

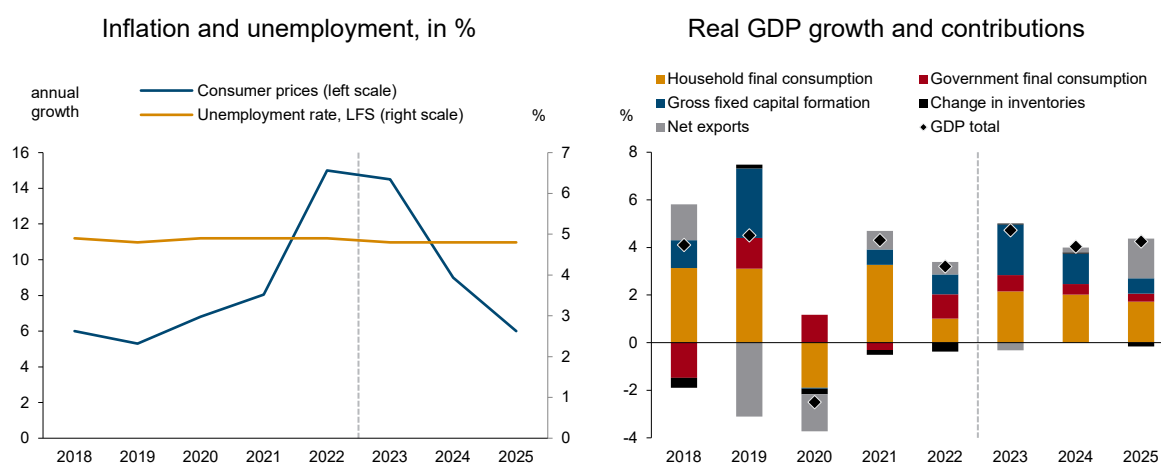


KAZAKHSTAN: Robust economic growth weakens slightly

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In H1 2023, the Kazakh economy recorded GDP growth that was among the highest of all CESEE countries – 5.1% – driven by investment and private consumption. We expect economic performance to slow in H2 2023, but growth for the full year will still exceed our previous forecast by 0.2 percentage points (pp), reaching 4.7%. Monetary policy loosening will remain cautious in light of the slow disinflation. Booming imports, fuelled by strong demand and declining exports (amid global oil prices that are lower than in 2022) lead to a higher current account deficit forecast for 2023 and 2024. In 2024-2025 we expect economic growth of around 4%.

Figure 6.9 / Kazakhstan: Main macroeconomic indicators



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

The economy is among the fastest growing in the CESEE region, but is losing momentum in the face of a looming slowdown in domestic demand. Real annual GDP growth peaked at 5.1% in H1 2023, before slowing: the figure for January-August was 4.9%, according to estimates by the Ministry of National Economy. The largest contributions to this strong performance were made by trade, construction and the oil sector, with growth rates of 11% (wholesale trade), 11.4% and 6.6%, respectively, year on year for the first eight months. By contrast, manufacturing grew by only 3.1%. Looking ahead, the leading indicators point to a moderate cooling of demand not only in manufacturing, but also in services. Given the robust H1 growth, we have revised our GDP forecast for 2023 up 0.2pp, to 4.7%.

Wage hikes and extensive consumer lending are supporting private consumption. An increase in the minimum wage and in public-sector wages in January 2023 partly cushioned the erosion of real incomes caused by high inflation: real incomes declined by only 1.4% year on year over the first seven months, while small year-on-year growth was already visible in June and July. Retail trade turnover expanded by 7.7% year on year over the first eight months, with slower growth posted in Q2. A 7.4% decline in the sale of foodstuffs was offset by a 15.6% increase in non-food sales, driven mainly by consumer lending. The volume of new consumer loans issued by banks in January-July 2023 was 42.9% greater than in the same period of 2022, and reached 5.6% of annual GDP. However, as those loans are mostly long term, credit growth so far has not had any adverse impact on the banking sector and the quality of assets. The expected moderation in inflation and the new 21.4% hike in the minimum wage from January 2024 (surprisingly announced by President Tokayev in his Address to the Nation in September) are likely to boost consumption next year. Although the labour market remains stable, persistent regional income and consumption disparities and the increasing burden of consumer loan repayments may potentially fuel social discontent.

Public and private investment in the oil and transport sectors and the modernisation of infrastructure are likely to boost economic growth in the medium term. Oil-sector investment (around a third of all investment) grew more slowly than overall investment in the first eight months of 2023 (by 5.7% and 12.2% year on year, respectively). By contrast, investment in the transport sector expanded by 50% year on year. In view of the geopolitical shifts under way, Kazakhstan is seeking to take advantage of its geographical location by prioritising the development of new transport corridors and the necessary infrastructure in both an east-west (Middle Corridor) and a north-south direction. Electricity, water and utilities (whose modernisation is long overdue) also posted investment growth of above 50% year on year, supported by the state and regional budget funding. We expect all those investments to persist in the medium term.

Policies to attract foreign direct investment (FDI) to develop priority manufacturing industries remain on the government agenda. After around USD 4.9bn of FDI inflows last year, the figure for H1 alone reached USD 4.3bn.²⁴ Although the oil sector continues to attract the bulk of this investment, the government hopes to intensify FDI in those priority industries with high value added.²⁵ However, state efforts to attract further FDI have been overshadowed by an international lawsuit brought by Kazakhstan over its share of revenue from old oil production-sharing agreements.²⁶

The current account turned from surplus in 2022 to deficit in 2023, due to rapidly rising imports and declining exports – a situation that is likely to persist next year. High demand for non-food and capital goods led to merchandise imports exploding by 35% in USD terms (year on year) in January-July, mostly on account of the increase in physical volumes (30.5%). Exports declined by 8.8%, mostly on the back of the fall in the price of oil. Both factors are likely to persist next year, and we have revised our forecast for the current account balance downwards. We expect exports to grow strongly in 2025, thanks to a substantial increase in oil production and exports following expansion of the Tengiz oil field.

²⁴ The data refer to FDI inflows (liabilities) from Balance of Payments statistics.

²⁵ Advanced metal processing; oil, gas and coal chemical industry; heavy machinery; uranium conversion and enrichment; automotive component manufacturing; fertiliser production.

²⁶ Kazakhstan is suing the Kashagan and Karachaganak operators – international consortia – for around USD 16bn, claiming that the operators should not have deducted those costs over the period 2010-2019.

However, any forecast of oil export revenues is fraught with uncertainty. The growth in oil production this year is mainly explained by the low statistical base, following last year's disruptions. The OPEC+ production cuts from May 2023 until the end of 2024 will constrain growth in Kazakhstan's oil output. Power outages in the main oil fields following major accidents in the energy system in July and August have also disrupted oil production. It has been announced that the increase in production volumes in the Tengiz oil field – previously expected to occur this year – has been delayed to the very end of 2024. On a positive note, the recently announced additional voluntary production cuts by Saudi Arabia and Russia are likely to support global oil prices. The priority assigned by the state to the development of domestic production in the chemical industry may boost domestic demand for oil and gas, which in turn is likely to limit export revenues.

The cautious monetary policy easing is explained by the slow disinflation, coming on the back of country-specific domestic factors. After peaking in February at 21.3%, annual inflation slowed to 13.1% in August. Food price disinflation has been faster than for other sub-components. The growth of non-food prices is being driven by strong consumption and the resulting pass-through inflation on imported goods. July's hike in tariffs and regulated fuel prices (which had previously been frozen) was responsible for an increase in this sub-component of inflation. Those country-specific factors explain the cautious monetary policy easing, with an interest rate cut in August of only 25 basis points to 16.5%. Further policy rate cuts are expected. However, the central bank has communicated various risks that could slow the pace of monetary loosening: new fiscal stimuli, the possible acceleration of inflation in Russia, a possible rise in global food prices, a further increase in domestic fuel prices, elevated inflation expectations.

The tenge's depreciation against the US dollar is likely to accelerate amid expanding imports. The tenge position against the US dollar has weakened by 2.3% since the start of the year. Aside from the global strengthening of the US dollar and rising imports, suspension of the mandatory sale of foreign currency earnings by quasi-public-sector entities caused tenge depreciation to accelerate in August (by 3%). The dynamics of global oil prices and imports will determine the speed of further tenge weakening. By contrast, an increase in exports (33.6%) to Russia, mostly machinery and chemical products – allegedly partly re-exports from Western countries – and a decline in imports (6.6%) in the country's trade with Russia in January-July added to the tenge's strength against the Russian rouble: it has appreciated by 23.8% against the Russian currency since the beginning of the year.

Fiscal policy is expected to remain loose next year, and new fiscal measures will push the budget deficit up to 2.6% of GDP in 2024. In addition to the increase in the minimum wage, new support measures are planned to develop the priority manufacturing industries and to boost domestic military production. Over the medium term, it has been announced that there will be a gradual reduction in the budget deficit, accompanied by reform of the tax code and a possible increase in VAT from 12% to 16%. Privatisation of some state-owned enterprises is expected as well. Fiscal federalism is likely to be further strengthened by devolving more tax collection and investment to the regions, as well as by holding direct elections at the regional level.

In 2024-2025, the economy will grow by around 4% year on year. The main growth drivers in the next two years will continue to be domestic demand backed by fiscal stimuli, as well as public and private investment in oil extraction, the transport sector and infrastructure.

Table 6.9 / Kazakhstan: Selected economic indicators

	2020	2021	2022 ¹⁾	2022 January-June	2023	2023 Forecast	2024 Forecast	2025
Population, th pers., average ²⁾	18,756	19,001	19,635	19,563	19,833	19,900	20,200	20,500
Gross domestic product, KZT bn, nom.	70,649	83,952	103,766	40,034	46,728	121,700	134,200	146,900
annual change in % (real)	-2.5	4.3	3.2	3.6	5.1	4.7	4.0	4.2
GDP/capita (EUR at PPP)	17,540	19,100	20,470	.	.	.	.	.
Consumption of households, KZT bn, nom.	36,661	42,419	49,725	.	.	.	.	.
annual change in % (real)	-3.7	6.3	2.0	.	.	4.5	4.2	3.6
Gross fixed capital form., KZT bn, nom.	17,463	19,342	22,164	.	.	.	.	.
annual change in % (real)	-0.2	2.6	3.6	.	.	10.0	6.0	3.0
Gross industrial production								
annual change in % (real)	-0.5	3.6	1.1	3.5	3.8	3.7	3.8	3.9
Gross agricultural production								
annual change in % (real)	5.7	-2.3	9.1	0.8	3.2	.	.	.
Construction industry								
annual change in % (real)	11.6	8.3	9.4	9.2	12.3	.	.	.
Employed persons, LFS, th, average ²⁾	8,732	8,807	8,972	8,965	9,073	9,080	9,200	9,320
annual change in %	-0.6	0.9	0.2	0.3	1.2	1.2	1.3	1.3
Unemployed persons, LFS, th, average ²⁾	449	450	458	460	453	460	460	470
Unemployment rate, LFS, in %, average ²⁾	4.9	4.9	4.9	4.9	4.8	4.8	4.8	4.8
Reg. unemployment rate, in %, eop	1.5	1.1	1.4	2.2	3.0	.	.	.
Average monthly gross wages, KZT ³⁾	213,003	250,311	309,885	298,722	353,069	361,900	408,300	447,900
annual change in % (real, gross)	6.8	8.8	7.7	10.6	0.2	2.0	3.5	3.5
Consumer prices, % p.a.	6.8	8.0	15.0	11.9	17.9	14.5	9.0	6.0
Producer prices in industry, % p.a.	-8.0	32.5	27.1	37.0	-2.9	-3.0	3.0	3.0
General governm. budget, nat. def., % of GDP								
Revenues	20.6	18.9	19.5	24.8	24.4	19.7	19.5	19.5
Expenditures	24.5	21.9	21.6	25.1	27.8	22.4	22.1	21.9
Deficit (-) / surplus (+)	-4.0	-3.0	-2.1	-0.3	-3.5	-2.7	-2.6	-2.4
General gov. gross debt, nat. def., % of GDP	30.5	27.6	25.7	22.1	24.6	25.0	26.0	26.0
Stock of loans of non-fin. private sector, % p.a.	5.5	26.5	23.3	27.5	21.7	.	.	.
Non-performing loans (NPL), in %, eop	6.9	3.3	3.4	3.6	3.3	.	.	.
Central bank policy rate, % p.a., eop ⁴⁾	9.00	9.75	16.75	14.00	16.75	16.00	12.00	8.00
Current account, EUR m ⁵⁾	-9,602	-2,163	7,433	6,005	-3,349	-8,100	-8,400	-4,700
Current account in % of GDP	-6.4	-1.3	3.5	7.4	-3.5	-3.3	-3.2	-1.7
Exports of goods, BOP, EUR m ⁵⁾	38,598	55,626	81,230	39,281	35,597	71,200	74,100	80,000
annual change in %	-27.4	44.1	46.0	56.6	-9.4	-12.3	4.1	8.0
Imports of goods, BOP, EUR m ⁵⁾	33,335	35,140	47,318	19,879	26,609	57,600	61,100	63,500
annual change in %	-9.2	5.4	34.7	28.3	33.9	21.7	6.1	3.9
Exports of services, BOP, EUR m ⁵⁾	4,562	4,977	7,534	3,046	3,706	8,800	9,300	9,500
annual change in %	-34.1	9.1	51.4	34.6	21.6	16.8	5.7	2.2
Imports of services, BOP, EUR m ⁵⁾	7,398	6,685	8,954	3,732	4,179	9,600	10,100	10,700
annual change in %	-28.2	-9.6	33.9	26.4	12.0	7.2	5.2	5.9
FDI liabilities, EUR m ⁵⁾	6,312	3,846	4,667	3,291	3,958	6,500	.	.
FDI assets, EUR m ⁵⁾	1,165	2,243	-2,861	1,378	1,003	1,400	.	.
Gross reserves of CB excl. gold, EUR m ⁵⁾	9,827	9,586	13,691	9,110	13,989	.	.	.
Gross external debt, EUR m ⁵⁾	133,664	145,234	150,654	.	.	150,000	155,000	157,000
Gross external debt, % of GDP	89.2	87.2	70.3	.	.	61.0	60.0	58.0
Average exchange rate KZT/EUR	471.44	503.88	484.22	491.33	488.24	497	518	540

1) Preliminary. - 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.