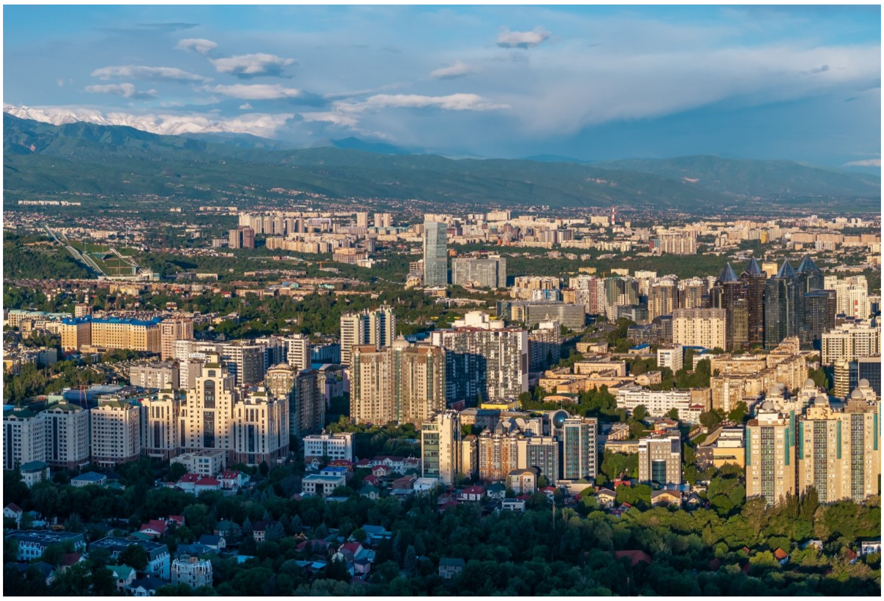
Kazakhstan holds rates steady but signals a more hawkish stance

Kazakhstan's central bank kept its base rate at 16.50% today, but a hawkish shift in tone amid upward revisions to inflation and growth forecasts suggests a rate hike may remain on the agenda for the second half of the year



Almaty, Kazakhstan

Central bank opts to hold the base rate, but commentary focuses on pro-inflationary risks

The National Bank of Kazakhstan (NBRK) left its base rate unchanged at 16.50%, in line with its prior guidance, market consensus, and our expectations. However, we believe a rate hike was considered, especially after May CPI surprised to the upside at 11.3% YoY, challenging the official year-end inflation target of 10-12%.

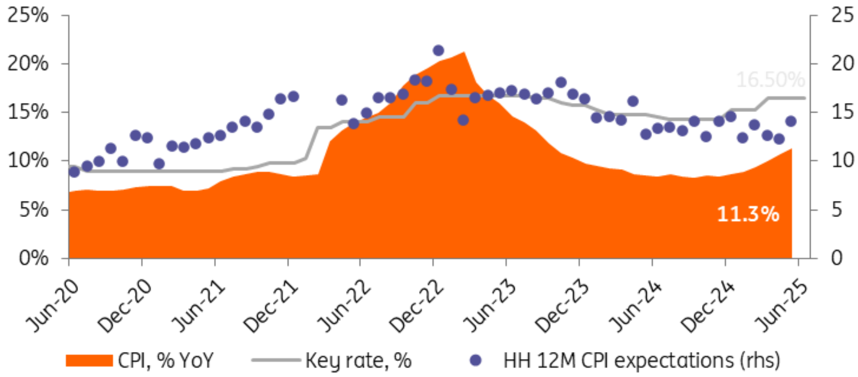
NBK's commentary has turned more hawkish:

- The central bank cited faster CPI growth in May, driven not only by domestic utility tariff increases but also by stronger consumer demand amid fiscal support.
- Inflation expectations among households deteriorated, increasing from 12.2% in April to

14.1% in May.
- External price pressures linked to global trade tensions were also acknowledged.
- NBRK raised its year-end CPI forecast by 0.5 percentage points to 10.5-12.5% for 2025 and 9.5-11.5% for 2026. The GDP growth forecast was also revised up by 0.8 percentage points to 5-6% for 2025 and by 0.2-0.3 percentage points to 4-5% for 2026.
- Despite these upward revisions, the NBK emphasised that inflation risks are now skewed to the upside, compared to a more relaxed assessment in April.
- NBRK is now expecting the base rate to remain unchanged through year-end, marking a tightening compared to earlier implied expectations of gradual easing.
- Earlier this week, the NBRK governor expressed concern over the current inflation trajectory and signalled that further monetary tightening remains a possibility for the remainder of the year.

To add some context to the NBRK communication, there is indeed a widening in the consolidated budget balance from zero for 2024 to -0.5% of GDP on a 12-month rolling basis. In addition, a 22% YoY nominal growth in retail lending as of April 2025 appears to be supporting elevated consumer demand.

NBK refrained from a hike despite faster inflation and higher inflationary expectations



Source: CEIC, national sources, NBRK, Refinitiv, ING

We do not exclude a hike in 2H25

We suspect that the stabilisation of the Kazakhstani tenge (KZT) in recent weeks has allowed the NBRK to refrain from hiking today. Meanwhile, it may remain on the policy agenda for the rest of the year, especially if the CPI trend continues to challenge official expectations.

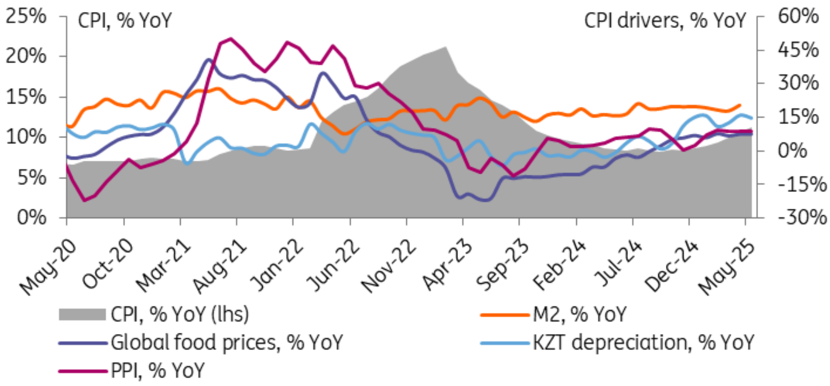
Our view reflects a more cautious stance on external inflationary pressures in the region, a stronger pass-through from the upcoming VAT rate hike into CPI, and a more gradual fiscal consolidation path than the official outlook implies. The NBK's longer-term inflation projections hinge on fiscal tightening starting in 2026, including a VAT increase and tighter cost controls, but given the previous track record, the scale of this consolidation may fall short of official ambitions.

At the same time, we see two key positive factors that could potentially outweigh the pro-inflationary risks and allow the base rate to remain unchanged until year-end, in line with the current central bank guidance.

- The first is a more stable KZT, which is enjoying elevated state support this year thanks to NBRK's sterilisation of domestic gold purchases as well as persistently high FX sales out of the sovereign fund (NFRK) in order to finance state spending.
- The second is the announcement that the central bank will also tighten macro and microprudential regulation of retail lending, including a higher reserve requirement. This could address the inflationary risks stemming from fast credit expansion without the need to further tighten monetary policy.

In any case, we welcome the hawkish shift in NBRK's communication. We agree that any expectations of rate cuts would appear too optimistic given the recent global, regional, and domestic challenges on the inflation front.

CPI precursors are showing a mixed picture



Source: CEIC, national sources, Refinitiv, ING

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