

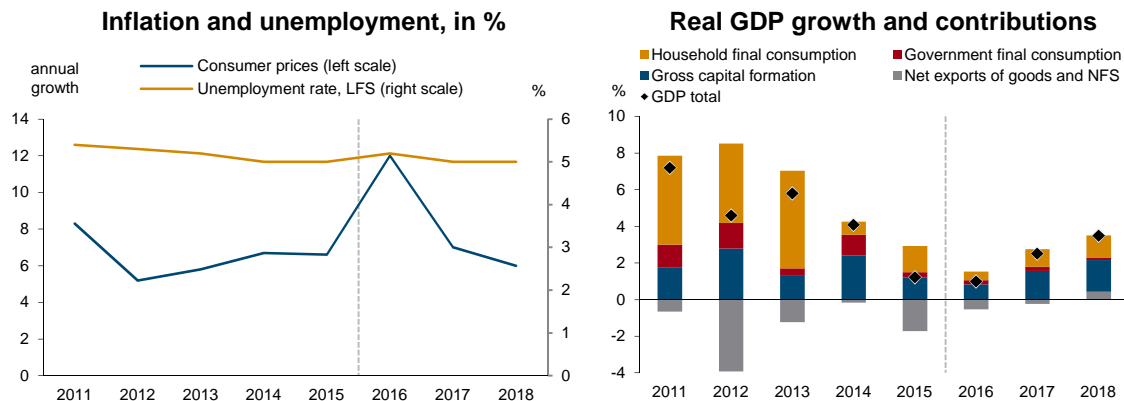


KAZAKHSTAN: Switching to the crisis mode

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In 2016, GDP growth in Kazakhstan will slow down still further to 1% as the global oil prices are expected to be lower than they were on average in 2015. Growth is expected to pick up speed in the period 2017-2018, primarily on the back of a rise in investment. Poor performance in the oil sector has put a strain on public finance and the government has had to adopt various fiscal consolidation measures. Tight monetary policy and dollarisation of deposits has squeezed liquidity in the banking sector, thus giving rise to a credit crunch.

Figure 44 / Kazakhstan: main macroeconomic indicators



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

According to preliminary data, GDP grew by 1.2% in 2015 – this was the lowest growth rate since 2009. The primary reason for the sluggish economic performance has been unfavourable external conditions: a dramatic fall in the global prices of oil and other commodities, recession in Russia, and China's slowdown. As a result, the country's merchandise exports in 2015 fell by 42% year on year in USD terms. Merchandise imports decreased at a pace significantly slower than exports in 2015 – by 23% year on year in USD terms. The National Bank had to spend increasingly more of its foreign exchange reserves to support the KZT/USD exchange rate. In these circumstances, the fixed exchange rate regime was no longer deemed sustainable by the government, and starting from August 2015 the

⁴⁹ With contributions by Alexandra Bykova.

tenge was allowed to float freely. As a consequence, the national currency experienced a dramatic depreciation and lost about half of its value with respect to the US dollar by the end of January 2016.

In 2016, surging prices of imported goods and a scaling-back of the investment plans, in particular in the extractive industries, will cause a further double-digit drop in imports. Exports are expected to decline again in 2016, as oil prices are assumed to be lower than on average in 2015. A revival of both exports and imports is forecasted to start in 2017. Exports will pick up on the back of an increase in the volume of oil production, especially owing to the envisaged start of operation of the Kashagan oil field. Imports will grow primarily in the segment of investment goods, provided the investment plans of the government are realised, while growth of consumer demand will be weak. The current account balance will remain negative during the forecasting period, but will gradually improve.

The poor performance of the oil sector put a strain on public finance as budget revenues shrank significantly in 2015, and the government had to increase transfers from the National Oil Fund to make ends meet. Oil-related revenues normally account for about half of the total budget revenues; last year they dropped by about 50% year on year. The budget expenditures plan for 2015 had to be revised downwards, with the biggest cuts in the part of capital expenditures. As a result of the higher transfers, the assets of the National Oil Fund decreased by 13% in 2015. This was a serious warning sign for the government and it triggered a wide range of reforms in order to sustain fiscal consolidation and avoid further loss of assets in the future.

On the expenditure side, President Nazarbayev demanded that withdrawals from the oil fund are to be capped by a fixed amount, forbidding any additional withdrawals (this includes both on- and off-budget expenditures; the latter reached about 2.5% of GDP in 2015 as the government had to help the state oil-and-gas company Kazmunaygaz repay its external debt). Overall the government announced a switch to a 'thrifty use of budget resources', which implies identifying and eliminating inefficient expenditures and expenditures that can be financed by the private sector. On-budget investment spending will be gradually scaled down, but the counter-cyclical fiscal stimulus package 'Nurly Zhol' (Path to the Future) will continue running. The government plans to rely increasingly more on public-private partnerships in financing investment. Joint investment projects in the energy sector, the manufacturing industry and in infrastructure development have been negotiated with multinational companies; it is expected that agreements will be signed soon.

The envisaged measures to boost budget revenues include a simplification of the tax regime and improving tax collection discipline. The customs and tax codes will be merged, the amount of taxes will be reduced and the VAT is going to be replaced by a sales tax, as the latter is expected to be less cumbersome for businesses. The property legalisation campaign, supposed to bring additional revenues to the budget, has been prolonged until the end of 2016.

Besides, ambitious plans to privatise some of the largest state enterprises to investors were announced; the share of state ownership in the economy is envisaged to decrease substantially (currently it is estimated to be at about 40%). However, the timing of privatisation is unfavourable as investors are in general perceiving emerging markets as highly risky, and Kazakhstan's S&P debt rating was lowered in February 2016 to BBB- on a negative outlook due to concerns about inflation, exchange rate pressures and banking sector stability. These factors can put a downward pressure on the potential prices of the

state companies; therefore, if the government wants to sell the assets at reasonably high prices, it might need more time than currently expected.

In order to help financing the budget deficit, a new regulation of the country's Pension Fund was adopted, according to which the fund's assets have to be used partially to finance the budget deficit (around KZT 400 billion or 1% of GDP), and partially for long-term investment projects (around KZT 600 billion). The three-year central government budget plan for 2016-2018 was adopted in November 2015 with a budget deficit of 1.6% of GDP on the assumptions of a GDP growth of 2% in 2016, an oil price of 40 USD/barrel, an inflation in the range of 6-8%, and an exchange rate of 300 KZT/USD. As these assumptions are no longer considered realistic, the budget needs to be amended by the end of February 2016.

The National Bank has had to manoeuvre between Scylla and Charybdis – surging inflation and anaemic credit growth. Inflation continues to climb after the sharp depreciation of the national currency. In January 2016, CPI reached 14.4% year on year; imposing administrative controls on the food prices prevented an even bigger hike of inflation. On 1 February 2016, the Bank decided to raise its policy rate from 16% to 17%, to an unprecedentedly high level.

The tight monetary policy was accompanied by dollarisation of the deposits, which account for about 75% of the banking sector liabilities. At the end of 2015, 69% of total deposits were denominated in foreign exchange; in the deposits of individuals, the share of foreign exchange deposits reached 79%. As a result, the credit activity has been hindered: in December 2015, the total stock of loans in national currency had decreased by 2% compared with December 2014; for loans in foreign currency the drop was at about 45%. As a part of the loans stock decrease took place due to the writing-off of non-performing loans, the analysis of newly issued loans is more informative: in 2015, the amount of issued loans was 9% lower than in 2014, for loans to households this indicator was at -21%.

The authorities have been trying to stimulate credit growth through softening of capital requirements for banks, extending subsidised credit programmes, and launching programmes for mortgage refinancing and purchases of domestically assembled cars. However, it is likely that these measures will not be sufficient to fully offset the effects of the tight monetary policy in the short run. Besides, the increased uncertainty regarding economic growth and real estate prices is likely to make banks more cautious in credit allocation.

A continuing slump in industrial activity in 2016 will lead to an even worse overall performance than in 2015 – the growth rate is forecasted to reach only 1%. GDP will speed up its growth in 2017-2018 to 2.5% and 3.5%, respectively, primarily owing to rising investment as government investment programmes and joint investment projects with foreign companies are expected to take effect. Household consumption will grow at a slower pace than investment, as it will be constrained by a slow real income increase and limited access to credit.

Table 13 / Kazakhstan: selected economic indicators

	2011	2012	2013	2014	2015 ¹⁾	2016	2017 Forecast	2018
Population, th pers., average	16,557	16,791	17,035	17,289	17,544	17,800	18,100	18,350
Gross domestic product, KZT bn, nom.	29,380	32,194	37,085	40,755	40,761	43,200	46,900	51,500
annual change in % (real)	7.2	4.6	5.8	4.1	1.2	1.0	2.5	3.5
GDP/capita (EUR at exchange rate)	8,700	10,000	10,800	9,900	9,500	6,000	6,300	6,600
GDP/capita (EUR at PPP)	16,700	17,600	18,200	19,000	19,500	.	.	.
Consumption of households, KZT bn, nom.	11,569	13,623	17,535	19,565	21,500	.	.	.
annual change in % (real)	10.9	11.0	12.6	1.5	3.0	1.0	2.0	2.5
Gross fixed capital form., KZT bn, nom.	5,772	6,761	7,473	8,123	8,500	.	.	.
annual change in % (real)	3.9	9.1	4.9	4.4	1.2	2.0	4.0	5.0
Gross industrial production								
annual change in % (real)	3.8	0.7	2.5	0.3	-1.6	-2.0	2.0	3.0
Gross agricultural production								
annual change in % (real)	26.8	-17.8	11.7	1.0	4.4	.	.	.
Construction industry								
annual change in % (real)	2.8	3.1	3.5	4.6	4.3	.	.	.
Employed persons, LFS, th, average ²⁾	8,302	8,507	8,571	8,510	8,560	8,600	8,640	8,680
annual change in %	1.1	1.0	0.7	-0.7	0.6	0.5	0.5	0.5
Unemployed persons, LFS, th, average ²⁾	473	475	471	452	447	470	450	460
Unemployment rate, LFS, in %, average ²⁾	5.4	5.3	5.2	5.0	5.0	5.2	5.0	5.0
Reg. unemployment rate, in %, end of period	0.4	0.4	0.3	0.4	0.4	.	.	.
Average monthly gross wages, KZT ³⁾	90,028	101,263	109,141	120,455	125,335	137,600	151,600	167,100
annual change in % (real, gross)	7.1	7.0	1.9	3.9	-2.4	-2.0	3.0	4.0
Consumer prices (HICP), % p.a.	8.3	5.2	5.8	6.7	6.6	12.0	7.0	6.0
Producer prices in industry, % p.a.	27.2	3.5	-0.3	9.5	-20.5	-5.0	3.0	5.0
General governm. budget, nat. def., % of GDP								
Revenues	18.3	18.1	17.2	18.0	18.7	18.0	18.5	18.5
Expenditures	20.2	20.8	19.1	20.6	21.0	20.0	20.5	20.5
Deficit (-) / surplus (+)	-1.9	-2.8	-1.9	-2.7	-2.2	-2.0	-2.0	-2.0
Public debt, nat. def., % of GDP	11.5	12.3	12.2	14.2	22.8	25.0	27.0	28.0
Central bank policy rate, % p.a., end of period ⁴⁾	7.5	5.5	5.5	5.5	16.0	16.0	15.0	14.0
Current account, EUR mn ⁵⁾	7,326	823	646	4,511	-4,808	-3,400	-3,300	-3,200
Current account in % of GDP ⁵⁾	5.1	0.5	0.4	2.6	-2.9	-3.2	-2.9	-2.6
Exports of goods, BOP, EUR mn ⁵⁾	61,198	67,629	64,435	60,418	41,720	36,600	38,400	41,500
annual change in %	32.4	10.5	-4.7	-6.2	-30.9	-12.3	4.9	8.1
Imports of goods, BOP, EUR mn ⁵⁾	28,985	37,954	38,244	32,800	30,324	26,000	27,000	28,900
annual change in %	17.0	30.9	0.8	-14.2	-7.5	-14.3	3.8	7.0
Exports of services, BOP, EUR mn ⁵⁾	3,116	3,756	3,988	4,945	5,833	6,100	6,400	6,700
annual change in %	0.5	20.5	6.2	24.0	18.0	4.6	4.9	4.7
Imports of services, BOP, EUR mn ⁵⁾	7,882	9,925	9,379	9,727	10,671	10,200	10,600	11,200
annual change in %	-7.9	25.9	-5.5	3.7	9.7	-4.4	3.9	5.7
FDI liabilities (inflow), EUR mn ⁵⁾	9,885	10,618	7,536	5,306	5,428	6,300	.	.
FDI assets (outflow), EUR mn ⁵⁾	3,719	1,394	1,488	1,756	1,547	1,800	.	.
Gross reserves of NB excl. gold, EUR mn	19,477	16,665	13,940	17,920	18,739	.	.	.
Gross external debt, EUR mn ⁵⁾	96,951	103,150	109,137	129,324	160,000	163,700	171,700	180,300
Gross external debt, % of GDP ⁵⁾	67.4	61.4	59.5	75.6	96.5	152.2	151.0	148.3
Average exchange rate KZT/EUR	204.11	191.67	202.09	238.10	245.80	402	413	424
Purchasing power parity KZT/EUR ⁶⁾	106.27	109.07	119.93	123.75	119.06	.	.	.

1) Preliminary and wiiw estimates. - 2) From 3rd quarter 2011 according to census March 2009, wiiw estimates for growth in 2011 and 2012. - 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.