

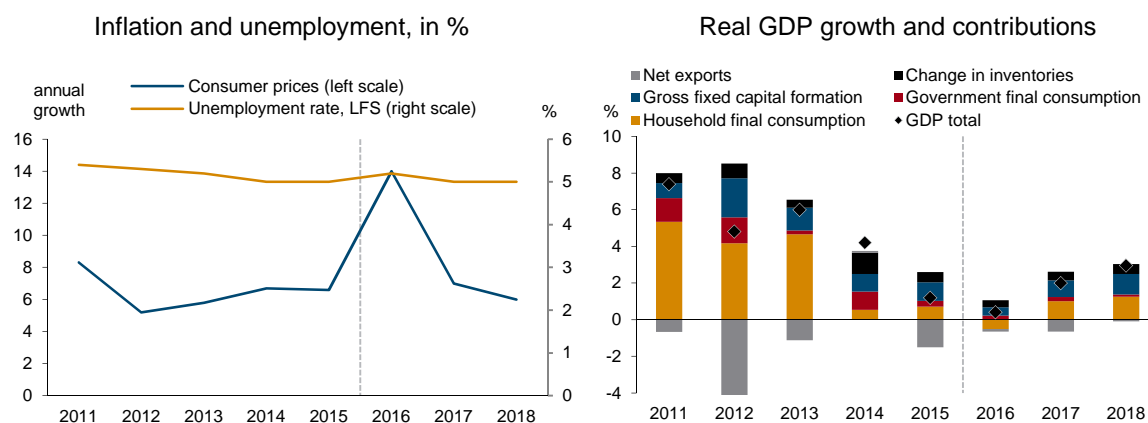


KAZAKHSTAN: Nearly avoiding recession

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The Kazakh economy has been anaemic throughout 2016 primarily on account of poor performance in the oil sector. Oil production and exports are expected to increase following the launch of the Kashagan oil field at the end of 2016. GDP growth will accelerate from 0.4% in 2016 to 2% in 2017, rising further to 3% in 2018. Household consumption will fall by 1% in real terms in the course of the current year, yet recover in the two years thereafter. That notwithstanding, household consumption will still lag behind investment: the main growth factor in the short run.

Figure 31 / Kazakhstan: Main macroeconomic indicators



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

Kazakhstan is nearly avoiding recession in 2016: in the first half of 2016, GDP growth was only at 0.1% year on year primarily due to the poor performance of the mining sector (reflecting both weak external demand and supply-side constraints) and sluggish performance of the country's main trading partners. In contrast, positive dynamics has been recorded in construction and real estate, the transport sector, and agriculture. By the year end, GDP growth is expected to slightly speed up to 0.4% as oil production will pick up somewhat and the oil price is expected to be higher compared to the same period in 2015.

Lower oil prices and a drop in the oil output were the primary factors behind the drastic decline in Kazakhstan's exports in the first half of 2016. In January-July 2016, goods exports fell by 30% year on year, mostly in value terms. At the same time the depreciation of the national currency earlier this year

caused a drop in goods imports of a similar magnitude: during January-July 2016, they fell by 29% year on year (practically uniformly across all product groups). The import decrease has mitigated the effects of plummeting exports on the current account balance, but the latter still reached a record deficit of 6.4% of GDP in the first half of 2016. As the export decline is expected to slow down by the end of the year, the current account deficit will shrink to about 3.5% of GDP for 2016 as a whole.

Oil production is expected to increase with the launch of the Kashagan oil field this autumn. The development of one of the world's largest conventional oil fields was marked by a series of technical issues that raised the costs of development from an initially estimated USD 10 billion to more than USD 50 billion and caused a delay of the start of operation by several years. According to conservative estimates by Kazakhstan's government, the new field will allow pumping at least 100 thousand barrels of oil per day by mid-2017, adding around 6% to the current volume of oil production in the country. More optimistic estimates envisage an increase of oil production by up to 360 thousand barrels per day in the near future (up by about 20% from the current level).

The construction sector has been growing primarily on the back of the support coming from the counter-cyclical fiscal stimulus package 'Nurly Zhol' (Path to the Future), which targets mainly residential construction and transport infrastructure projects. In 2016, it is envisaged to spend about KZT 770 billion (around 1.6% of GDP) as part of the package. However, the sector continues to suffer from constrained access to credit that is crucial for its long-run sustainable growth. During the first 8 months of 2016, newly issued loans to the sector were 25% lower than during the same period of 2015.

The government continues to put a lot of effort into attracting investment through public-private partnerships, in particular with China. In September 2016, President Nazarbayev announced about the reached agreements to create 51 joint ventures that are expected to bring about USD 23 billion in investment. The main focus of the investment projects will be on the development of transport infrastructure and oil processing. Recently Kazakhstan has finished the construction of its section of the Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline, which is expected to start operating in the fourth quarter of 2016.

The boost in the oil output as well as increased investment into the mining sector and transport infrastructure projects will be the main driving forces behind the expected acceleration of economic growth in Kazakhstan in 2017-2018: wiiw forecasts that during this period GDP will grow by 2% and 3%, respectively.

Household demand has been weak due to declining real wages and consumer loans. Real household incomes fell by 6.3% year on year in January-July 2016. Although the banking sector has been showing signs of recovery as issuance of new loans picked up, positive dynamics have been recorded only in the segment of short-term loans to corporate clients, while loans to individuals are still in decline – during January-August 2016, the value of newly issued loans to households decreased by 3% year on year. We forecast that private consumption will fall by 1% in real terms in 2016; it will switch to growth in 2017-2018, but will be still lagging behind investment.

After a marked depreciation in 2015, the exchange rate of the tenge has continued to be relatively stable at a level of around 335 KZT/USD. As oil prices are assumed to remain at about 50 USD per barrel during the forecast period, there should be no further depreciation in the near future. During the next two

years the current account balance is likely to remain negative but the deficit will gradually decrease as exports are expected to recover and grow somewhat faster than imports. After accommodating the effects of last year's depreciation in 2016 (when CPI is forecasted to average 14% p.a.), inflation is expected to remain in the target range of 6-8% in 2017-2018.

Overall economic growth will stay below the pre-crisis rates as recovery in the mining sector alone will not be sufficient to accelerate growth significantly under the current oil prices, and the returns on infrastructure investment are likely to materialise only over a longer time span.

Table 14 / Kazakhstan: Selected economic indicators

	2012	2013	2014	2015 ¹⁾	2015 January-June	2016	2016 Forecast	2017 Forecast	2018
Population, th pers., average	16,791	17,035	17,289	17,544	17,479	17,712	17,800	18,100	18,350
Gross domestic product, KZT bn, nom.	31,015	35,999	39,676	40,884	17,092	19,357	47,200	50,600	55,200
annual change in % (real)	4.8	6.0	4.2	1.2	1.7	0.1	0.4	2.0	3.0
GDP/capita (EUR at exchange rate)	9,600	10,500	9,600	9,500	.	.	7,000	7,500	8,000
GDP/capita (EUR at PPP)	16,900	17,500	18,400	19,000	.	.	.	.	.
Consumption of households, KZT bn, nom.	13,659	17,617	18,806	20,494	.	.	.	.	.
annual change in % (real)	10.1	10.6	1.1	1.5	.	.	-1.0	2.0	2.5
Gross fixed capital form., KZT bn, nom.	7,072	7,877	8,552	9,276	.	.	.	.	.
annual change in % (real)	9.9	5.5	4.4	4.7	.	.	2.0	4.0	5.0
Gross industrial production									
annual change in % (real)	0.7	2.5	0.3	-1.6	0.6	-1.6	-2.0	2.0	3.0
Gross agricultural production									
annual change in % (real)	-17.8	11.7	1.0	3.4	2.3	2.7	.	.	.
Construction industry									
annual change in % (real)	3.1	3.5	4.6	4.4	5.1	6.6	.	.	.
Employed persons, LFS, th, average	8,507	8,571	8,510	8,624	8,512	8,474	8,670	8,710	8,750
annual change in % ²⁾	1.0	0.7	-0.7	1.3	-1.2	-0.4	0.5	0.5	0.5
Unemployed persons, LFS, th, average	475	471	452	451	448	446	480	460	460
Unemployment rate, LFS, in %, average	5.3	5.2	5.0	5.0	5.0	5.0	5.2	5.0	5.0
Reg. unemployment rate, in %, end of period	0.4	0.3	0.4	0.4	0.7	0.8	.	.	.
Average monthly gross wages, KZT ³⁾	101,263	109,141	121,021	126,021	121,433	138,185	140,800	155,200	171,100
annual change in % (real, gross)	7.0	1.9	3.9	-2.4	0.5	-1.7	-2.0	3.0	4.0
Consumer prices (HICP), % p.a.	5.2	5.8	6.7	6.6	5.3	15.8	14.0	7.0	6.0
Producer prices in industry, % p.a.	3.5	-0.3	9.5	-20.5	-22.6	11.9	16.0	1.0	5.0
General government budget, nat. def., % of GDP									
Revenues	18.7	17.7	18.5	18.7	23.5	21.4	18.5	19.0	19.0
Expenditures	21.6	19.7	21.2	20.9	23.5	23.7	20.5	20.7	20.6
Deficit (-) / surplus (+)	-2.9	-1.9	-2.7	-2.2	0.1	-2.4	-2.0	-1.7	-1.6
Public debt, nat. def., % of GDP	12.7	12.6	14.6	22.7	14.3	23.1	25.0	27.0	28.0
Central bank policy rate, % p.a., end of period ⁴⁾	5.5	5.5	5.5	16.0	5.5	15.0	12.0	10.0	9.0
Current account, EUR mn ⁵⁾	823	894	4,483	-4,929	-2,021	-3,217	-4,400	-3,700	-3,500
Current account in % of GDP ⁵⁾	0.5	0.5	2.7	-3.0	-2.4	-6.4	-3.5	-2.7	-2.4
Exports of goods, BOP, EUR mn ⁵⁾	67,629	64,435	60,440	41,961	22,269	15,353	35,300	37,800	41,200
annual change in %	10.5	-4.7	-6.2	-30.6	-28.9	-31.1	-15.9	7.1	9.0
Imports of goods, BOP, EUR mn ⁵⁾	37,954	38,244	33,162	30,523	15,504	11,249	26,000	27,000	28,900
annual change in %	30.9	0.8	-13.3	-8.0	4.0	-27.4	-14.8	3.8	7.0
Exports of services, BOP, EUR mn ⁵⁾	3,756	3,988	4,981	5,782	2,720	2,789	5,900	6,200	6,500
annual change in %	20.5	6.2	24.9	16.1	21.6	2.5	2.0	5.1	4.8
Imports of services, BOP, EUR mn ⁵⁾	9,925	9,379	9,721	10,403	4,594	4,497	10,200	10,600	11,100
annual change in %	25.9	-5.5	3.6	7.0	5.4	-2.1	-2.0	3.9	4.7
FDI liabilities (inflow), EUR mn ⁵⁾	10,618	7,536	5,336	5,940	2,868	7,048	8,200	.	.
FDI assets (outflow), EUR mn ⁵⁾	1,394	1,488	1,749	2,881	1,700	1,905	2,000	.	.
Gross reserves of NB excl. gold, EUR mn	16,665	13,940	17,920	18,559	19,001	18,297	.	.	.
Gross external debt, EUR mn ⁵⁾	103,150	109,137	129,328	140,517	139,996	144,688	147,600	155,000	162,700
Gross external debt, % of GDP ⁵⁾	63.7	61.3	77.6	84.5	84.2	115.7	118.0	114.9	110.6
Average exchange rate KZT/EUR	191.67	202.09	238.10	245.80	206.79	385.76	377	375	375
Purchasing power parity KZT/EUR ⁶⁾	109.17	120.71	124.80	122.94	.	.	.	.	.

1) Preliminary. - 2) wiiw estimate in 2012 due to census March 2009. - 3) Excluding small enterprises, engaged in entrepreneurial activity. - 4) From 2015 one day (overnight) repo rate, refinancing rate of NB before. - 5) Converted from USD. - 6) wiiw estimates based on the 2011 International Comparison Project benchmark.

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