

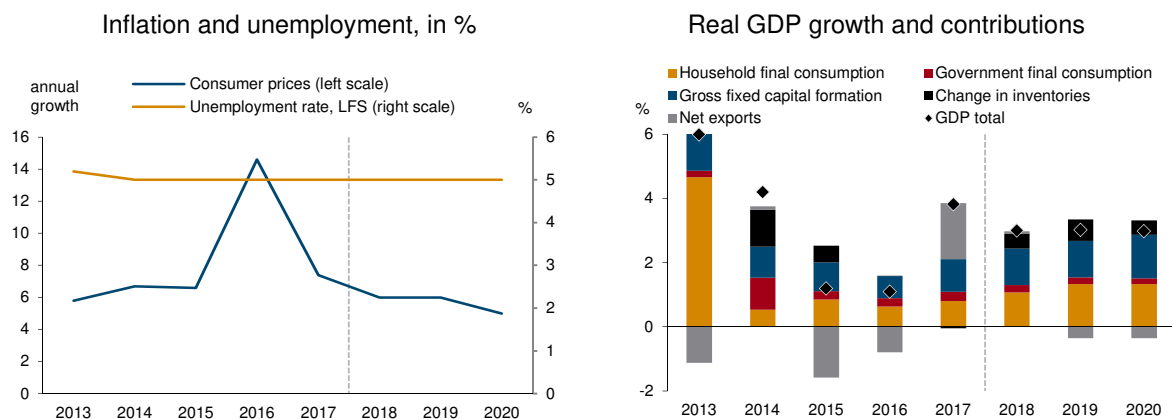


## KAZAKHSTAN: Oil sector growth benefits few

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The Kazakh economy has been expanding mainly on the back of the oil sector. Lack of economic diversification will limit the scale of GDP growth to about 3% per annum during 2018-2020. Households have not benefited from economic growth, as their incomes have dropped in real terms. The banking sector remains a bottleneck to economic diversification.

Figure 48 / Kazakhstan: Main macroeconomic indicators



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

**Oil sector performance was key to the economic recovery in 2017.** According to our estimates, real GDP growth in Kazakhstan reached 3.8% last year on the back of a surge in global oil prices and increased production from the recently launched Kashagan oil field. Industrial production increased last year by 7.1% (in real terms), the biggest growth since 2010. Merchandise exports were up by about 30% (in USD terms) – positive dynamics recorded for the first time since 2012.

**Reliance on the oil sector will constrain growth in the near future.** We forecast that annual GDP growth will be around 3% throughout 2018-2020, as it is assumed that global oil prices will rise only slightly over the next three years. In addition, Kazakhstan gave a commitment to OPEC to cut its oil production by about 1% in 2018. It is quite likely that the country will not fulfil this commitment, as was the case in 2017; but still any increase in output can only be moderate.

**External conditions will remain favourable for Kazakhstan as an oil exporter.** We expect that exports will continue to grow during 2018-2020, albeit not so spectacularly as in 2017. Imports will also increase, primarily on the back of investment demand. As a result, the current account balance will remain in deficit during the forecast period. The deficit will be low (in the range of 2-3% of GDP), which will not create significant depreciation pressures. This, together with slow household income growth, will help keep inflation relatively moderate by the region's standards – at about 5-6%.

**Households have not felt the benefits of economic growth,** as real household income continued to decline in 2017 – for the third year in a row – as did real wages. Real wages rose only in agriculture and some service sectors; meanwhile, in the mining sector real wages kept falling, regardless of a robust output performance. There are occasional signs of social tension when strikes break out, as was the case in December 2017, when coalminers' strikes spread across the country. The strikes were called off soon after a court ruled them illegal – a typical outcome of protest actions, which the Kazakh government is usually quick to suppress. However, accumulating social tensions may pose a risk for the future.

**Still, private consumption was on the rise in 2017,** increasing by 1.5% year on year according to our estimates. It appears that consumption growth is being financed primarily through credit. Our calculations show that in 2017, loans for personal consumption were 49% higher than in the previous year and their value was equivalent to about 10% of private consumption that year. In 2018-2020, private consumption is expected to experience rather sluggish growth of 2-2.5% per annum, as the government appears to prioritise fiscal consolidation and investment promotion over social policies. Such a rapid growth in consumer loans poses the risk of a bubble.

**Investment has been growing more dynamically than private consumption** – gross fixed capital formation is estimated to have increased by about 4% in 2017. Such a situation will likely persist during the forecast period, when gross fixed capital formation is expected to grow by 5-6% per annum. Investment will be directed mainly into the oil extraction sector (which will continue to attract the bulk of FDI for oil fields development), and into construction and infrastructure projects that are funded by the fiscal programme 'Nurly Zhol' and joint investment projects.

**Pursuit of economic diversification has so far been unsuccessful.** The economy's dependence on oil remains strong, exposing the country to volatility in terms of trade and fiscal revenues. Slow restructuring of the banking sector remains one of the major impediments to diversification. According to the estimates by Standard & Poor's, the share of problem loans in Kazakh banks stands at 35-45%.<sup>64</sup> This prevents them from being able to expand credit significantly. In 2017, the total stock of loans stagnated at the level of the previous year, while the stock of loans to corporate clients decreased by 6%, which indicates that companies (especially outside the oil sector) have difficulty in finding sources of financing for their investment projects.

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<sup>64</sup> The official statistics published by the National Bank of Kazakhstan significantly underestimates the share of non-performing loans (10% in November 2017), as many problem loans are either incorrectly classified, or are hidden off balance sheets.

**Other obstacles to diversification include systemic corruption and autocratic decision-making,** which means increased policy unpredictability. These challenges are not likely to be solved in the short run. President Nazarbayev is expected to serve his full term to 2020; it is not yet clear how the transition of power will be implemented afterwards.

**Government efforts to restructure the banking sector have not been adequate.** In the second half of 2017, the government allocated the equivalent of around 4% of GDP to the distressed assets fund, so that the fund could purchase non-performing loans from Kazkommertsbank. Additionally, about 1% of GDP was provided to five banks in the form of subordinated debt. Government intends to introduce a law on bankruptcy of individuals and to strengthen the oversight of banks. However, additional measures would be needed to cleanse banks' balance sheets and release them from limbo.

**In 2018-2020, the Kazakh economy will sustain a modest growth trend of about 3% per annum.** As the oil sector will remain crucial to the GDP dynamics, a slow increase in global oil prices and limitations on the supply side will be the main constraints on growth. Consumer demand will pick up only slightly during this period, and will continue to lag behind investment. A major risk to the forecast is a significant drop in global oil prices, which will threaten both growth prospects and macro-financial stability.

**Table 18 / Kazakhstan: Selected economic indicators**

	2013	2014	2015	2016	2017 <sup>1)</sup>	2018	2019	2020
						Forecast		
Population, th pers., average	17,035	17,289	17,544	17,794	18,038	18,350	18,600	18,970
Gross domestic product, KZT bn, nom.	35,999	39,676	40,884	46,971	53,200	58,100	62,900	68,100
annual change in % (real)	6.0	4.2	1.2	1.1	3.8	3.0	3.0	3.0
GDP/capita (EUR at PPP)	17,500	18,300	19,000	18,600	19,200	.	.	.
Consumption of households, KZT bn, nom.	17,617	18,806	21,492	25,087	27,400	.	.	.
annual change in % (real)	10.6	1.1	1.8	1.2	1.5	2.0	2.5	2.5
Gross fixed capital form., KZT bn, nom.	7,877	8,552	9,355	10,671	12,900	.	.	.
annual change in % (real)	5.5	4.4	4.2	3.0	4.5	5.0	5.0	6.0
Gross industrial production								
annual change in % (real)	2.5	0.3	-1.6	-1.1	7.1	4.0	4.0	5.0
Gross agricultural production								
annual change in % (real)	9.7	1.0	3.4	5.4	2.9	.	.	.
Construction industry								
annual change in % (real)	3.5	4.6	5.8	7.4	1.9	.	.	.
Employed persons, LFS, th, average	8,571	8,510	8,624	8,553	8,600	8,640	8,680	8,720
annual change in %	0.7	-0.7	1.3	-0.8	0.5	0.5	0.5	0.5
Unemployed persons, LFS, th, average	471	452	451	446	450	450	460	460
Unemployment rate, LFS, in %, average	5.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Reg. unemployment rate, in %, eop	0.3	0.4	0.4	0.4	0.8	.	.	.
Average monthly gross wages, KZT <sup>2)</sup>	109,141	121,021	126,021	142,898	150,200	160,800	173,900	188,100
annual change in % (real, gross)	1.9	3.9	-2.3	-1.1	-2.1	1.0	2.0	3.0
Consumer prices (HICP), % p.a.	5.8	6.7	6.6	14.6	7.4	6.0	6.0	5.0
Producer prices in industry, % p.a.	-0.3	9.5	-20.5	16.8	15.3	9.0	5.0	4.0
General governm.budget, nat.def., % of GDP								
Revenues	17.7	18.5	18.7	19.8	21.7	19.5	19.0	19.0
Expenditures	19.7	21.2	20.9	21.4	24.5	21.0	20.2	20.0
Deficit (-) / surplus (+)	-1.9	-2.7	-2.2	-1.6	-2.7	-1.5	-1.2	-1.0
General gov.gross debt, nat.def., % of GDP	12.6	14.6	22.7	25.0	26.3	23.0	23.0	23.0
Stock of loans of non-fin.private sector, % p.a.	13.4	7.2	4.7	0.3	0.0	.	.	.
Non-performing loans (NPL), in %, eop	31.2	23.5	8.0	6.7	9.3	.	.	.
Central bank policy rate, % p.a., eop <sup>3)</sup>	5.50	5.50	16.00	12.00	10.25	9.25	8.75	8.00
Current account, EUR mn <sup>4)</sup>	894	4,621	-4,632	-8,066	-4,135	-2,600	-3,400	-4,200
Current account in % of GDP <sup>4)</sup>	0.5	2.8	-2.8	-6.5	-2.9	-1.8	-2.2	-2.6
Exports of goods, BOP, EUR mn <sup>4)</sup>	64,435	60,440	41,961	33,673	43,593	45,600	47,400	49,300
annual change in %	-4.7	-6.2	-30.6	-19.8	29.5	4.6	3.9	4.0
Imports of goods, BOP, EUR mn <sup>4)</sup>	38,244	33,162	30,530	25,366	28,109	28,300	30,600	33,000
annual change in %	0.8	-13.3	-7.9	-16.9	10.8	0.7	8.1	7.8
Exports of services, BOP, EUR mn <sup>4)</sup>	3,988	4,981	5,842	5,699	5,692	5,500	5,700	5,900
annual change in %	6.2	24.9	17.3	-2.4	-0.1	-3.4	3.6	3.5
Imports of services, BOP, EUR mn <sup>4)</sup>	9,379	9,721	10,448	9,997	9,589	9,300	9,600	9,900
annual change in %	-5.5	3.6	7.5	-4.3	-4.1	-3.0	3.2	3.1
FDI liabilities, EUR mn <sup>4)</sup>	7,536	5,437	5,568	15,340	3,703	.	.	.
FDI assets, EUR mn <sup>4)</sup>	1,488	1,982	2,990	3,130	607	.	.	.
Gross reserves of NB excl. gold, EUR mn <sup>4)</sup>	13,940	17,920	18,555	19,191	15,227	.	.	.
Gross external debt, EUR mn <sup>4)</sup>	109,137	129,438	140,232	156,368	150,500	143,100	144,500	146,000
Gross external debt, % of GDP <sup>4)</sup>	61.3	77.7	84.3	126.0	104.2	97.5	93.7	90.0
Average exchange rate KZT/EUR	202.09	238.10	245.80	378.63	368.32	396	408	420

1) Preliminary and wiiw estimates. - 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.