

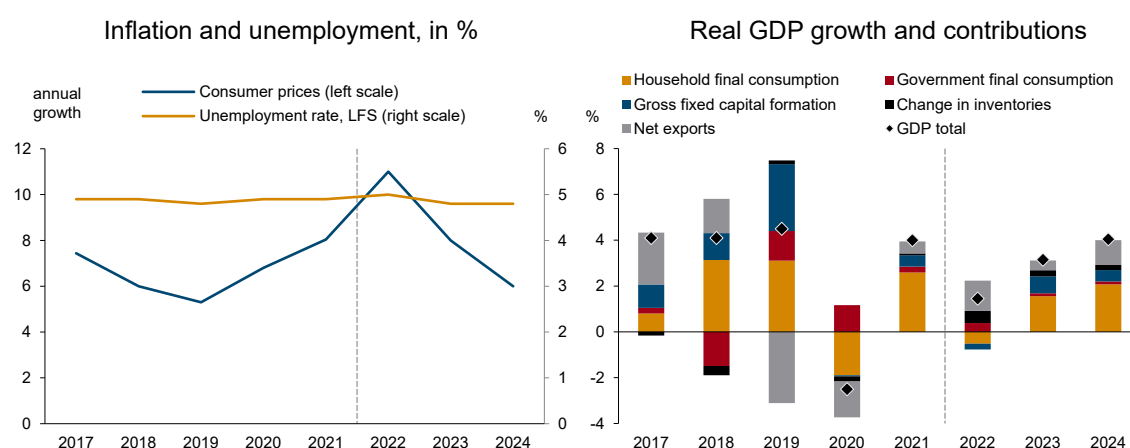


KAZAKHSTAN: Challenges ahead

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Recession in Russia will drag down Kazakhstan's economic performance in 2022. Inflation will accelerate on the back of high global food and energy prices, as well as high imported inflation from Russia. At the same time, elevated global commodity prices will have a beneficial impact on exports and tax revenues, and we expect net exports to make a positive contribution to economic growth. We have revised our real GDP growth forecast in the baseline scenario down to 1.5% for 2022 and 3.2% for 2023.

Figure 4.9 / Kazakhstan: Main macroeconomic indicators



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

Due to Kazakhstan's strong trade, investment and production linkages with Russia, the contagion from a deep recession in Russia will negatively affect the country's economic growth in 2022. Kazakhstan's imports from Russia amounted to 42.1% of its total imports, or 9.1% of GDP in 2021, the second-largest figure in CESEE (after Belarus). The import structure points to a mixture of consumer goods (41%), intermediate goods (31%) and capital goods (21%). Its reliance on Russia for exports is less pronounced: 11.5% of total exports go to Russia – primarily minerals (28%), metals (28%) and chemical products (14%).³⁰ Sanctions-related distortions to production in some economic sectors in Russia are likely to disrupt imports to Kazakhstan, and we expect a reduction in volume and an increase in import prices. The latter is likely to be only partly offset by a tenge appreciation against the rouble. A partial diversion of imports from other trading partners, such as South Korea or China, as occurred in 2020, is possible, but is likely to push up costs. For example, pharmaceuticals and some food imports from Russia are generally much cheaper than from other countries. Amid already high

³⁰ Data on trade structure are based on UN COMTRADE statistics for 2019.

global energy and food prices, the war in Ukraine is contributing substantially to rising input prices, disruptions in logistics, raw material shortages and uncertainty in Kazakhstan – all of which dragged the manufacturing Purchasing Managers' Index (PMI) down from 50.1 in February to 46.8 in March 2022. We expect the impact of the distortions on production to be amplified along the value chain, and therefore to have a strongly negative impact on the domestic economy. Against this background, we anticipate that real investment and consumption will decline in 2022 and rebound next year. We expect real GDP growth to return to long-term averages of above 4% in 2024, especially thanks to the impetus it will receive from the planned expanded oil production in the Tengiz oil field.

Kazakhstan abstained from supporting the Russian invasion of Ukraine, which has helped it avoid sanctions and will likely cushion the negative impact on its economy. The country is seeking to avoid any involvement with the Russian invasion of Ukraine and to stick to its neutral stance, along with China and other Central Asian countries. This balanced approach is in keeping with its traditionally pragmatic multi-vector foreign policy. According to recent official statements, Kazakhstan sees no obligation to support Russia in the current situation either as a member of the Collective Security Treaty Organization or as a member of the Eurasian Economic Union. Official statements have also confirmed a strategy intended to prevent Kazakhstan from being used as a back door to circumvent sanctions imposed on Russia – helpful in protecting the economy against direct sanctions.³¹ The US has already confirmed that Kazakhstan's oil exports will not be sanctioned, even though they are transported through a pipeline across Russian territory.³² Economic linkages – such as the strong market presence of US oil companies, the fact that by the end of 2020 more than 75% of foreign direct investment inward stocks came from the EU and the US, and the high share of EU countries in Kazakhstan's total exports (38.5% in 2021) – are all arguments in favour of maintaining a balanced position.

Oil sector revenues, which are crucial to economic performance, are heavily exposed to geopolitical risks; that increases the uncertainty for both export revenues and the economic outlook. A major risk is the fact that 80% of oil exports are transported via the Caspian pipeline across Russian territory, to be loaded onto tankers in the port of Novorossiysk, with limited opportunity for alternative routes to be used. Reported damage to the loading facilities on 22 March, supposedly caused by a storm, will lead to the disruption of oil production and exports. With the recently reported daily drop in Kazakhstan's production of around 25%,³³ and assuming that the damage to the port facilities takes up to two months to repair,³⁴ we envisage a substantial reduction in oil exports in physical terms. Therefore, despite the anticipated easing of OPEC+ production restrictions and the expected high global oil prices, the revenues of the National Oil Fund and the budget will not be as great as one would have imagined. A non-negligible downside risk to projected export growth stems from possible restrictions on oil transport from the Russian side.

³¹ <https://www.euractiv.com/section/central-asia/interview/kazakh-official-we-will-not-risk-being-placed-in-the-same-basket-as-russia/>; https://tengrinews.kz/kazakhstan_news/eto-nevozmojno-tleuberdi-o-voyskah-odkb-v-dnr-i-lnr-462558/ (in Russian); <https://vlast.kz/novosti/49411-kazahstan-ne-dolzen-ispolzovatsa-dla-obhoda-antirossijskih-sankcij-mid.html> (in Russian)

³² <https://home.treasury.gov/policy-issues/financial-sanctions/faqs/1020>

³³ <https://inbusiness.kz/ru/last/sutochnaya-dobycha-nefti-v-kazahstane-upala-na-25> (in Russian)

³⁴ <https://www.cpc.ru/EN/press/releases/2022/Pages/20220328.aspx>; <https://tass.com/economy/1425875> (in Russian)

The impact of high global commodity prices is mixed: on the one hand, export revenues will rise; but on the other hand, inflation will pick up. However, this will partly be mitigated by price controls.

For Kazakhstan's exports, which are dominated by commodities, an increase in global prices immediately boosts fiscal revenues. Leaving aside the problems with oil exports mentioned above, an increase in the export of other commodities (also in physical terms) is to be expected. With only a slight decline in exports, but a sharp fall in imports in real terms, we anticipate that net exports will make a positive contribution to economic growth in 2022. On the other hand, rising global fuel and food prices are likely to precipitate inflation. The monthly CPI rose to 3% in March (from 0.9% in February), reflecting a mix of imported inflation from Russia, the depreciation of the tenge and a spike in global commodity prices – the food sub-component of the CPI surged by 5.8%. However, following protests in January, fuel prices in Kazakhstan are subject to price controls until the middle of the year; and due to its social importance, the policy measure is likely to be prolonged, so that it will restrain inflation.

Apart from inflation, the war in Ukraine has other negative economic implications for Kazakhstan's economy: instability of the national currency, distortions in logistics and risks to the banking sector from the subsidiaries of those Russian banks under sanctions.

The spike in inflation in March was partly due to the drastic tenge depreciation against the US dollar, following the Russian invasion of Ukraine – 17% by mid-March. This comes despite rising oil prices and a 16% appreciation of the tenge against the rouble, as the tenge is dependent on the rouble, given Kazakhstan's high share of imports and its large trade deficit with Russia (USD 10bn in 2021). In response, the central bank hiked interest rates from 10.25% to 13.5% on 28 February and reportedly carried out interventions amounting to USD 990.5m to support the tenge. However, reserves had declined by only USD 310m (0.9%) by the end of March, relative to the end of February, due to the mitigating impact of a growth in the global price of gold and the bank's selling of some gold (which still makes up 69% of all reserves). This helped to maintain reserves at an adequate level (18.3% of GDP). Despite a recent rebound in the exchange rate, as of 7 April (this publication's cut-off date) the tenge had lost 7% of its value against the dollar, relative to the start of the year. The considerable volatility of the national currency remains a risk for economic performance. Moreover, credit growth is likely to slow in the context of high interest rates. Additionally, sanctions on Russian banks could affect the operations of three subsidiaries of Sberbank, VTB and Alfa-Bank in Kazakhstan, which at the end of February 2022 had market shares in total assets of 9.7% (the country's second-largest bank), 2.4% and 0.9%, respectively. However, according to the regulator, there is no risk to the stability of the banking system in the country generally, as there is adequate capital and liquidity.³⁵ The Alfa-Bank subsidiary in Kazakhstan is reportedly seeking a change of ownership, in order to avoid sanctions.³⁶ Finally, as a transit country, Kazakhstan will suffer from the decline in the transport of goods through Russia and Ukraine to the EU. This affects, in particular, connections between China and the EU. The transport of its own imports and exports has reportedly already been subject to some disruption from the sanctions against Russian ports, and alternative routes have driven up transport costs.

A new import substitution package will be implemented, but we expect any positive impact on domestic production to be visible only in the medium term. A new government anti-crisis package ('industrialisation map') was recently announced to stimulate import substitution. It amounts to 15% of GDP over the next few years, with investments of 1.5% of GDP in 2022. Altogether, it will seek to implement 444

³⁵ <https://www.gov.kz/memleket/entities/ardfm/press/news/details/353345?lang=ru> (in Russian).

³⁶ <https://kapital.kz/finance/104498/v-al-fa-bank-kazakhstan-planiruyet-sya-smena-aktsonera.html> (in Russian)

projects and create 88,000 new jobs. As just 90 projects and 11,000 new jobs are envisaged for this year, we expect only a small fillip to economic growth in 2022, with a stronger impact in the medium term. Production disruptions in Russia may have an additional positive impact on Kazakhstan, as the domestic automotive manufacturing sector could expand. The relocation of companies and skilled workers from Russia to Kazakhstan may likewise boost economic growth and exports.

On the negative side, high inflation and the economic slowdown could undermine wage and income growth and the progress of social reforms. After the January protests, President Tokayev consolidated his political power, and several members of the Nazarbayev family gave up their leading positions in key state-owned enterprises. This has fuelled expectations of a more active fight against corruption and rent-seeking, of more transparency in the state sector, of the greater social orientation of economic policy and of political reforms. However, we expect the budget deficit to grow only slightly to 3.5% of GDP in 2022 with a gradual decline to 2% of GDP in 2024. Despite adequate fiscal space being available for anti-crisis measures (thanks to National Oil Fund assets of around 30% of GDP), we expect no major changes to fiscal policy and no additional large social-support packages, due to the high inflationary pressure. Moreover, even the anticipated growth in wages, following a 41% hike in the minimum wage, is likely to be substantially distorted by higher inflation.

Given the balance of negative and positive drivers, we expect a sharp slowdown in the baseline scenario in 2022, but not yet a recession. Our forecasts for real GDP have been revised downwards by 2.7 pp (to 1.5%) in 2022, and by 1.2 pp (to 3.2%) in 2023. The coronavirus pandemic and the slowdown by the country's main trading partners remain downside risks to the forecast. In the event of tougher sanctions against Russia and its energy exports, we assume that much higher inflation could lead to a sharper decline in real incomes and could inhibit consumption and investment. Higher oil prices are unlikely to fully offset these negative effects, given the geopolitical risks associated with oil transport volumes.

Table 4.9 / Kazakhstan: Selected economic indicators

	2018	2019	2020	2021 ¹⁾	2022	2023	2024
					Forecast		
Population, th pers., average	18,276	18,514	18,756	19,003	19,200	19,400	19,700
Gross domestic product, KZT bn, nom.	61,820	69,533	70,649	81,269	93,200	100,900	109,200
annual change in % (real)	4.1	4.5	-2.5	4.0	1.5	3.2	4.0
GDP/capita (EUR at PPP)	17,740	18,690	17,880	18,790	.	.	.
Consumption of households, KZT bn, nom.	31,514	35,571	36,661	41,600	.	.	.
annual change in % (real)	6.1	6.1	-3.7	5.0	-1.0	3.0	4.0
Gross fixed capital form., KZT bn, nom.	13,091	16,318	17,463	20,100	.	.	.
annual change in % (real)	5.4	13.8	-0.2	2.0	-1.0	3.0	2.0
Gross industrial production							
annual change in % (real)	4.4	4.1	-0.5	3.8	2.0	3.0	4.0
Gross agricultural production							
annual change in % (real)	3.5	-0.1	5.7	-2.4	.	.	.
Construction industry							
annual change in % (real)	4.6	13.2	11.6	7.6	.	.	.
Employed persons, LFS, th, average	8,695	8,781	8,732	8,803	8,760	8,850	8,970
annual change in %	1.3	1.0	-0.6	0.8	-0.5	1.0	1.3
Unemployed persons, LFS, th, average	444	441	449	451	460	450	450
Unemployment rate, LFS, in %, average	4.9	4.8	4.9	4.9	5.0	4.8	4.8
Reg. unemployment rate, in %, eop	1.0	1.1	1.5	1.1	.	.	.
Average monthly gross wages, KZT ²⁾	162,673	186,815	213,003	249,210	279,400	307,800	336,100
annual change in % (real, gross)	1.7	9.1	6.8	8.3	1.0	2.0	3.0
Consumer prices, % p.a.	6.0	5.3	6.8	8.0	11.0	8.0	6.0
Producer prices in industry, % p.a.	19.0	5.1	-8.0	32.5	25.0	3.0	2.0
General governm. budget, nat.def., % of GDP							
Revenues	17.5	18.3	20.6	19.5	18.0	19.0	20.0
Expenditures	18.8	20.2	24.5	22.6	21.5	21.5	22.0
Deficit (-) / surplus (+)	-1.3	-1.8	-4.0	-3.1	-3.5	-2.5	-2.0
General gov. gross debt, nat.def., % of GDP	26.0	24.9	30.5	28.5	29.0	29.0	28.5
Stock of loans of non-fin. private sector, % p.a.	3.0	5.9	5.5	26.5	.	.	.
Non-performing loans (NPL), in %, eop	7.4	8.1	6.9	3.3	.	.	.
Central bank policy rate, % p.a., eop ³⁾	9.25	9.25	9.00	9.75	13.00	10.00	9.00
Current account, EUR m ⁴⁾	-106	-6,427	-5,756	-4,850	-500	-1,900	-2,300
Current account in % of GDP	-0.1	-4.0	-3.8	-3.0	-0.3	-1.0	-1.2
Exports of goods, BOP, EUR m ⁴⁾	50,712	51,953	41,437	51,014	62,500	63,700	67,500
annual change in %	21.1	2.4	-20.2	23.1	22.5	1.9	6.0
Imports of goods, BOP, EUR m ⁴⁾	29,030	35,759	32,426	33,535	36,500	39,000	42,100
annual change in %	7.3	23.2	-9.3	3.4	8.8	6.8	7.9
Exports of services, BOP, EUR m ⁴⁾	6,205	6,926	4,423	4,916	3,600	3,800	4,000
annual change in %	7.8	11.6	-36.1	11.1	-26.8	5.6	5.3
Imports of services, BOP, EUR m ⁴⁾	10,156	10,199	7,149	6,480	7,100	7,400	7,800
annual change in %	13.8	0.4	-29.9	-9.4	9.6	4.2	5.4
FDI liabilities, EUR m ⁴⁾	299	3,332	6,302	3,704	.	.	.
FDI assets, EUR m ⁴⁾	-3,933	-1,941	1,194	2,263	.	.	.
Gross reserves of CB excl. gold, EUR m ⁴⁾	14,460	9,004	9,827	9,586	.	.	.
Gross external debt, EUR m ⁴⁾	139,732	142,125	133,807	146,067	154,000	155,000	156,000
Gross external debt, % of GDP	91.9	87.6	89.3	90.6	87.0	83.0	78.0
Average exchange rate KZT/EUR	406.66	428.51	471.44	503.88	526	538	549

1) Preliminary and wiiw estimates. - 2) Excluding small enterprises, engaged in entrepreneurial activity. - 3) Base rate (overnight repo rate as a target). - 4) Converted from USD.

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