

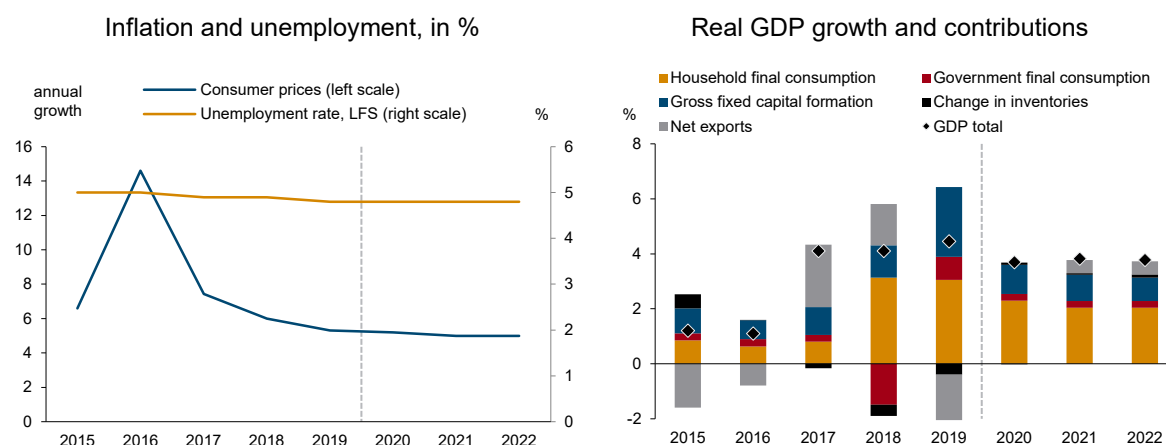


KAZAKHSTAN: Domestic demand spurring growth despite external headwinds

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Economic growth will decelerate to below 4% over the forecast period, having peaked at 4.5% in 2019 on the back of extensive fiscal stimuli. Domestic demand will remain robust, but low exports, along with strong import demand for capital goods, will negatively impact economic performance. A decline in commodity prices and the slowdown in China are downside risks to export dynamics.

Figure 6.9 / Kazakhstan: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

The economy in 2019 saw the highest GDP growth rate for six years, peaking at 4.5%. Extensive fiscal stimuli fuelled consumption to an estimated growth of 6.6%. This, together with robust fixed investment growth (projected to have been 12%), successfully counterbalanced the negative effect of an almost 10% fall last year in the average price of oil. Unsurprisingly, construction and trade were the most dynamic economic activities last year, with annual growth of 12.9% and 7.6%, respectively.

Economic growth is likely to decelerate to below 4% for the forecast period, due to a slowdown in private consumption. We expect any increase in real wages to be moderate. In 2019, real wages grew by 8.5% compared to the previous year, following a 50% hike in the minimum wage. We project that new policy measures will have a lower impact on consumption. A positive stimulus will come from the salary increases for teachers, which should see their pay double by 2023, compared to 2019, starting with a 25% rise in 2020. A three-year income tax exemption was introduced in January 2020 for most SMEs, along with a moratorium on tax inspection. The extent to which this will stimulate real income and self-employment is currently uncertain. Amid stricter prudential regulation and banking sector supervision, consumer lending is likely to develop at a slower pace than in 2019, when the stock of this type of loans grew by 27% and new indebtedness was up by 46% year on year in December.

The expansion of the main oil field production capacity will be a major driver of investment in 2020-2022. The Tengiz oil field enlargement investment project will require more funding than expected and will last longer. According to Tengizchevroil (TCO) estimates released in November last year, the start of increased oil production at the Tengiz oil field will be delayed until mid-2023, and the costs will increase by 25% (from USD 36.8 billion to USD 45.2 billion). Furthermore, modernisation and new facilities construction in the petrochemical industry will be an additional driver for investment. The recent emerging trend towards the development of the green economy is expected to continue: the construction of several renewable energy facilities will push their share of overall energy production from 1.3% in 2019 to 3% by the end of 2020.

Public investment will be channelled to infrastructure development, especially in rural areas, road and housing construction. The Nurly Zhol infrastructure investment programme has been extended to the period 2020-2025, with overall funding of approximately USD 16 billion – 70% financed from the budget and 26% through public-private partnerships. Modernisation and expansion of the road network will absorb 60% of the total investment volume envisaged under this programme.

Despite an ambitious agenda of social and investment spending, a gradual non-oil deficit reduction remains a target for the 2020-2022 budget. The digitalisation of tax and customs administration and the expansion of e-government services are gradually being introduced to boost public spending efficiency and counter corruption. Thus, the real-time electronic exchange of information between the customs services of China and Kazakhstan on the value and quantity of shipped goods and the vehicles transporting them, introduced in December 2019, enables the Kazakh customs authorities to compare that data with the information contained in customs declarations in order to detect declarations fraud, which used to cost the budget an estimated USD 500 million annually. A comprehensive package of legislation and an IT system designed for competitive public procurement have yet to be introduced.

On the monetary policy side, there are signs of a possible loosening in the mid-term period. On 3 February 2020, the National Bank decided to keep the policy rate unchanged, at 9.25%, to contain inflation within the target corridor of 4-6% amid short-term inflationary pressure arising from fuel excise tax rises and a hike in the tariffs for regulated services. But it flagged a possible interest rate cut, depending on the success of administrative measures to curtail the growth of tariffs and food prices. The latter has driven inflation since 2019: in January 2020, food prices rose again by 9.2% year on year. The Ministry of Trade is currently developing a policy aimed at promoting competition and price control at the regional level, with the aim of slowing food price rises. Low inflation among the country's trading partners reduces the risk of imported inflation. A shift in policy has become even more likely, after President Tokayev recently advised the National Bank to draw up a new medium-term monetary policy strategy by July 2020, which should combine macro-stability and economic growth goals. Under such circumstances, it is questionable whether the National Bank will keep its independence in policy setting.

Banking supervision has already been transferred to a special agency, which is tasked with stepping up resolution of the long-lasting problems in the banking sector. The deterioration in asset quality is one such: the share of non-performing loans rose from 7.4% in 2018 to 8.1% by the end of 2019. The newly established Financial Market Regulation Agency took over banking supervision from the National Bank in January 2020. It reports direct to the president and is expected to strengthen regulation in order to reduce unsecured consumer lending risks. After a comprehensive rescue package,

involving a partial write-off of the debt of highly indebted low-income households (funded from the budget), the new supervision policy should ensure risk reduction within the banking system without additional state support. The asset-quality assessment of banks will soon be completed, and the risk-oriented supervision of the banking and insurance sectors is due to start in the latter half of 2020.

Economic growth will continue to face external headwinds. We project a slight slowdown in the growth of imports, mainly due to reduced demand for consumer goods; however, capital goods imports should remain strong, as they are underpinned by large investments. We expect merchandise exports in dollar terms to stagnate in 2020 and then to start increasing from 2021. The recent global oil price drop reflected expectations of lower oil demand due to a mild winter and the industrial disruption caused by the spread of the coronavirus in China. That is likely to have only a temporary effect in the first half of the year. On the other hand, a simultaneous decline in gas and metal prices may amplify the negative impact on exports. The possibility of offsetting the price effect with an increase in the volume of exports (as occurred in 2019 with copper) depends on the development of external demand. Economic performance in China – which accounted for 13.6% of Kazakhstan’s total exports in 2019 and which is the country’s second-largest export destination – is a downside risk to watch. We see a limited upside potential for diversification towards non-resource exports on markets in Central Asia, as well as in the EU after the Enhanced Partnership and Cooperation Agreement (EPCA) with Kazakhstan comes into force in March 2020. Overall, export performance perspectives are highly uncertain and are associated with commodity prices and external demand downside risks.

The tenge has remained strong, despite a recent decline in oil prices. The decoupling of the exchange rate from oil prices in January may be explained by the attractiveness to portfolio investors of Kazakhstan’s high interest rates. Non-residents’ investments in government bonds were reported to have reached USD 672 million by 6 February 2020. Nevertheless, we expect the tenge to depreciate over the coming years in the absence of any sign of improvement in the external balance.

A parliamentary election is expected to be held by March 2021, but rumours of a snap election persist. The ruling Nur Otan party should keep its majority. Despite a recent proposal by President Tokayev to lower the barrier for the number of party members required to register a new party, this concession is by no means an indication of a fair democratic election procedure.

To sum up, after peaking in 2019, economic growth is projected to slow to below 4% in 2020-2022. Downside risks stem from a decline in global commodity prices and a contraction of external demand.

Table 6.9 / Kazakhstan: Selected economic indicators

	2015	2016	2017	2018	2019 ¹⁾	2020	2021	2022
						Forecast		
Population, th pers., average	17,543	17,794	18,038	18,276	18,514	18,700	18,900	19,100
Gross domestic product, KZT bn, nom. ²⁾	40,884	46,971	54,379	61,820	68,639	74,700	81,400	88,700
annual change in % (real)	1.2	1.1	4.1	4.1	4.5	3.7	3.8	3.8
GDP/capita (EUR at PPP)	18,900	18,100	18,900	20,300	21,300	.	.	.
Consumption of households, KZT bn, nom. ²⁾	21,492	25,087	27,987	31,514	35,200	.	.	.
annual change in % (real)	1.8	1.2	1.5	6.1	6.0	4.5	4.0	4.0
Gross fixed capital form., KZT bn, nom. ²⁾	9,355	10,671	11,799	13,091	15,400	.	.	.
annual change in % (real)	4.2	3.0	4.5	5.4	12.0	5.0	4.5	4.0
Gross industrial production								
annual change in % (real)	-1.6	-1.1	7.3	4.4	3.8	3.5	3.7	4.0
Gross agricultural production								
annual change in % (real)	3.4	5.4	3.0	3.5	0.9	.	.	.
Construction industry								
annual change in % (real)	5.8	7.4	2.8	4.6	12.9	.	.	.
Employed persons, LFS, th, average	8,624	8,553	8,585	8,695	8,810	8,920	9,030	9,140
annual change in %	1.3	-0.8	0.4	1.3	1.3	1.2	1.2	1.2
Unemployed persons, LFS, th, average	451	446	442	444	440	450	460	460
Unemployment rate, LFS, in %, average	5.0	5.0	4.9	4.9	4.8	4.8	4.8	4.8
Reg. unemployment rate, in %, eop	0.4	0.4	0.8	1.0	1.1	.	.	.
Average monthly gross wages, KZT ³⁾	126,021	142,898	150,827	162,673	185,500	202,000	218,500	236,300
annual change in % (real, gross)	-2.3	-1.1	-1.7	1.7	8.5	3.5	3.0	3.0
Consumer prices (HICP), % p.a.	6.6	14.6	7.4	6.0	5.3	5.2	5.0	5.0
Producer prices in industry, % p.a.	-20.5	16.8	15.3	19.0	5.1	4.0	3.5	3.0
General governm. budget, nat. def., % of GDP								
Revenues	18.7	19.8	21.3	17.5	18.6	18.5	18.5	18.5
Expenditures	20.9	21.4	23.9	18.8	20.5	20.5	20.3	20.0
Deficit (-) / surplus (+)	-2.2	-1.6	-2.7	-1.3	-1.9	-2.0	-1.8	-1.5
General gov. gross debt, nat. def., % of GDP	22.7	25.0	25.7	26.0	25.2	25.0	24.5	24.0
Stock of loans of non-fin. private sector, % p.a.	4.7	0.3	0.0	3.0	5.9	.	.	.
Non-performing loans (NPL), in %, eop	8.0	6.7	9.3	7.4	8.0	.	.	.
Central bank policy rate, % p.a., eop ⁴⁾	16.00	12.00	10.25	9.25	9.25	9.00	8.75	8.50
Current account, EUR mn ⁵⁾	-5,423	-7,349	-4,516	-245	-4,949	-4,000	-3,600	-3,200
Current account in % of GDP	-3.3	-5.9	-3.1	-0.2	-3.1	-2.4	-2.0	-1.7
Exports of goods, BOP, EUR mn ⁵⁾	40,437	32,068	41,866	50,672	51,277	51,800	53,300	56,000
annual change in %	-32.0	-20.7	30.6	21.0	1.2	1.0	2.9	5.1
Imports of goods, BOP, EUR mn ⁵⁾	29,948	23,706	27,060	29,030	33,817	35,900	37,600	39,500
annual change in %	-6.3	-20.8	14.2	7.3	16.5	6.2	4.7	5.1
Exports of services, BOP, EUR mn ⁵⁾	5,573	5,498	5,757	6,192	6,835	7,200	7,600	8,000
annual change in %	5.7	-1.3	4.7	7.5	10.4	5.3	5.6	5.3
Imports of services, BOP, EUR mn ⁵⁾	9,831	8,898	8,924	10,154	10,004	10,200	10,700	11,200
annual change in %	-5.7	-9.5	0.3	13.8	-1.5	2.0	4.9	4.7
FDI liabilities, EUR mn ⁵⁾	5,934	15,562	4,171	181	3,200	4,500	.	.
FDI assets, EUR mn ⁵⁾	2,992	3,140	847	-3,936	-1,829	400	.	.
Gross reserves of NB excl. gold, EUR mn ⁵⁾	18,555	19,191	15,505	14,460	9,071	.	.	.
Gross external debt, EUR mn ⁵⁾	139,886	155,979	140,153	138,839	144,900	146,300	147,800	149,300
Gross external debt, % of GDP	84.1	125.7	94.9	91.3	90.0	87.0	82.0	78.0
Average exchange rate KZT/EUR	245.80	378.63	368.32	406.66	428.51	442	454	465

1) Preliminary and wiiw estimates. - 2) From 2017 new methodology for assessing the non-observed economy. - 3) Excluding small enterprises, engaged in entrepreneurial activity. - 4) One-day (overnight) repo rate. - 5) Converted from USD.

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