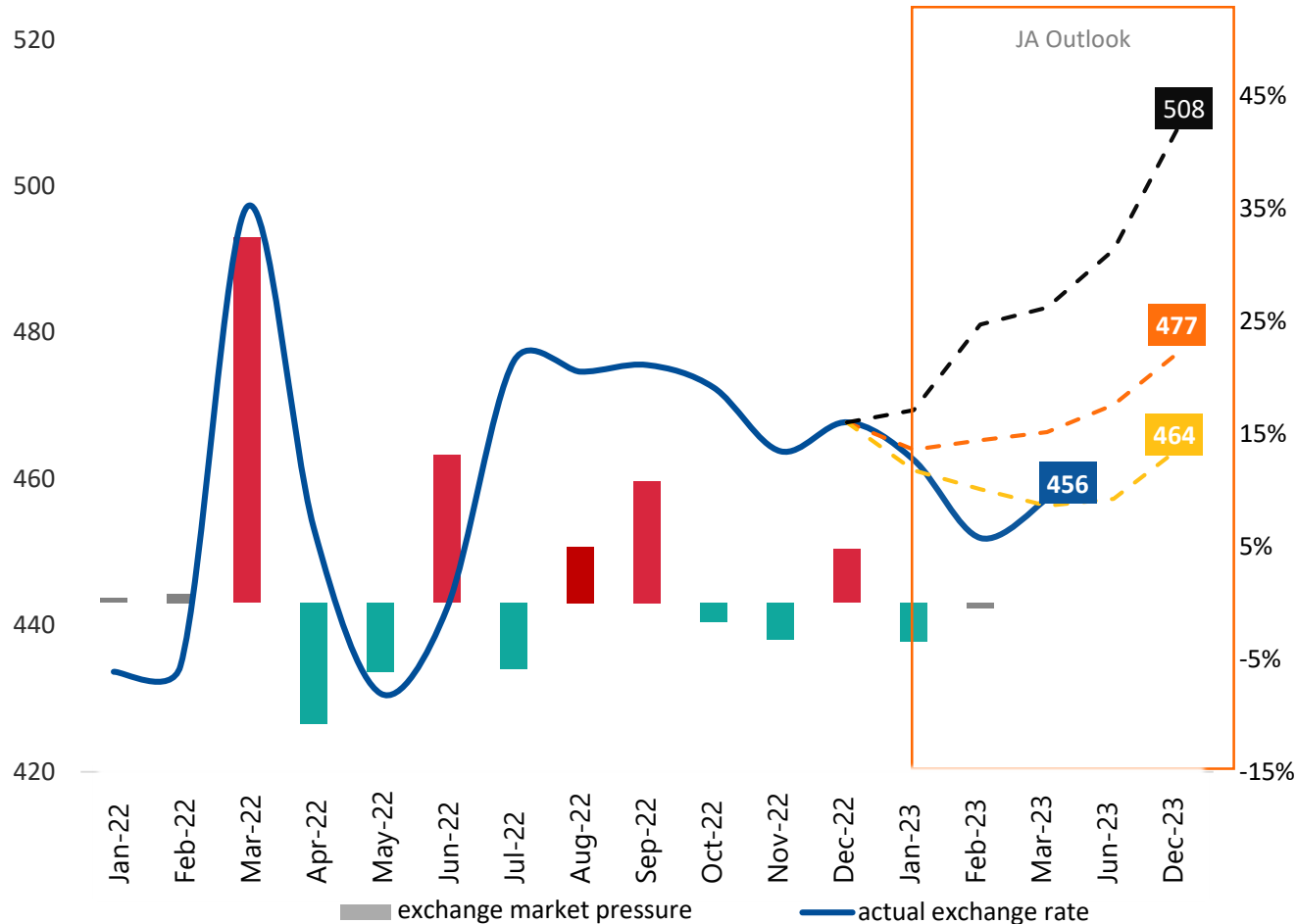
- The NBK keeps demand compressed
- The previous maintaining the base rate indicates a hawkish position
- A high rate has a significant positive effect on the exchange rate
- The NBK includes low fiscal discipline, which increases inflationary pressure

A message to the market and economic agents

- The base rate will remain at 16.75% during the first half of the year and will gradually decrease in the medium term
- The current attractiveness of rates and prices for the government securities by the market, which is provided by a high base rate
- The real interest rate will be positive as a result of a gradual return to before the "double-digit price growth" period

Exchange rate

Dynamics of the tenge to the dollar exchange rate



*red colour indicates an excessive pressure on the exchange rate

green colour indicates a high currency supply

Source: NBK, Jusan Analytics calculations

Strengthening of the exchange rate in February

Reasons are:

- High oil prices
- Low devaluation expectations
- Influence of internal factors (tax week)

Outlook for April 2023 is 456-466 tenge per dollar

Supported by:

- Maintaining the base rate
- Decline in inflation

Pressure by:

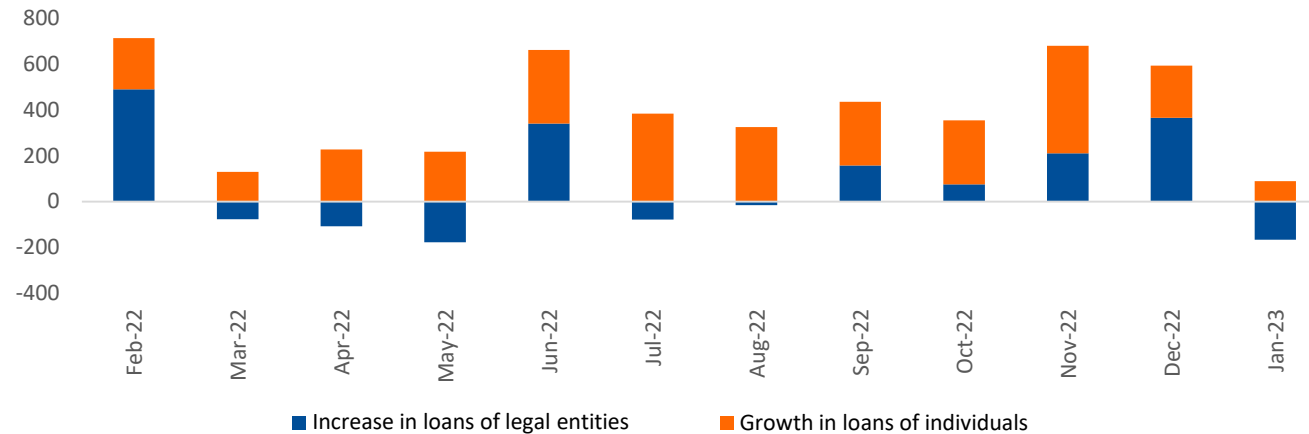
- Instability in the oil market
- Global strengthening of the dollar
- Reduction of risk appetite

Outlook for the end of 2023 is 464-477 tenge per dollar

Pessimistic outlook: falling oil prices, deterioration of other conditions— **508 tenge per dollar**

Lending

Lending to the economy by months, billion tenge

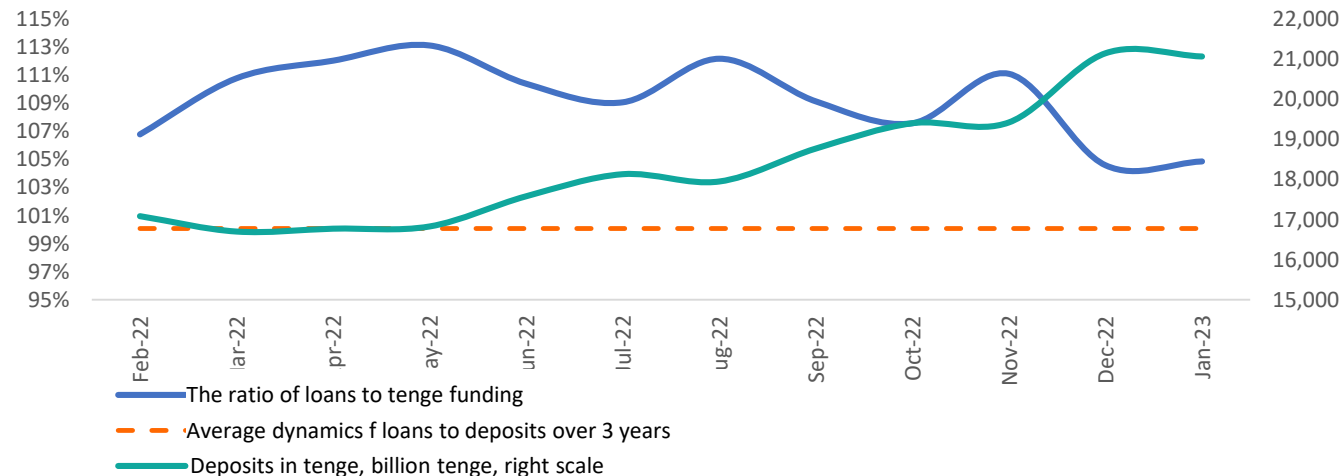


Loan portfolio is **24.7 trillion tenge** **-0.3% MoM**
 Issuance of loans in January is **1.7 trillion tenge** **+28% YoY**

Structure of the issuance:

- **39%** is consumer
- **32%** is working capital
- **5%** is construction and mortgage
- and **24%** is other

Lending capacity in the banking system, %



Loan issuance is expected to increase from March to May due to the availability to expand lending capacity

Source: NBK, Jusan Analytics calculations

Lending terms

Capacity

figures	January	optimal level	MoM
Доля ликвидных активов	40.5%	25%	-0.3 p.p.
Loans/deposits in tenge	104.9%	100%	+5.7 p.p.
Equity/loans	22.5%	24%*	+0.75 p.p.
Excess reserves, trillion tenge	4.2		-4%

*average for 3 years

Banks have a high liquidity reserve, which significantly exceeds the optimal level

Banks have a high capacity to increase their loan portfolio

Current terms

interest rate	January	MoM	YoY
to legal entities	17.9	+0.9 p.p.	+6.4 p.p.
to individuals	18.8	+1.4 p.p.	+1.1 p.p.
<i>By purposes</i>			
Fixed assets	18.3	+0.6 p.p.	+6.8 p.p.
Working capital	17.8	-3.4 p.p.	+4.5 p.p.
Mortgage	10.6	+0.8 p.p.	+2.1 p.p.
Consumer	17.6	+0.4 p.p.	-1.5 p.p.

Figure deterioration

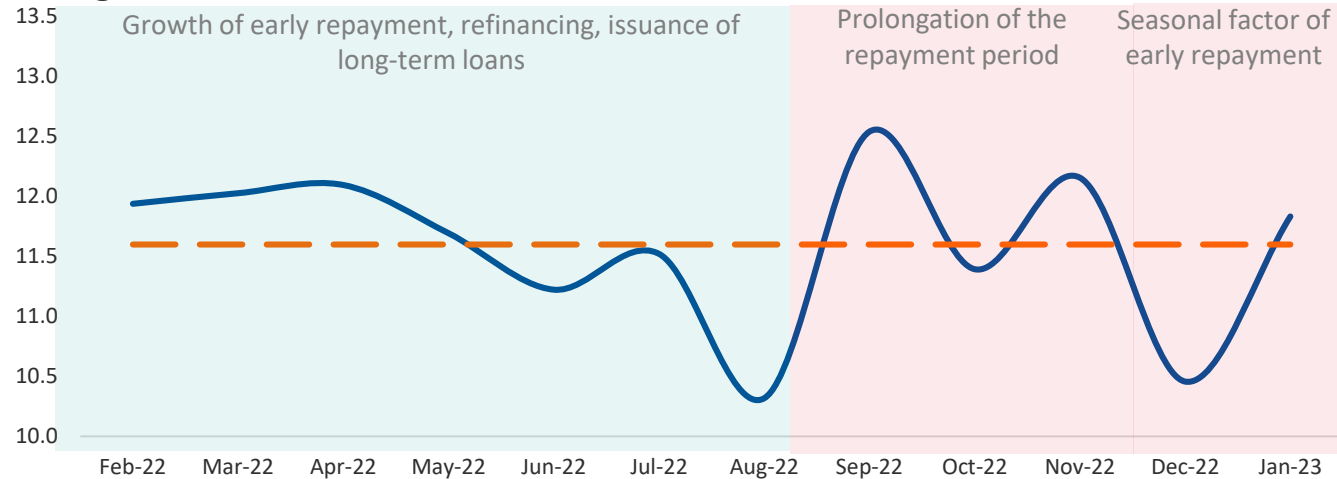
Figure improvement

The current level of the base rate **prevents the reduction of interest rates**

High rates **are holding down the pace of issuing new loans**. Businesses are complicated **to service loans and get new ones**

Average loan term

Average term of consumer loans, number of months

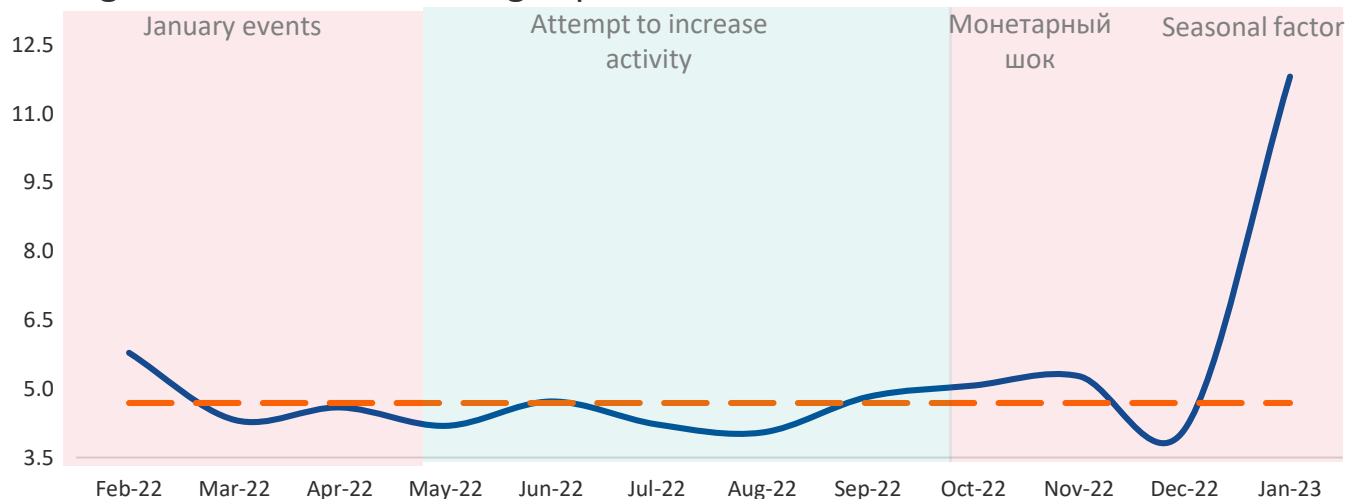


Average loan term in January

Consumer ones are for 12 months (+1.4 months)

Working capital is for 12 months (+7.7 months)

Average loan term for working capital, number of months

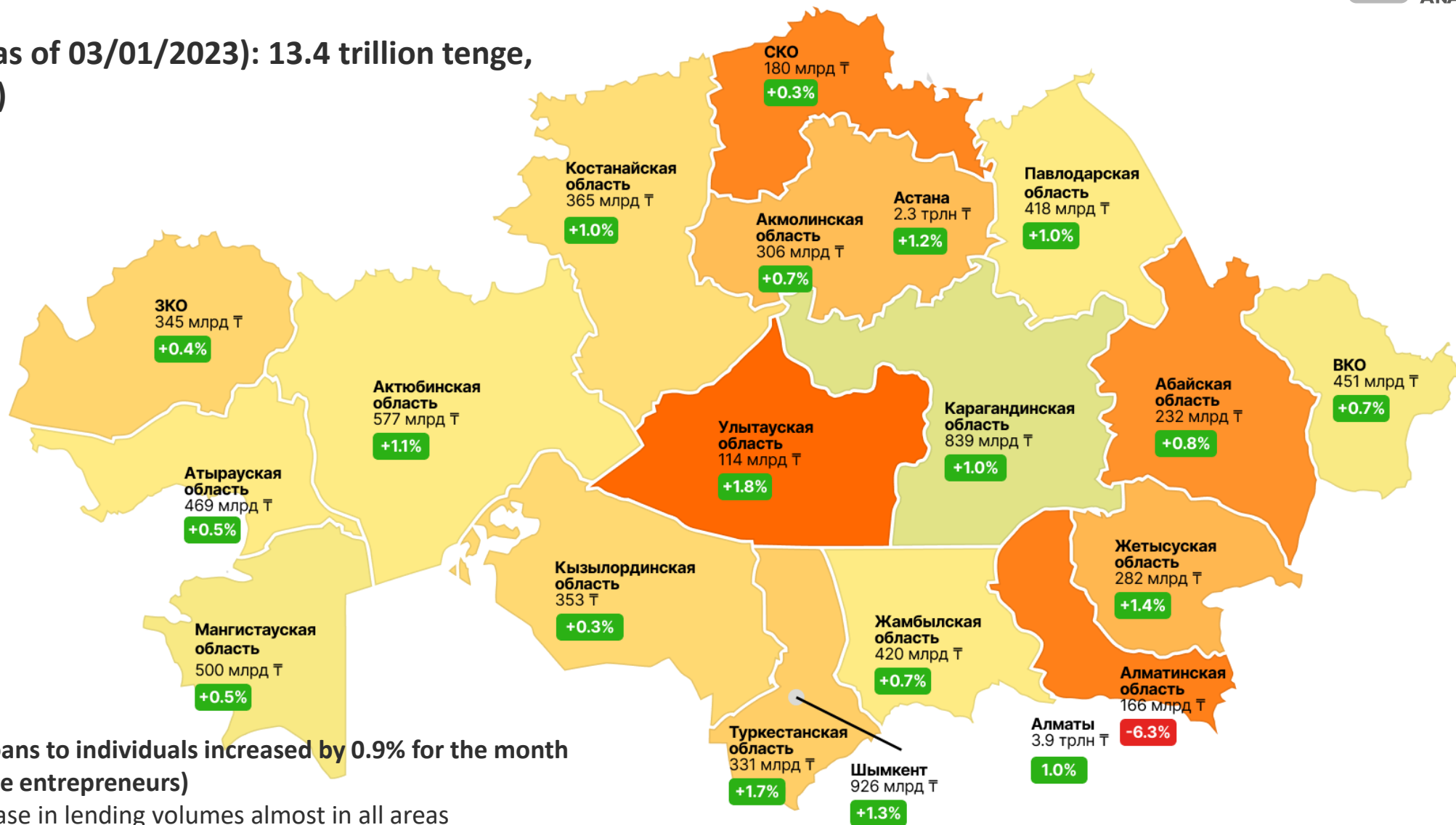


Growth of the average loan term:

- **Business:** refinancing programs
- **Individuals:** return to average values for consumer loans after sending premiums to repay household loans in December

Loans to individuals

Kazakhstan (as of 03/01/2023): 13.4 trillion tenge,
+0.9% (MoM)



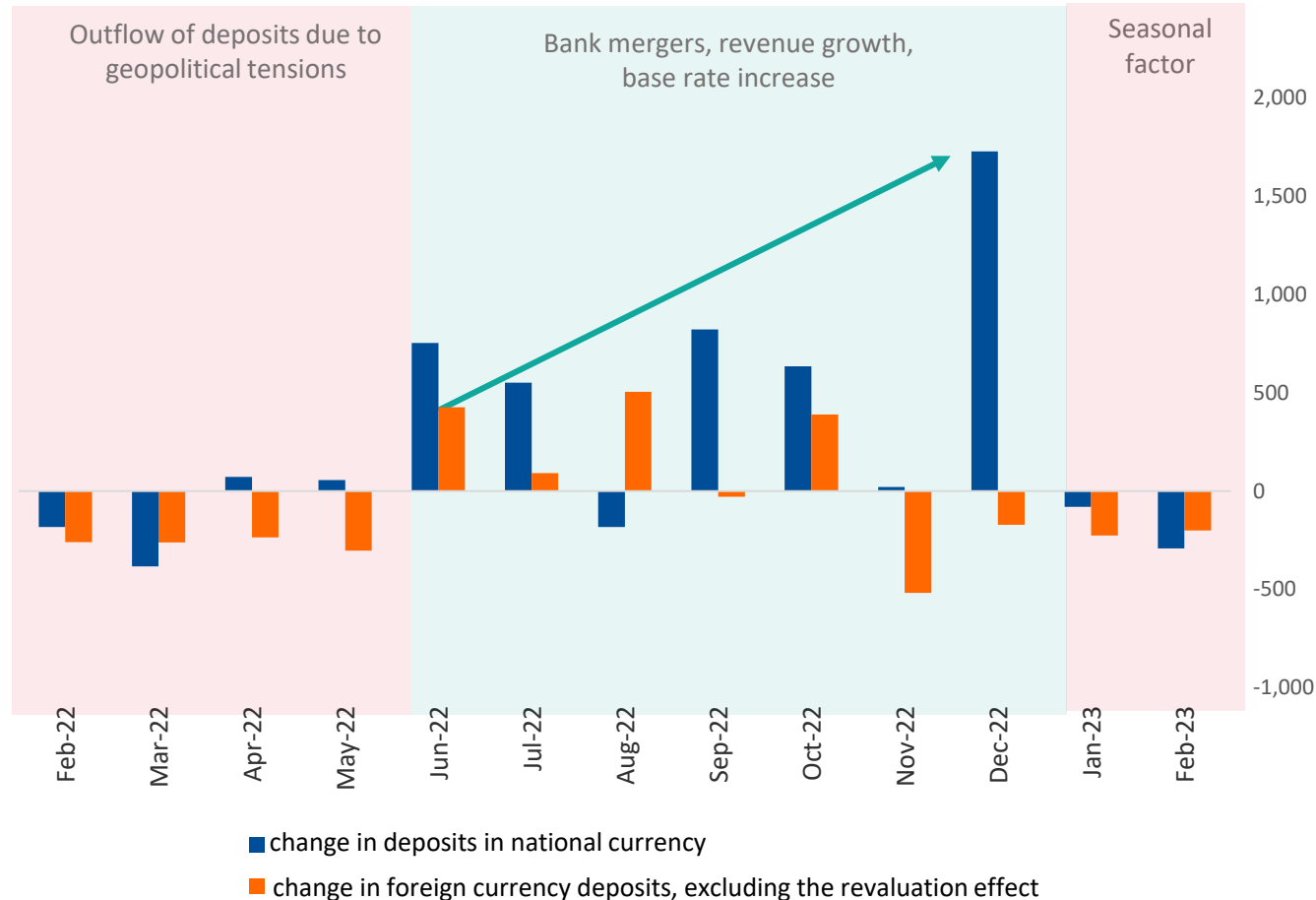
The volume of loans to individuals increased by 0.9% for the month
(excluding private entrepreneurs)

There is an increase in lending volumes almost in all areas

Source: NBK, Jusan Analytics calculations

Deposits

Monthly change of deposits in the system, billion tenge



Volume of deposits is **29.8 trillion tenge** **-3% MoM**

Structure:

- 52% is retail
- 48% is corporate

Monthly growth:

- **-0.1%** in retail
- **-5.2%** in corporate

Factors:

- Exchange rate revaluation
- The flow from foreign currency to tenge household deposits

Expectations:

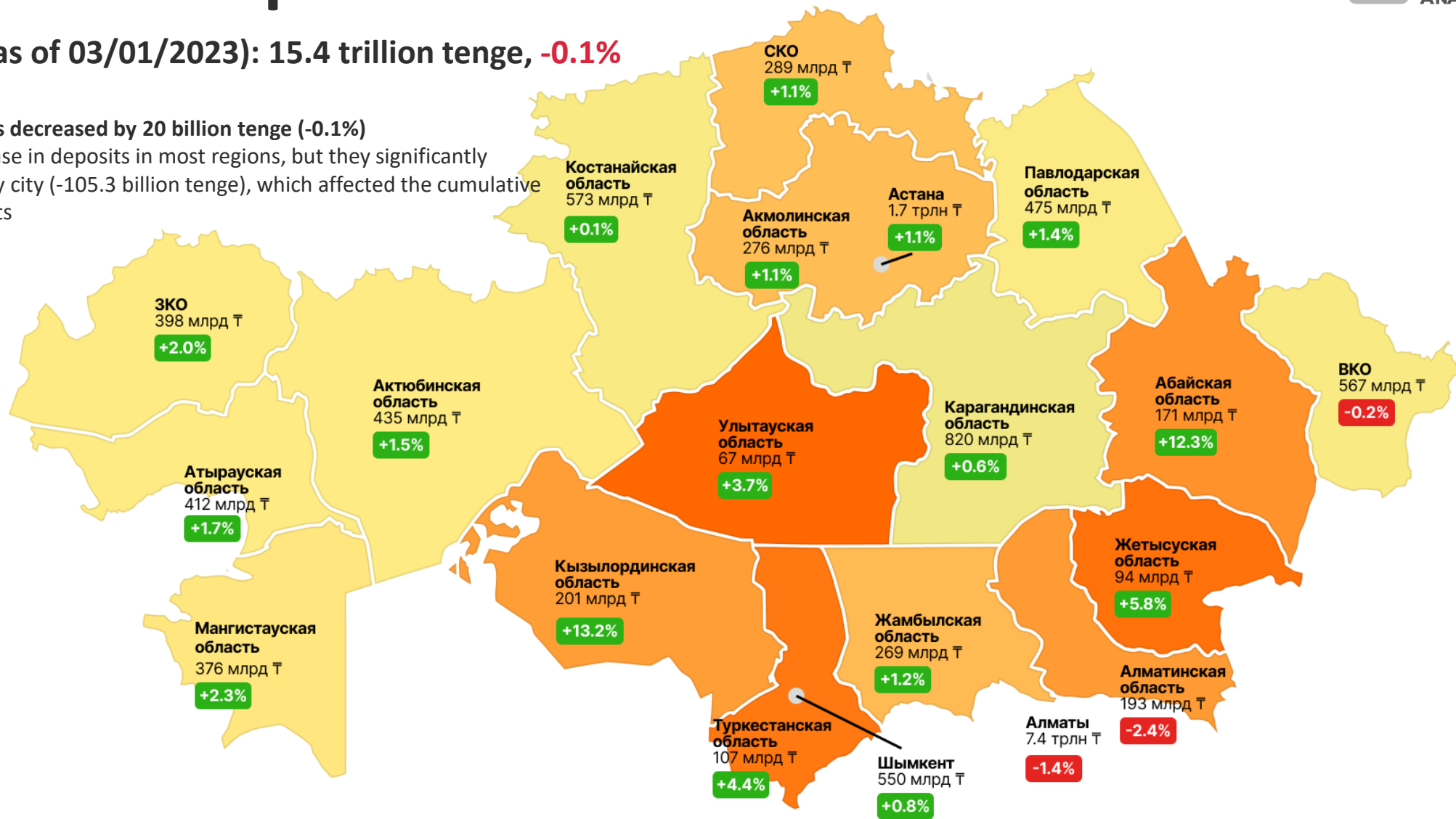
Increase in household deposits in March due to the state reimbursement receipts

Household deposits

Kazakhstan (as of 03/01/2023): 15.4 trillion tenge, -0.1% (MoM)

Household deposits decreased by 20 billion tenge (-0.1%)

There was an increase in deposits in most regions, but they significantly decreased in Almaty city (-105.3 billion tenge), which affected the cumulative reduction in deposits



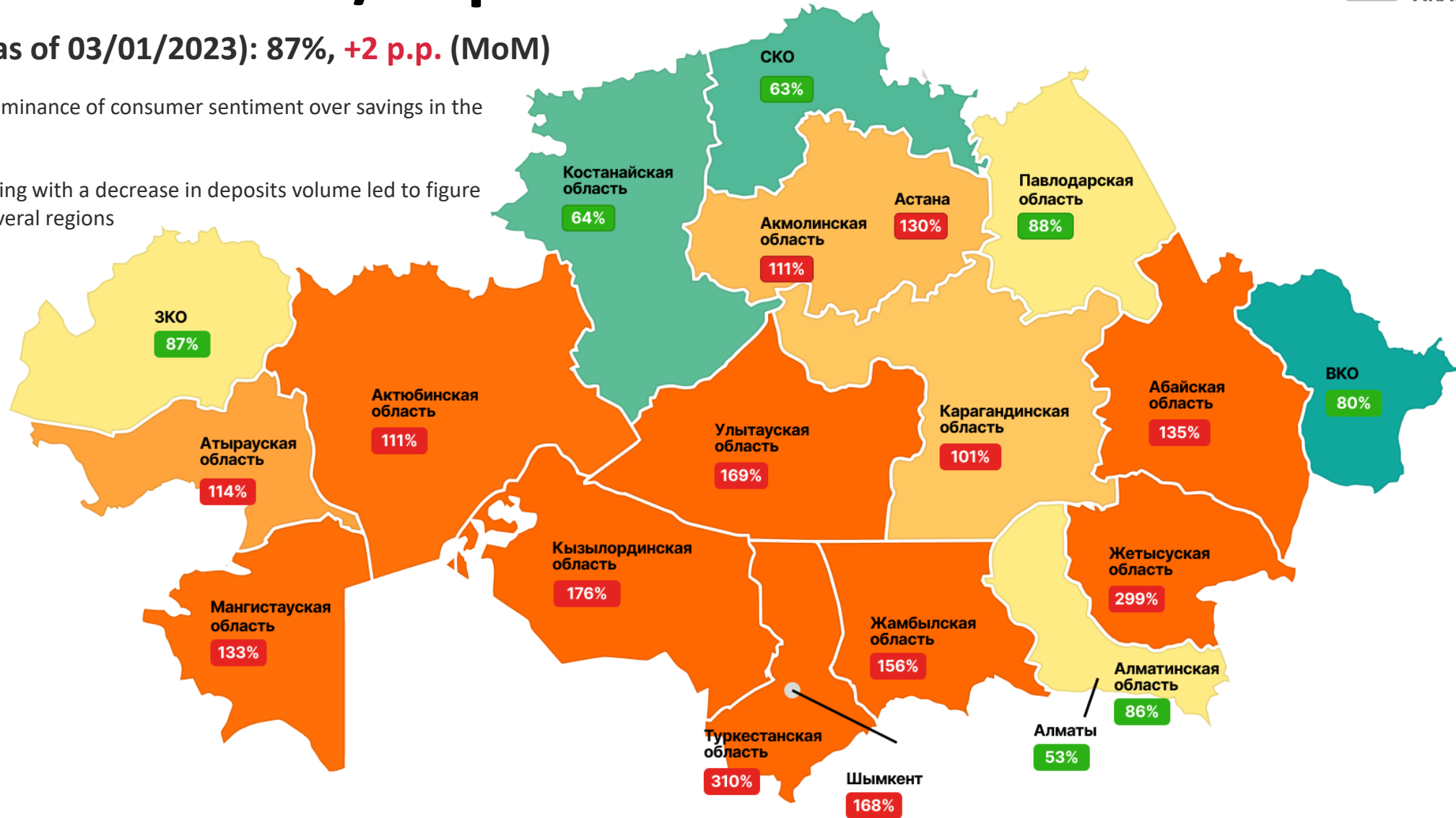
Source: NBK, Jusan Analytics calculations

Household loans/deposits

Kazakhstan (as of 03/01/2023): 87%, +2 p.p. (MoM)

There is still a predominance of consumer sentiment over savings in the southern regions

The increase in lending with a decrease in deposits volume led to figure deteriorations of several regions

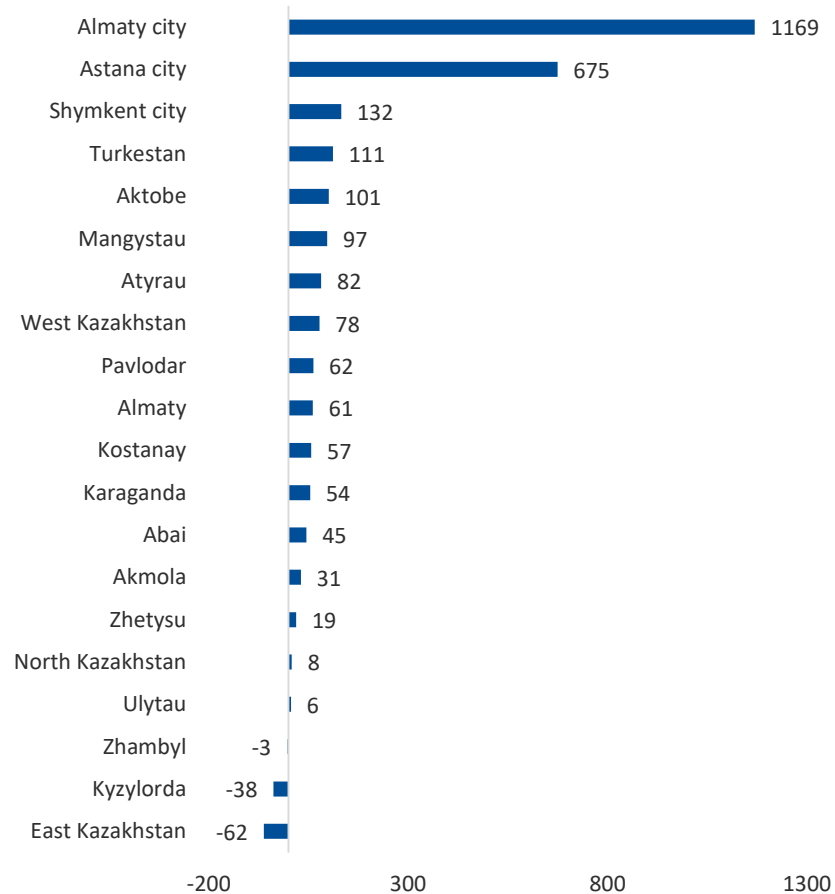


Source: NBK, Jusan Analytics calculations

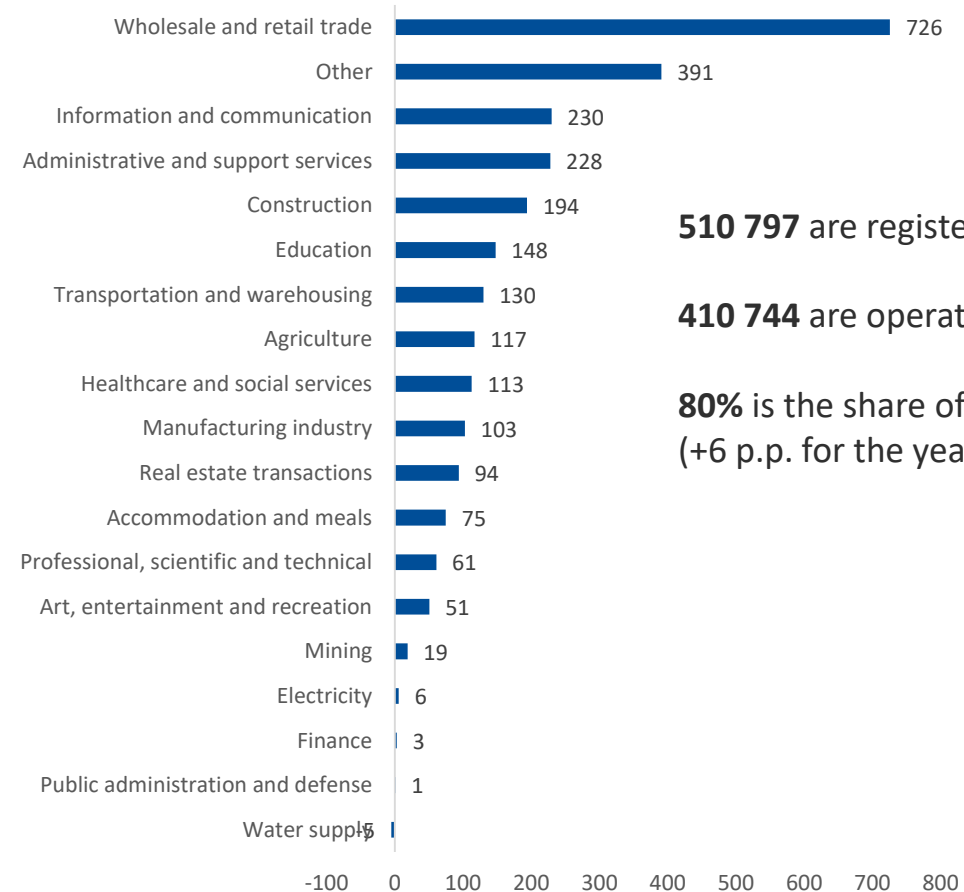
Enterprises

Registered enterprises in January 2023

by regions



By type of activity



510 797 are registered (+0.5% MoM)

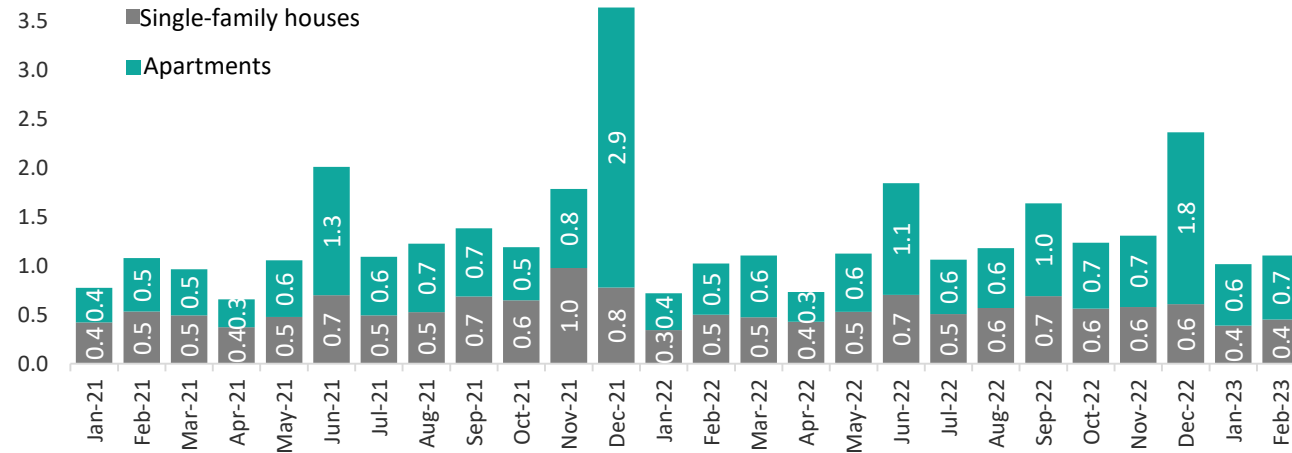
410 744 are operating (+0.8% MoM)

80% is the share of operating ones
(+6 p.p. for the year)

Source: BNS of the Agency for Strategic Planning and Reforms, Jusan Analytics calculations

Real estate market

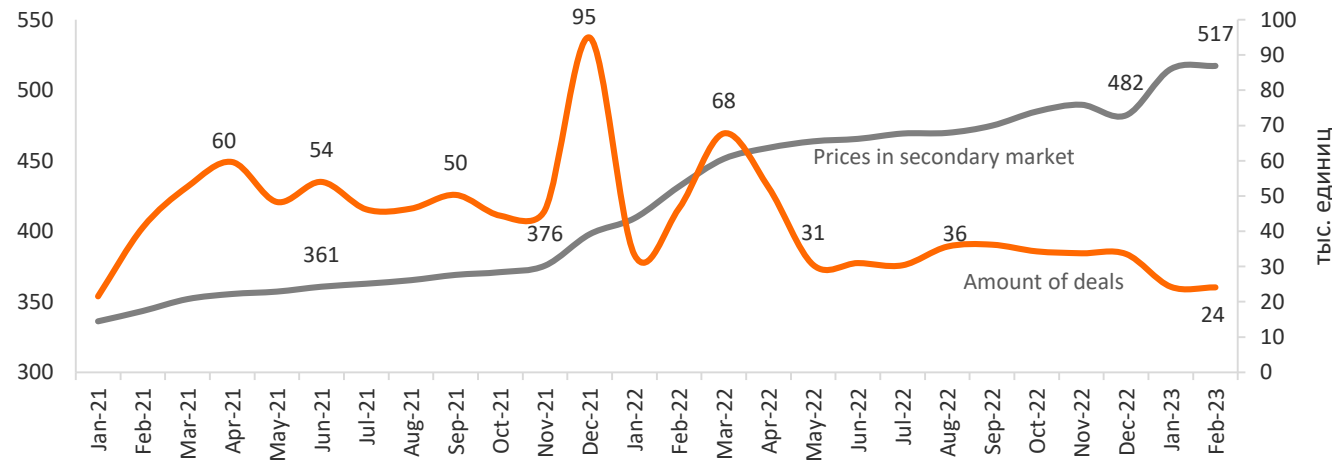
Apartment building commissioning, million m²



Quiet conditions in the real estate market are:

- a decrease in the volume of housing commissioning
- the cost of construction increase
- the housing price hikes
- the reduction of purchase and sale transactions

Average prices and transactions in the real estate market, thousand tenge/m²



The effect of new soft-window mortgage lending facilities:

- an increase in demand activity
- and a further increase in housing prices

Source: BNS of the Agency for Strategic Planning and Reforms, Jusan Analytics calculations

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