Kazakhstan: hawkish rate hold and extra FX sales aimed at stabilising tenge

The National Bank of Kazakhstan (NBRK) has maintained the key interest rate at 15.25%, as anticipated, and provided hawkish guidance due to heightened CPI risks. To address the pressure on the tenge, the NBRK announced additional foreign exchange sales related to gold exports, amounting to $5.5-6.0 bn annually. This move could potentially increase current state support for the domestic FX market by 55-60%

15.25 Base rate, %

unchanged

As expected

Kazakhstan's key rate unchanged at 15.25% with hawkish guidance

The National Bank of Kazakhstan decided to keep the base rate unchanged at 15.25%, aligning with consensus and our expectations. Importantly, the NBRK reinforced its hawkish stance, indicating that it will assess the need for additional monetary tightening at upcoming meetings, suggesting the likelihood of a rate hike.

The NBRK appears increasingly concerned with the CPI trajectory. Although the 2024 year-end inflation of 8.6% year-on-year was in line with the 8-9% guidance, the monetary authorities' confidence in a CPI slowdown to 6.5-8.5% by year-end 2025 seems to have declined. The list of pro-inflationary risks includes growing CPI expectations among households, corporates, and market participants amid a loose fiscal stance, domestic tariff liberalisation, rising global food prices, and most recently, pressure on the tenge. Despite a 100bp base rate hike at the end of November 2024 and several direct FX support measures in December, USD/KZT has depreciated by 2.6% since the last central bank meeting, likely reflecting the spillover effect from increased sanction pressure on Russia, Kazakhstan's trade and financial flow partner.

We agree that given recent developments with the supply-side and demand-side factors of inflation, the CPI is more likely to gravitate towards the upper border of the official forecast range in 2025. This does not guarantee a rate hike at the upcoming meeting but clearly suggests that the space for a rate cut, previously seen as sizeable, has narrowed significantly over the medium term. We raise our year-end CPI expectations by 0.5-1.0pp to 7.5-8.0% and see the possibility for modest rate cuts no earlier than 2H25.

5.5-6.0

Expected additional annual FX sales by NBRK, $ bn

equivalent to 55-60% of annual FX sales out of the sovereign fund NFRK, for fiscal purposes

NBRK to sell extra $5.5-6.0bn p.a. in attempt to address CPI and FX risks

In an important addition to the monetary policy statement, the central bank announced that as the country's sole exporter of gold, it will start selling foreign exchange on the domestic market in volumes equivalent to its KZT-denominated purchases from domestic gold miners. According to the NBRK, this measure aims to sterilise the increased supply of KZT stemming from its domestic gold purchases, thereby addressing CPI risks. During his press conference, the head of the NBRK provided an expected annual estimate of $5.5-6.0bn for such FX operations, which will be evenly spread throughout the year. For context, according to our estimates, this volume represents around 8% of the current monetary supply (M2), while current M2 growth is around 20% year-on-year.

The announced NBRK FX interventions represent a sizeable addition to the current FX sales conducted by the authorities for fiscal and other purposes. The National Fund of the Republic of Kazakhstan (NFRK), Kazakhstan's sovereign oil fund, sold approximately $10bn worth of FX over the course of 2024 to finance budget expenditures. If the level of fiscally-driven FX operations remains unchanged this year, the additional gold-related FX sales by the central bank would mean a 55-60% increase in state FX sales, suggesting increased support for the domestic FX market. Admittedly, the current budget law assumes a reduction in NFRK transfers to the budget by KZT 1 trillion (approximately $1.8-$2.0 bn) in 2025 compared to the previous year. However, in recent years, the actual results have exceeded initial guidelines due to a looser-than-expected fiscal stance.

As we mentioned earlier, state FX operations are a crucial factor in the KZT's performance, as Kazakhstan's private trade and financial flows are largely balanced. We believe the decision to make additional foreign currency sales reflects an attempt to address the increased pressure on the tenge, which has risen recently due to external factors, including the tightening of sanctions on Russia, one of Kazakhstan's key trading partners and contributors to financial flows. Since November 2024, Kazakhstan has implemented several measures relevant to the domestic FX market, including hiking the base rate by 100bp, requiring quasi-sovereign exporters to sell 50% of their FX revenues, selling an extra $308mn from NBRK reserves in an emergency FX intervention December, tightening oversight of non-resident FX operations, and limiting the spreads on cash FX conversion transactions. However, their effect on the exchange rate appears to have been modest so far.

We do not exclude that the additional FX sales by the central bank could eventually provide some support to the tenge, supporting our constructive near- to medium-term view. Meanwhile, over the longer run, our view on the tenge remains cautious given the overall trade balance considerations and our assumption that eventual fiscal consolidation will lead to a decline in fiscally-driven state FX sales.

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