



Olga Pindyuk

Kazakhstan: avoiding recession and prolonging recovery

Our forecast for Kazakhstan has been revised downwards as the decline in major commodity prices has severely hit the Kazakh economy, which is highly dependent on exports of oil and metals (in 2007 their respective shares in goods exported were 70% and 17%). Negative developments on the world commodity markets have been aggravated by the current crisis in the country's banking system and the domestic housing bubble having burst last year. According to our forecast, 2009 will be the least successful year for the Kazakh economy in the past ten years – the GDP growth rate will drop to a mere 1%. Recession will be avoided thanks mostly to the government's vigorous anti-crisis policy. Over the period 2010-2011, the probable gradual revival of the global demand will lead to an increase in commodity prices, the country's banking sector will slowly start to recover from the crisis, and economic growth will accelerate to 3% and 4.5% in the respective years.

As for the sectoral structure, short-term economic growth will continue to hinge on the mining sector, which will remain relatively robust owing to the opening-up of new oil fields and increased production in the fields already on stream, as well as expansion in the transport and communication sectors. This reliance had already come to the fore in 2008, prior to which growth had been primarily driven by construction, financial services and trade. Over a period of nine months in 2007, the latter three sectors grew in real terms by 30.4%, 47.1%, and 10%, respectively; together they accounted for 75% of gross value-added growth. Over a similar period in 2008, the same three sectors, which had been most severely affected by the banking and housing market crisis, grew by only 3.9%, 1%, and 2.5%, respectively; their total contribution to GDP growth was a mere 16.5%.

The ongoing banking crisis has started to affect the real economy. As Kazakh banks continued to suffer from the lack of financing throughout 2008, the amount of loans issued declined by 39% compared to 2007, thus curtailing consumption and investment. Loans to households shrank most noticeably – by 69%; corporate loans declined to a substantially lesser degree – by 28%. As a result, the share of household loans in the total amount of loans issued over the year decreased by half (compared to the previous year) to no more than 12%.

The burst of the housing bubble has compounded the banking crisis. After house prices increased dramatically over the period 2001-2007 (prices on the primary market increased some eightfold over that period and prices on the secondary market by a factor close on eighteen), they started to fall sharply in 2008 (by 9% year-on-year on the primary market and by 20% on the secondary market). Banking sector assets have also deteriorated in qualitative terms, with the share of overdue loans increasing (by 2 p.p. to 3.3% in 2008). The increase is more significant in loans to the construction

sector (by 3 p.p. to 5.4%), household mortgage loans (by 5 p.p. to 5.8%) and consumer loans (by 4 p.p. to 4.4%). During 2008 the share of overdue consumer and mortgage loans in total overdue loans increased by 18.3 p.p. to 24.8%.

The Kazakh government is determined to mitigate the economic crisis. By the end of 2008 the government had accumulated more than USD 27 billion (EUR 18 billion) in the form of assets in the National Oil Fund (or about 20% of GDP) and more than USD 19 billion of foreign exchange reserves (EUR 13.7 billion). It now intends to spend about USD 14 billion (or about 10% of the GDP) over the period 2009-2010 as part of its economic stabilization programme. Most of that money will be channelled to the banking sector in order to recapitalize banks, provide them liquidity support and promote residential mortgage lending. Furthermore, three sector-specific programmes are envisaged, channelling funds to small and medium enterprises, agriculture and infrastructure development.

Another fiscal stimulation relates to a new tax code, which entered into force on 1 January 2009. The new tax code provides for cuts in corporate income tax by 10 p.p. to 20% in 2009, and a further cut by 5 p.p. by 2011. Moreover, the VAT rate will be reduced by 1 p.p. to 12%, while the minimum level of revenue exempt from VAT will be doubled to USD 320,000. Expansionary fiscal policy on this scale will lead to an increase in the budget deficit to more than 3% during the forecasting period.

Deflationary pressures in 2009 will neutralize the impact that the government's expansionary policy will have on monetary stability. The average annual oil price is expected to be about half of that in 2008 and housing prices will most likely continue to drop. We thus expect consumer prices to rise by less than 10% p.a. (after 17.1% growth p.a. in 2008), while the producer price index will drop by 10% p.a. Over the period 2010-2011, CPI growth will drop still more and producer prices will increase – albeit at a single digit rate.

On 4 February 2009, the Central Bank of Kazakhstan devalued the national currency: from 120 KZT/USD to 150 KZT/USD. This was done in order to maintain Kazakh exporters' competitiveness, which had been rapidly weakening owing to the currencies of their competitors and major trading partners having depreciated. The government believes that its active anti-crisis measures will mitigate the negative consequences of the tenge depreciation for the banking sector and households. We envisage no further devaluation of the tenge over the period 2009-2011, as the government will prefer stability of the national currency to providing an additional boost to the exporters' competitiveness. The adequacy of the country's foreign reserves will permit the government to maintain a relatively stable KZT/USD exchange rate – even despite the negative current account balance and limited foreign capital inflows.

Table KZ

Kazakhstan: Selected Economic Indicators

	2003	2004	2005	2006	2007	2008 ¹⁾	2009 Forecast	2010 Forecast	2011
Population, th pers., average	14909.0	15013.0	15147.1	15308.1	15484.2	15650.8	15770	15810	7985
Gross domestic product, KZT bn, nom.	4612.0	5870.1	7590.6	10139.5	12763.2	16100	17100	19400	21900
annual change in % (real)	9.3	9.6	9.7	10.6	8.7	3.5	1	3	4.5
GDP/capita (EUR at exchange rate)	1800	2300	3000	4200	4900	5800	5600	6800	7200
GDP/capita (EUR at PPP - wiw)	5800	6500	7300	8100	9000	9300	.	.	.
Consumption of households, KZT bn, nom.	2434	3054	3686	4547	5468	6500	7300	8200	9200
annual change in % (real)	11.9	14.1	10.9	12.7	11.0	2	3	4	5
Gross fixed capital form., KZT bn, nom.	1063	1472	2123	3084	3869	5500	5100	5700	6600
annual change in % (real)	8.0	22.5	28.1	29.7	17.8	4	2	3	7
Gross industrial production									
annual change in % (real)	9.1	10.4	4.8	7.0	4.5	2.1	-2	5	7
Gross agricultural production									
annual change in % (real)	2.1	-0.5	7.3	7.0	8.4	-5.6	4	6	6
Construction industry									
annual change in % (real)	4.0	17.9	47.4	28.6	5.7	1.8	-5	5	7
Employed persons - LFS, th, average	6985.2	7181.8	7261.0	7403.5	7631.8	.	.	.	.
annual change in %	4.1	2.8	1.1	2.0	3.1	.	.	.	.
Unemployed persons - LFS, th, average	672.1	658.8	640.7	625.4	578.8	.	.	.	.
Unemployment rate - LFS, in %, average	8.8	8.4	8.1	7.8	7.0	6.8	7.5	7	6.5
Reg. unemployment rate, in %, end of period	1.9	1.6	1.3	1.1	0.8	0.7	.	.	.
Average gross monthly wages, KZT	23128	28329	34060	40790	53238	60500	.	.	.
annual change in % (real, gross)	7.0	14.6	11.7	10.3	17.8	-0.8	.	.	.
Consumer prices, % p.a.	6.4	6.9	7.6	8.6	10.8	17.1	9.5	8	7
Producer prices in industry, % p.a.	9.3	16.7	23.7	18.4	12.4	36.9	-10	9	8
General governm.budget, nat.def., % GDP									
Revenues and grants	25.4	24.6	28.1	27.9	22.6	25.1	.	.	.
Expenditures and net lending	22.6	22.1	22.3	20.4	24.3	27.1	.	.	.
Deficit (-) / surplus (+), % GDP	2.7	2.5	5.8	7.5	-1.7	-2.1	-3.5	-3.5	-3.0
Public debt in % of GDP	3.6	3.9	9.3	11.3	7.2	8.2	.	.	.
Base rate of NB % p.a., end of period	7.0	7.0	8.0	9.0	9.0	10.5	.	.	.
Current account, EUR mn ²⁾	-241.6	269.9	-848.1	-1525.3	-5355.2	3400	-6100	-4700	-4500
Current account in % of GDP	-0.9	0.8	-1.8	-2.4	-7.0	3.7	-6.8	-4.4	-3.9
Exports of goods, BOP, EUR mn ²⁾	11726.6	16581.0	22733.5	30880.8	35308.6	49400	42000	49100	54000
annual growth rate in %	10.4	41.4	37.1	35.8	14.3	40	-15	17	10
Imports of goods, BOP, EUR mn ²⁾	8466.3	11120.2	14442.2	19216.1	24288.4	26200	29300	32200	36100
annual growth rate in %	-0.6	31.3	29.9	33.1	26.4	8	12	10	12
Exports of services, BOP, EUR mn ²⁾	1517.4	1617.0	1790.1	2236.7	2596.0	3200	3400	3700	4200
annual growth rate in %	-7.0	6.6	10.7	25.0	16.1	25	5	10	13
Imports of services, BOP, EUR mn ²⁾	3325.6	4110.7	6021.2	6946.7	8490.5	8700	9000	9600	10600
annual growth rate in %	-11.3	23.6	46.5	15.4	22.2	2	3	7	10
FDI inflow, EUR mn ²⁾	1853.9	3345.6	1583.5	4958.2	7440.3	6795.1	.	.	.
FDI outflow, EUR mn ²⁾	-107.5	-1029.3	-117.2	-308.7	2368.6	3057.8	.	.	.
Gross reserves of NB excl. gold, EUR mn ²⁾	3971	6810	5965	14525	11970	13711	.	.	.
Gross external debt, EUR mn	18341	24013	36643	56252	65436	77738	.	.	.
Gross external debt in % of GDP	67.1	69.1	79.9	87.8	86.0	85.5	.	.	.
Average exchange rate KZT/EUR	168.79	169.04	165.42	158.27	167.75	177.0	191.8	180.0	189.6
Purchasing power parity KZT/EUR, wiw ³⁾	52.92	59.95	68.78	81.45	91.40	111.1	.	.	.

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

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