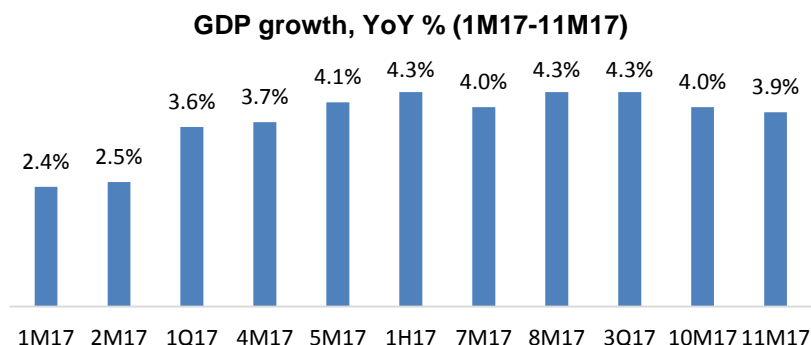




## 11M17 GDP growth stood at 3.9%

### Review of 11M17 GDP growth

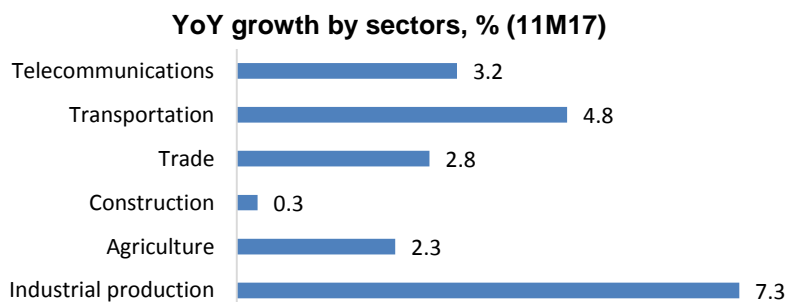
Preliminary estimates indicated that Kazakhstan's 11M17 GDP expanded by 3.9% YoY, with growth primarily attributable to strong performance in industrial production (7.3%) and transportation (4.8%). Short-term economic indicator, representing a gauge for change in production indexes of base industries, rose by 5.1% YoY over the same period.



Source: Ministry of National Economy, Committee on Statistics, Samruk-Kazyna

On sectorial distribution, the mining sector output growth stood at 9.6% YoY in 11M17, compared to 10.2% YoY observed in 10M17. Growth was driven by crude oil production, which expanded by 10.9% YoY, while natural gas production gained 10%. Concurrently, production of most petrochemicals and metals: gasoline (6.6% YoY), kerosene (18.8% YoY), liquefied propane and butane (11.4% YoY), refined lead (10.4% YoY) and refined copper (3.5% YoY) showed significant growth. Meanwhile, manufacturing sector's 11M17 growth stood at 5.2%, with pharmaceuticals (42%), chemical industry (6.2%) and petrochemicals (5.5%) representing the main growth drivers. Other manufacturing industries, such as light, machinery and metallurgy also showed strong growth. Over 11M17, agriculture sector expanded by 2.3%, accelerating from the 10M17 reading of 2.1%.

Rapid growth in the real sector of the economy stimulated demand for related industries and services. Thus, in 11M17, transportation services grew by 4.8% YoY, communications industry expanded by 3.2% YoY, trade gained 2.8% YoY, while real estate transactions recorded growth of 2.5% YoY. Construction industry showed an expansion of 0.3% YoY in 11M17 partially attributable to the high base of 11M16, when construction within the Nurly Zhol initiative was one of the primary drivers of economic growth.

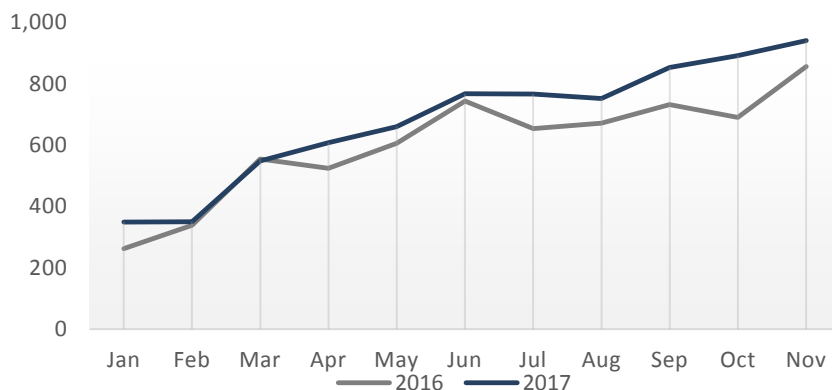


Source: Ministry of National Economy, Samruk-Kazyna

## Fixed asset investments

Over 11M17, total fixed asset investments amounted to KZT7.5tln, rising by 5.7% YoY. Construction and repair represented the largest share of total investments into fixed assets. The main increase in investments was registered in agriculture, trade, construction and industrial production. Majority of investments were financed by the private sector.

**Fixed asset investments dynamics (11M17 vs. 11M16), KZTbln**

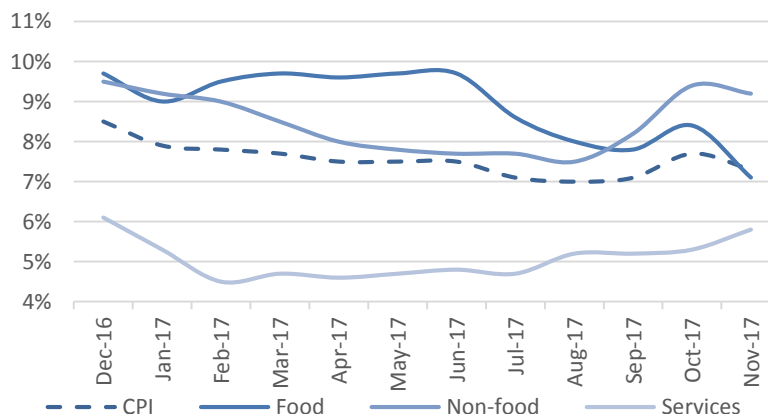


Source: Ministry of National Economy, Samruk-Kazyna

## Inflation

In November 2017, CPI growth moderated to 7.3% YoY compared to a 7.7% YoY rise in October. Inflation was primarily driven by non-food items, which rose by 9.2% YoY in November. Prices for food items rose by 7.1% YoY and for services by 5.8% YoY. However, monthly data suggests that prices for services, which grew by 1.0% MoM, were the largest contributor to the monthly inflation in November.

**CPI growth by sector, % (Dec 2016 – Nov 2017)**



Source: Committee on Statistics, Samruk-Kazyna

## Fiscal position

In 11M17, budget revenues amounted to KZT6.3tln, growing by 8.3% YoY. Revenues were 2.5% or KZT153bln higher than planned. Concurrently, budget expenditures stood at KZT10.2tln, 2.3% below the planned amount. Expenditures within the Nurlı Zhol program amounted to KZT400.3bln as at 1 December 2017. Total expenditures for 2017 are anticipated at KZT475bln. Consequently, consolidated budget deficit is less than expected, providing additional resources for the central government and local authorities. Looking forward, by year-end fiscal deficit is anticipated to remain below initial forecasts.

## Regional overview

### Eurozone

GDP growth in the Eurozone was revised upwards to 2.6% YoY in 3Q17, above the initial estimate of 2.5% YoY. This was the fastest growth rate since 2011. Economic expansion was driven by household consumption, fixed investment and exports. Trade surplus increased to EUR26.4bln in September of 2017, driven by a 5.6% YoY in exports despite the euro strengthening. Industrial production grew by 1.3% QoQ, boosted by manufacturing 1.5% QoQ, while construction advanced by 0.4% QoQ. Unemployment rate decreased to 8.9% in October, its lowest level since January 2009. Inflation stood at 1.5% YoY with core inflation at 0.9%, well below the ECB's target of 2%.

### Macroeconomic indicators of Kazakhstan's main partners

Indicator	Eurozone	Russia	China	Kazakhstan
GDP growth 2017f	2.2%	2.1%	6.8%	3.4%
GDP growth, 3Q17, % YoY	2.6%	1.8%	6.8%	4.3%
Unemployment rate, October 17	8.8%	5.1%	4.0%	5.0%
Inflation, November 17, YoY	1.5%	2.5%	1.7%	7.3%
Benchmark interest rate, as at December 17	0%	8.25%	4.35%	10.25%
PMI Manufacturing, November 17	60.1	51.5	50.8	N.A.
PMI Services, November 17	56.2	57.4	51.9	N.A.

Source: Bloomberg, Samruk-Kazyna

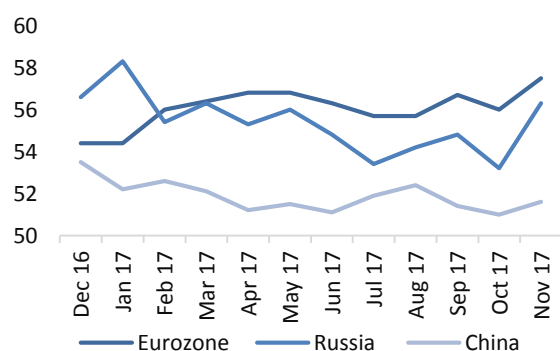
### Russia

Russia's GDP growth stood unrevised at 1.8% YoY in 3Q17 vs. 2.5% YoY in 2Q17. Growth was mainly driven by agriculture and services such as transportation, accommodation, and telecommunications as well as financial and insurance services. Mining output rose at a softer pace while manufacturing and construction showed a contraction vs. the previous quarter. Inflation in Russia fell to a historical low of 2.5% YoY, missing the Bank of Russia's target of 4% despite easing of the monetary policy. The regulator is expected to further lower its benchmark interest rate by 25bps to 8.0% during the next meeting on 15 December 2017.

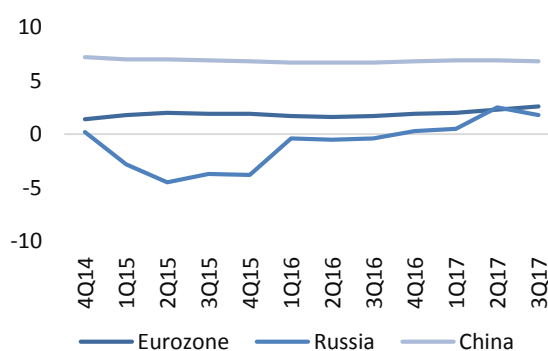
### China

China's economy expanded by 6.8% YoY in 3Q17, following 6.9% YoY in 2Q17. Economic expansion was supported by industrial production and retail sales, while fixed asset investment grew at the slowest pace in nearly 18 years, dragging down growth. Growth is expected to moderate in 4Q17 as most of the traditional industries continue to moderate. Industrial production growth is anticipated at 6.2% in November, partially attributable to the government's anti-pollution policies and weakened exports.

#### Composite PMI



#### GDP growth, % YoY



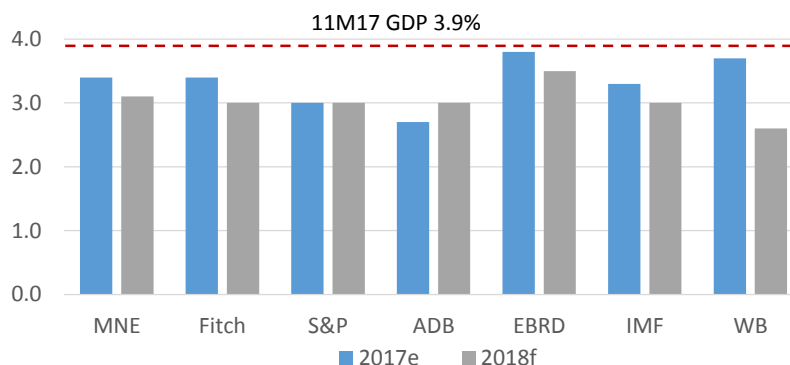
## Foreign exchange and liquidity markets overview

The USDKZT exchange rate averaged at 325.57 in 11M17, compared to 324.90 average exchange rate in 10M17. In November 2017, the average exchange rate stood at 332.28, strengthening from 337.04 in October and 339.61 in September. Tenge continuously strengthened throughout November supported by the high demand for the national currency from tax payers, while NBK decided to withhold from intervening in the currency market. In the short-term, tenge may be affected by a strong US dollar and the US Fed policy expectations, which have already undermined the performance of emerging-market currencies. While we expect the tenge to remain stable for the rest for the year, reflecting fundamental factors, there is a risk of elevated volatility attributable to the “narrow” FX market with the limited number of market participants.

In October, FX purchases by households decreased by 43% to USD598mln, demonstrating the stabilization of devaluation expectations of population. However, the share of FX deposits increased slightly to 49.9% of total deposits in October vs. 48.7% in September 2017.

Meanwhile, credit to the economy declined by 0.8% MoM in October, after three consecutive months of growth in July-August 2017. Loans in tenge grew by 0.5% MoM to KZT9.5tln, while FX loans decreased by 4.3% MoM to KZT3.6tln in October, indicating continued de-dollarization in the credit portfolio. The cost of borrowing in tenge for corporates increased to 13.5% in October, following 13.1% reading in September 2017. Meanwhile, the weighted average interest rate on retail loans in tenge stood at 19.2%, compared to 18.8% in the previous month.

**Kazakhstan’s GDP forecasts (2017f-2018f)**



Source: Ministry of National Economy, Bloomberg, Samruk-Kazyna

Following the results of 11M17, the economy of Kazakhstan demonstrated a stable and widespread expansion, which allows to expect GDP growth to surpass the official MNE full-year forecast of 3.4%. We anticipate GDP expansion in 2017 to significantly exceed the official forecast and market consensus of 3.4%. Economic activity will be supported by higher global oil prices, growing oil production, continued fiscal stimulus and improved economic performance in key trading partners.

In addition, China’s investments under the One Belt & One Road program will also lead to steady improvement in infrastructure and cross border connectivity, boosting economic activity in Kazakhstan and creating multiplier effect on GDP growth. In 11M17, transportation was a second fastest growing sector of the economy. The transit of containers along the Asia-Europe route increased 1.7x YoY and amounted to 175,000 TEU. By the end of 2017, the volume of transit is expected to reach 200,000 TEU.

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