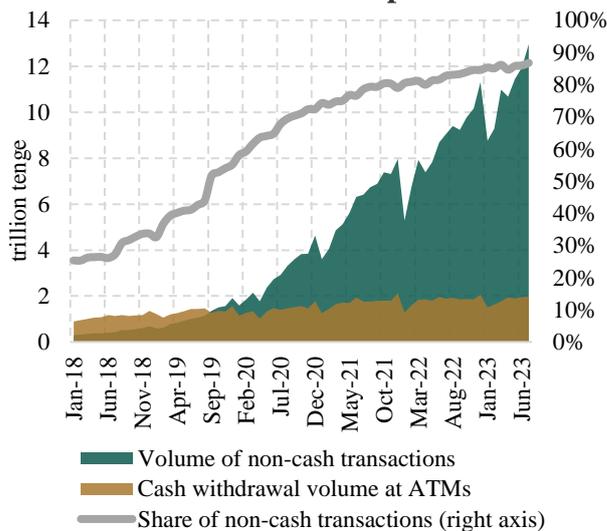


## Analysis of the payment market in Kazakhstan.

### I. Introduction.

Presently, Kazakhstan is witnessing a substantial surge in the adoption of electronic payments. The transition towards cashless transactions started to emerge in 2019 and gained momentum in 2020, notably during the COVID-19 lockdown (refer to Figure 1). Currently, non-cash payments constitute a noteworthy 85.9% of the total volume of transactions encompassing both non-cash payments and cash withdrawals, spanning from January to July 2023. As non-cash payments continue to integrate into the daily operations of economic agents, their growth rate has moderated, though it remains substantial. Comparatively, while the annual growth in non-cash payment volume stood at 42.3% in 2022, it more than doubled in 2021, experiencing an impressive surge of 108.9%.

**Figure 1. Dynamics of non-cash transactions and cash withdrawal operations**



Source: National Bank of Kazakhstan

Concurrently with the shift towards a cashless model of transactions, there has been a decline in the frequency of cash withdrawals from ATMs. In 2022, in contrast to 2021, the count of such transactions experienced a reduction of 4.4%. Simultaneously, the total value of cash withdrawals from ATMs saw an increase of 5.3%. This situation is likely attributed to substantial inflation.

Nevertheless, despite the overall surge in the adoption of non-cash payment methods in Kazakhstan, there remains a substantial disparity between regions and major economic centers.

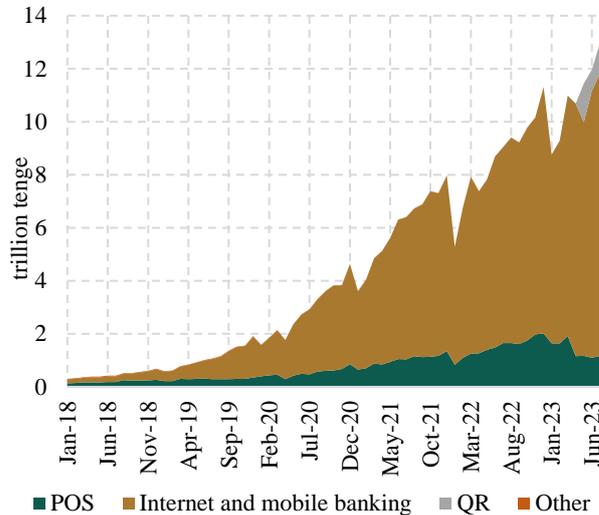
### II. Payment market analysis.

A significant part of non-cash payments currently accounts for the Internet and mobile banking, encompassing P2P (person-to-person) transfers. Figure 1 illustrates the upsurge in the prevalence of non-cash payments in contrast to cash usage, commencing in 2019, when one of the major banks launched a payment network for end-to-end payments, sending and receiving instant P2P transfers between consumers and sellers using a mobile application and QR technology.

As time progresses, the payment instruments market continues to evolve and introduce new options. Presently, customers can utilize QR or Smart Pay technology alongside traditional plastic cards when making payments through a POS terminal. Starting from May 2023, there has been a decline in transaction volumes via POS terminals, a trend linked to the inclusion of statistics on QR technology usage in official data (refer to Figure 2).

The adoption of Smart Pay solutions like Apple Pay, Google Pay, Samsung Pay, and others is on the rise in Kazakhstan for POS terminal transactions. According to the PricewaterhouseCoopers Kazakhstan report, by the end of 2022, the share of Smart Pay in payment in POS terminals is 38%, although in 2020 it was only 8%.

**Figure 2. Dynamics of non-cash transactions by components**



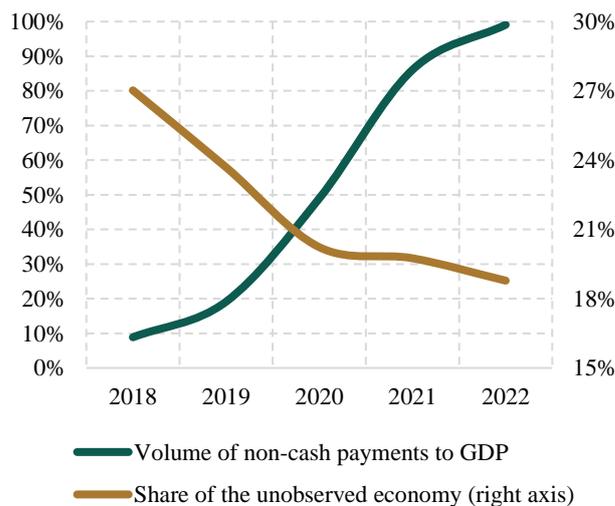
Source: National Bank of Kazakhstan

It's important to acknowledge that in the era of widespread adoption of QR and Smart Pay technologies, the physical use of plastic debit and credit cards has become less popular as a payment method. This shift is attributed to the remarkable convenience these technologies offer to consumers, who only require a mobile phone to support these features to complete a payment.

It's worth emphasizing that despite the increasing favorability of various payment methods at POS terminals, the primary catalyst behind the expansion of non-cash payments is P2P transfers. The widespread adoption of P2P transfers can be attributed to the absence of transfer fees within the same bank. As for interbank

transfers, an instant payment system is currently operating and constantly developing in Kazakhstan. Within this system, economic agents can conduct transfers of up to 500,000 tenge (equivalent to 1,072.3 US dollars at the official exchange rate of the National Bank of Kazakhstan on September 11, 2023) per day. The commission for each transfer is capped at 10 tenge (equivalent to 2.1 US cents).

**Figure 3. Relationship between the non-cash payments adoption and the shadow economy**



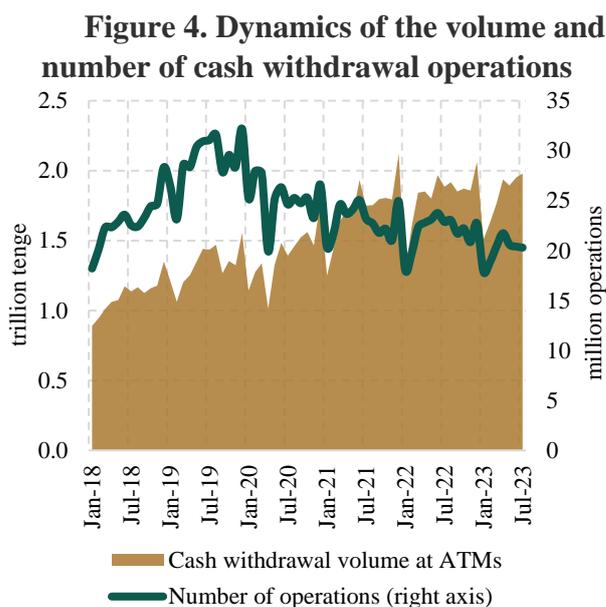
Source: National Bank of Kazakhstan, Bureau of National Statistics of Kazakhstan

Certainly, the extensive adoption of non-cash payment methods plays a pivotal role in stimulating economic growth while simultaneously acting as a driving force behind the reduction in the proportion of the informal economy. In 2018, non-cash payments accounted for 8.9% of the GDP, and by 2022, this figure had surged to 99.1%. Consequently, this shift has resulted in a decline in the informal economy's share, declining from 27% in 2018 to 18.8% in 2022 (refer to Figure 3).

Regarding cash withdrawal transactions, following the peak observed at the outset of 2020, there has been a gradual and consistent decline in their frequency over the past three years as depicted in Figure 4.

This fact can be attributed to the widespread adoption of non-cash payment methods, along with shifts in consumer behavior following the COVID-19 quarantine. Simultaneously, despite the diminishing frequency of transactions, the nominal amount of cash withdrawals from ATMs has been steadily increasing.

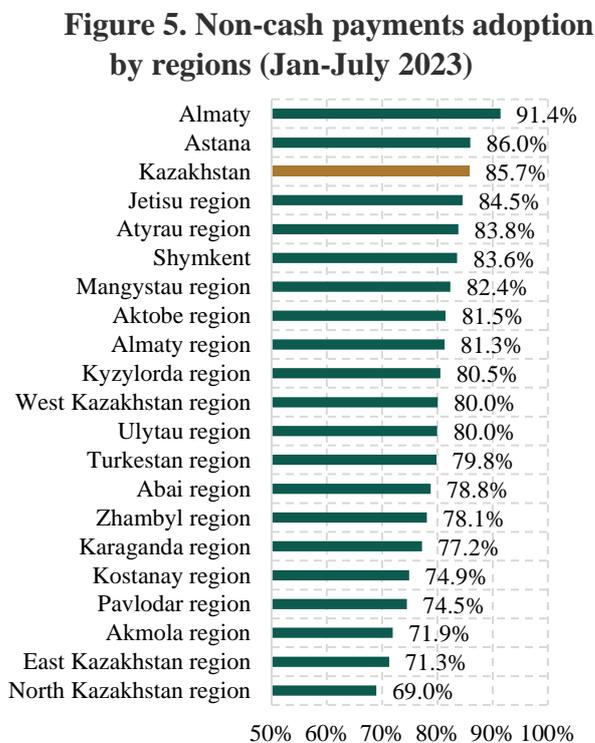
This pattern is predominantly driven by the impact of inflationary forces, with the annual inflation rate as of August 2023 surging to 13.1%.



The payment market in Kazakhstan is a rapidly evolving domain of financial transactions, encompassing a wide array of payment methods and systems. The majority of payment transactions within the nation continue to be executed through indigenous systems. For the period spanning January to July 2023, payments conducted through local systems reached a substantial 58.3 trillion tenge, constituting 80% of the overall payment volume in the country.

Nonetheless, it is pertinent to highlight the significance of global payment systems like Visa and MasterCard, both of which maintain a considerable presence in the Kazakhstani market. Over the same January to July 2023 timeframe, Visa processed transactions totaling 10.2 trillion tenge, comprising 14% of the total payment volume, while MasterCard facilitated payments amounting to 4.5 trillion tenge, accounting for 6% of the total volume.

### III. Obstacles and challenges in Kazakhstan's payment market.



In Kazakhstan, the payment landscape is currently experiencing dynamic shifts and transformations, giving rise to a host of challenges that demand careful consideration and resolution. These challenges encompass various facets of the payment ecosystem, from regional disparities in non-cash payments adoption to the utilization of peer-to-peer transfers as an alternative to cash for payments for goods and services.

Despite the widespread adoption of non-cash payments in the country, there is a noticeable lag in regional areas compared to major central cities in the transition to non-cash payments. However, despite the presence of a digital divide, this inequality is gradually diminishing as the penetration of non-cash payments in regional areas increases. In the first half of 2022, the digital gap stood at 26.6 percentage points, but during the same period in 2023, it decreased to 22.3 percentage points.

Notably, the lowest levels of non-cash payment adoption are observed in the northern and eastern regions. This is likely due to the higher percentage of elderly individuals in these regions, who tend to prefer using cash for transactions. According to official data, the East Kazakhstan region has a retiree population share of 19.3%, the North Kazakhstan region – 18.6%, Kostanay region – 16.8%, Pavlodar region – 15.7%, Akmola region – 14.9%, while the national average is 11.4%.

Another pressing challenge currently facing Kazakhstan's payment market is the widespread use of peer-to-peer (P2P) transfers. As depicted in Figure 3, there has been a deceleration in the decline of the shadow economy after a substantial decrease in its share during 2018-2019. Regrettably, it is a prevalent practice in Kazakhstan for sellers to accept P2P transfers as payment for their goods and services, despite the availability of functioning point-of-sale (POS) terminals. This practice is driven by the seller's desire to avoid paying a commission to the bank by utilizing a P2P transfer instead of a POS terminal. It is particularly common in various markets and among small businesses. Essentially, in this context, P2P transfers serve as a substitute for cash, thus undermining the positive effects associated with the growth of non-cash payment adoption.

#### **IV. Development of a domestic payment infrastructure.**

In the contemporary global landscape, the payment infrastructure assumes a pivotal role within national economies. It wields a direct influence on the efficiency of financial transactions, the security of payments, and, broadly speaking, the overall development level of a nation. The payment infrastructure encompasses banks, payment systems, settlement mechanisms, payment channels, and a myriad of other integral components. An efficient payment infrastructure, in essence, acts as a catalyst for business, trade, and investment, spurring economic growth. A key instrument that countries employ to achieve these objectives is the establishment of national payment corporations. These entities serve as central components of the financial infrastructure, ensuring control, security, and efficiency in both domestic and international payment systems.

Kazakhstan, driven by its commitment to maintaining a position at the forefront of innovation and financial infrastructure development, is currently undertaking ambitious and transformative reforms in its payment systems. Founded in 2023, the National Payment Corporation of Kazakhstan has emerged as a crucial instrument in advancing the country's payment infrastructure. Its primary mission is the creation, expansion, and preservation of a modern payment infrastructure, built upon a digital currency – digital tenge.

The digital tenge represents a digitized rendition of Kazakhstan's national currency, coexisting alongside the conventional cash and non-cash tenge. It empowers economic agents with the ability to engage in swift, secure, and efficient digital payments and transactions. Furthermore, the digital tenge assumes a pivotal role in propelling financial innovations, catalyzing the growth of financial technologies, and enhancing access to financial services.

#### **V. Conclusion.**

Kazakhstan's evolving payment landscape reflects a remarkable journey towards the widespread adoption of non-cash payment methods, driven by various factors including technological advancements, changing consumer preferences, and government initiatives. Spanning from January to July 2023, non-cash payments constitute a significant majority of the total transaction volume in the country – 85.9%. This growth in non-cash payments has not only reshaped the payment market but has also had profound effects on the informal economy.

Nonetheless, the transition to a cashless society in Kazakhstan is not without its challenges. Regional disparities in non-cash payment adoption persist, with central cities outpacing remote areas. Factors such as the prevalence of elderly populations in certain regions, who prefer cash transactions, contribute to this disparity. Additionally, the widespread use of peer-to-peer transfers as a proxy for cash payments, particularly among small businesses, raises concerns about the effectiveness of non-cash payment adoption.

Despite these challenges, Kazakhstan demonstrates a commitment to advancing its payment infrastructure by creating a modern payment infrastructure, anchored by the digital tenge. The digital tenge not only offers convenience and security to consumers but also fosters financial innovation and widens access to financial services.

In conclusion, Kazakhstan's payment market is undergoing a rapid transformation, with non-cash payments at the forefront of this evolution. While challenges remain, the country's dedication to developing cutting-edge payment infrastructure demonstrates its readiness to embrace the future of finance.

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