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Kazakhstan: Anti-crisis policies and higher oil prices help to avoid recession

According to our estimates, Kazakhstan's GDP increased by 0.5% in real terms in 2009, thus making it one of the few countries in the region which recorded positive economic growth last year. Kazakhstan managed to avoid recession on the back of high oil prices – in December 2009, the monthly average OPEC basket was USD 74 per barrel, up 92% as compared with December 2008.

State support has also been crucial in mitigating the impact of the crisis on the country's economy. In 2009, the state allocated USD 14 billion (about 10% of GDP) from the National Oil Fund to different anti-crisis policies (in particular to support the financial sector, SMEs, construction and real estate). The assets of the National Oil Fund decreased by about 10% to USD 24.4 billion in the course of 2009. In 2010-2012, the government intends to restrict the usage of National Oil Fund resources – annual transfers in the amount of about KZT 1000 billion (about USD 7 billion) are envisaged, thus they are going to decline steadily in relative terms.

At the same time increasing fiscal revenues will allow to avoid a tightening of the fiscal policy. For instance, starting from the beginning of 2010, the pension size was increased by 25%; the government has also announced quite ambitious plans of public investment projects.

However, the efficient anti-crisis policy also means increased state intervention in the economy and rapidly growing concentration of state property. For example, after Alliance Bank, which announced default on debt obligations earlier in 2009, reached an agreement with the investors on the debt restructuring, on 30 December 2009, the government forced it to sell 100% of its shares to the state for the symbolic price of KZT 1 (EUR 0.005). According to IMF estimates, by now the balance sheet of Samruk-Kazyna (a state company created to manage the anti-crisis programme) is more than 50% of GDP (about USD 50 billion). The share of state property in the economy is expected to further increase, in particular due to the active state policy of gaining greater control over energy reserves – by acquiring stakes from existing foreign investors. Following last year's experience of the state company KazMunajgas muscling into the Kashagan oilfield project after a dispute with the foreign investors, the government is negotiating the purchase of a stake in the Karachaganak oil deposit amid the tax dispute with the shareholders.

Such high concentration of property in one state company not only may cause problems with efficiency of its operation, but also strengthens the position of the authoritarian power in the country. Kazakhstan has been dominated for almost 20 years by President Nazarbayev, who will keep his post until his death; the Parliament consists of one pro-presidential party. In order to secure its

position, the authoritarian regime has been turning to restricting the freedom of speech by adopting censorship laws, closing down opposition mass media, and imprisoning opposition leaders. In 2010, Kazakhstan became the first country defined by Freedom House as 'not free' to chair the Organization for Security and Cooperation in Europe (OSCE). The first initiative of the new chairman, firmly backed by Russia, was proposition to shift the focus of the OSCE from protection of human rights and democratic freedoms to international security and cooperation.

In 2010-2012, Kazakhstan's economy is expected to continue its recovery. However, due to the structural issues caused by the crisis (particularly in the banking and construction sectors), growth will not be as fast as in the pre-crisis period. According to our forecast, GDP will grow by 3% in 2010 and further speed up to about 5% in 2011-2012. The oil sector will remain the major driving force of the economy. We assume in our forecast that in 2010-2012, world oil prices will further go up to around USD 75-80 per barrel. A revival of global demand for key commodities exported by Kazakhstan will allow the country to increase its exports at double-digit rates in 2010-2011.

Another sector that will play an increasingly important role in the economy is agriculture. The sector recorded the highest growth in the economy in 2009, 13.8% year-on-year, its share in gross value-added reached 14.2% in January-September 2009, 2.6 percentage points up compared with the same period in 2008. A rapid increase in exports allowed Kazakhstan to raise its share in the world trade of wheat flour to 18%; the country continues to be the biggest global wheat flour exporter. Steadily growing world demand for food during the forecasted period, strong comparative advantages of Kazakhstan in agricultural production (primarily vast arable land), and state investment into the modernization of agricultural technologies and the transport and storage infrastructure will allow the sector to grow fast in future. The risks to the forecast are primarily related to the weather, which impacts harvests significantly and which can be quite unstable.

The 'Republican Budget for 2010-2012' adopted by the Parliament of Kazakhstan is based on conservative assumptions of oil prices (USD 50 per barrel in 2010 and USD 60 per barrel in 2011-2012) and GDP growth (from 2.4% in 2010 to 3.9% in 2012). According to the law, the state budget deficit will reach 4.1% of GDP in 2010, 3.8% in 2011, and 3.5% in 2012. However, we find the underlying scenario too pessimistic and forecast that higher budget revenues will let the state budget deficit decrease more significantly – to 2% in 2012.

Banking sector activity remains sluggish as banks continue to be very restrictive with loans issuance. During the final quarter of 2009, the outstanding loans value decreased by 4.8%; non-performing loans continue to accumulate. Apart from providing liquidity to the banking sector, the government tried to strengthen it by raising minimum capital requirements for banks, starting from 1 October 2009, by more than three times to KZT 5 billion (about EUR 24 million). More than one third of banks do not reach the new requirement threshold, thus mergers and acquisitions are expected in the sector.

On the positive side, the dynamics at the deposits market has been reviving: deposits of households increased by 3.7% during the fourth quarter of 2009. However, the size of the domestic deposit

market is not big enough to replace the lost external financing source. In order to facilitate corporate borrowing on international financial markets, the government wants to create a benchmark for a securities prices comparison by issuing about USD 500 million dollar-denominated securities at the beginning of 2010 (after the last issuance of international bonds in 2000).

In the area of foreign trade the major developments are related to the creation of a customs union between Russia, Belarus and Kazakhstan, which came into force starting from 1 January 2010. This decision appears to be driven primarily by political motives on the part of Kazakhstan as the country's benefits derived from the customs union seem doubtful. It illustrates the increasing pressure on Astana from Moscow, which strives to maintain control over the region.

The import tariffs of the customs union are to be harmonized by large with the existing Russian ones. This would mean that in Kazakhstan, the most open economy among the three, more than 30% of customs tariff positions have to be raised, in particular on many items of machinery and equipment, vehicles, fertilizers, wood, medicine and medical equipment, meat, and footwear – most of which are not produced in Kazakhstan. Since imports from Russia and Belarus account for about one third of Kazakhstan's imports, import substitution is not likely to be big enough to offset the increase in prices of imported products. A transition period before the implementation of the new tariffs is envisaged in Kazakhstan, which might give the country the possibility to re-negotiate certain tariff positions in order to reduce the potential damage.

Another disadvantage incurred by the newly created customs union is prolonging the duration of the country's WTO accession process. Kazakhstan started the process in 1996 and intensified it in the middle of the 2000s. At the beginning of 2008 Kazakhstan signed bilateral protocols with 20 out of 39 members of the Working Party, including Canada, China, Norway, South Korea and Switzerland; negotiations with the EU and USA came to their final stage. However, the onset of the financial crisis brought about a halt in the accession process, and the coming changes in customs tariffs will mean that the country will have to restart negotiations on WTO accession basically from scratch.

The potential benefits for Kazakhstan may be linked to increased FDI as the country has the most favourable tax regime among the three, thus foreign investors attracted by the bigger size of the market can be inclined to choose it for their investment.

Unless the risk of import price increases materializes, inflation is expected to remain one-digit during the forecasted period and to gradually slow down to 6% in 2012. No devaluation pressure is expected. The National Bank of Kazakhstan announced that it would widen the current corridor of KZT/USD 150 \pm 5 to 150 \pm 15, thus suggesting the potential for KZT appreciation – caused by stronger export performance and increased capital inflow into the economy.

Table KZ

Kazakhstan: Selected Economic Indicators

	2004	2005	2006	2007	2008	2009 ¹⁾	2010	2011	2012
	Forecast								
Population, th pers., average	15013	15147	15308	15484	15674	15890	15900	16100	16200
Gross domestic product, KZT bn, nom.	5870	7591	10214	12763	16053	15700	17300	19600	21900
annual change in % (real)	9.6	9.7	10.7	8.7	3.3	0.5	3	5	4.5
GDP/capita (EUR at exchange rate)	2300	3000	4200	4900	5800	4800	5500	6400	7100
GDP/capita (EUR at PPP - wiiw)	6500	7300	8200	9000	9300	9100	.	.	.
Consumption of households, KZT bn, nom.	3054	3686	4547	5468	6871	7600	8600	9700	10700
annual change in % (real)	14.1	10.9	12.7	11.0	6.3	3	5	6	4
Gross fixed capital form., KZT bn, nom.	1472	2123	3084	3857	4309	3300	4100	4700	5300
annual change in % (real)	22.5	28.1	29.7	17.3	1.0	-1.5	3	7	6
Gross industrial production									
annual change in % (real)	10.4	4.8	7.0	4.5	2.1	1.7	7	5	4
Gross agricultural production									
annual change in % (real)	-0.5	7.3	7.0	8.4	-5.6	13.8	6	8	5
Construction industry									
annual change in % (real)	17.9	47.4	28.6	5.7	1.8	-4.9	5	7	8
Employed persons - LFS, th, average	7181.8	7261.0	7403.5	7631.8	7857.2	7904.9	7940	7980	8060
annual change in %	2.8	1.1	2.0	3.1	3.0	0.6	0.5	0.5	1
Unemployed persons - LFS, th, average	658.8	640.7	625.4	578.8	557.8	554.7	.	.	.
Unemployment rate - LFS, in %, average	8.4	8.1	7.8	7.3	6.6	6.6	6.5	6.4	6.2
Reg. unemployment rate, in %, end of period	1.6	1.3	1.1	0.8	0.7	0.6	.	.	.
Average gross monthly wages, KZT	28329	34060	40790	53238	60734	66460	.	.	.
annual change in % (real, gross)	14.6	11.7	10.3	17.8	-2.5	3	.	.	.
Consumer prices, % p.a.	6.9	7.6	8.6	10.8	17.1	7.3	7.5	6.5	6
Producer prices in industry, % p.a.	16.7	23.7	18.4	12.4	36.9	-22.2	8	7	6
General governm.budget, nat.def., % GDP									
Revenues and grants	24.6	28.1	27.9	22.6	25.1	22.3	.	.	.
Expenditures and net lending	22.1	22.3	20.4	24.3	27.2	25.5	.	.	.
Deficit (-) / surplus (+), % GDP	2.5	5.8	7.5	-1.7	-2.1	-3.1	-4.0	-3.0	-2.0
Public debt in % of GDP	3.9	9.3	11.3	7.2	8.3	10.4	9	8	7
Base rate of NB % p.a., end of period	7.0	8.0	9.0	9.0	10.5	7.0	.	.	.
Current account, EUR mn ²⁾	270	-848	-1525	-5355	4742	-3000	-3000	-3700	-4500
Current account in % of GDP	0.8	-1.8	-2.4	-7.0	5.2	-3.9	-3.4	-3.6	-3.9
Exports of goods, BOP, EUR mn ²⁾	16581	22734	30881	35309	48905	29900	37300	41700	47200
annual growth rate in %	41.4	37.1	35.8	14.3	38.5	-39	25	12	13
Imports of goods, BOP, EUR mn ²⁾	11120	14442	19216	24288	26128	21200	-25400	-29200	-33900
annual growth rate in %	31.3	29.9	33.1	26.4	7.6	-19	-220	15	16
Exports of services, BOP, EUR mn ²⁾	1617	1790	2237	2596	2978	3000	3500	3900	4400
annual growth rate in %	6.6	10.7	25.0	16.1	14.7	1	17	11	13
Imports of services, BOP, EUR mn ²⁾	4111	6021	6947	8491	7474	7100	-8100	-8900	-9900
annual growth rate in %	23.6	46.5	15.4	22.2	-12.0	-5	-214	10	11
FDI inflow, EUR mn ²⁾	3346	1583	4958	7440	9882	9200	10100	10600	10800
FDI outflow, EUR mn ²⁾	-1029	-117	-309	2369	2590	2700	2700	2800	2800
Gross reserves of NB excl. gold, EUR mn	6810	5965	14525	11970	13711	16184	.	.	.
Gross external debt, EUR mn	24013	36643	56252	65436	76417	79464	.	.	.
Gross external debt in % of GDP	69.1	79.9	87.2	86.0	84.3	104.1	.	.	.
Average exchange rate KZT/EUR	169.04	165.42	158.27	167.75	177.04	205.67	196	189	189
Purchasing power parity KZT/EUR, wiiw ³⁾	59.92	68.78	81.24	91.09	110.40	108.64	.	.	.

1) Preliminary and wiiw estimates. - 2) Converted from USD with the average exchange rate. - 3) Based on ICP benchmark results 2005 and wiiw estimates.

Source: National statistics (National Bank, Agency of Statistics etc.). Forecasts by wiiw.