KAZAKHSTAN: Robust growth despite lower oil prices

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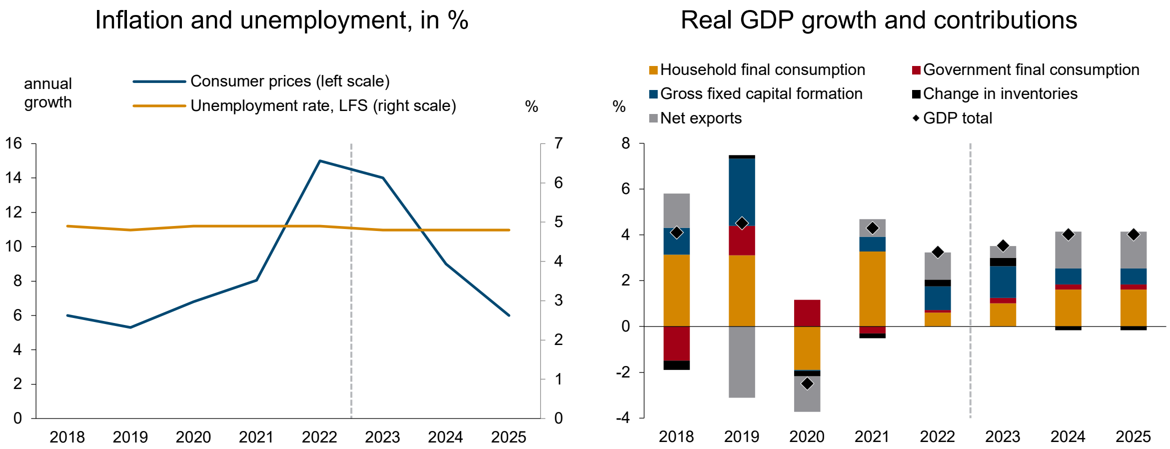
Despite the anticipated decline in oil prices, which will have an adverse impact on exports, economic growth is expected to accelerate over the forecast period due to domestic demand factors. Investments in infrastructure, in particular transport and logistics, will contribute positively to growth in the coming years. Consumption is likely to start recovering in 2023, although inflation is expected to take longer to contain, amid fiscal stimulus and the recent increase in regulated fuel prices.

Figure 5.9 / Kazakhstan: Main macroeconomic indicators



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

Economic performance varies by sector, but overall economic sentiment has been improving. The economy ended 2022 with real GDP growth of 3.2%, despite a 1% decline in mining on account of oil production being hit by several Caspian Pipeline Consortium (CPC) pipeline disruptions and production stoppages for maintenance and repairs. The data for January-February 2023 reflect annual growth of 4% in the main economic sectors.[19] While construction, trade and communication have recorded growth rates in double digits, the near stagnation in mining serves to weaken overall industrial performance. The growth of manufacturing is mainly driven by a robust performance by the machinery, food processing and beverages sectors, with annual growth of 31.5%, 9.6% and 22.6%, respectively, over the first two months of 2023. Leading indicators in March point to an improvement in economic

[19] The short-term indicator used captures, on a monthly basis, the real output of the main economic sectors – agriculture, industry, construction, trade, transport and communications. Altogether, these account for more than 60% of GDP and have proved to be a good proxy for real GDP growth.

sentiment across all sectors. The biggest improvement is visible in manufacturing, which can be explained by higher demand expectations and lower input costs.

Oil production is likely to recover during the year, but by less than previously expected. Production at the Tengiz oil field should rise significantly over 2023-2024, once the construction work related to the expansion project is completed. However, the overall increase in Kazakhstan's oil production in 2023 will be a few percentage points lower than the 9% estimated by OPEC in March, due to the latest OPEC+ restrictions that will be in place from May until the end of 2023. Besides, the risk of oil export disruption via the CPC pipeline is still present. A recent dispute between Kazakhstan and foreign investors involved in production sharing agreements (PSAs) at two large oil fields is a downside risk that particularly threatens FDI inflows.[20]

Transport and logistics have received a boost in response to geopolitically induced international trade shifts, and these are likely to attract investment in the medium term. An alternative oil transport route via the Caspian Sea to circumvent Russia seems to be slowly increasing its operating capacity: it is expected that 3.5m tonnes of oil will be exported through the port of Aktau in 2023, with further investments in infrastructure and the oil tanker fleet. Kazakhstan is developing its reputation as a transit route: in 2022 it increased total freight transit by 12.6% and container traffic by 6%. The Trans-Caspian International Transport Route (TITR) is growing in importance: last year, railway freight traffic in Kazakhstan increased 2.5 times (to 1.5m tonnes). To meet the challenges of changing trade flows, a new government programme will provide subsidised loans and public investment for transport and logistics development. Russian e-commerce companies are reportedly investing (or intending to invest) in the warehousing facilities needed to expand trade through CIS countries, including Kazakhstan.

Fiscal policy remains a balancing act between the need for increased spending and the longer-term objective of fiscal consolidation. Fiscal policy remains expansionary in 2023 through social-spending measures and public investment. After the ruling party confirmed its majority (54%) in the snap parliamentary elections on 19 March, new, less-popular measures, such as tax increases, are more likely to be introduced. An increase in new government bond issuance (mainly medium and long term) of up to USD 10bn per year will seek to cover the administration's financial needs, while reducing dependence on transfers from the National Oil Fund.

Private consumption is expected to rise in 2023, albeit limited by high inflation. Growth in real incomes and wages slowed throughout last year, as high inflation eroded purchasing power. Annual real income growth decelerated from 7% in Q1 2022 to 0.8% in Q4 2022. Meanwhile, the corresponding annual real wage growth slowed from 12.6% to 2.8%. After a 1% decline in the first three quarters of 2022, year on year, consumption is likely to pick up in 2023, supported by the increase in the minimum wage and pensions. This is suggested by the recent dynamics of retail trade turnover, which grew by 11.3%, year on year, in real terms in March 2023. Notwithstanding this, we expect annual real consumption growth to continue to be constrained by persistently high inflation, at least in the first half of the year.

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[20] Kazakhstan has demanded a fine of USD 5bn from the North Caspian Operating Company, the operator of Kashagan, for alleged environmental damage, which the latter denies. Kazakhstan has also initiated international legal proceedings for alleged damages due to various violations in Kashagan (USD 13bn) and Karachaganak (USD 5bn) in the period 2010-2019.

The recent inflation deceleration trend is fragile, with new domestic pro-inflationary risk factors. Four straight months of gradually slowing consumer price inflation came to an end in February; however, the trend resumed in March. Annual inflation amounted to 18.1% in March, down from 21.4% in February. Inflation expectations are volatile: after falling to 14.2% in February, they picked up again to 16.5% in March. Amid reported fuel shortages – mainly explicable by the fact that fuel prices are lower than in neighbouring countries, which leads to 'fuel tourism' – as from 12 April regulated prices have been increased by 10% for petrol and 20% for diesel. A subsequent hike in the regulated price of liquefied petroleum gas is possible. Along with extra budgetary spending of around 2% of GDP, this is likely to contribute to inflationary pressures this year. As it will probably take longer to bring inflation under control, we have revised our inflation forecast for 2023 slightly upwards.

Any policy rate cut is likely to come in the second half of the year, as inflation eases. The central bank left the key interest rate unchanged at 16.75% in April, and no further cuts are expected until the effects of the fiscal stimulus and the hike in fuel prices can be properly assessed. The high policy rate seems to have put the brakes on credit growth: the growth in consumer lending year on year slowed from 40% in February 2022 to 24% in February 2023; over the same period, the figure for lending to households slowed from 46% to 31% and for lending to companies – from 15% to 5%. However, a cut in the policy rate is possible in the second half of the year, as inflation is expected to ease amid falling global food prices and decelerating inflation among the country's main trading partners.

With the anticipated fall in oil prices, the current account is expected to return to deficit over the forecast period, after running a surplus of 3.9% of GDP last year. The big surplus in 2022 was driven by high global commodity prices: as a consequence, export growth outstripped import growth. Despite a recent spike in global oil prices following the recently announced OPEC+ production restrictions, we expect the downward trend to continue over the forecast period. Combined with limited growth in production volumes, we therefore predict lower exports in dollar terms in 2023. By contrast, imports should continue to increase, thanks to the recovery in private consumption and additional fiscal stimulus. Given these trends, we expect the tenge to depreciate over the forecast horizon: the recent appreciation was temporary and was due to the fiscal calendar and the influx of capital from non-residents into new government bonds.

The apparent large-scale re-export of high-tech consumer and capital goods to Russia puts Kazakhstan under pressure to take steps to avoid secondary sanctions. Exports to Russia increased by 25% in dollar terms in 2022: in particular, Kazakh exports of machinery and equipment to Russia (HS codes 84-92) increased by USD 1.6bn in 2022, raising Kazakhstan's share of Russian imports in this category from 0.4% to 1.9%. Simultaneously, Kazakhstan's imports in this category increased by USD 3.6bn, hinting at re-export. To ensure that the country is not used as a back door, and to avoid secondary sanctions, Kazakh officials have announced stricter monitoring of imports and exports from April and control through an electronic tracking system for cargo shipments inside the Eurasian Economic Union (EAEU).

To sum up, we expect real GDP growth to pick up slightly in 2023 to 3.5% (after 3.2% last year), with investments and private consumption the main growth drivers. Despite the anticipated decline in oil prices, limited oil production growth and high inflation that will constrain consumption growth, we are keeping our GDP forecasts for 2023 unchanged, due to the offsetting impact of larger fiscal stimulus and infrastructure investments. As inflation eases and consumption recovers, the economy is likely to accelerate to 4% annual growth over 2024-2025.

Table 5.9 / Kazakhstan: Selected economic indicators

	2019	2020	2021	2022 1)	2023	2024 Forecast	2025
Population, th pers., average 2)	18,514	18,756	19,001	19,634	19,900	20,200	20,500
Gross domestic product, KZT bn, nom.	69,533	70,649	83,952	101,523	113,500	125,100	135,300
annual change in % (real)	4.5	-2.5	4.3	3.2	3.5	4.0	4.0
GDP/capita (EUR at PPP)	18,120	17,520	19,020	19,400	.	.	.
Consumption of households, KZT bn, nom.	35,571	36,661	42,419	49,400	.	.	.
annual change in % (real)	6.1	-3.7	6.3	1.2	2.0	3.2	3.2
Gross fixed capital form., KZT bn, nom.	16,318	17,463	19,342	24,100	.	.	.
annual change in % (real)	13.8	-0.2	2.6	4.5	6.0	3.0	3.0
Gross industrial production							
annual change in % (real)	4.1	-0.5	3.6	1.1	3.2	3.5	4.0
Gross agricultural production							
annual change in % (real)	-0.1	5.7	-2.3	9.1	.	.	.
Construction industry							
annual change in % (real)	13.2	11.6	8.3	9.4	.	.	.
Employed persons, LFS, th, average 2)	8,781	8,732	8,807	8,967	9,030	9,140	9,260
annual change in %	1.0	-0.6	0.9	0.2	0.7	1.2	1.3
Unemployed persons, LFS, th, average 2)	441	449	450	459	460	460	470
Unemployment rate, LFS, in %, average 2)	4.8	4.9	4.9	4.9	4.8	4.8	4.8
Reg. unemployment rate, in %, eop	1.1	1.5	1.1	1.4	.	.	.
Average monthly gross wages, KZT 3)	186,815	213,003	250,311	309,885	360,300	404,500	445,900
annual change in % (real, gross)	9.1	6.8	8.8	7.7	2.0	3.0	4.0
Consumer prices, % p.a.	5.3	6.8	8.0	15.0	14.0	9.0	6.0
Producer prices in industry, % p.a.	5.1	-8.0	32.5	27.1	3.0	3.0	3.0
General governm. budget, nat. def., % of GDP							
Revenues	18.3	20.6	18.9	19.9	19.7	19.5	19.5
Expenditures	20.2	24.5	21.9	22.1	22.4	22.0	21.5
Deficit (-) / surplus (+)	-1.8	-4.0	-3.0	-2.1	-2.7	-2.5	-2.0
General gov. gross debt, nat. def., % of GDP	24.9	30.5	27.6	26.2	27.0	27.0	27.0
Stock of loans of non-fin. private sector, % p.a.	5.9	5.5	26.5	23.3	.	.	.
Non-performing loans (NPL), in %, eop	8.1	6.9	3.3	3.4	.	.	.
Central bank policy rate, % p.a., eop 4)	9.25	9.00	9.75	16.75	13.50	10.00	8.00
Current account, EUR m 5)	-6,277	-9,602	-2,163	8,109	-1,100	-2,300	-3,700
Current account in % of GDP	-3.9	-6.4	-1.3	3.9	-0.5	-1.0	-1.5
Exports of goods, BOP, EUR m 5)	53,183	38,598	55,626	81,907	75,000	77,200	78,800
annual change in %	6.3	-27.4	44.1	47.2	-8.4	2.9	2.1
Imports of goods, BOP, EUR m 5)	36,729	33,335	35,140	47,318	51,200	54,700	56,900
annual change in %	23.8	-9.2	5.4	34.7	8.2	6.8	4.0
Exports of services, BOP, EUR m 5)	6,926	4,562	4,977	7,534	7,700	8,100	8,300
annual change in %	11.6	-34.1	9.1	51.4	2.2	5.2	2.5
Imports of services, BOP, EUR m 5)	10,309	7,398	6,685	8,954	9,100	9,500	10,100
annual change in %	0.7	-28.2	-9.6	33.9	1.6	4.4	6.3
FDI liabilities, EUR m 5)	3,332	6,312	3,846	4,667	.	.	.
FDI assets, EUR m 5)	-1,941	1,165	2,243	-2,861	.	.	.
Gross reserves of CB excl. gold, EUR m 5)	9,004	9,827	9,586	13,691	.	.	.
Gross external debt, EUR m 5)	142,474	133,664	145,234	150,654	155,000	158,000	160,000
Gross external debt, % of GDP	87.8	89.2	87.2	71.9	71.0	67.0	64.0
Average exchange rate KZT/EUR	428.51	471.44	503.88	484.22	518	529	540

1) Preliminary and wiiw estimate. - 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.