strategy&

Part of the PwC network

Macroeconomic Review for 6 months of 2023

Results of the expert survey and market review

pwc

Important note

We conduct our eleventh quarterly survey on macroeconomic indicators among leading recognized economists (including economists with experience in central banks) and macroeconomics professors, representatives of international development institutes, commercial banks, trading firms to receive a weighted and coherent view of the factors most important for the economy of Kazakhstan.

This survey is dedicated to the forecast of macroeconomic indicators in the horizons of 1 to 5 years, including:

- Price of BRENT oil
- USD/KZT, USD/RUB, RUB/KZT exchange rates
- Inflation in Kazakhstan
- NBRK's base rate

We understand that the fact of revealing the identity of experts can affect the quality of answers. In order to maximize the objectivity of opinions, this survey was conducted confidentially. The names and positions of the respondents were disclosed only where formal permission was received from them.

The quarterly macroeconomic survey is a regular publication which presents a current profile of the macroeconomic situation in Kazakhstan. The survey of respondents was conducted in July-August 2023. All projected values and the text material presented in the report for the first half of 2023 reflect the macroeconomic situation in Kazakhstan and in the world, taking into account the events that occurred in January – August 2023.

Introduction

Natalia Lim

Partner of Strategy& and Advisory Leader of Eurasia Region

"When it is obvious that the goals cannot be reached, don't adjust the goals, adjust the action steps."

- Confucius

We offer you the eleventh issue of a regular macroeconomic analysis for the first half of 2023. In this issue, you will find a lot of interesting things about inflation, real income of the population, statistics of changes in USD/KZT, RUB/KZT, USD/RUB exchanges rates, base rate and oil price. I would like to sincerely thank all our experts who constantly share with us their opinions over several years. With our work we would like to present to all the readers an independent, professional and objective view of the real macroeconomic situation in Kazakhstan.

The respondents to the survey are the same – recognized economists, financiers, and representatives of the scientific community of Kazakhstan.

Sincere regards,
Natalia Lim

Contents

Survey Overview and Objectives

11 experts have participated in this survey. Some of the surveyed respondents have given us extensive commentaries which became the basis of the narrative of this report.

In order to receive the most complete and weighted picture, we engaged experts from various sectors. Our respondents included leading recognized economists, macroeconomics professors, representatives of international financial institutions, commercial banks and trading firms.

The experts were offered to answer questions regarding the impact of geopolitical, exogenous factors on the economy of Kazakhstan. In addition, the respondents were surveyed regarding projected expectations of the price of BRENT oil, USD/KZT, USD/RUB, RUB/KZT exchange rates, inflation in Kazakhstan and the base rate of the National Bank of the Republic of Kazakhstan in the horizons of one to five years. This horizon was chosen in order to obtain projections in the midterm.

The results of the survey are projections of key macroeconomic indicators which are often the basis of financial/economic models of the companies (including commercial banks and investors). These projections are often used by economic departments for comparing and adjusting of input values used in their calculations.
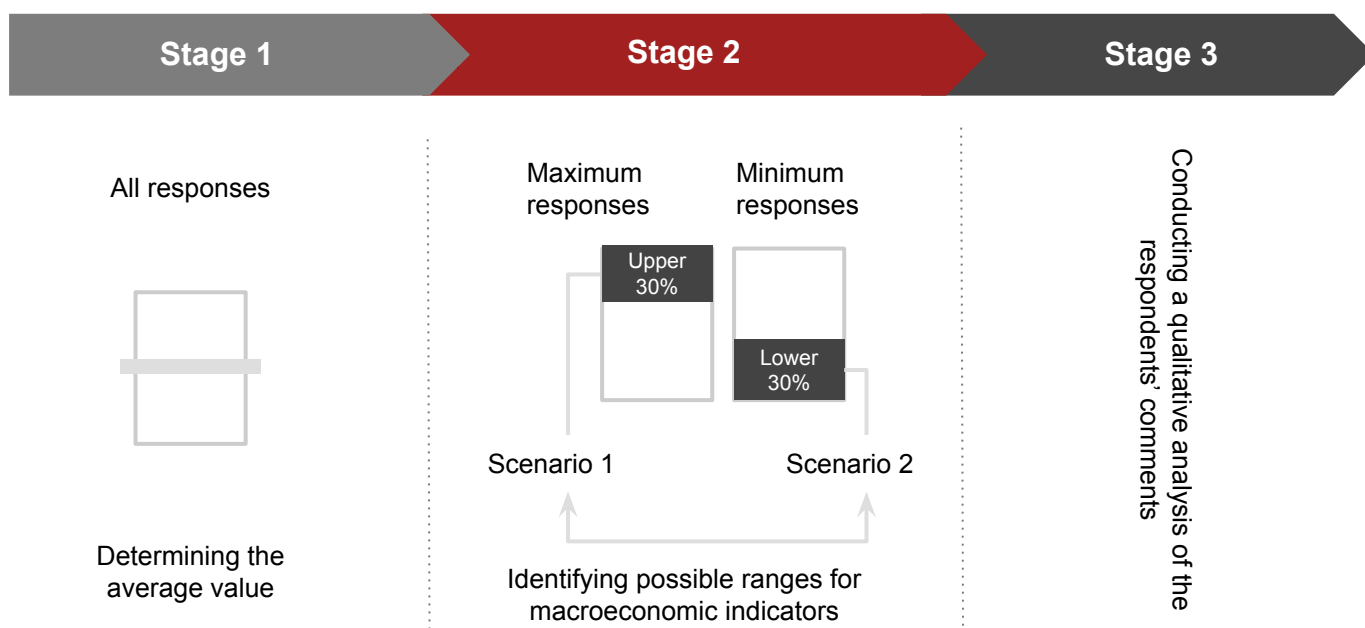
Such comparisons on a regular basis can improve the quality of used models and facilitate a more flexible response to dynamic changes in the economic environment.

In our practice, we encountered situations when the calculation models, despite the level of their detail and elaboration, did not provide a business with necessary insights to make decisions, which could preserve the capital of the company.

In this survey we are hoping to provide the readers with a structured, systematic and regularly updated array of data on macroeconomic indicators based on the best expert estimates in the market. The survey of respondents was conducted in July-August 2023.

Our Approach to Analyzing Survey Results

During the analysis of the responses of the respondents, quite significant divergences in opinions on many questions were identified, which is expected in a research where experts represent various sectors (economists, traders, scientists, bankers, financiers) and accordingly have access to various sources of information. The consolidation of the opinions covering the majority of professional participants of the financial market and scientific experts and leading economists of Kazakhstan allows us to forecast several scenarios of development of the economy of Kazakhstan. For these purposes, we asked the respondents to present their vision within the range of minimum and maximum for the questions where it would be pertinent (oil prices, exchange rates, inflation), and used several approaches to the analysis of the obtained results. In addition to the standard averaging of all answers, we also took the top 30% in maximum answers and low 30% in minimum answers in order to identify the most optimistic and most pessimistic scenarios of development.

Stage 1	Stage 2	Stage 3

All responses

Maximum responses   **Minimum responses**

Upper 30%

Lower 30%

Scenario 1   Scenario 2

Determining the average value

Identifying possible ranges for macroeconomic indicators

Conducting a qualitative analysis of the respondents' comments

Key Findings:

Kazakhstan's economy

Page 8

"Recovery and growth" stage

64% of respondents believe that Kazakhstan is in the stage of recovery or growth of economy

Oil prices

Page 11

Over $75 per barrel

73% of respondents expect the price of Brent oil in the next 12 months to be over $75 per barrel

Exchange Rates

Page 13

Not less than 460

60% of the respondents expect the rate of the USD/KZT currency pair to be not less than 460 in the next 12 months

Inflation (CPI)

Page 20

Not over 12%

64% of the respondents expect the inflation to be not over 12% in the next 12 months
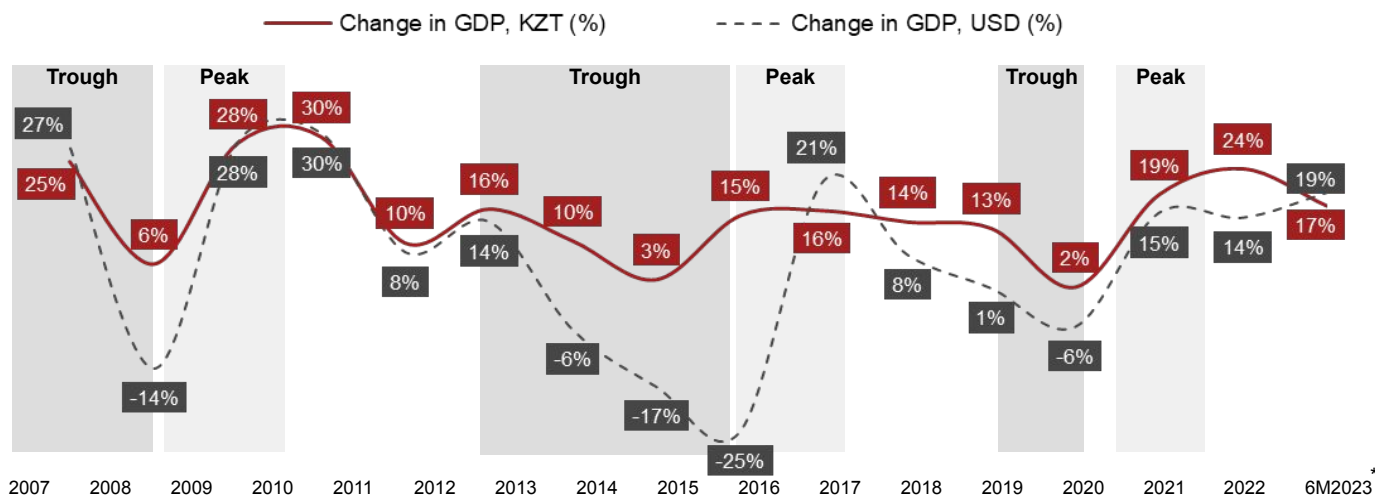
NBRK base rate

Page 24

Less than 16%

82% of the respondents expect the NBRK's base rate to be less than 16% in the next 12 months

Economy and investment climate of Kazakhstan

Figure 1. Changes in GDP using the production method in KZT and USD (%)

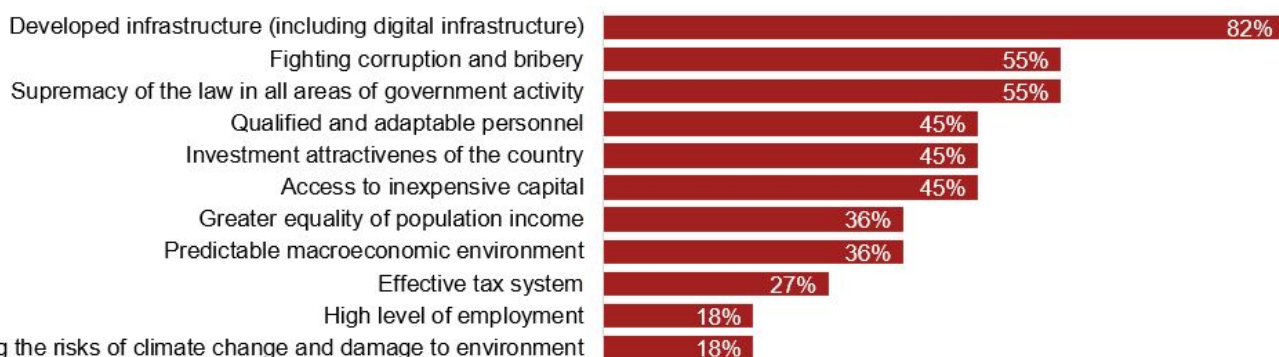— Change in GDP, KZT (%)   - - - - Change in GDP, USD (%)

Source: Macroeconomic survey by Strategy&, Part of the PwC network, 6 months 2023, based on data from stat.gov.kz

In Q2 of 2023, the nominal GDP reached 46.7 trillion Tenge, or increased by 5.1% in real terms compared to the relevant period of the previous year despite the inflationary pressure in the beginning of the year. The significant specific weight of this volume was the industry sector of 29%, covering the mining (13%) and processing (14%) sectors. It should be noted that the sector of wholesale and retail trade amounted to 16% of GDP. The increase in annual inflation gradually slowed down to 14.6% in June of the current year, after the record values of 21.3% in February.* This transition from high inflation to moderate inflation can be explained by a decrease in the global inflation as a whole, partial recovery of logistical supply chains and strengthening of the national currency. The last meeting of the NBRK in July made a decision to preserve the base rate at 16.75% due to a possible internal inflationary pressure in addition to changes made to prices for fuels and lubricants, housing and public utilities. As such, in its latest report on the monetary policy, the NBRK revised its expectations on inflation from 9-12% to 11-14% in annualized terms.**

Analysing the external factors of the impact on the economy, it may be noted that in January-June 2023 in Kazakhstan the trade balance surplus persisted amounting to 8.7 billion US dollars, reducing by 57% compared to the similar period of the previous year. It can be caused by a fall in prices for energy commodities, partly caused by insufficiently quick recovery of the economy of China (growth was 6.3% of expected 7.1%)***.

The majority of the experts believe that the economy of Kazakhstan is in the stage of recovery or growth (64% of respondents), 18% believe that the economy is at the peak of development and only 13% believe that the economy is at the stage of recession. Among the key factors, which can have a positive or negative impact on changes in the economy of Kazakhstan, the experts noted the presence of developed infrastructure, level or corruption and presence of the supremacy of law.

Figure 2. Factors affecting changes in the economy of Kazakhstan (%)
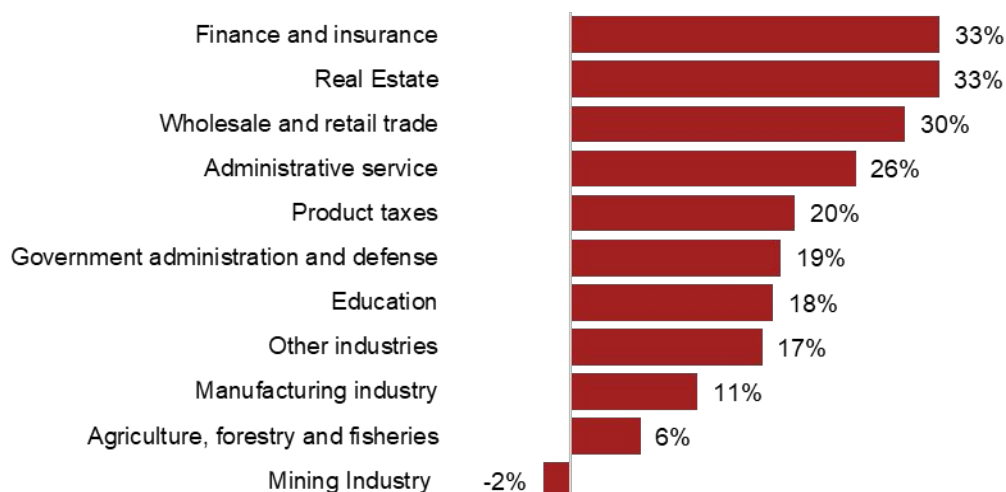

Source: Macroeconomic survey by Strategy&, Part of the PwC network, 6 months 2023

* Current data of stat.gov.kz
** NBRK
*** Bloomberg

Figure 3. Change in GDP of Kazakhstan by sectors of economy, % (6M2023/6M2022)

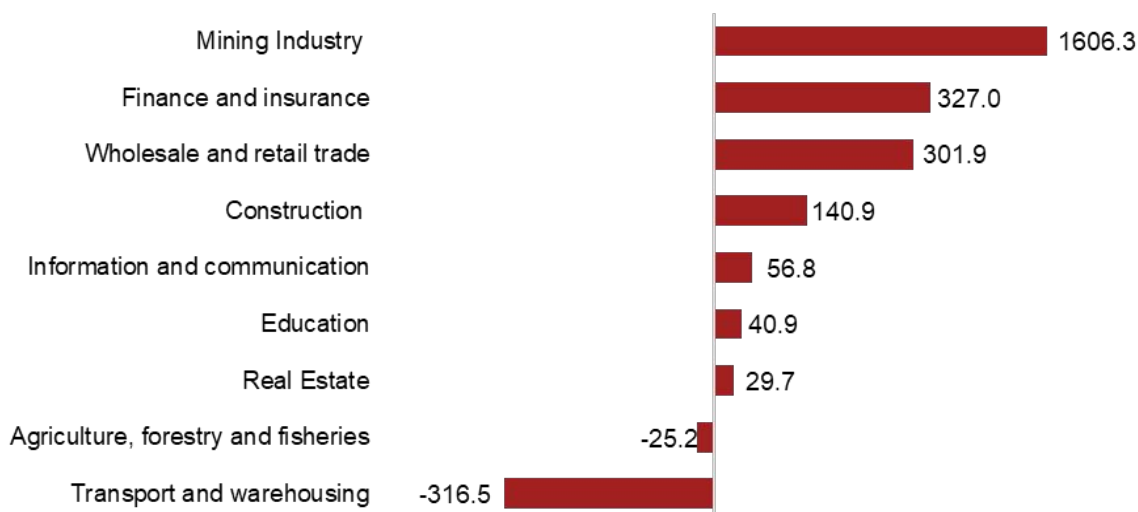| Sector	%
Finance and insurance	33%
Real Estate	33%
Wholesale and retail trade	30%
Administrative service	26%
Product taxes	20%
Government administration and defense	19%
Education	18%
Other industries	17%
Manufacturing industry	11%
Agriculture, forestry and fisheries	6%
Mining Industry	-2%

Source: Based on data from stat.gov.kz

Despite a fall in oil prices in the first half of 2023, it is important to note that strong performance figures in the country, including the increase in GDP in real terms (5.1%), indicate a favorable development of the economy, which is also confirmed by the results of the expert survey.

In Q1 of 2023, Kazakhstan saw a significant increase in direct foreign investments, amounting to 2.5 billion US dollars, which is 41% higher compared to the similar period of the year 2022*. The leaders of the growth of investments are mining sector, financial sector and real estate sector.

In the mining industry and quarry mining, the volume of the flow of direct investments increased almost 11 times and amounted 1.6 billion US dollars compared to the amount in Q1 of 2022. These changes occurred mainly in connection with the growth of production of oil and oil products from 36.7 million tons to 39.2 million tons (+6.8%) for January-June 2023 compared to the similar period of 2022.**

The financial sector saw a significant increase in the volume of investments to 327.0 million US dollars (+346%). Compared to the previous year, the total investments into education, healthcare and social services, art, entertainment and recreation increased to 168%. In the wholesale and retail trade, auto and motorcycle service and information sectors, the net flow of direct investments remained practically the same, fluctuating -1% and 4% respectively. Real estate operations also became one of the industries most attractive for investors, showing growth in the inflow of foreign capital of 8.5 times.*

Figure 4. Net inflow of direct investments into Kazakhstan by type of economic activity for Q1 of 2023, USD million

Type of economic activity	USD million
Mining Industry	1606.3
Finance and insurance	327.0
Wholesale and retail trade	301.9
Construction	140.9
Information and communication	56.8
Education	40.9
Real Estate	29.7
Agriculture, forestry and fisheries	-25.2
Transport and warehousing	-316.5

Source: based on data from NBRK

* NBRK
** stat.gov.kz

Dialogue with experts

Which main factors, in your opinion, had the most impact on the economy of Kazakhstan in the first half of 2023?

"

War in Ukraine

- *Sabit Khakimzhanov*

"

Investment flows from the Russian Federation (relocation of business and influx of emigrants)

Anonymous

"

OPEC quotas supporting the oil price played the greatest role.

- *Kairat Mynbayev Professor, KBTU*

"

1. Global economy: Kazakhstan is an open economy and is dependent on the global economic tendencies. The growth or contraction of the global economy can have a great impact on export possibilities of the country and prices for commodities such as oil and natural gas.

2. Oil prices: Kazakhstan is a large oil producer and oil prices have a significant impact on the budget of the country. Changes in global oil prices can affect the country's revenues and stability of macroeconomic indicators.

3. Investments and financial flows: Flows of foreign investments and internal investments play an important role in development of the economy of Kazakhstan. The level of investments can affect the development of industries and infrastructure of the country.

4. National policy: The Government's decisions, such as tax policy, economic stimulus measures, and reforms in the area of business and investments can have a significant impact on the economy of Kazakhstan.

5. Sectors of economy: Development of certain industries, such as extraction and processing of natural resources, agriculture, transport and tourism, can have a significant impact on the economic activities of the country.

6. Global geopolitical factors: Regional and global political events can also affect the economy of Kazakhstan, since they can affect the stability and security of a region.

- *Anonymous*

II - BRENT Crude Oil Price Forecasts

Figure 5. Change in the price of BRENT oil, USD per barrel
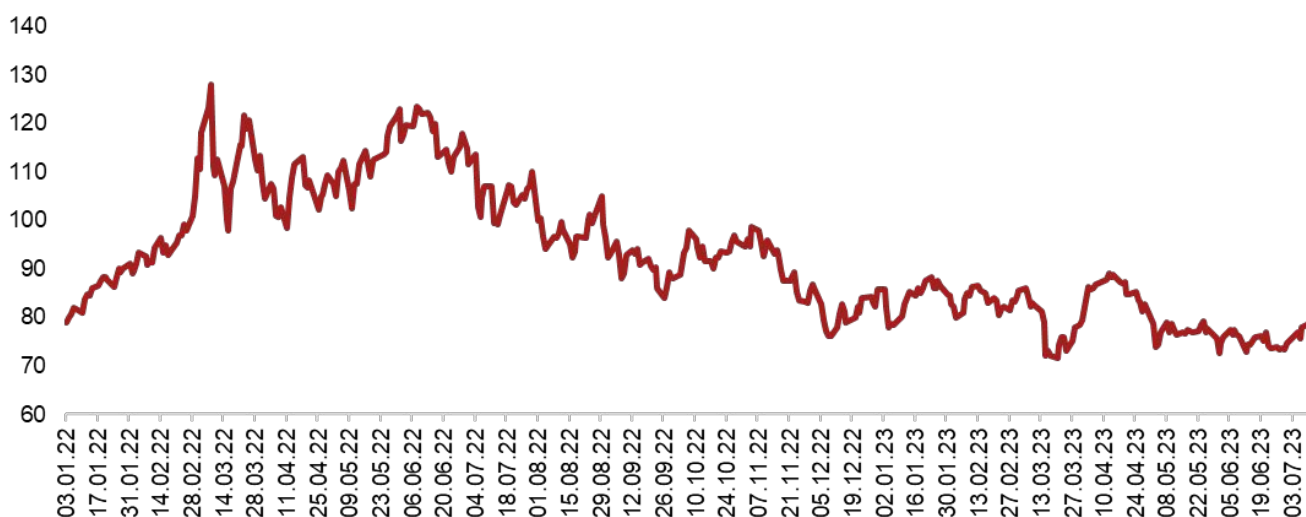
Source: Bloomberg

After a year of extreme volatility with a range of $63/bbl, the Brent oil in the first half of 2023 was traded in a narrower range of $71-89/bbl, continuing the trend for a decrease formed in Q4 of 2022. The average price for the first 6 months of the year was $80.5, which is 23% lower than the quotes of a similar period of the previous year and 9% lower than the average values of the last quarter of 2022.

In January, there was a short-term strengthening of the price (+2.6 US dollars per barrel) amid optimism about improvement of the global economic growth, supported by recovery of China. This development was also affected by improvement of economic prospects of Europe, caused by a fall of prices for natural gas, signs of the decrease in the export of Russian crude oil by sea (after imposing an embargo of EU and limitation of prices), and a decline of the US dollar rate.

In February the oil price decreased by 1% in average monthly values. It could be affected by apprehensions of investors regarding the central banks' policy tightening, and constant increase in crude oil reserves in the USA. The fall of the price continued in March (-6%), especially after the collapse of Silicon Valley bank, which possibly caused apprehensions regarding the stability of the banking system of the USA. As such, the oil price decreased to the 15-month minimum of $71/bbl but then recovered to $79 by the end of the month as the banking stress eased. In the middle of April, the prices reached their peak (89 US dollars per barrel) after OPEC+ announced the decrease in production by 1.5 million barrels per day. The price increase was also enabled by weakening of US dollar by 2% and closure of the Iraqi pipeline Kirkuk-Jeihan per the decision of the international court, leading to a decrease in supply by 450 thousand barrels per day. However, from the middle of April the prices started to drop amid apprehensions regarding the state of the global economy and demand for oil, which according to the International Energy Agency (IEA)* was caused by a decrease in industrial activity in the US and hawkish policy of the Federal Reserve System (FRS) of the USA*. As such, the Brent oil fell in price by 10% in May and by 2% in June in average monthly values, exceeding the entire growth of the previous month (+9%).

In July and in the beginning of August, the oil prices faced severe market conditions in the form of the record demand on one hand and the decrease in deliveries of OPEC+ on the other hand, supported by optimistic macroeconomic expectations and increased by $10/bbl.

At the time of signing of the report (17 August) the Brent oil was traded at $83.85/bbl.

*Source: * Monthly report of IEA on the oil market, May 2023*

Figure 6. Demand, supply and balance of the market of liquid hydrocarbons, mln b/d
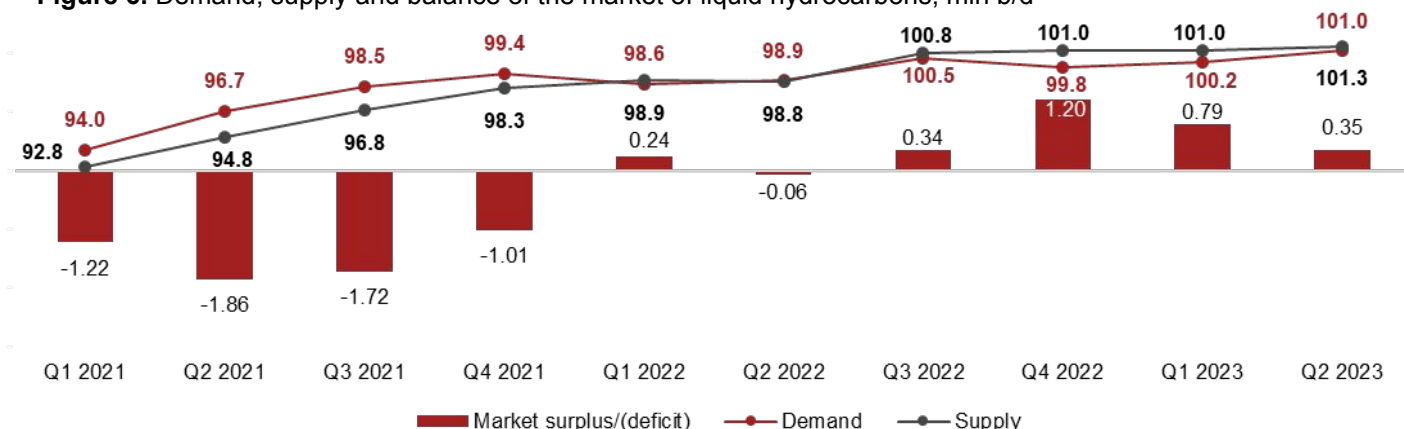
Source: Short-term energy forecast of EIA, July 2023

According to EIA*, the global demand for oil in the Q1 and Q2 of 2023 amounted to 100.2 mln b/d (+0.4 mln b/d) and 100.97 mln b/d (+0.8 mln b/d), respectively, supported by the recovery of the China's economy, increasing import of cheap Russian oil in India and seasonal increase in consumption in the USA in the Q2. At the same time, the supply remained at 101 and 101.3 mln b/d in Q1 and Q2, respectively, despite the decrease in production in the countries of OPEC+, due to the production increase in the USA, China, Canada, and Mexico.

As such, in the first half of the year, the surplus remained in the market but in subsequent quarters severe market conditions are projected due to the growing demand and production decrease by OPEC+.

According to EIA**, it is expected that the global demand for oil in 2023 would increase by 2.2 mln b/d to 102.2 mln b/d, of which China's share is more than 70% of the growth. EIA forecasts a more modest growth of the global demand of 1.2 mln b/d, and the aggregate supply at 101.3 mln b/d, supported by the increase in oil production in countries which are not part of OPEC+ (+2.1 mln b/d).

In forecasts for Q1-Q2 of 2023, the respondents reflected both the narrowing of the range of oil prices and the trend for a decrease, significantly reducing the upper bounds of the forecasts, with the lower bounds being subjected to insignificant adjustments, reflecting the existing pressure in the market of demand and supply. In sight of one year the median of minimum forecast values decreased from $77.5/bbl to $70/bbl, the upper limit decreased from $99/bbl to $90/bbl. ***"In the horizon of one year, most important is the widespread increase in rates, which would inevitably lead to the fall of the global GDP and, accordingly, a fall of the demand for oil. To the subsequent fall of the oil price the OPEC countries will react by reduced quotas,"*** commented Kairat Mynbayev, Professor of KBTU.

In the opinion of surveyed experts, geopolicy will continue exerting the most impact on oil quotes, in particular the military conflict in Ukraine (29%), Russian-American relations (14%) and geopolitical situation in the Middle East (7%). A significant impact will also be exerted by changes in quotas on production of OPEC+ (25%), followed by a slight impact of the USD exchange rate (11%) and ecological agenda (11%), causing the transition to alternative sources of energy.

What price in USD per barrel of BRENT oil can form, in your opinion, in the considered forecast periods?

Figure 7. Forecast oil price in USD per barrel
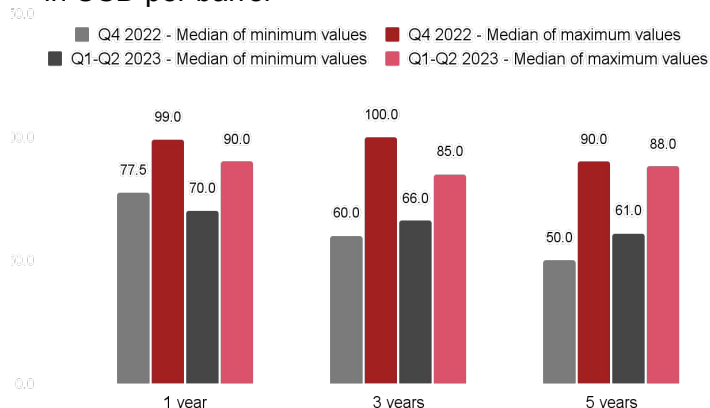
Figure 8. Bounds of forecasts of oil price in USD per barrel
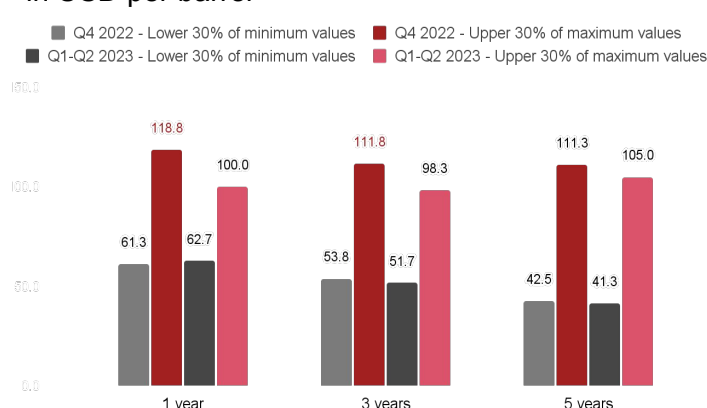
Source: Macroeconomic survey by Strategy&, Part of the PwC network, Q1-Q2 2023

* Short-term energy forecast of EIA, July 2023
** EIA's monthly report on the oil market, August 2023

III - Exchange Rate Forecasts

In the first half of 2023, the volatility remained in the exchange market. The US dollar continued the trend of weakening against the majority of currencies after in September 2022 the DXY dollar index reached the maximum of 114.7 p. Thus, in Q1 of 2023, DXY fell by 4.4% compared to Q4 of 2022 and amounted to 103.3 p. in Q2 of 2023, the average value of the index at the close of trading reduced by 0.8% to 102.5 p. compared to the previous quarter.

Figure 9. Movements in the US dollar index (DXY) at the close of trading
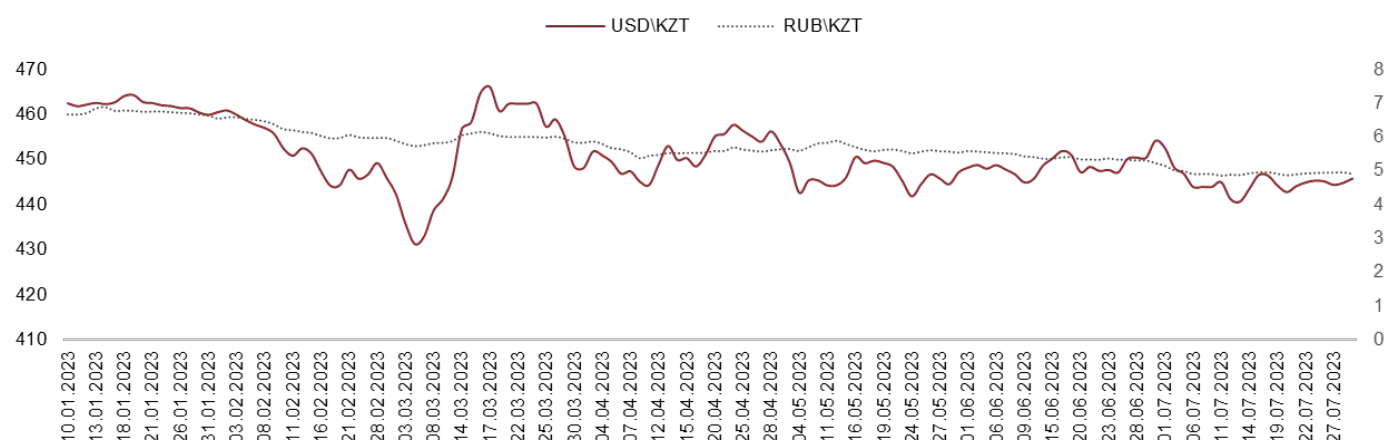

Source: Macroeconomic survey by Strategy&, Part of the PwC network, Q1-Q2 2023, based on data of FRS of the USA

The increase in the range of the base rate of the FRS of the USA in February (to 4.5%-4.75%), in March (to 4.75%-5%), in May (to 5%-5.25%) and in July (to 5.25%-5.5%) caused a short-term strengthening of the dollar, however the risk of recession of the economy of the USA and banking crisis generally lead to a gradual weakening of the dollar. In addition, amid the slowdown in inflation, central banks of a number of developed countries somewhat slowed down the rate of toughening of monetary conditions, increasing base rates at lesser rates than the FRS of the USA.

The market KZT/USD exchange rate in Q1 of 2023 was within the range of 431.08-466.15, the KZT/RUB was 5.72-6.87 and the RUB/USD was 67.57-77.24.

In the Q2, the Tenge rate was less volatile: the KZT/USD exchange rate was within the range of 441.74-457.68, KZT/RUB – 5.22-5.88, RUB/USD – 75.88-87.03.

Figure 10. Movements in currency pairs for the period of 1 January - 31 July 2023

Source: Macroeconomic survey by Strategy&, Part of the PwC network, Q1-Q2 2023, based on data of NBRK

In general, in the first half of the year the fluctuations of the tenge rate were affected by both external economic and internal economic factors of the demand. The internal factors can include tax weeks in February and May 2023, decisions of the NBRK regarding the base rate, and the increase in the sales of foreign currencies by the quasi-public sector and the National Fund.

On average, for Q1 of 2023 the market rates were as follows :

- 454.93 Tenge per US dollar, compared to Q4 of 2022, Tenge strengthened by 2.7%;
- 6.27 Tenge per Russian Rouble, compared to Q4 of 2022, Tenge strengthened by 16.4%;
- 72.97 Russian Roubles per US dollar, compared to Q4 of 2022, the Rouble weakened by 16.4%.

Based on the results for Q2 of 2023, market exchange rates were as follows on average :

- 448.82 Tenge per US dollar, compared to Q1, the KZT/USD rate strengthened by 1.3%;
- 5.54 Tenge per Russian Rouble, compared to Q1, the KZT/RUB rate strengthened by 11.6%;
- 81.24 Russian Roubles per US dollar, compared to Q1, the RUB/USD rate weakened by 11.6%.

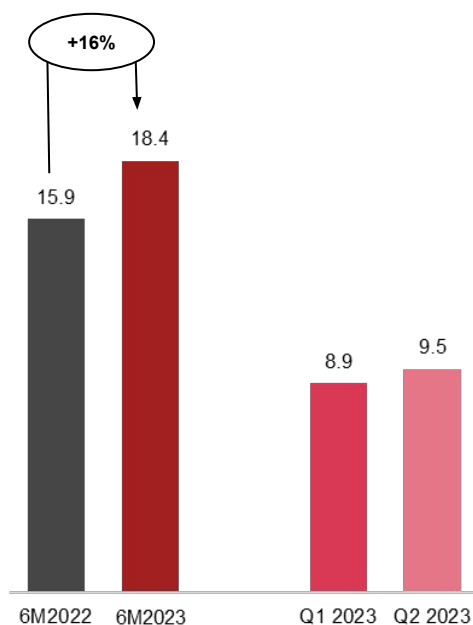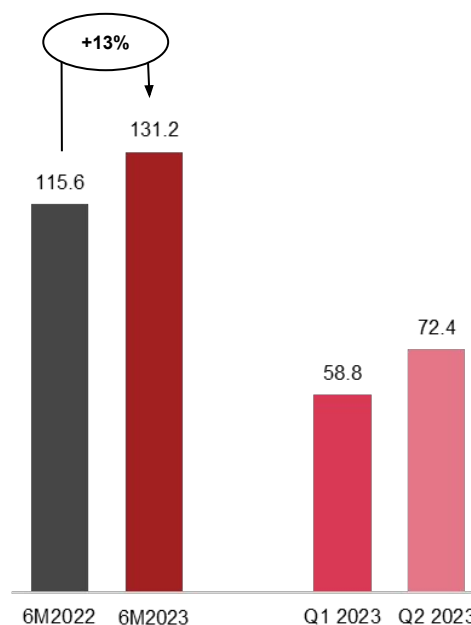**Figure 11.** Movements in the volume of trading in US dollars for 6M2023, billion units

Figure 12. Movements in the volume of trading in Russian Roubles for 6M2023, billion units

Source: Kazakhstani Stock Exchange KASE

The volume of trading in foreign currencies for 6M2023, according to the Kazakhstani Stock Exchange KASE, amounted to 12.3 trillion Tenge, showing a growth of 50% compared to 6M2022, when the volume of trading amounted to 8.2 trillion Tenge. The trading volume in Q1 of 2023 amounted to 5.6 trillion Tenge, in Q2 – 6.7 trillion Tenge, showing a growth of 20%.

The share of US dollars in the total trading volume for 6M2023 amounted to 67.2%, continuing the trend of a decrease from 86.4% for 6M2022. The share of the volume of roubles amounted to 6.2%, reducing by 3% compared to 6M2022. A similar trend was demonstrated by yuan – the share of the yuan volume for 6M2023 amounted to 0.9%, whereas for 6M2022 this indicator was 2.5%. Concurrently, the volume of trading in yuan in Q2 reduced almost 3 times compared to Q1 and amounted to 469 mln yuan. A significant growth occurred in trading in the EUR/USD currency pair: from 0.5% for 6M2022 to 22.4% for 6M2023. The price for Euro in July 2022 briefly equaled the price for US dollar, which amid the weakening of the US dollar rate since September 2022 could impact the increase in the volume of trading in EUR/USD.

III Exchange Rate Forecasts: USD/KZT

In the first half of 2023, the KZT/USD exchange rate demonstrated multi directional movements. Nonetheless, there is a trend of strengthening of Tenge against US dollar.

In Q1 of 2023, the market rate on average formed at 454.93 Tenge per US dollar, compared to Q4 of 2022, Tenge strengthened by 2.8%. However, during the entire quarter the volatility of the rate within the range of 431.08 – 466.15 Tenge per US dollar persisted.

The strengthening of Tenge started in the beginning of February 2023 and already by the end of the month Tenge strengthened by 3.2% to 445.66 Tenge per US dollar. The strengthening of Tenge was affected by a number of factors: quarterly tax period, obligatory sale of foreign currency earnings by the quasi-public sector ($295 mln), increased demand of non-residents for state securities of the RK Ministry of Finance and notes of the National Bank*, and the growth of oil quotes at the end of the month. However, already in the second half of March, the Tenge rate weakened by 3.7% to 462.36 Tenge per US dollar. Among other things, the exchange rate was affected by such global events as the stress in the banking sector of the USA and its impact on the banks of European zone, and the fall of oil prices. Nonetheless, by the end of March, the rate strengthened to 448.05 Tenge per US dollar.

In Q2 of 2023, the average exchange rate formed at 448.82 Tenge per US dollar, thus Tenge strengthened by 1.3% compared to the previous quarter. The volatility of the rate was observed in the range of 441.74 – 457.68 Tenge per US dollar. On average, in the beginning of the quarter, the rate is formed at 448.10 Tenge per US dollar. However, already in the second half of April, despite the weakening of the US dollar rate and the increase in oil prices, the Tenge rate weakened by 1.2%, the average rate amounted to 453.57 Tenge per US dollar. The weakening of Tenge was also affected by NBRK's decision to leave the base rate unchanged at 16.75%.

In May 2023, the average Tenge rate was formed at 446.6, strengthening by 1% compared to April. Despite strengthening of DXY index by 2.6% and the decrease in oil prices, the Tenge rate temporarily strengthened during the period of quarterly tax payments and the increase in the volume of sales of foreign currency to ensure transfers from the National Fund to the republican budget, which amounted to 28% of the total volume of trading for May*. The weakening of Tenge started in the second half of June. The main reason for weakening of the rate could be the increase in the demand for foreign currency before the beginning of the period of payment of dividends amid limited supply.

Information memorandum on the foreign exchange market of NBRK for May 2023

Table 1. Statistics on the USD/KZT currency pair for January - July 2023

	January	February	March	April	May	June	July
Minimum value	459.92	444.09	431.08	444.29	441.74	444.85	440.55
Maximum value	464.34	460.87	466.15	457.68	450.48	454.13	452.51
Mean value	462.61	451.94	449.99	451.33	446.60	448.54	445.20
% change on monthly results	▲0.6%	▲2.5%	▼0.5%	▼0.4%	▲0.5%	▼1.3%	▲1.5%

Source: Official market exchange rates of NBRK

What USD/KZT exchange rates, in your opinion, are most probable for the considered forecast periods?

Figure 13. Forecast USD/KZT rate

- Q4 2022 - Median of minimum values
- Q4 2022- Median of maximum values
- Q1-Q2 2023 - Median of minimum values
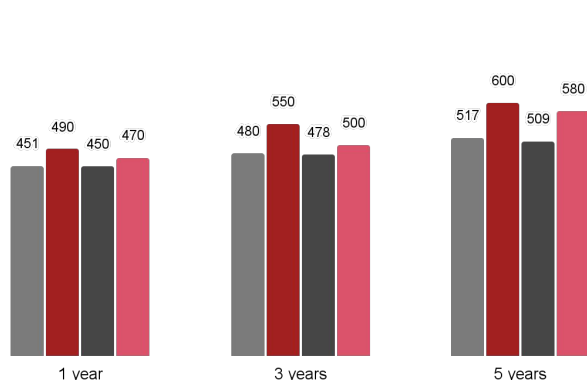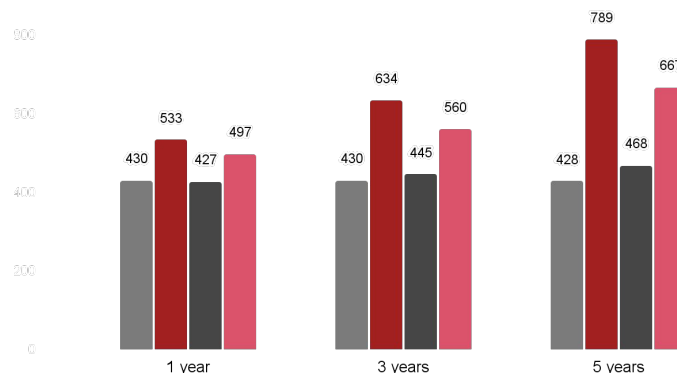- Q1-Q2 2023 - Median of maximum values

Figure 14. Bounds of USD/KZT forecasts

- Q4 2022 - Lower 30% of minimum values
- Q4 2022 - Upper 30% of maximum values
- Q1-Q2 2023 - Lower 30% of minimum values
- Q1-Q2 2023 - Upper 30% of maximum values

Source: Macroeconomic survey by Strategy&, Part of the PwC network, Q1-Q2 2023

The respondents' forecasts for the first half of 2023 regarding the USD/KZT currency pair did not change significantly for the majority of minimum values, whereas in maximum values the forecasts became a little more optimistic both in a short-term and long-term period. The median of maximum values reduced in the horizon of one year by 4% - to 470 Tenge per US dollar, the value of the median in the horizon of three years reduced by 9% to 500 Tenge, and the value in the horizon of five years reduced by 3% and amounted to 580 Tenge per US dollar.

Compared to Q4 of 2022, the forecast value of the upper bound of the USD/KZT currency pair for the first half of 2023 reduced for all periods: in the horizon of one year the maximum value reduced by 7% and set at 497 Tenge per US dollar, whereas in the horizon of three and five years there is a decrease by 12% to 560 Tenge and 15% to 667 Tenge per US dollar, respectively. However, the forecasts of minimum values compared to Q4 of 2022 show a multidirectional development. The minimum value in the horizon of one year remained practically at the same level, showing a decrease by approximately 1% to 427 Tenge. Meanwhile, in the forecasts for the horizon of three and five years there is an increase in value: by 3% to 445 Tenge and by 9% to 468 Tenge per US dollar, respectively.

According to the forecasts for the first half of 2023, the KZT/USD rate on median values is expected in the range of 450 - 470 Tenge in the horizon of one year, 478 - 500 Tenge in the horizon of three years and 509 - 580 Tenge in the horizon of five years.

III Exchange Rate Forecasts: USD/RUB

In the first half of 2023, the RUB/USD exchange rate demonstrated a gradual trend towards weakening by 24.3% from 70 to 87 Russian roubles per US dollar.

In Q1 of 2023, the market rate on average formed at 72.97 Russian roubles per US dollar, compared to Q4 of 2022 the Russian Rouble weakened by 16.4%.

In January, the Russian Rouble remained stable during the tax period. The weakening of the rouble started in February 2023 and by the end of the month the rouble weakened by 7% to 75.43 Russian roubles per US dollar. The key factors which exerted pressure on the rouble's rate were the decrease in activity of exporters due to introduction of EU's sets of sanctions 8 and 9 for Russia, the deficit of the federal budget which according to the RF Ministry of Finance was planned at the level of 2.9 trillion Russian roubles, and the expectation of the new 10th set of sanctions of EU, which includes additional prohibitions on export and a number of other limitations from EU, including the financial sector of Russia. Based on the results for March, the rouble weakened by 2.9% to 77.09 Russian roubles per US dollar amid adaptation of the Russian business to new sanctions, realignment of export and decrease in oil prices. Also, the weakening could be facilitated by the decision of RF Central Bank to retain the rate at 7.5%.

In Q2 of 2023, the rate of the Russian Rouble continued the trend of weakening against the US dollar. The average rate for the quarter amounted to 81.24 Russian roubles per US dollar, compared to Q1 the rouble weakened by 11.3%.

In April, the rate of the Russian Rouble continued the trend of weakening amid the decrease in export, increase in demand for foreign currency and decrease in oil value. However, at the end of April 2023, the rouble strengthened by 1.8% during the April tax period. The further weakening of the rouble was caused by export activity and imposition of export sanctions by the USA against Russia.

Table 2. Statistics on the USD/RUB currency pair for January – July 2023

	January	February	March	April	May	June	July
Minimum value	67.57	70.04	74.89	77.32	75.88	80.88	88.38
Maximum value	70.30	75.43	77.24	82.40	80.76	87.03	92.57
Mean value	68.88	72.78	76.10	81.00	79.21	83.32	90.47
% change on monthly results	▼ 0.0%	▼ 7.0%	▼ 2.9%	▼ 4.1%	▼ 0.9%	▼ 7.5%	▼ 2.9%

Source: Official exchange rates of the RF Central Bank

What USD/RUB exchange rates, in your opinion, are most probable for the considered forecast periods?
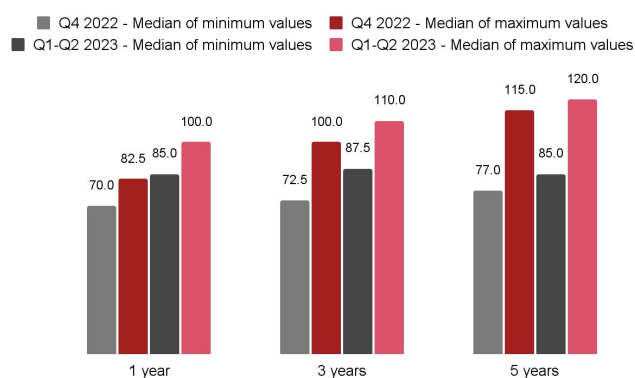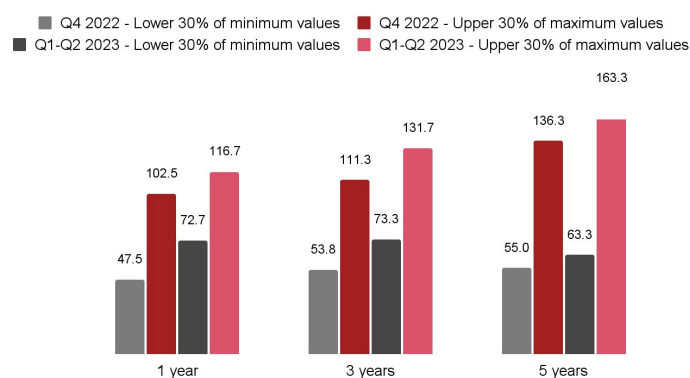
Figure 15. Forecast USD/RUB rate

■ Q4 2022 - Median of minimum values   ■ Q4 2022 - Median of maximum values
■ Q1-Q2 2023 - Median of minimum values   ■ Q1-Q2 2023 - Median of maximum values

Figure 16. Bounds of USD/RUB forecasts

■ Q4 2022 - Lower 30% of minimum values   ■ Q4 2022 - Upper 30% of maximum values
■ Q1-Q2 2023 - Lower 30% of minimum values   ■ Q1-Q2 2023 - Upper 30% of maximum values

Source: Macroeconomic survey by Strategy&, Part of the PwC network, Q1-Q2 2023

When comparing the results of the expert survey for Q4 of 2022 and the first half of 2023, it could be noted that in general the respondents expect further weakening of the Russian Rouble against the US dollar in all forecast periods. For example, compared to Q4 of 2022, the median of maximum values in the horizon of one year increased by 21% to 100.0 roubles, whereas the values for the horizon of three and five years increased by 10% and 4% to 110.0 and 120.0 Russian roubles per US dollar, respectively. Compared to Q4 of 2022, the medians of minimum values also demonstrate a trend for weakening of the Russian Rouble: in the horizon of one year and three years there is an increase of the rate by 21% to 85.0 and 87.5 Russian roubles per US dollar, respectively, and in the horizon of five years there is an increase in the value by 10% to 85.0 Russian roubles per US dollar.

Compared to Q4 of 2022, the values of the upper bound of the USD/RUB currency pair increased on average by 17%. For example, the maximum rate in the horizon of one year is expected at the level of 116.7 Russian roubles per US dollar, in the horizon of three years – 131.7 Russian roubles, and in the horizon of 5 years – 163.3 Russian roubles per US dollar. In the lower bound there was also an increase in forecast value. For example, the minimum value in the horizon of one year increased by 53% to 72.7 Russian roubles per US dollar, in the horizon of three years - by 36% to 73.3 Russian roubles, and in the horizon of five years the minimum value increased by 15% to 63.3 Russian roubles per US dollar.

As such, according to the experts' forecasts, for the first half of 2023 the RUB/USD rate on median values is expected in the range of 85.0 - 100.0 Russian roubles in the horizon of one year, 87.5 - 110.0 Russian roubles in the horizon of three years and 85.0 - 120.0 Russian roubles in the horizon of five years.

III Exchange Rate Forecasts: RUB/KZT

In the first half of 2023, the KZT/RUB exchange rate demonstrated a gradual trend of strengthening by 21.5% from 6.65 to 5.22 Tenge per Russian rouble, which in general was caused by weakening of the rouble's rate.

In Q1 of 2023, the average market rate was KZT 6.25 per Russian rouble, compared to Q4 of 2022 the Tenge strengthened by 16.7%. During the entire quarter, there was a gradual strengthening of Tenge without sharp swings of the rate.

In Q2 of 2023, the average market rate was KZT 5.54 per Russian rouble, compared to the previous quarter the Tenge strengthened by 11.4%. In April and May of the current year, the rate fluctuated from KZT 5.36 to 5.88 per Russian rouble with subsequent strengthening of the Tenge in the second half of June to KZT 5.30 per Russian rouble amid general weakening of the rouble against foreign currencies.

Table 3. Statistics on the RUB/KZT currency pair for January – July 2023

	January	February	March	April	May	June	July
Minimum value	6.62	5.95	5.72	5.36	5.51	5.22	4.85
Maximum value	6.87	6.57	6.14	5.86	5.88	5.58	5.14
Mean value	6.72	6.22	5.93	5.58	5.64	5.40	4.94
% change on monthly results	▲ 0.5%	▲ 8.7%	▲ 2.3%	▲ 3.9%	▲ 2.0%	▲ 6.5%	▲ 4.7%

Source: Official exchange rates of the Bank of Russia

What KZT/RUB exchange rates, in your opinion, are most probable for the considered forecast periods?

Figure 17. Forecast RUB/KZT rate

Legend: ■ Q4 2022 - Median of minimum values ■ Q4 2022 - Median of maximum values ■ Q1-Q2 2023 - Median of minimum values ■ Q1-Q2 2023 - Median of maximum values
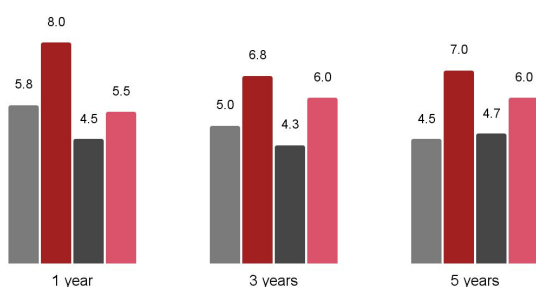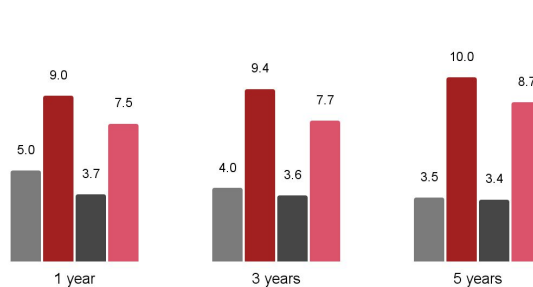
Figure 18. Bounds of RUB/KZT forecasts

Legend: ■ Q4 2022 - Lower 30% of minimum values ■ Q4 2022 - Upper 30% of maximum values ■ Q1-Q2 2023 - Lower 30% of minimum values ■ Q1-Q2 2023 - Upper 30% of maximum values

Source: Macroeconomic survey by Strategy&, Part of the PwC network, 6 months 2023

When comparing median values for Q4 of 2022 and the first half of 2023, the respondents' forecasts reflect a trend for strengthening of Tenge against the Russian Rouble. The minimum and maximum values of the medians in the horizon of one year decreased by 22% and 31% to 4.5 and 5.5 Tenge per Russian rouble, respectively. In the horizon of three years, the minimum and maximum forecast values decreased on average by 13% to 4.3 and 6 Tenge per Russian rouble. In the horizon of five years, the minimum value of the median increased by 4% to 4.7 Tenge per Russian rouble, whereas the median of maximum values decreased by 14% to 6.0 Tenge per Russian rouble. The experts' forecasts on the values of upper and lower bound of the RUB/KZT currency pair in the horizon of one year decreased by 26% to 3.7 Tenge and by 17% to 7.5 Tenge per Russian rouble, respectively. The minimum forecast values in the horizon of three and five years practically did not change, whereas the maximum values decreased by 18% and 13% to 7.7 Tenge and 8.7 Tenge per Russian rouble, respectively.

IV - Consumer price index

Figure 19. Development of the annual inflation by months, %
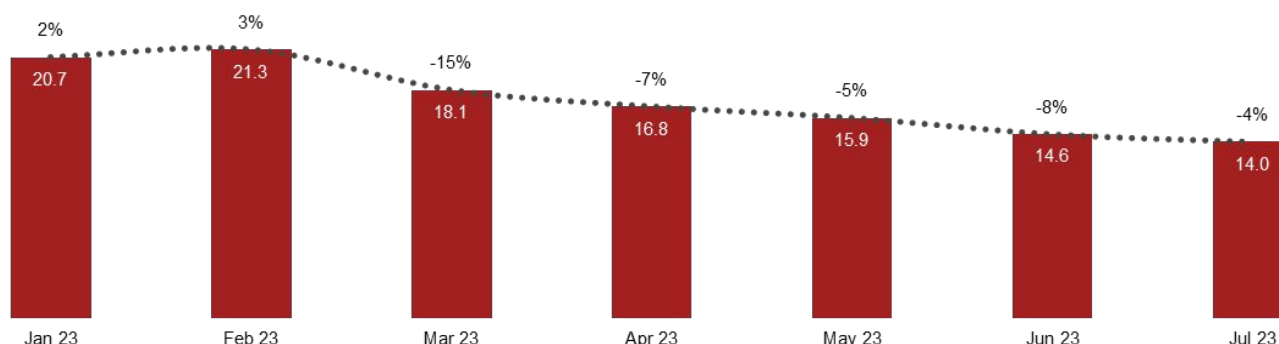
Source: Based on the data of stat.gov.kz

In the beginning of 2023, the level of annual inflation in Kazakhstan continued to increase, reaching 21.3% in February, which is a maximum value in the last 26 years. However, already from March of the current year, the rates of annual inflation slowed down to 18.1% and further to 14.6% in June.

The main reasons of this trend are the decrease in the growth rate of the global inflation in general, recovery of logistical supply chains, fall of energy prices, and strengthening of Tenge against the basket of currencies of trading partner countries.

According to the latest report on the monetary policy, the inflation forecast by the end of the current year will slow down and amount to 11-14% on an annual basis. Nevertheless, the risks of pro-inflation pressure still persist amid the increase in utility tariffs. ***"The increase in the average check on all utilities will approximate 3-4 thousand Tenge,"*** noted the Minister of National Economy, Alibek Kuantyrov*.

The results of the expert survey for the first half of 2023, compared to Q4 of 2022, showed a decrease of the maximum and minimum inflation limits in the short-term and mid-term horizons**.** In a long-term horizon, the respondents expect the decrease in the corridor of inflation limits forecasts with a decrease in the minimum limit by 0.6 pp and decrease in the maximum limit by 2.8 pp compared to Q4 of 2022. And in the horizon of one year, the lower and upper limits of the median values of expected inflation decreased by 1 pp. In the horizon of three years, the lower limits of median values decreased by 0.5 pp, whereas the upper limit remained unchanged. In the horizon of five years, the respondents expect a decrease in lower and upper median values of inflation by 1 pp and 2 pp, respectively.

What inflation indicators (in particular, consumer price index - CPI) in Kazakhstan, in your opinion, are most probable for considered forecast periods?

Figure 20. Forecast CPI level, %
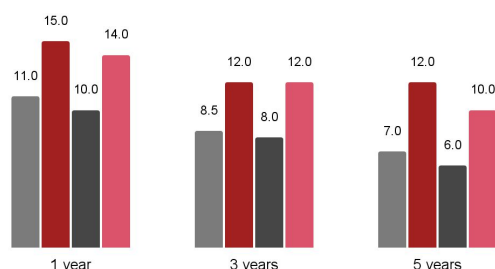
Figure 21. Bounds of CPI forecasts, %

Source: Macroeconomic survey by Strategy&, Part of the PwC network, 6 months 2023

* https://primeminister.kz
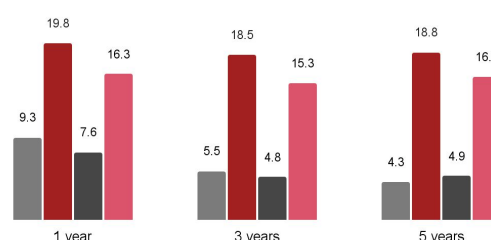
Figure 22. Movements in the annual consumer inflation by sectors of economy, %
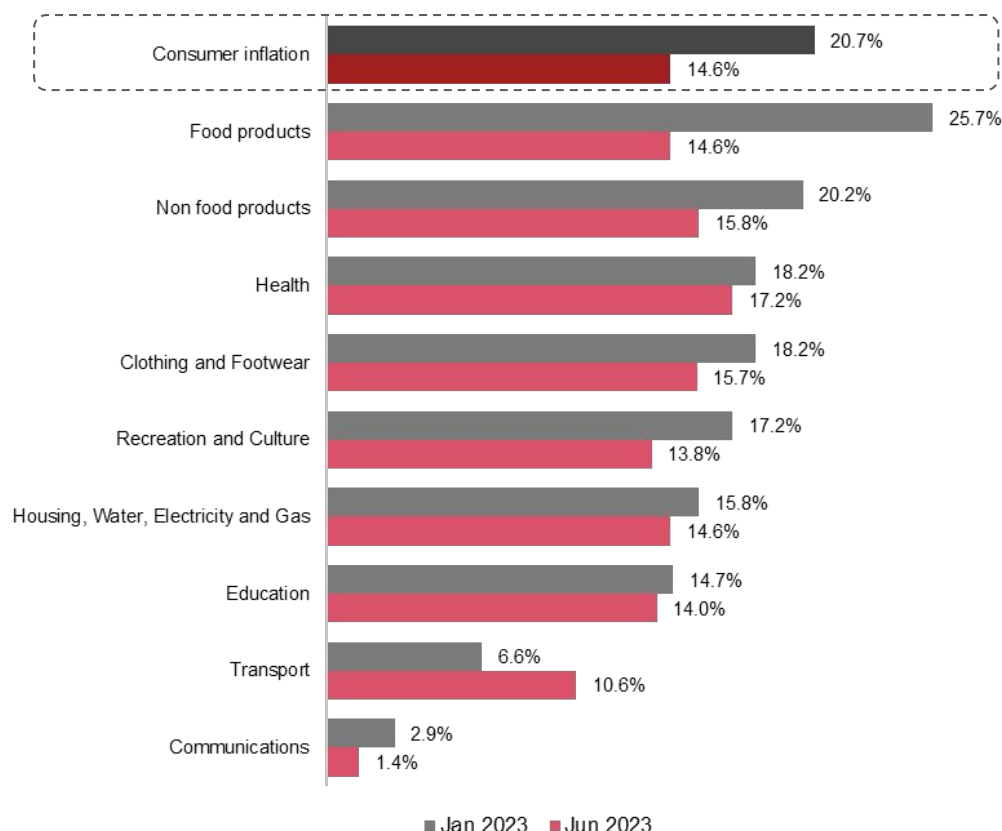
Source: Based on data from stat.gov.kz

The analysis of the data of the consumer price index for the period from January 2023 to June 2023 shows a significant fall of the inflation rates in all the sectors, except for transport.

The prices of food products reached the inflation level of 14.6% due to recovery of logistical supply chains and strengthening of the KZT exchange rate, which affected the prices of import goods. Compared to June of the previous year, there was an increase in prices for certain food items. For example, according to the internal analysis, the prices for rice increased by 69%, for sugar and sugar substitutes – by 66%, dairy butter - by 59%, sour cream – by 32%, cucumbers – by 24%, etc. Nonetheless, there was also a decrease in prices for certain food items: the price for bulb onion fell by 51%, bananas – by 41%, beetroot – by 33%.

It is notable that according to BNS* in June the prices for non-food products reached the level of annual inflation of 15.8%, leaving behind the food inflation.
Within this sector, there was an increase in prices in June, year-on-year, for such segments as office supplies (67.7%), washing and cleaning products(36.2%), private use goods (24.6%), furniture and household goods (20.3%) and more.

A number of sectors and categories of goods showed a decrease in the growth rates of annual inflation, including healthcare, clothing and footwear, culture and recreation, education, communications and utilities. It is notable that the transport sector showed an increase in the inflation rate from 6.6% to 10.6%.

* Bureau of National Statistics of the Agency of strategic planning and reforms of the Republic of Kazakhstan

Figure 23. Monthly inflation of the Consumer Price Index for Q1-Q2 of 2023,%
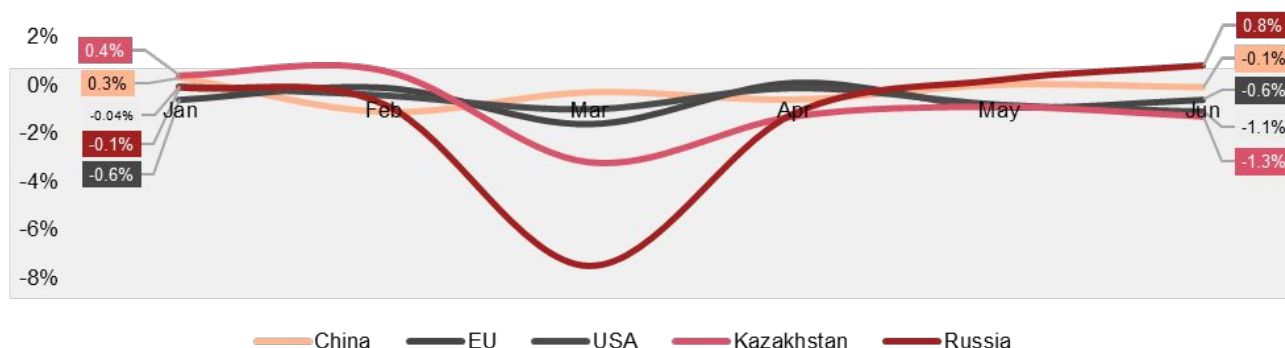
Source: Based on data from stat.gov.kz and Trading Economics

Figure 24. Monthly inflation of the Consumer Price Index, food products and non-food products in Kazakhstan since the beginning of 2023,%
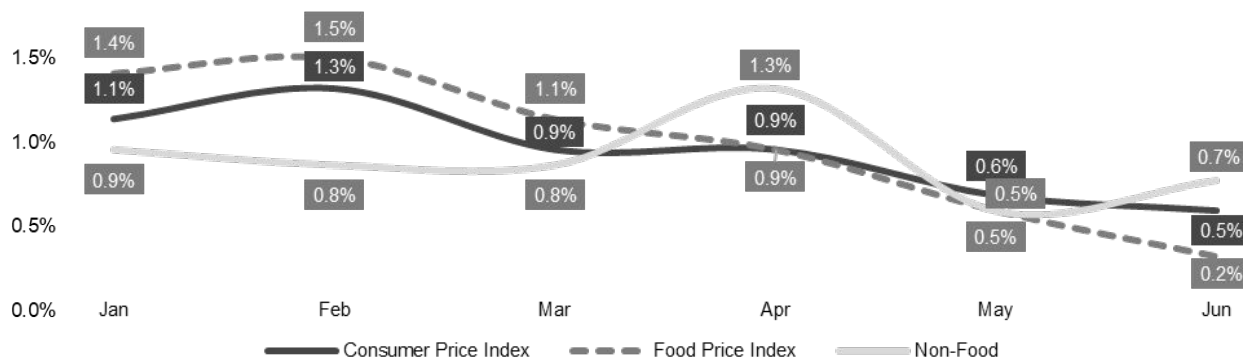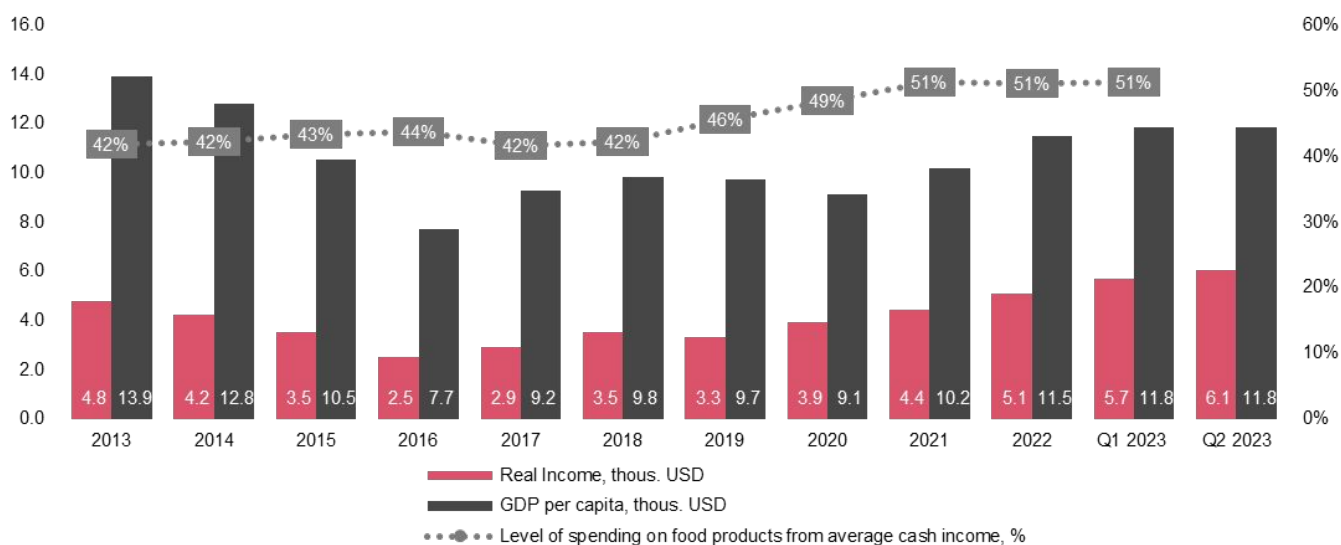

Source: Based on data from stat.gov.kz

In the process of strengthening of the national currency, there is a trend of a decrease in prices for import goods. Where the prices for foreign goods in foreign currency are preserved, their cost in the national currency decreases.

Since April 2023, the monthly non-food inflation increased by 1.3% and remained above consumer price indexes and the food product index. Due to a great share of import in their consumption compared to food items, non-food products can react more to changes in the exchange rate, since their prices depend on the cost of import to a great extent. However, with a decrease in the global inflation pressure and strengthening of Tenge in relation to the basket of currencies, we noted a general decrease from 20.2% to 15.8%.

According to BNS, the majority of import (in millions of US dollars) includes such countries as: Russia with a turnover of 6.5 (27% of specific weight), China with a turnover of 5.9 (24%), European Union with a turnover of 4.4 (18%),the USA with a turnover of 1.1 (4.7%). Figure 23 shows monthly changes in the inflation of these 4 countries, whose specific weight in the import totals 70%. It is notable that the specific weight of Russia in the total import during the period from January to March 2023 reduced by 5 pp, amounting to 27% compared to the similar period of the year 2022 (39%).

Source: Based on data from stat.gov.kz and NBRK

Figure 25. Indicator of real wealth of population

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Q1 2023	Q2 2023
Real Income, thous. USD	4.8	4.2	3.5	2.5	2.9	3.5	3.3	3.9	4.4	5.1	5.7	6.1
GDP per capita, thous. USD	13.9	12.8	10.5	7.7	9.2	9.8	9.7	9.1	10.2	11.5	11.8	11.8
Level of spending on food products from average cash income, %	42%	42%	43%	44%	42%	42%	46%	49%	51%	51%	51%	

Legend:
- Real Income, thous. USD
- GDP per capita, thous. USD
- Level of spending on food products from average cash income, %

Source: Analysis by Strategy&, Part of the PwC network, based on data from stat.gov.kz and Trading Economics
Notes:
- *Data for Q1-Q2 2023 on GDP per capita were taken as a forecast of GDP per capita at the end of 2023 according to Trading Economics*
- *Data for Q2 2023 and on the share of expenses on food products from the monetary income are not available at the date of issue of this report*

The level of an average monthly median salary in Tenge in Q2 of 2023 amounted to 241 thousand Tenge, which is higher by 7% than the amount for Q1 of 2023 (225 thousand Tenge) and by 18% than the amount for Q4 of 2022 (204 thousand Tenge).

Amid the slowdown of the growth rates of inflation in the first half of 2023, real annual income of population in Q2 of 2023 increased by 7% to 6.1 thousand US dollars compared to Q1 of 2023 (5.7 thousand US dollars) and by 20% compared to Q4 of 2022 (5.1 thousand US dollars).
Nonetheless, the level of expenses on food products from mean monetary income remained unchanged at the level of 51% in Q1 of 2023 compared to Q4 of 2022.

IV – NBRK base rate

In the first half of 2023, NBRK retained the base rate at 16.75%, which remains unchanged since December 2022. It is notable that in the same period there was a decrease in the growth rates of annual inflation in Kazakhstan from 20.3% in January to 14.6% in June with a target inflation rate being 5.0%.* Meanwhile, the expenses of the state budget continued to grow in the first half of 2023 and amounted to 12.3 trillion Tenge, which is 27.0% greater than the amount for the similar period of the last year.** Despite the growth of economy by 5.1% in real annual terms, for 2023 the deficit of 3.2 trillion Tenge is planned in the state budget.***

"Despite the observed and expected positive changes in the inflation processes in the country, it is too early to speak of a confident stable trend of a decrease of inflation due to the presence of internal pro-inflation factors and possible risks for growth of prices in the future.

The main risks include fixing the inflation expectations on a high level, implementation of indirect effects frp, the increase in prices for fuels and lubricants and utilities, strengthening of fiscal stimulation, possibility of a global recession with a subsequent impact on the oil demand and the growth of uncertainty of the geopolitical situation," noted the chairman of the NBRK, Galymzhan Pirmanov, at the last meeting regarding the base rate.

The results of the survey for the first half of the year show that the experts expect a decrease in the base rate compared to the current rate set on 10 July 2023 at 16.75%. As such, in the horizon of one year, the respondents forecast the base rate to be at 13.5%, which is 0.5 pp lower than the experts' expectations in the previous report for Q4 of 2022.

What amounts of the base rate of NBRK, in your opinion, are most probable in the perspective of the following periods?

Figure 26. Actual and forecast level and corridor of the base rate, %
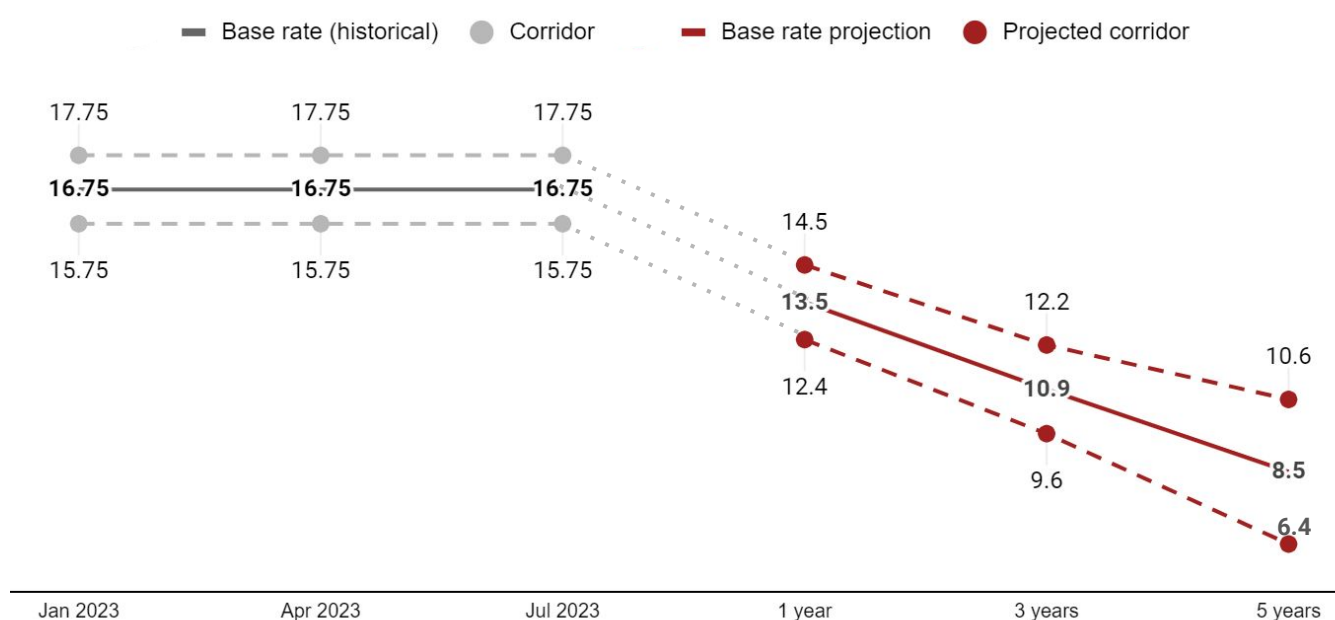
Source: Macroeconomic survey by Strategy&, Part of the PwC network, Q1-Q2 2023 and NBRK

* NBRK
** RK Ministry of Finance
*** "Әдилет" search system

Central banks of the major economies of the world* increased or left unchanged the base rates in the first half of 2023. Meanwhile, practically in all countries there was a decrease in the level of annual inflation, which indicates a decrease in the global inflation. This trend of the decrease in the level of annual inflation while retaining or increasing the base rate can be explained by various factors, including: high inflation expectations, recessional trends in Europe, and the stress in the banking sector of the USA. Also, one of the important factors is that the recovery of the economy of China turned out to be less than the projected value (growth amounted to 6.1% from expected 7.1%).**

Meanwhile, the increase in the base rate affects the condition of the banking sector, indirectly setting interest rates on deposits and lending rates. In the report on financial stability of April 2023, the International Monetary Fund (IMF) notes that "the global financial system suffers significant tension, since the growth of interest rates undermines trust to some institutions." Since March to May 2023, the banks of the USA and Europe were exposed to heightened liquidity risks, which resulted in a default of several banks (Silicon Valley Bank, Silvergate Bank, Signature Bank, and the sale of First Republic Bank and Credit Suisse) and movement of deposits from regional to central banks of the country. Due to this, the increased instability of the banking sector and the growing distrust of the markets can cause further development of tension in the global financial sector.

In Kazakhstan, the indicators of the banking sector show a stable growth. For example, for June 2023 the total deposits increased by 22.6% compared to the previous year, and the volume of deposits in the national currency by 42.4%. In the lending market, there is a similar trend: despite the growth of the weighted average rate from 15.9% to 18.7% from June 2022 to June 2023, the volume of lending increased by 20.0% for the said period.***

In the lending market, a high base rate does not have an equal impact on loans to population and businesses: the credit portfolio of the population increased by 28.2%, whereas the portfolio of businesses only by 8.9%. Meanwhile, the quality of loans improved, the share of non-performing loans (NLP 90+) decreased from 3.6% to 3.3% from the end of June 2022 to the end of June 2023. It is also notable that in May 2023 the Fitch rating agency retained the credit rating of Kazakhstan at "BBB" with a stable outlook.****

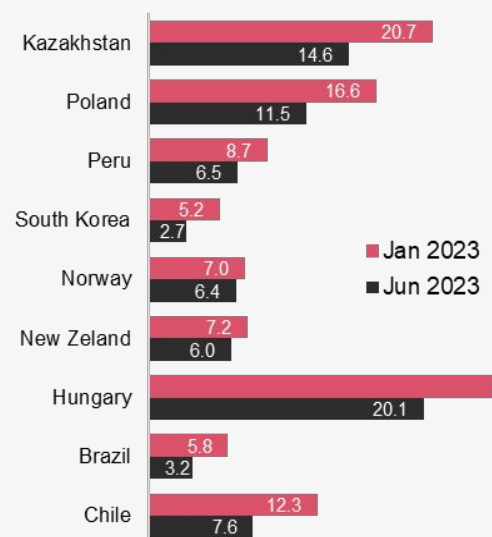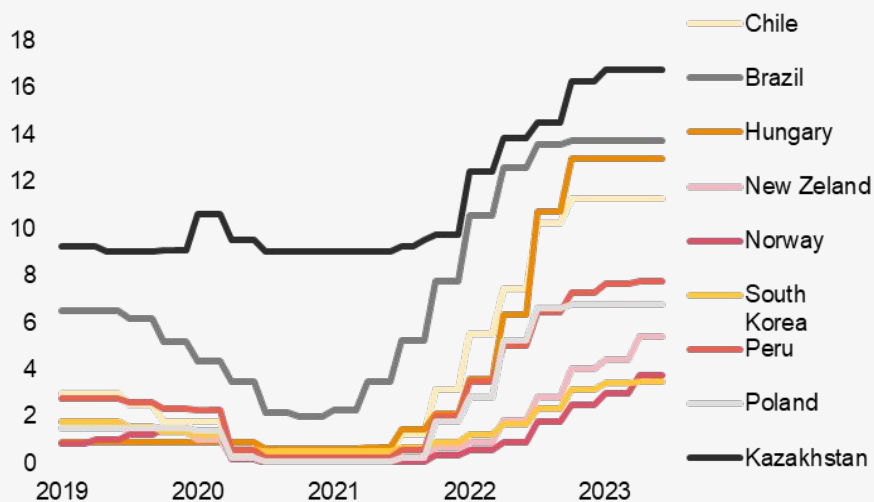**Figure 27.** Level of annual inflation in 2023

Figure 28. Level of the base rate in the countries of Hikelandia and Kazakhstan

Source: Macroeconomic survey by Strategy&, Part of the PwC network,Q1-Q2 2023, based on data from stat.gov, NBRK and Trading Economics

In the previous review, we compared the economy of Kazakhstan with the Hikelandia group, which includes the countries that accepted an aggressive monetary policy to fight the growing inflation. At that time, we noted that "the increase in interest rates in this category of countries did not slow down the pace of inflation." In figure 27, one can notice that for Q2 of 2023 the inflation decreased in all the countries. In the strategy of the monetary policy, NBRK noted that the changes in the base rate had a time lag of 10-20 months in developing countries. It is also notable that the majority of Hikelandia countries suspended the increase of the base rate in the beginning of 2023, which is similar to the NBRK's decision.

* Including USA, EU, Great Britain, India and China
** Bloomberg
*** NBRK
**** Fitch rating agency

Dialogue with the experts

Which sectors, in your opinion, will have the most impact on changes in GDP of the Republic of Kazakhstan in the horizon of one to five years?

"
The mining industry will be a leader, since it is easier to develop the one you already have. Transport and warehousing will grow due to Chinese investments.

- 		*Kairat Mynbayev*
		Professor, KBTU

"
Trade and construction.

-		*Anonymous*

strategy&

Part of the PwC network

Annex to the macroeconomic review

Summary table of indicators

Summary table of indicators

Section	Indicator	Period	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1-Q2 2023
Oil price	in medians of minimum values	1 year	77.5	83.5	77.5	77.5	70.0
		3 years	62.5	75.0	65.0	60.0	66.0
		5 years	52.5	60.0	50.0	50.0	61.0
	in medians of maximum values	1 year	105.0	120.0	103.5	99.0	90.0
		3 years	92.5	100.0	100.0	100.0	85.0
		5 years	80.0	100.0	90.0	90.0	88.0
	lower 30% of minimum values	1 year	66.3	72.5	58.8	61.3	62.7
		3 years	52.5	58.8	50.0	53.8	51.7
		5 years	41.3	42.5	38.8	42.5	41.3
	upper 30% of maximum values	1 year	117.5	140.0	120.0	118.8	100.0
		3 years	118.0	127.5	110.0	111.8	98.3
		5 years	126.3	125.8	118.3	111.3	105.0
USD/KZT rate	in medians of minimum values	1 year	425.0	445.0	460.0	450.0	450.0
		3 years	445.0	488.0	485.0	480.0	478.0
		5 years	460.0	523.0	520.0	517.0	509.0
	in medians of maximum values	1 year	450.0	505.0	500.0	490.0	470.0
		3 years	500.0	550.0	550.0	550.0	500.0
		5 years	550.0	600.0	610.0	600.0	580.0
	lower 30% of minimum values	1 year	402.5	420.0	435.0	430.0	426.7
		3 years	407.5	395.0	438.0	430.0	445.0
		5 years	397.5	408.0	440.0	427.5	467.7
	upper 30% of maximum values	1 year	507.5	535.0	531.0	533.0	496.7
		3 years	557.5	575.0	631.0	633.5	560.0
		5 years	687.5	688.0	814.0	789.0	666.7
RUB/KZT rate	in medians of minimum values	1 year	5.3	6.0	6.0	5.8	4.5
		3 years	5.4	5.3	5.0	5.0	4.3
		5 years	5.4	5.0	5.0	4.5	4.7
	in medians of maximum values	1 year	6.0	9.3	8.0	8.0	5.5
		3 years	6.2	8.3	8.0	6.8	6.0
		5 years	6.5	7.8	8.0	7.0	6.0
	lower 30% of minimum values	1 year	5.0	4.0	4.8	5.0	3.7
		3 years	4.9	3.7	4.0	4.0	3.6
		5 years	4.5	3.8	3.5	3.5	3.4
	upper 30% of maximum values	1 year	6.3	10.5	10.0	9.0	7.5
		3 years	6.7	11.2	10.4	9.4	7.7
		5 years	6.8	12.1	10.6	10.0	8.7

Summary table of indicators

Section	Indicator	Period	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1-Q2 2023
USD/RUB rate	in medians of minimum values	1 year	71.5	50.0	60.0	70.0	85.0
		3 years	73.5	62.5	70.0	72.5	87.5
		5 years	75.0	72.5	79.0	77.0	85.0
	in medians of maximum values	1 year	82.0	75.0	75.0	82.5	100.0
		3 years	85.0	90.0	90.0	100.0	110.0
		5 years	89.5	104.0	100.0	115.0	120.0
	lower 30% of minimum values	1 year	66.0	42.0	46.3	47.5	72.7
		3 years	65.8	51.3	51.3	53.8	73.3
		5 years	65.5	55.0	52.5	55.0	63.3
	upper 30% of maximum values	1 year	92.5	96.8	96.3	102.5	116.7
		3 years	97.5	116.3	111.3	111.3	131.7
		5 years	111.3	143.8	133.8	136.3	163.3
Expectations on CPI	in medians of minimum values	1 year	7.5	12.5	11.5	11.0	10.0
		3 years	6.0	8.0	8.0	8.5	8.0
		5 years	6.0	8.0	8.0	7.0	6.0
	in medians of maximum values	1 year	9.5	17.0	15.5	15.0	14.0
		3 years	8.8	11.0	12.0	12.0	12.0
		5 years	8.5	8.0	10.0	12.0	10.0
	lower 30% of minimum values	1 year	6.5	9.2	7.9	9.3	7.6
		3 years	5.3	5.3	5.0	5.5	4.8
		5 years	5.3	5.3	5.0	4.3	4.9
	upper 30% of maximum values	1 year	10.8	20.0	19.8	19.8	16.3
		3 years	11.0	21.5	17.3	18.5	15.3
		5 years	12.1	23.0	16.8	18.8	16.0
Expectations on the base rate	Base rate	1 year	10.8	13.9	13.5	14.0	13.5
		3 years	9.2	10.8	11.3	11.8	10.9
		5 years	8.1	8.9	9.3	9.8	8.5
	Corridor	1 year	0.9	1.5	1.6	1.5	1.1
		3 years	1.0	1.2	1.4	1.5	1.3
		5 years	1.1	1.3	1.4	2.2	2.1

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