

Olga Pindyuk

Kazakhstan: after temporary slowdown, growth accelerates again

Global financial crisis hits the economy

Kazakhstan's economy has been hurt the most among the CIS countries by the global financial crisis, due to the high dependence of the country's banking sector on external borrowing. In the second half of 2007, the growth of loans by liquidity-constrained Kazakh banks significantly slowed down – from 83.3% year on year in June to 44.4% y/y in December. The National Bank of Kazakhstan spent one quarter of its international reserves in order to mitigate liquidity constraints for the banking sector. The primary victims of the credit tightening have been construction and the real estate sector, as well as small and medium-sized businesses, which have been highly dependant on banking loans as their source of financing investment. The country's stock market, although showing somewhat increased volatility during the past several months, is too small to have any significant impact on the economy.

Regardless of the economic slowdown in the second half of 2007, GDP still demonstrated rather fast growth for the year as a whole (8.7% y/y, only 1.9 percentage points slower than in 2006), backed by strong consumption (both private and government) and investment. On the supply side, manufacturing industries and services (especially financial, construction and real estate)¹ contributed most to overall growth, while the mining industry showed only a meagre 0.8% growth. The primary reason for the sluggish development of the mining industry were bottlenecks in the oil-extracting capacities.

The consequences for Kazakhstan's economy of the turmoil in world financial markets are expected to fully unroll in 2008, and GDP growth will slow down to 6.5% as a result. The banking sector will continue to suffer liquidity constraints, which will put some restraint on investment and also on household consumption growth.

Speeding up of economic growth in 2009-2010

Owing to the high resilience of the economy, the consequences of the liquidity crisis will be rather short-lived, and in 2009-2010 growth is expected to speed up to 7.5% and 8% respectively. This forecast is based on the following factors:

- Kazakhstan will be able to continuously benefit from its rich natural resources as prices of commodities (most importantly oil, but also metals) will remain high during the forecasting period. This will mean strong export and industrial growth. (In 2007, oil extracting accounted for 48% of industrial production, oil accounted for more than 60% of merchandise exports);

¹ The shares of manufacturing and services in GDP were 11.6% and 51.6% respectively in 2006. Construction, financial services and the real estate sector contributed about 60% to GDP growth in the first half of 2007.

- growth of FDI will remain strong (FDI inflow accounted for about 65% of gross fixed capital formation in Kazakhstan in 2007.), with investment being directed primarily at oil-extracting capacities, which will support an increase in the sector's output. Investors' perception of safety of their investments in the country has improved, after the dispute over the Kashagan oil field was resolved at the beginning of the year to the mutual satisfaction of all sides of the conflict. Kazakhstan will remain quite an attractive destination for FDI compared to many other emerging markets, as risks of investment will continue to be considered relatively low. At the same time, public investment into infrastructure development is expected to surge as well;
- private consumption will be spurred by strong growth of household incomes, which in turn will be partly supported by increasing social expenditures;
- the political situation will remain stable with all powers consolidated in the hands of President Nazarbayev and his family.
- Consumer price inflation, which skyrocketed in 2007 (18.8% y/y in December), is expected to gradually decline in the coming years, as the shock of increased global food and oil prices will be absorbed and monetary and fiscal policy will be moderate in an attempt to strike a balance between the needs of macro-financial stability, on the one hand, and pursuing banking sector support and social policy goals, on the other. The tenge is expected to continuously appreciate over the forecasted period both in nominal and real terms, supported by strong inflows of export revenues and foreign investment.

Risks of the forecast

Major risks of the forecast are the following:

- in terms of politics, a possible risk is created by the intensified oppression of the opposition, which may raise concerns of the West and provoke internal conflicts;
- the increased power of Kazakh authorities to revise or cancel contracts with private companies may discourage investors from investing into oil extraction, which may lead to much slower growth of industrial output and oil exports. The attempts to renationalize the energy sector enterprises also create additional fears of investors;
- there still remains the risk of the real estate price bubble bursting in Kazakhstan, as prices of residential real estate have started to decline, while banks have limited issuance of mortgage loans. The government has been actively intervening to prevent the bubble bursting², thus the risk will become significant only if those government attempts should turn out futile.

² In an attempt to prevent an outright housing market crisis, the government established, at the end of 2007, a EUR 2.7 billion stabilization fund which will focus on helping the construction and property sectors. Besides, prudential regulations in the banking system have been further tightened to limit growth of bank credit and external borrowing, and the exposure of banks to the construction sector (limits on external borrowing, stricter asset classification rules and differentiated risk weights, as well as stricter collateral requirements were introduced).

Table KZ

Kazakhstan: Selected Economic Indicators

	2002	2003	2004	2005	2006	2007 ¹⁾	2008 Forecast	2009 Forecast	2010 Forecast
Population, th pers., end of period	14,867	14,951	15,075	15,219	15,397	15,700	16,010	16,330	16,660
Gross domestic product, KZT bn, nom.	3,776	4,612	5,870	7,591	10,139	12,900	15,800	19,000	22,400
annual change in % (real)	9.8	9.3	9.6	9.7	10.6	8.7	6.5	7.5	8
GDP/capita (EUR at exchange rate)	878	1,833	2,313	3,029	4,185	4,946	6,000	7,500	8,900
GDP/capita (EUR at PPP - wiiw/WDI)	2,660	5,850	6,520	7,360	8,260	8,810	.	.	.
Gross industrial production									
annual change in % (real)	10.5	9.1	10.4	4.8	7.0	4.5	6.5	7	8
Gross agricultural production									
annual change in % (real)	3.4	2.1	-0.5	7.3	7.0	8.4	7.5	9	11
Construction output total									
annual change in % (real)	41.2	4.0	17.9	47.4	28.6	15.3	12	15	17
Private consumption, KZT bn, nom.	1,994	2,434	3,054	3,686	4,547	5,870	7,200	8,800	10,600
annual change in % (real)	1.0	11.9	14.1	10.9	12.7	9.5	10	12	12
Gross fixed capital form., KZT bn, nom.	907	1,063	1,472	2,123	3,084	3,234	4,000	4,900	5,900
annual change in % (real)	10.0	8.0	22.5	28.1	29.7	8.2	8	11	12
LFS - employed persons, th, avg.	6,709	6,985	7,182	7,261	7,404	7,680	.	.	.
annual change in %	0.2	4.1	2.8	1.1	2.0	3.7	.	.	.
Reg. employees in industry, th pers., avg.	824.0	855.2	869.6	891.8	904.5	940	.	.	.
annual change in %	-1.2	3.8	1.7	2.6	1.4	3.9	.	.	.
LFS - unemployed, th pers., average	690.7	672.1	658.8	640.7	625.4	578.8	.	.	.
LFS - unemployment rate in %, average	9.3	8.8	8.4	8.1	7.8	7.0	6.8	6.5	6
Reg. unemployment rate in %, end of period	2.6	1.9	1.6	1.3	1.1	0.8	.	.	.
Average gross monthly wages, KZT	20,323	23,128	28,329	34,060	40,790	54,000	.	.	.
annual change in % (real, gross)	10.9	7.0	14.6	11.7	10.3	17	.	.	.
Consumer prices, % p.a.	5.9	6.4	6.9	7.6	8.6	10.8	13	10	9
Producer prices in industry, % p.a.	0.3	9.3	16.7	23.7	18.4	12.4	15	12	9
General governm.budget, nat.def., % GDP									
Revenues and grants	22.5	25.4	24.6	28.1	27.9	22.4	.	.	.
Expenditures and net lending	21.0	22.6	22.1	22.3	20.4	24.1	.	.	.
Deficit (-) / surplus (+), % GDP	1.4	2.7	2.5	5.8	7.5	-1.7	1.2	1.5	1.7
Public debt in % of GDP	3.2	3.6	3.9	9.3	11.3	7.1	.	.	.
Refinancing rate of NB % p.a., end of period	7.5	7.0	7.0	8.0	9.0	9.0	.	.	.
Current account, EUR mn ²⁾	-1,096	-246	278	-872	-1,409	-5,100	-6,000	-4,800	-3,000
Current account in % of GDP	-4.2	-0.9	0.8	-1.9	-2.2	-6.6	-6.3	-3.9	-2.0
Gross reserves of NB excl. gold, EUR mn	3,009	3,971	6,810	5,965	14,525	11,809	.	.	.
Gross external debt, EUR mn	19,367	20,302	26,323	34,874	58,491	74,300	.	.	.
Gross external debt in % of GDP	74.2	74.3	75.8	76.0	91.3	97	.	.	.
FDI inflow, EUR mn ²⁾	3,475	5,055	12,003	8,136	13,649	12,600	.	.	.
FDI outflow, EUR mn ²⁾	1,433	2,557	5,248	5,500	5,332	5,700	.	.	.
Exports of goods, BOP, EUR mn ²⁾	10,623	11,727	16,581	22,734	30,881	36,440	44,800	56,000	70,000
annual growth rate in %	7.4	10.4	41.4	37.1	35.8	18	23	25	25
Imports of goods, BOP, EUR mn ²⁾	8,518	8,466	11,120	14,442	19,216	27,290	36,000	45,000	54,900
annual growth rate in %	-196.7	-0.6	31.3	29.9	33.1	42	32	25	22
Exports of services, BOP, EUR mn ²⁾	1,632	1,517	1,617	1,790	2,237	2,660	3,100	3,600	4,100
annual growth rate in %	16.8	-7.0	6.6	10.7	25.0	19.0	17	15	15
Imports of services, BOP, EUR mn ²⁾	3,749	3,326	4,111	6,021	6,947	8,540	10,000	11,900	14,300
annual growth rate in %	-228.4	-11.3	23.6	46.5	15.4	23	17	19	20
Average exchange rate KZT/USD	153.28	149.58	136.04	132.88	126.09	122.50	117.6	115.2	114.1
Average exchange rate KZT/EUR (ECU)	144.68	168.79	169.04	165.42	158.27	167.75	164.6	155.6	151.7
Purchasing power parity KZT/USD, wiiw ³⁾	40.84	44.69	50.44	57.61	67.42	76.76	.	.	.
Purchasing power parity KZT/EUR, wiiw ³⁾	47.79	52.91	59.95	68.11	80.19	94.17	.	.	.

1) Preliminary and wiiw estimates. - 2) Converted from USD. - 3) Based on ICP benchmark results 2005 and wiiw estimates.

Source: National statistics; World Bank; wiiw forecasts.