



KAZAKHSTAN: Consumption boom fuelled by credit to be over soon

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According to the preliminary statistical report, Kazakhstan managed to achieve 6% real GDP growth in 2013, which makes it the fastest growing economy in the region we analyse. Total GDP growth is expected to remain robust during the whole forecast period of 2014-2016 at a rate of 5.5-6.5%. The oil sector will remain the main driving force of the economy, while the role of private consumption is expected to decline during that period.

Economic growth in 2013 was primarily driven by private consumption, which, according to our estimates, increased by 14% year-on-year. This remarkable dynamics was not backed by a proportionate change in household income: during 2013, real household income increased only by 3% year-on-year. It appears that the private consumption boom has been to a large extent financed through consumer loans that were rising sharply in 2013. During the last year, the value of newly issued consumer loans increased by 55% compared with 2012, and the share of this type of loans in the total loans issued by banks during 2013 went up by 6 percentage points to 23% compared with 2012. At the same time, overdue consumer loans have been accumulating, rising by 45% year-on-year in December 2013. These developments signal a possible build-up of a new bubble in the banking sector that has not yet recovered from the housing bubble, which burst after the sudden capital stop in 2007. The share of non-performing loans (NPLs) exceeded 31% by the end of 2013. The problem loans fund set up by the National Bank has been rather inefficient as it buys only non-real estate bad loans (these represent a minor part of NPLs) and at a discount considered too high by most banks. Four banks established Special Purpose Vehicles and transferred some part of bad loans to them, other banks try to sell their bad assets to external collection agencies, but progress in balance sheets cleansing is still to be seen. Now the National Bank is considering forcing banks to sell NPLs if their share in banks' assets exceeds a certain threshold. The currently discussed plan is that by the end of 2014, the share of NPLs should not exceed 15% of total assets in all banks' balance sheets.

On 14 February 2014, the National Bank has introduced measures to limit the consumer loans boom: increased capital requirements, an upper limit of consumer loans growth at 30%, and the requirement that monthly payments on consumer loans should not exceed 50% of the monthly income of a loan receiver. Besides, it is expected that banks will have worse access to financing in 2014 as the growth of deposits will slow down. Deposits have been the main financing source of Kazakhstani banks for several years, and with their sluggish growth banks will have supply limitations to loans expansion. Another factor restricting consumption growth is the sudden devaluation of the national currency which took place on 11 February 2014. On that day the National Bank, contrary to its prior announcements of the planned stability of the exchange rate, devalued the tenge by about 19% from 155 KZT/USD to about

185 KZT/USD and announced that the exchange rate will be fully floating in the future. There was panic among businesses and consumers, many shops closed in order to change prices – as many consumer goods are imported to the country, and their prices were being raised to reflect the exchange rate change. The unexpected devaluation was most likely caused by the depreciation of the Russian rouble, which caused a strengthening of the real exchange rate of the tenge, and by sluggish performance of merchandise exports, which fell in 2013 by 4% year-on-year in USD terms primarily due to the weak global demand for oil. Gross reserves of the National Bank of Kazakhstan decreased by 13.6% to USD 19.1 billion during 2013 due to its interventions at the forex market (at the same time, assets of the National Oil Fund increased by 22.1% to USD 70.5 billion during 2013 – which means that there was no urgent need to make so abrupt exchange rate changes).

The devaluation of the national currency will improve the competitiveness of exporters (primarily in the metal industry), but will negatively affect consumers. First, inflation pressure will strengthen as imports will become more expensive. The government announced that it would continue to administratively limit growth of food prices by setting maximum allowed price levels on key food items, but other consumer goods are likely to become more expensive. We expect consumer prices to grow by 8% p.a. in 2014. Second, NPLs are likely to rise in the short run as about 30% of the total stock of loans is denominated in foreign currency (14% of loans to households).

President Nursultan Nazarbayev decided on 14 February 2014 to transfer an additional KZT 1000 billion (about EUR 4 billion or 3% of GDP in 2013) from the National Oil Fund to provide 'urgent help to the economy' in 2014 and 2015. Also, a 10% raise in wages of public sector employees was announced to take place in April 2014. The President also asked major companies in the country to increase wages of their employees by 10%. On balance, these developments will negatively affect household consumption prospects, and we forecast that growth of real private consumption will stumble to 5% in 2014 and will remain at around 5% during 2015-2016.

Gross fixed capital formation also demonstrated outstanding growth in 2013, having increased by about 12% year-on-year according to our estimates. The bulk of the growth of fixed capital investment took place in the oil extraction industry and transports (to a large extent the development of transport infrastructure was also linked to the oil sector). The construction sector posted only meagre growth of 3% year-on-year in 2013. We expect that construction will gradually speed up its growth during the forecast period, as mortgage lending will be recovering after the cleansing of banks' balance sheets. At the same time, fixed investment growth is likely to slow down in 2014, in particular reflecting higher import prices of investment goods and also the factor of a high previous year base. In 2015-2016, as the Kashagan oil field will increase its production volumes, and with the ongoing need to develop oil transport infrastructure and oil processing facilities, gross fixed capital formation will continue to demonstrate healthy growth at rates close to 10%.

Export growth is forecasted to become positive again in 2014 and to speed up in 2015-2016, mainly owing to the expected improvement in world demand for oil as global growth is projected to accelerate. Growing volumes of oil extraction in the Kashagan field in 2015-2016 will allow for further export expansion. We assume that global oil prices will remain slightly below 100 USD/barrel during the forecast period, and most of the export growth in Kazakhstan will be in volume terms. As a result, we envisage a gradual strengthening of Kazakhstan's current account, from 2% of GDP in 2014 to 7% of GDP in 2015.

Table 1 / Kazakhstan: Selected Economic Indicators

	2009	2010	2011	2012	2013 ¹⁾	2014	2015	2016	
							Forecast		
Population, th pers., average ²⁾	16092.7	16321.6	16556.6	16791.4	17037.5	17150	17300	17450	
Gross domestic product, KZT bn, nom. ³⁾	17008	21816	27572	30347	33521	37300	42100	47100	
annual change in % (real)	1.2	7.3	7.5	5.0	6.0	6.0	6.5	5.5	
GDP/capita (EUR at exchange rate)	5100	6800	8200	9400	9700	8700	9600	10600	
GDP/capita (EUR at PPP)	11400	13700	15900	16900	17900	.	.	.	
Consumption of households, KZT bn, nom. ³⁾	7913	9721	11569	13623	16400	18600	20700	22900	
annual change in % (real) ³⁾	0.6	11.8	10.9	11.0	14.0	5.0	5.0	4.5	
Gross fixed capital form., KZT bn, nom. ³⁾	4727	5307	5772	6761	7600	8300	9600	11000	
annual change in % (real) ³⁾	-0.8	3.8	3.9	9.1	12.0	7.0	9.0	8.0	
Gross industrial production									
annual change in % (real)	2.7	9.6	3.8	0.7	2.3	7.0	10.0	10.0	
Gross agricultural production									
annual change in % (real)	14.6	-11.7	26.8	-17.8	11.6	15.0	5.0	5.0	
Construction industry									
annual change in % (real)	-3.3	2.4	2.8	3.1	3.0	5.0	10.0	8.0	
Employed persons, LFS, th, average ⁴⁾	7903.4	8114.2	8301.6	8507.1	8579.8	8670	8760	8850	
annual change in %	0.6	2.7	1.1	1.0	0.9	1.0	1.0	1.0	
Unemployed persons, LFS, th, average ⁴⁾	554.5	496.5	473.0	474.8	469.6	.	.	.	
Unemployment rate, LFS, in %, average ⁴⁾	6.6	5.8	5.4	5.3	5.2	5.1	5.0	5.0	
Reg. unemployment rate, in %, end of period ⁴⁾	0.6	0.4	0.4	0.4	0.3	.	.	.	
Average monthly gross wages, KZT ⁵⁾	67333	77611	90028	101263	108640	.	.	.	
annual change in % (real, gross)	3.2	7.6	7.1	7.0	1.4	.	.	.	
Consumer prices (HICP), % p.a.	7.3	7.1	8.3	5.2	5.8	8.0	6.0	6.0	
Producer prices in industry, % p.a.	-22.0	25.2	27.2	3.5	-0.3	2.0	6.0	6.0	
General government budget, nat. def., % of GDP									
Revenues	20.6	19.7	19.5	19.2	19.0	.	.	.	
Expenditures	23.5	22.1	21.5	22.1	21.1	.	.	.	
Deficit (-) / surplus (+)	-2.9	-2.4	-2.1	-2.9	-2.1	-2.0	-1.5	-1.5	
Public debt, nat. def., % of GDP	13.0	14.8	12.3	13.0	13.5	15.0	14.0	14.0	
Central bank policy rate, % p.a., end of period ⁶⁾	7.0	7.0	7.5	5.5	5.5	.	.	.	
Current account, EUR mn ⁷⁾	-2955	1044	7332	498	89	3100	6800	12300	
Current account in % of GDP	-3.6	0.9	5.4	0.3	0.1	2.1	4.1	6.7	
Exports of goods, BOP, EUR mn ⁷⁾	31499	46231	61198	67628	62793	68000	76100	86800	
annual growth rate in %	-35.6	46.8	32.4	10.5	-7.1	8.3	11.9	14.1	
Imports of goods, BOP, EUR mn ⁷⁾	20739	24769	28985	38181	37322	39700	42800	46300	
annual growth rate in %	-20.4	19.4	17.0	31.7	-2.2	6.4	7.8	8.2	
Exports of services, BOP, EUR mn ⁷⁾	2943	3102	3116	3756	3747	3900	4100	4400	
annual growth rate in %	0.9	5.4	0.5	20.5	-0.2	4.1	5.1	7.3	
Imports of services, BOP, EUR mn ⁷⁾	7230	8561	7882	10018	9018	9300	10200	11200	
annual growth rate in %	-5.2	18.4	-7.9	27.1	-10.0	3.1	9.7	9.8	
FDI inflow, EUR mn ⁷⁾	10238	5615	9878	10650	7241	7600	8800	9200	
FDI outflow, EUR mn ⁷⁾	3007	2855	3720	1516	1152	1200	1200	1300	
Gross reserves of NB excl. gold, EUR mn	14352	19044	19477	16674	13913	.	.	.	
Gross external debt, EUR mn	78674	89259	96973	103155	109114	.	.	.	
Gross external debt, % of GDP	95.1	80.1	71.8	65.2	65.8	.	.	.	
Average exchange rate KZT/EUR	205.68	195.67	204.11	191.67	202.09	249.8	252.5	255.2	
Purchasing power parity KZT/EUR ⁸⁾	92.91	97.56	104.48	106.85	109.62	.	.	.	

Note: Gross industrial production and producer prices refer to NACE Rev. 2 (including E - Water supply, sewerage, waste management and remediation activities).

1) Preliminary and wiiw estimates. - 2) According to census March 2009. - 3) From 2011 according to SNA'08 (SNA'93 before) and FISIM reallocated to industries. - 4) From 3 quarter 2011 according to census March 2009, wiiw estimates for growth in 2011 and 2012. - 5) Excluding small enterprises, engaged in entrepreneurial activity. - 6) Refinancing rate of NB. - 7) According to BOP 6th edition. Converted from USD with the average exchange rate. - 8) wiiw estimates based on the 2011 International Comparison Project benchmark.

Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.