

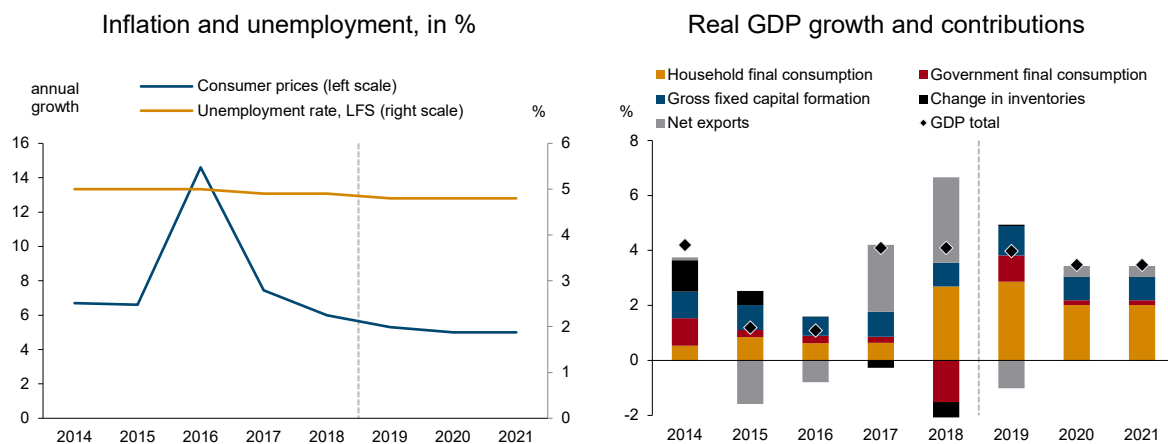


KAZAKHSTAN: Relying on state support to sustain economic growth

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GDP growth will remain robust at 4% in 2019, driven mainly by private consumption, but will slow to around 3.5% in 2020 and 2021, as the stimulating effect of fiscal packages dies out. The current account balance will deteriorate as imports rise on the back of stronger demand for consumer and capital goods. Export growth could decelerate amid an expected economic slowdown in Kazakhstan's main trading partners.

Figure 5.9 / Kazakhstan: Main macroeconomic indicators



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

We have revised up our 2019 GDP growth forecast by 0.4 p.p. to 4.0%, owing to better than expected second quarter results. The decrease in oil production, mainly due to maintenance works in the three major oil fields, was offset by the strong growth of non-ferrous metals production, construction, and trade and transport services.

Household consumption will be the main driver of economic growth in 2019 and in the medium term. Data for the first half of 2019 demonstrate a significant increase in real wages by 7.1% compared to the same period of the previous year. Consumer lending is also expanding rapidly despite interest rates above 20% p.a., with new loans for general consumption growing by 24.5% annually in August 2019. Consumption will continue to play a leading role in the next two years, but it might diminish as the state support package that has triggered income growth this year is expected to be less comprehensive.

Large public and private investments will support economic growth in 2019-2021. Real annual growth of fixed investments reached 5.7% in the first half of 2019. In 2020-2021, the expansion of production capacities of the Tengiz, Kashagan and Karachaganak oil fields will move forward, with foreign investors playing a key role. According to official estimates, total investment in these projects will amount to USD 44.5 billion. Completion of the Saryarka gas pipeline in 2019 will be complemented by the construction of a gas distribution network and appropriate facilities in 2020. Joint public and private funding of gas infrastructure projects will reportedly reach KZT 92 billion (USD 230 million) in the medium-term perspective. The construction of roads was already booming in 2019 with an annual growth of 15% over the first half of the year and is set to continue as the 'Nurly-Zhol' infrastructure investment program will be extended until 2025. A heavily subsidised lending in the framework of the '7-20-25' program will aim at further stimulating new housing investment in the coming years.

Rising external imbalances are putting pressure on the tenge and might hamper economic growth in the future. Rapidly growing demand for imported goods for consumption and investment combined with a poor export performance in 2019, and a moderate one for the next two years, will lead to the deterioration of the current account. Merchandise imports grew by 13.2% in US dollar terms over January-August 2019 compared to 2018. Simultaneously, merchandise exports declined by 4.5% mainly on the back of cuts in the oil revenues due to lower oil prices and a one-month-long production stop at several oil fields in April of this year. A sharp increase in oil production that could mitigate price effects is only expected in the long-term perspective after 2023, upon completion of the oil fields expansion projects. Authorities estimate that annual oil production may expand from 90 to 105 million tons by 2025. The slowdown in global demand and volatility in oil prices bring further uncertainty to oil export revenue forecasts for the coming years.

Reliance on oil revenues is expected to persist in the next few years. However, although progress has been slow, there are some signs of success in attempts to diversify the economy. Three large oil refineries in Atyrau, Shymkent and Pavlodar have been modernised this year. Their production capacity is enough to satisfy domestic demand for petroleum products. Car production is booming with 57.9% growth in January-September 2019 year-on-year and will further expand driven by strong domestic demand. Construction of the large polypropylene plant in Atyrau will be finished in 2021, with production destined for external markets.

Economic policy will remain expansionary, giving impetus to consumption and investment growth. In 2019, stimulus measures included: a minimum wage hike by 50% at the beginning of the year, an additional 30% wage increase for low-paid public officials in July and a package of social benefits. The budget for the next three years envisages further expansion of social spending: expenditures related to the introduction of the compulsory health insurance system in 2020, an increase in teachers' salaries to attract them to rural areas and the indexation of pensions and social benefits. Public investments will be directed to the gas and water infrastructure and road construction. Recently, President Tokayev has announced new policy measures to support SMEs development through income tax reliefs and inspection exemptions for three years.

Despite the announced increase in budget spending for social purposes, fiscal consolidation aimed at the reduction of the non-oil deficit will remain on the government agenda. It is intended to achieve this by improving tax administration and increasing the efficiency of budget expenditures, for example, by developing a competitive tender system for public procurements. In his first State of the

Nation Address on September 2, President Tokayev presented several new initiatives on public sector reform and fiscal decentralisation. However, it is doubtful that these ambitious administrative reforms will be fully implemented.

Monetary policy will target inflation of 4-6% in the next few years. The National Bank of Kazakhstan (NBK) hiked the base rate by 0.25 p.p. to 9.25% on 9 September 2019 to contain inflationary pressure caused by higher than expected growth dynamics. Based on nine-month data, we forecast that annual inflation will reach 5.3% in 2019 and decelerate to 5% over the next two years amid weakening fiscal stimulus. We estimate that the NBK will gradually cut the interest rate to 8.75% by 2021 if inflationary conditions permit.

Booming unsecured consumer lending poses additional risks to the banking system that still needs to cope with the high level of bad loans (the NPL ratio was 9.5% in August 2019). The likely slowdown in income growth in the next few years may hamper timely loan repayment. Albeit the share of loans to households in GDP is less than 10%, and the systemic risk is not high, one can expect difficulties for more exposed banks and social consequences for certain groups of the population. Already this year, a rescue package with partial write-off of the debt was needed to alleviate the credit burden of the most heavily indebted low-income households. By the end of the year the NBK will respond with a set of prudent measures. Starting from 2020, financial regulation will be carried out by the specially created Agency for Regulation and Development of Financial Markets which reports directly to the President.

The establishment of the National Council of Public Trust is a small, cautious step by the new President to allow civil society to participate in the reform process. However, the lack of genuine political freedom is pushing the opposition toward street protests, which are still mostly cracked down on by the government. Apparently, by emphasising stronger social orientation of its economic policy, the government hopes to prevent the spread of public discontent.

We project GDP growth to remain stable at 3.5 % for the 2020-2021 period as a baseline scenario. Downside risks stem from the uncertainties regarding global demand and oil prices, as well as the exchange rate and inflationary pressures.

Table 5.9 / Kazakhstan: Selected economic indicators

	2015	2016	2017	2018 ¹⁾	2018 January-June	2019	2019 Forecast	2020 Forecast	2021
Population, th pers., average	17,543	17,794	18,038	18,276	18,215	18,452	18,500	18,700	18,900
Gross domestic product, KZT bn, nom. ²⁾	40,884	46,971	54,379	61,820	24,857	27,909	68,800	74,400	80,500
annual change in % (real)	1.2	1.1	4.1	4.1	4.2	4.1	4.0	3.5	3.5
GDP/capita (EUR at PPP)	18,900	18,400	19,600	20,400
Consumption of households, KZT bn, nom.	21,492	25,087	26,991	30,003	12,205	13,607	.	.	.
annual change in % (real)	1.8	1.2	1.2	5.3	4.5	5.9	5.7	4.0	4.0
Gross fixed capital form., KZT bn, nom.	9,355	10,671	11,622	12,755	4,293	5,682	.	.	.
annual change in % (real)	4.2	3.0	4.0	3.9	5.3	5.7	5.0	4.0	4.0
Gross industrial production									
annual change in % (real)	-1.6	-1.1	7.3	4.1	5.2	2.6	3.2	2.5	2.5
Gross agricultural production									
annual change in % (real)	3.4	5.4	3.0	3.5	4.1	3.8	.	.	.
Construction industry									
annual change in % (real)	5.8	7.4	2.8	4.1	3.8	11.1	.	.	.
Employed persons, LFS, th, average	8,624	8,553	8,585	8,695	8,602	8,748	8,830	8,920	9,010
annual change in %	1.3	-0.8	0.4	1.3	1.2	1.7	1.5	1.0	1.0
Unemployed persons, LFS, th, average	451	446	442	444	441	442	450	450	450
Unemployment rate, LFS, in %, average	5.0	5.0	4.9	4.9	4.9	4.8	4.8	4.8	4.8
Reg. unemployment rate, in %, eop	0.4	0.4	0.8	1.0	1.7	1.9	.	.	.
Average monthly gross wages, KZT ³⁾	126,021	142,898	150,827	162,673	157,597	177,513	185,000	202,000	218,500
annual change in % (real, gross)	-2.3	-1.1	-1.7	1.7	1.9	7.1	8.0	4.0	3.0
Consumer prices (HICP), % p.a.	6.6	14.6	7.4	6.0	6.5	5.2	5.3	5.0	5.0
Producer prices in industry, % p.a.	-20.5	16.8	15.3	19.0	15.9	10.0	8.0	1.0	1.0
General governm.budget, nat.def., % of GDP									
Revenues	18.7	19.8	21.3	17.5	21.1	22.2	19.0	20.0	19.0
Expenditures	20.9	21.4	23.9	18.8	21.4	22.6	21.0	22.0	20.8
Deficit (-) / surplus (+)	-2.2	-1.6	-2.7	-1.3	-0.3	-0.4	-2.0	-2.0	-1.8
General gov.gross debt, nat.def., % of GDP	22.7	25.0	25.7	26.0	23.9	23.5	25.0	25.0	24.5
Stock of loans of non-fin.private sector, % p.a.	4.7	0.3	0.0	3.0	1.0	0.6	.	.	.
Non-performing loans (NPL), in %, eop	8.0	6.7	9.3	7.4	8.8	9.4	.	.	.
Central bank policy rate, % p.a., eop ⁴⁾	16.00	12.00	10.25	9.25	9.00	9.00	9.25	9.00	8.75
Current account, EUR mn ⁵⁾	-5,423	-7,349	-4,516	-245	-1,214	-1,700	-3,800	-3,400	-3,500
Current account in % of GDP	-3.3	-5.9	-3.1	-0.2	-1.9	-2.6	-2.4	-2.0	-1.9
Exports of goods, BOP, EUR mn ⁵⁾	40,437	32,068	41,866	50,672	23,402	25,288	50,200	50,600	52,200
annual change in %	-32.0	-20.7	30.6	21.0	12.6	8.1	-0.9	0.8	3.2
Imports of goods, BOP, EUR mn ⁵⁾	29,948	23,706	27,060	29,030	13,258	15,231	34,300	36,300	38,500
annual change in %	-6.3	-20.8	14.2	7.3	1.3	14.9	18.2	5.8	6.1
Exports of services, BOP, EUR mn ⁵⁾	5,573	5,498	5,757	6,192	2,879	3,124	6,700	7,100	7,500
annual change in %	5.7	-1.3	4.7	7.5	0.6	8.5	8.2	6.0	5.6
Imports of services, BOP, EUR mn ⁵⁾	9,831	8,898	8,924	10,154	4,516	4,762	10,700	11,200	11,800
annual change in %	-5.7	-9.5	0.3	13.8	4.5	5.4	5.4	4.7	5.4
FDI liabilities, EUR mn ⁵⁾	5,934	15,562	4,171	181	750	811	900	.	.
FDI assets, EUR mn ⁵⁾	2,992	3,140	847	-3,936	-2,780	-2,479	-3,600	.	.
Gross reserves of NB excl. gold, EUR mn ⁵⁾	18,555	19,191	15,505	14,460	14,734	9,813	.	.	.
Gross external debt, EUR mn ⁵⁾	139,886	155,979	140,153	138,839	141,200	139,100	138,900	143,000	143,800
Gross external debt, % of GDP	84.1	125.7	94.9	91.3	92.9	87.1	87.0	84.0	80.0
Average exchange rate KZT/EUR	245.80	378.63	368.32	406.66	395.35	428.31	431	437	448

1) Preliminary. - 2) From 2017 new methodology for assessing the non-observed economy. - 3) Excluding small enterprises, engaged in entrepreneurial activity. - 4) One-day (overnight) repo rate. - 5) Converted from USD.

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