

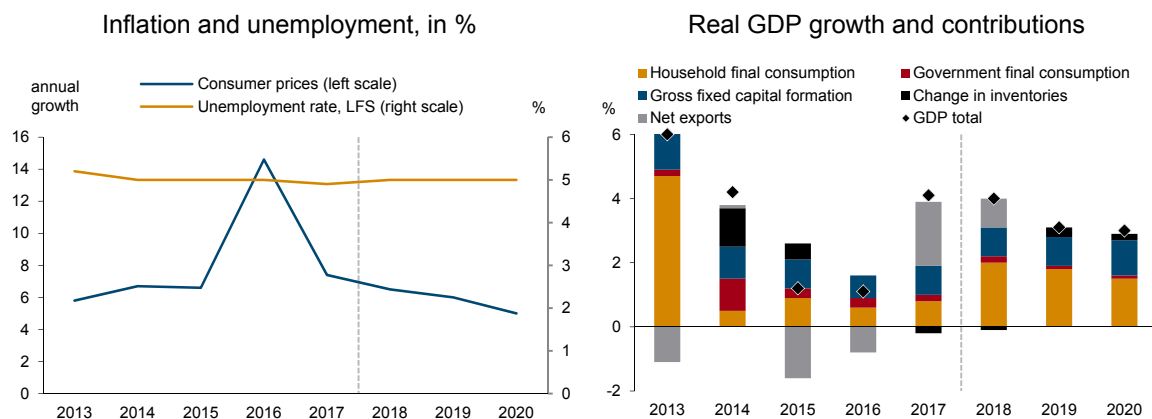


KAZAKHSTAN: Further profiting from high oil prices

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GDP will grow by 4% in 2018, mainly owing to high oil prices and expansion of production in the oil sector. In 2019-2020, the economy will continue benefiting from the favourable commodity price environment and grow by about 3% annually. The main risks to the forecast are a sharp decline in global oil prices and intensifying geopolitical tensions around Russia and China.

Figure 44 / Kazakhstan: Main macroeconomic indicators



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

The robust economic performance of the Kazakh economy carried on in the first half of 2018, when according to preliminary data real GDP grew by 4.2% year on year. As previously, exports continued to be the main driving force behind economic growth – in H1 2018 merchandise exports increased in US dollar terms by 25% year on year, primarily on the back of the oil sector that has been benefiting from the favourable price environment. Exports increased in volume terms as well, as contrary to its commitments to OPEC, Kazakhstan has been steadily expanding oil production. In the second half of 2018 the economy is expected to slightly lose momentum, to a large extent due to the base effect as oil prices increased significantly in the second half of 2017, but GDP growth will still remain strong at 4% by the year-end.

In 2019-2020, Kazakhstan will be able to further expand its oil production, as new US sanctions on Iran and a protracted economic crisis in Venezuela are likely to tighten supply on the global market, and the capacity of the oil fields will be further expanded. The Kashagan field has been playing an

increasingly important role in the oil sector. The government expects that by the year-end the recently launched field will account for 12-15% of the total sector output. Oil production is expected to grow not only in the Kashagan oil field, but also in two other major oil fields – Karachaganak and Tengiz. The companies operating these fields have been investing heavily into modernisation and expansion of the facilities. According to government estimates, by 2025, the country's oil production will increase by about 20% as compared to the 2017 result.

Growth this year has not been limited solely to the oil sector – manufacturing, wholesale and retail trade, and the transport sector, have also experienced increases in production at similar rates. The results of the latest enterprises survey conducted by the National Bank of Kazakhstan (NBK) show that enterprises are moderately optimistic and expect that their output will increase in the next year. A stumbling block to manufacturing output expansion is the difficult access for enterprises to investment financing sources. The bulk of investment remains financed using own resources (72.9% of the total in January to August 2018), while bank credits with average interest rates of about 12% are prohibitively expensive for many companies.

Imports of goods increased at a much slower pace than exports during H1 2018 – by 8.7% year on year (in US dollar terms). Growth was rather non-homogenous across sectors: imports of footwear fell at a double-digit rate, while machinery, equipment and vehicles imports increased by about 17% year on year, reflecting both growing investment demand and consumer demand for automobiles. In 2019-2020, imports will grow by 5-7% year on year, supported by inflows of FDI into the oil sector, expanding consumer demand, and ongoing infrastructure projects, in particular as part of the Belt and Road Initiative. The trade surplus will decrease during the forecast period, but will remain quite high, ensuring that the current account deficit will remain rather moderate at about 1% of GDP.

The deterioration in global sentiment towards emerging markets has affected Kazakhstan, and in August the tenge depreciated by about 10%. New US sanctions against Russia also contributed to the exchange rate volatility. The NBK has abstained from interventions so far, though it announced its readiness to intervene in the case of excessive volatility. In September the value of the tenge partially bounced back and has stabilised at a level of roughly 360 KZT/USD, about 5% higher than mid-summer.

In light of inflationary pressures caused by the tenge depreciation, the NBK has abstained from further cutting its base rate, which remains at 9%. During 2019-2020, a robust external balance sheet, a small current account deficit, and ongoing fiscal consolidation will support macro-financial stability in Kazakhstan. Inflation is expected to decline from 6.5% in 2018 to 5% in 2020, therefore gradual monetary loosening is likely to continue and the base rate is expected to decrease to 8% by the end of the period.

The NBK has continued to tackle the weakness of the banking system. As a part of these efforts, in Q3 2018, the NBK revoked the banking licences of Qazaq Bank, Eximbank Kazakhstan, and Bank of Astana, which were in violation of prudential regulations. Overall, starting from 2016, seven banks lost their licences, and currently there are 28 banks left in the country. Banks have kept on cleansing their assets through writing off non-performing loans, which are concentrated mostly in the corporate sector. As a result, in August 2018 the total stock of loans to corporate clients decreased by 7.7% year on year – notwithstanding the rapid increase in newly issued loans to corporate clients (27% year on year during January to August 2018).

Loans to households have increased at double-digit rates both in terms of stock and flows: the former grew by 14.8% year on year in August 2018, while newly issued loans increased during January-August 2018 by 31% year on year. Consumer loans, which account for the lion's share of newly issued loans to households, continue to be a major factor behind private consumption growth under conditions of stagnating household incomes (in the first seven months of 2018 the latter increased by a meagre 0.7% year on year). This situation poses risks to the sustainability of consumer loans dynamics, and a bubble development could take place if banks do not restrain their loan activity in this market.

Overall, in 2019-2020 the economy will continue benefiting from the favourable commodity price environment and grow by about 3% annually. The manufacturing and services sectors will grow concomitantly with the oil sector, but their contribution to overall growth will be less essential in the short run. Growth will be constrained by the contractionary fiscal policy, difficult access to investment financing of enterprises outside the mining sector, and weakness of the banking sector. The main risk to the forecast is a sharp decline in the global oil prices, which would cause lower export and fiscal revenues and put pressure on the tenge. Additionally, intensifying geopolitical tensions around Russia and China, which are important trade and investment partners of Kazakhstan, could also affect the economy negatively.

Table 19 / Kazakhstan: Selected economic indicators

	2014	2015	2016	2017 ¹⁾	2017 January-June	2018	2018 Forecast	2019 Forecast	2020
Population, th pers., average	17,288	17,543	17,794	18,038	17,976	18,215	18,350	18,600	18,970
Gross domestic product, KZT bn, nom.	39,676	40,884	46,971	53,101	21,546	24,857	58,500	63,300	68,400
annual change in % (real)	4.2	1.2	1.1	4.1	4.3	4.2	4.0	3.1	3.0
GDP/capita (EUR at PPP)	18,300	18,900	18,600	19,600	.	.	.	.	.
Consumption of households, KZT bn, nom.	18,806	21,492	25,087	26,839	.	.	.	.	.
annual change in % (real)	1.1	1.8	1.2	1.5	.	.	4.0	3.5	3.0
Gross fixed capital form., KZT bn, nom.	8,552	9,355	10,671	11,596	.	.	.	.	.
annual change in % (real)	4.4	4.2	3.0	4.0	.	.	4.0	4.0	5.0
Gross industrial production									
annual change in % (real)	0.3	-1.6	-1.1	7.3	7.8	5.2	5.0	4.0	4.0
Gross agricultural production									
annual change in % (real)	1.0	3.4	5.4	3.0	3.3	4.1	.	.	.
Construction industry									
annual change in % (real)	4.6	5.8	7.4	2.8	5.9	3.8	.	.	.
Employed persons, LFS, th, average	8,510	8,624	8,553	8,585	8,498	8,602	8,630	8,670	8,710
annual change in %	-0.7	1.3	-0.8	0.4	0.7	1.2	0.5	0.5	0.5
Unemployed persons, LFS, th, average	452	451	446	442	439	441	440	460	460
Unemployment rate, LFS, in %, average	5.0	5.0	5.0	4.9	4.9	4.9	5.0	5.0	5.0
Reg. unemployment rate, in %, eop	0.4	0.4	0.4	0.8	1.1	1.7	.	.	.
Average monthly gross wages, KZT ²⁾	121,021	126,021	142,898	150,827	145,108	157,597	163,800	177,100	191,500
annual change in % (real, gross)	3.9	-2.3	-1.1	-1.7	-2.4	1.9	2.0	2.0	3.0
Consumer prices (HICP), % p.a.	6.7	6.6	14.6	7.4	7.6	6.5	6.5	6.0	5.0
Producer prices in industry, % p.a.	9.5	-20.5	16.8	15.3	20.9	15.9	16.0	6.0	2.0
General governm.budget, nat.def., % of GDP									
Revenues	18.5	18.7	19.8	21.8	23.3	21.1	20.0	19.5	19.5
Expenditures	21.2	20.9	21.4	24.5	23.7	21.4	21.5	20.5	20.0
Deficit (-) / surplus (+)	-2.7	-2.2	-1.6	-2.7	-0.4	-0.3	-1.5	-1.0	-0.5
General gov.gross debt, nat.def., % of GDP	14.6	22.7	25.0	26.3	22.8	25.2	25.0	24.0	23.0
Stock of loans of non-fin.private sector, % p.a.	7.2	4.7	0.3	0.0	2.0	1.0	.	.	.
Non-performing loans (NPL), in %, eop	23.5	8.0	6.7	9.3	10.7	8.8	.	.	.
Central bank policy rate, % p.a., eop ³⁾	5.50	16.00	12.00	10.25	10.5	9.0	9.00	8.50	8.00
Current account, EUR mn ⁴⁾	4,621	-4,632	-8,029	-4,770	-2,736	-609	-1,300	-1,000	-2,000
Current account in % of GDP	2.8	-2.8	-6.5	-3.3	-4.4	-1.0	-0.9	-0.7	-1.2
Exports of goods, BOP, EUR mn ⁴⁾	60,440	41,961	33,673	43,772	21,772	24,293	48,200	51,900	53,400
annual change in %	-6.2	-30.6	-19.8	30.0	42.1	11.6	10.1	7.7	2.9
Imports of goods, BOP, EUR mn ⁴⁾	33,162	30,530	25,366	28,418	13,913	13,509	29,000	31,500	33,700
annual change in %	-13.3	-7.9	-16.9	12.0	22.5	-2.9	2.0	8.6	7.0
Exports of services, BOP, EUR mn ⁴⁾	4,981	5,842	5,699	5,699	2,859	2,760	5,700	6,100	6,200
annual change in %	22.9	17.3	-2.4	0.0	2.9	-3.5	0.0	7.0	1.6
Imports of services, BOP, EUR mn ⁴⁾	9,721	10,448	9,997	9,610	4,721	4,314	9,200	9,700	9,900
annual change in %	3.6	7.5	-4.3	-3.9	5.5	-8.6	-4.3	5.4	2.1
FDI liabilities, EUR mn ⁴⁾	5,437	5,755	15,273	4,119	4,305	628	7,600	.	.
FDI assets, EUR mn ⁴⁾	1,982	2,992	3,140	847	1,381	-2,806	2,100	.	.
Gross reserves of NB excl. gold, EUR mn ⁴⁾	17,920	18,555	19,191	15,294	16,527	14,734	.	.	.
Gross external debt, EUR mn ⁴⁾	129,438	140,266	155,980	140,158	146,829	141,169	143,200	149,700	151,100
Gross external debt, % of GDP	77.7	84.3	125.7	97.2	101.8	98.5	99.9	98.4	93.2
Average exchange rate KZT/EUR	238.10	245.80	378.63	368.32	344.64	395.35	408	416	422

1) Preliminary. - 2) Excluding small enterprises, engaged in entrepreneurial activity. - 3) From 2015 one-day (overnight) repo rate, refinancing rate of NB before. - 4) Converted from USD.

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