

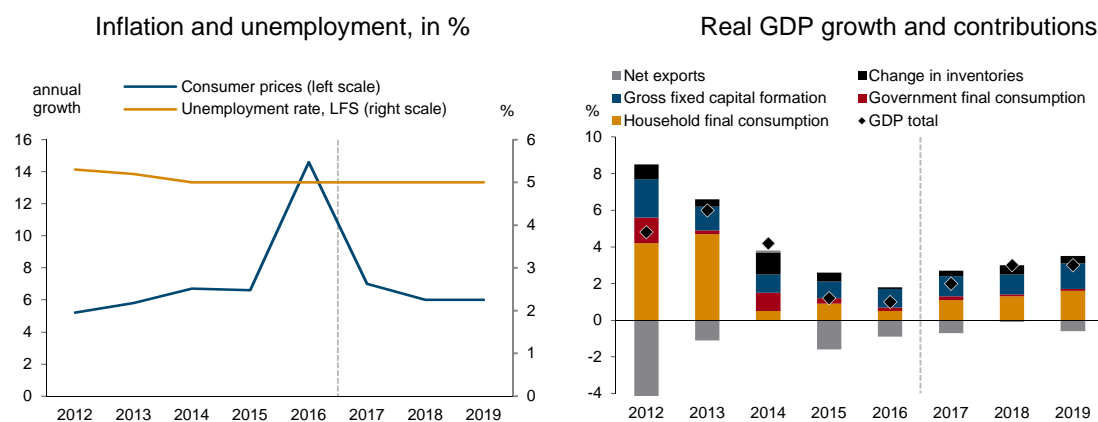


KAZAKHSTAN: Benefiting from higher oil prices

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Higher oil prices allowed for faster economic growth and stabilisation of the exchange rate at the end of 2016. Inflation has slowed and will likely stay within the target range of the national bank. GDP has been growing mainly on the back of investment, while consumer demand has been sluggish. Growth of the economy will accelerate during 2017-2019, but the growth rate will be lower than in the pre-2015 years – at 2-3% annually. Investment will continue to be the main driver of growth.

Figure 41 / Kazakhstan: Main macroeconomic indicators



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

Higher oil prices and the successful launch of the Kashagan oil field caused Kazakhstan's economic growth to accelerate in the last quarter of 2016. According to preliminary data, real GDP increased by 1% last year, while in the first nine months of 2016 growth was only 0.4%, year on year. Industrial production increased in the fourth quarter for the first time in two years, in both the mining and the processing industry. Kazakhstan's agreement with the Organisation of the Petroleum Exporting Countries (OPEC) to reduce its oil output by 20,000 barrels a day should have no significant impact on growth dynamics, as the decrease was calculated from the November 2016 level, when oil production was 8% (or about 120,000 barrels per day) higher than the average volume of oil production in 2016.

GDP has been growing primarily on the back of investment, while consumer demand has been sluggish: during the first nine months of 2016, household consumption increased by only 1% year on year. It appears that households have been using their savings and credit to finance consumption, as real household incomes declined during January-November 2016 by 4.7% year on year, and real wages fell for the second year in a row, down by 2% in 2016 compared with the previous year. In an attempt to address this issue, President Nazarbayev ordered a 20% rise in pensions and child support payments in 2017. However, a significant increase in social expenditure is unlikely in the near future, as the government is committed to the plan for fiscal consolidation, according to which the non-oil deficit will be reduced from about 11% in 2015 to 7% in 2020. Real wages are expected to bounce back and start rising again in 2017 as industrial production recovers, but growth will most likely be modest during the forecast period. Gross fixed capital formation has been much more dynamic than consumption – in the first nine months of 2016, it expanded by 4% year on year. Fiscal policy has been supportive of investment growth, as the counter-cyclical fiscal stimulus package 'Nurly Zhol' (Path to the Future) has helped bolster activity in housing, construction and transport infrastructure. As a result, construction experienced the fastest growth in the economy – up 6.9% year on year during the first nine months of 2016. In addition, foreign direct investment (FDI) picked up significantly in 2016 to account for about one third of investment. The bulk of FDI has traditionally gone into oil extraction and geological exploration (around 56% of total FDI in the first half of 2016); the second biggest recipient was the metal industry (around 13%).

Merchandise exports dropped by about 20% in 2016, due to weak external demand for commodities and sluggish performance by the country's main trading partners. Merchandise imports declined similarly rapidly as a consequence of the sharp depreciation of the tenge and anaemic consumer demand. We forecast that both exports and imports will bounce back in 2017, but export growth will be higher, as the oil price is expected to stay at the level of about USD 55 per barrel, up by more than 20% compared to the average 2016 level. During 2018-2019, the growth of imports will outstrip that of exports on the back of robust investment demand and the recovery of private consumption.

In recent months, higher oil prices have allowed stabilisation of the KZT/USD exchange rate and a gradual restoration of confidence in the domestic currency. The share of forex deposits in total deposits of households decreased to 62% at the end of 2016, down 4.6 percentage points (pp) compared with September 2016. Inflationary pressures have eased as the exchange rate has stabilised. As a result, the year-on-year consumer price index (CPI) fell to 7.8% in January 2017, which is within the limits of the target range of the national bank. We expect the inflation deceleration to ease as the base effect fades, and CPI to remain in the target range of 6-8% during 2017-2019. The policy rate is likely to be adjusted more gradually than in 2016, when it was cut by 5 pp to 12% in just eight months. We forecast that it will be down to 9% by the end of 2019.

The banking system remains a major bottleneck for Kazakhstan's economy. Though banks' liquidity positions have improved as confidence in the tenge has gradually begun to recover, lending remains subdued – in 2016, loan stocks increased by only 1.5% year on year. Banks are cautious in the light of low growth, declining real incomes, risks of continuing depreciation and low quality of existing assets. The officially reported level of non-performing loans (NPL) is relatively low (6.7% at the end of 2016), but it appears that a higher share of assets in the balance sheets could be non-performing. The Kazakh government announced plans to transfer KZT 2 trillion (about USD 6 billion) from the National

Wealth Fund to the Problem Loan Fund to help clean up bad loans from banks' balance sheets. This amounts to more than 15% of the total loan stocks in the country and is a sign that bad assets are much higher than the NPL statistics suggest. According to the latest Moody's report, there was a rise in problem loans in 2016 to 37% of total loans among the rated banks, and Kazakh banks will continue to face solvency risks over the next 12-18 months. The National Bank of Kazakhstan has been supporting banks through the placement of state deposits and subsidised lending programmes, but recognition of loan losses and increase in capital has yet to be accomplished. Consolidation of the banking sector is likely in the next years, as banks will have to come up with additional capital.

Political uncertainty has been growing in Kazakhstan as the exit of President Nazarbayev becomes increasingly likely in the near future. Nazarbayev, who is now 76 years of age, has been in power for more than 25 years, and fears of a power struggle between the political elites are mounting. In order to reduce the chances of political turmoil, the president has proposed changes to the constitution, whereby some of his powers would be delegated to parliament: the president would have to consult parliament before putting forward a prime ministerial candidate for confirmation by parliamentary vote. Currently, Kazakhstan's prime minister is nominated by the president and approved by parliament. However, these changes are regarded as rather cosmetic, as parliament is controlled by the president's party Nur Otan. A greater redistribution of powers between the president, parliament and government would be needed to minimise the risks associated with the political succession.

Poor economic performance has been causing increasing public dissatisfaction with the government. Several protests have taken place across the country during 2016-2017, the most recent being a hunger strike by oil workers in protest against the suppression of the Confederation of Independent Trade Unions. The government has been very aggressive in suppressing the protests, denying permits to protest and jailing peaceful protesters. In addition, the Kazakh authorities have prosecuted independent journalists and activists, and have shut down or blocked access to particular websites in order to limit potential opposition. Given all these measures, the risk of nation-wide protests remains rather low.

Overall, Kazakhstan's economy will slowly recover from the period of low global oil prices, and GDP growth is expected to reach 2% in 2017. In 2018-2019, annual growth is expected to accelerate to 3%. The growth of household consumption will speed up only slightly – to 2-3% annually, a marked slowdown compared to the 10-12% recorded during 2010-2014. Investment will grow much faster – by 5-6% per annum, stimulated by government policies. Major risks to the forecast are a further depreciation of the currency, a crisis of the banking system and a turbulent political succession to the president. Recent sporadic social unrest is unlikely to grow, as the government has been suppressing it quite energetically.

Table 12 / Kazakhstan: Selected economic indicators

	2012	2013	2014	2015	2016 ¹⁾	2017 Forecast	2018 Forecast	2019
Population, th pers., average	16,791	17,035	17,289	17,544	17,800	18,100	18,350	18,600
Gross domestic product, KZT bn, nom.	31,015	35,999	39,676	40,884	45,732	50,400	55,000	59,500
annual change in % (real)	4.8	6.0	4.2	1.2	1.0	2.0	3.0	3.0
GDP/capita (EUR at PPP)	16,900	17,400	18,200	18,700	18,600	.	.	.
Consumption of households, KZT bn, nom.	13,659	17,617	18,806	21,492	24,900	.	.	.
annual change in % (real)	10.1	10.6	1.1	1.8	1.0	2.0	2.5	3.0
Gross fixed capital form., KZT bn, nom.	7,072	7,877	8,552	9,355	11,400	.	.	.
annual change in % (real)	9.9	5.5	4.4	4.2	4.5	5.0	5.0	6.0
Gross industrial production								
annual change in % (real)	0.7	2.5	0.3	-1.6	-1.1	2.0	3.0	3.0
Gross agricultural production								
annual change in % (real)	-17.8	11.7	1.0	3.4	5.5	.	.	.
Construction industry								
annual change in % (real)	3.1	3.5	4.6	4.4	7.9	.	.	.
Employed persons, LFS, th, average	8,507	8,571	8,510	8,624	8,610	8,650	8,690	8,730
annual change in % ²⁾	1.0	0.7	-0.7	1.3	-0.2	0.5	0.5	0.5
Unemployed persons, LFS, th, average	475	471	452	451	450	460	460	460
Unemployment rate, LFS, in %, average	5.3	5.2	5.0	5.0	5.0	5.0	5.0	5.0
Reg. unemployment rate, in %, end of period	0.4	0.3	0.4	0.4	0.4	.	.	.
Average monthly gross wages, KZT ³⁾	101,263	109,141	121,021	126,021	142,351	155,400	169,700	185,300
annual change in % (real, gross)	7.0	1.9	3.9	-2.4	-1.4	2.0	3.0	3.0
Consumer prices (HICP), % p.a.	5.2	5.8	6.7	6.6	14.6	7.0	6.0	6.0
Producer prices in industry, % p.a.	3.5	-0.3	9.5	-20.5	16.8	10.0	5.0	2.0
General governm.budget, nat.def., % of GDP								
Revenues	18.7	17.7	18.5	18.7	20.4	19.0	19.0	18.5
Expenditures	21.6	19.7	21.2	20.9	22.0	20.7	20.6	19.5
Deficit (-) / surplus (+)	-2.9	-1.9	-2.7	-2.2	-1.6	-1.7	-1.6	-1.0
Public debt, nat.def., % of GDP	12.7	12.6	14.6	22.7	25.7	24.0	23.0	22.0
Stock of loans of non-fin.private sector, % p.a.	13.4	13.4	7.2	4.7	1.5	.	.	.
Non-performing loans (NPL), in %, Dec	28.2	31.2	23.5	8.0	7.0	.	.	.
Central bank policy rate, % p.a., end of period ⁴⁾	5.5	5.5	5.5	16.0	12.0	11.0	10.0	9.0
Current account, EUR mn ⁵⁾	823	894	4,483	-4,929	-7,385	-3,700	-3,100	-4,000
Current account in % of GDP ⁵⁾	0.5	0.5	2.7	-3.0	-6.1	-2.4	-1.9	-2.2
Exports of goods, BOP, EUR mn ⁵⁾	67,629	64,435	60,440	41,961	33,657	42,800	47,100	50,400
annual change in %	10.5	-4.7	-6.2	-30.6	-19.8	27.0	10.0	7.0
Imports of goods, BOP, EUR mn ⁵⁾	37,954	38,244	33,162	30,523	25,123	28,900	30,900	33,700
annual change in %	30.9	0.8	-13.3	-8.0	-17.7	15.0	7.0	9.0
Exports of services, BOP, EUR mn ⁵⁾	3,756	3,988	4,981	5,782	5,767	6,800	7,300	7,800
annual change in %	20.5	6.2	24.9	16.1	-0.3	18.0	7.0	7.0
Imports of services, BOP, EUR mn ⁵⁾	9,925	9,379	9,721	10,403	10,101	11,600	12,200	13,200
annual change in %	25.9	-5.5	3.6	7.0	-2.9	15.0	5.0	8.0
FDI liabilities, EUR mn ⁵⁾	10,618	7,536	5,336	5,940	15,629	.	.	.
FDI assets, EUR mn ⁵⁾	1,394	1,488	1,749	2,881	2,680	.	.	.
Gross reserves of NB excl. gold, EUR mn	16,665	13,940	17,920	18,555	18,832	.	.	.
Gross external debt, EUR mn ⁵⁾	103,150	109,137	129,328	140,517	141,700	159,900	161,500	163,200
Gross external debt, % of GDP ⁵⁾	63.7	61.3	77.6	84.5	117.3	104.7	96.9	90.5
Average exchange rate KZT/EUR	191.67	202.09	238.10	245.80	378.63	330	330	330

1) Preliminary and wiiw estimates. - 2) wiiw estimate in 2012 due to census March 2009. - 3) Excluding small enterprises, engaged in entrepreneurial activity. - 4) From 2015 one day (overnight) repo rate, refinancing rate of NB before. - 5) Converted from USD.

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