KAZAKHSTAN: One of CESEE's top performers, thanks to strong investment

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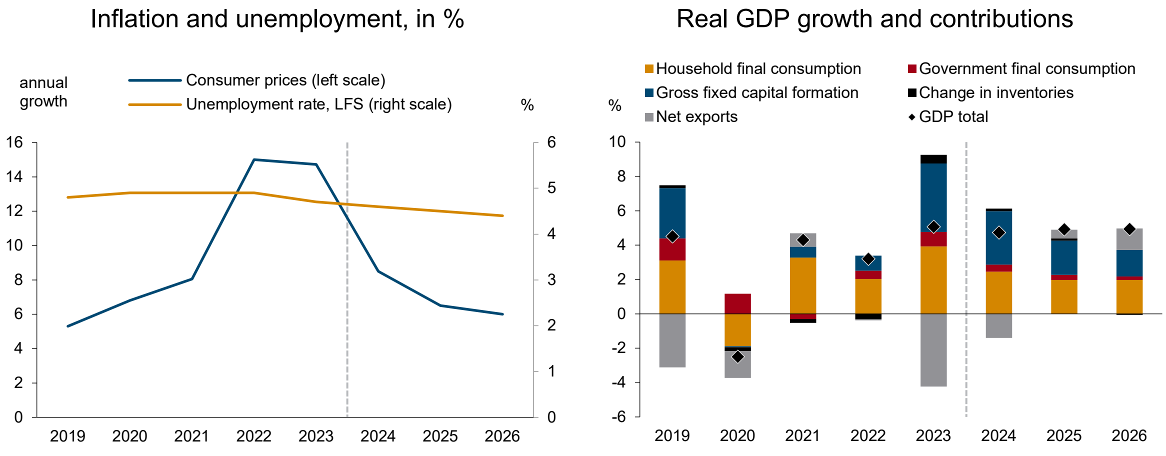
Kazakhstan's economy ended 2023 among CESEE's top-performing economies, with strong private consumption and investment driving economic growth. Despite sluggish exports and skyrocketing imports to meet domestic demand, the economy grew by 5.1%. Private consumption was supported by wage increases, decelerating inflation and credit growth. However, we expect a slight slowdown in private consumption growth this year. By contrast, major investment in transport and logistics infrastructure (resulting from geopolitical shifts) and in modernisation of the energy system and utilities sector is likely to remain an important growth driver in the medium term. We expect the economy to grow by 4.7% in 2024 and by 4.9% in 2025-2026 – one of the fastest rates in CESEE.

Figure 6.9 / Kazakhstan: Main macroeconomic indicators



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

Kazakhstan turned in one of CESEE's best economic performances in 2023, with 5.1% real GDP growth, driven by domestic factors. Although full-year data for GDP using the expenditure approach have not yet been published, it is evident that the main drivers of the robust economic performance were household consumption and investment. By contrast, the contribution of net exports to GDP growth was negative, as imports surged in real terms to meet rapidly increasing domestic demand.

With inflation steadily easing throughout the year, private consumption ended on a strong note, supported by growth in real incomes and consumer credit. Retail trade grew by 7.7% in real terms over the previous year. A rise in both the minimum and public-sector wages at the beginning of the year and decelerating consumer inflation (from 21.4% in February to 10.1% in December) resulted in a 2.1% annual increase in real wages. New loans to private households (75% of them long term) increased by 41% over the previous year,[17] and this provided a strong boost to private consumption.

We expect private consumption growth to be slightly weaker this year than last. The consumer confidence index in the first three months of this year is tending slight downward. The share of respondents who consider current conditions to be favourable for making large purchases has decreased, and those who envisage an improvement in their own financial position during the year has fallen. Q1 retail sales growth of 4.7% year on year was lower than the overall figure for 2023. However, in view of a 21.4% hike in the minimum wage in January 2024 and a further slowing of inflation, private consumption is likely to continue to drive economic growth, albeit at a lower rate.

Public and private investment significantly boosted economic performance in 2023 and will continue to drive growth in the medium term. The need to restructure transport corridors and logistics amid geopolitical shifts resulted in annual investment growth in this sector of 40% in real terms in 2023 and of 47% in the first two months of 2024 (the share of this sector in total investment in 2023 amounted to 14%). This restructuring includes mainly new transport corridors to avoid goods having to cross the territory of Russia – especially transport connections between China and Europe (the so-called Middle Corridor). Apart from the modernisation of ports in the Caspian Sea and of airports, a recently announced project worth mentioning is a new airport in the special economic zone of Khorgos, on the border with China, to be constructed by 2027 with German co-investment (USD 0.5bn). The modernisation of obsolescent infrastructure in the utilities sector will continue. Annual real growth of investment in this sector (6.6% of total investment in the economy), reached 38.9% in 2023 and 31.6% in January-February 2024. In the oil sector – which still accounts for the largest share of investment – a fresh delay in the expansion of the Tengiz oil field has been announced: it is being postponed until mid-2025, with overall project investments set to increase by USD 1.5bn. However, due to the base effect, we expect a gradual slowdown in the still strong investment growth over the medium term.

After only sluggish growth in oil production in 2024, we expect an increase of around 10% by the end of 2026, which will provide an additional boost to economic growth. In 2023, the oil sector suffered from the decline in global oil prices (of around 18%), which was partly offset by a 6.9% increase in output. According to official estimates, oil production in 2024 will remain at almost the same level as last year, owing to the commitment by OPEC+ to maintain the reduced production until June 2024. We expect the expansion of oil production capacity in the Tengiz oil field to have an impact from 2025.

In view of the current robust performance by construction, trade and manufacturing, and in light of an improvement in business sentiment, we have revised upwards our real GDP growth forecast for 2024. Manufacturing posted growth of 7.4% year on year in the first two months of 2024, driven by the chemical industry (25.3%), metallurgy (10.6%), metal products except machinery and equipment (24.3%), machinery (23.4%) and other finished products (76.3%). The short-term economic indicator reflecting performance in the main economic sectors increased by 5.2% over the first two

[17] Stock of loans to households grew by 28.9% year on year in 2023.

months relative to 2023, and accelerated in February. Both manufacturing and services business sentiment improved in March.

We expect a pause in further monetary easing, as rising utility tariffs hamper the slowdown of inflation. The deceleration of consumer price inflation and lower inflation expectations led to a series of policy rate cuts, most recently to 14.75% at the end of February 2024. However, monthly inflation was higher than expected in February and March, as the utility tariffs component rose when price controls were lifted and in view of the high costs of power-grid modernisation. Inflation expectations have also rebounded slightly. In response, the national bank signalled a possible break in its easing cycle in April, although further easing is expected by the end of the year. Future decisions depend on the development of utility tariffs, the impact of fiscal measures and imported inflation, especially from Russia. Besides, given the anticipated negative trade balance, we expect the tenge to depreciate in 2024, which may also fuel inflation. (Last year, the tenge appreciated by 1%, supported by large transfers from the National Oil Fund converted into tenge – despite a deterioration in the trade balance.)

A tightening of fiscal policy is expected in the medium term, although this could be halted by fiscal support measures, to quell the increased risk of social discontent. Despite the official goal of fiscal consolidation, its scale is likely to be limited. Government's support for 'high added-value' sectors associated with oil and gas production (refining, chemical production), as well as domestic military production, is likely to persist. The change of government at the beginning of February, which further strengthened President Tokayev, was apparently partly a reaction to signs of social dissatisfaction with the pace of the promised reforms. Catastrophic flooding in northern Kazakhstan in April, caused by melting snow and a dam failure in Russia, fuelled social discontent over the apparent mismanagement by the local authorities of preventive measures. While there is still uncertainty about the amount required to compensate for the damage, it is unlikely to have a large impact on the budget.

External geopolitical risks will test Kazakhstan's diplomatic manoeuvring abilities. Amid reports of sanctions-evasion schemes and trade statistics that hint at the re-export of sanctioned goods from Europe to Russia, the risk of secondary sanctions being imposed by the US and the EU – at least on certain firms – is looming large. To minimise the risk of disruption at the Novorossiysk terminal of the Caspian Pipeline Consortium's oil pipeline (the main oil transport route to Europe), at the end of March Kazakhstan held consultations with Russia and Ukraine to ensure safe operation, following a series of drone attacks on Russian oil refineries.

Table 6.9 / Kazakhstan: Selected economic indicators

	2020	2021	2022	2023 1)	2024	2025 Forecast	2026
Population, th pers., average 2)	18,756	19,001	19,635	19,900	20,200	20,500	20,800
Gross domestic product, KZT bn, nom.	70,649	83,952	103,766	119,251	132,400	145,900	159,200
annual change in % (real)	-2.5	4.3	3.2	5.1	4.7	4.9	4.9
GDP/capita (EUR at PPP)	17,540	19,100	20,420	21,530	.	.	.
Consumption of households, KZT bn, nom.	36,661	42,419	50,952	63,100	.	.	.
annual change in % (real)	-3.7	6.3	4.0	8.0	5.0	4.0	4.0
Gross fixed capital form., KZT bn, nom.	17,463	19,342	22,959	30,200	.	.	.
annual change in % (real)	-0.2	2.6	3.8	18.0	14.0	9.0	7.0
Gross industrial production							
annual change in % (real)	-0.5	3.6	1.2	4.3	4.0	5.0	5.0
Gross agricultural production							
annual change in % (real)	5.7	-2.3	9.1	-7.7	.	.	.
Construction industry							
annual change in % (real)	11.6	8.3	10.2	13.3	.	.	.
Employed persons, LFS, th, average 2)	8,732	8,807	8,972	9,080	9,200	9,320	9,440
annual change in %	-0.6	0.9	0.2	1.2	1.3	1.3	1.3
Unemployed persons, LFS, th, average 2)	449	450	458	450	440	440	430
Unemployment rate, LFS, in %, average 2)	4.9	4.9	4.9	4.7	4.6	4.5	4.4
Reg. unemployment rate, in %, eop	1.5	1.1	1.4	1.8	.	.	.
Average monthly gross wages, KZT 3)	213,003	250,311	309,697	362,710	410,100	453,800	499,300
annual change in % (real, gross)	6.8	8.8	7.7	2.1	4.2	3.9	3.8
Consumer prices, % p.a.	6.8	8.0	15.0	14.7	8.5	6.5	6.0
Producer prices in industry, % p.a.	-8.0	32.5	27.1	-2.1	3.0	3.0	3.0
General governm. budget, nat. def., % of GDP							
Revenues	20.6	18.9	19.5	20.9	19.5	19.5	19.5
Expenditures	24.5	21.9	21.6	23.3	21.8	21.5	21.5
Deficit (-) / surplus (+)	-4.0	-3.0	-2.1	-2.4	-2.3	-2.0	-2.0
General gov. gross debt, nat. def., % of GDP	30.5	27.6	25.7	24.0	24.0	24.0	24.0
Stock of loans of non-fin. private sector, % p.a.	5.5	26.5	23.3	22.4	.	.	.
Non-performing loans (NPL), in %, eop	6.9	3.3	3.4	2.9	.	.	.
Central bank policy rate, % p.a., eop 4)	9.00	9.75	16.75	15.75	13.50	10.00	9.00
Current account, EUR m 5)	-9,601	-2,260	6,709	-8,009	-6,100	-4,100	-1,400
Current account in % of GDP	-6.4	-1.4	3.1	-3.3	-2.3	-1.5	-0.5
Exports of goods, BOP, EUR m 5)	38,598	55,626	81,432	73,885	75,400	81,500	88,000
annual change in %	-27.4	44.1	46.4	-9.3	2.1	8.1	8.0
Imports of goods, BOP, EUR m 5)	33,335	35,141	48,151	55,230	59,100	63,300	67,800
annual change in %	-9.2	5.4	37.0	14.7	7.0	7.1	7.1
Exports of services, BOP, EUR m 5)	4,562	5,018	7,577	9,516	10,000	10,300	10,600
annual change in %	-34.1	10.0	51.0	25.6	5.1	3.0	2.9
Imports of services, BOP, EUR m 5)	7,398	6,793	9,051	11,192	11,800	12,500	13,200
annual change in %	-28.2	-8.2	33.2	23.7	5.4	5.9	5.6
FDI liabilities, EUR m 5)	6,312	3,861	4,819	4,906	.	.	.
FDI assets, EUR m 5)	1,165	2,253	-2,862	2,769	.	.	.
Gross reserves of CB excl. gold, EUR m 5)	9,827	9,586	13,691	14,893	.	.	.
Gross external debt, EUR m 5)	133,664	145,248	150,834	147,252	155,000	157,000	157,000
Gross external debt, % of GDP	89.2	87.2	70.4	60.9	59.0	56.0	52.0
Average exchange rate KZT/EUR	471.44	503.88	484.22	493.33	508	518	529

1) Preliminary and wiiw estimates. - 2) From 2022 according to census 2021. - 3) Excluding small enterprises, engaged in entrepreneurial activity. - 4) Base rate (overnight repo rate as a target). - 5) Converted from USD.

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