

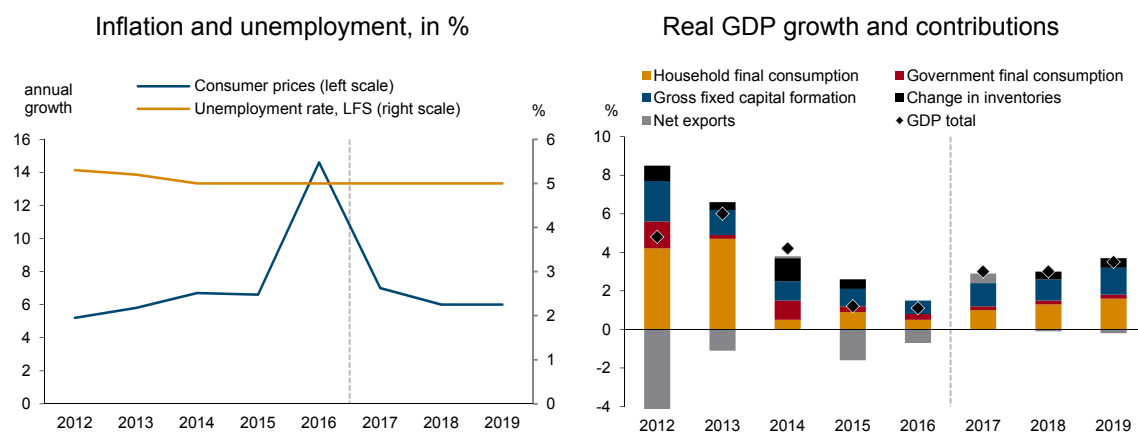


KAZAKHSTAN: Economy accelerates on the back of booming oil sector

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Strong industry performance accounts for a speeding-up of economic growth in 2017. The oil sector is benefiting from output expansion, higher prices and increased external demand. Real household income has been in decline, and private consumption growth is financed primarily through bank loans. The government is adopting measures to achieve fiscal consolidation and revive the banking sector.

Figure 38 / Kazakhstan: Main macroeconomic indicators



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

Kazakhstan's economy is gathering speed. According to preliminary data, GDP increased by 4.3% year on year in the first half of 2017, with goods production contributing more than 60% to growth. In particular, oil production has been on the rise after the start of operation of the Kashagan oil field last year. In January-August 2017, oil extraction increased by 12.2% year on year. Increased supply together with more favourable external demand conditions and higher prices have allowed revenues from export of oil to rise considerably – by more than 40% in USD terms during January-July 2017 as compared with the same period last year. Production in manufacturing also picked up (by 6.1% year on year), mainly on the back of metallurgy, which contributed to more than half of total manufacturing growth during that period. The industry is benefiting from increased external demand for metals, which allowed boosting metals exports by 47% in USD terms during January-July 2017 as compared with the same period last

year. Other industries that are experiencing a revival are oil processing, machinery and equipment, and textiles and clothing.

The services sectors have been lagging behind industry. In the first half of 2017, value added in services increased only by 2.4% year on year. The financial services sector was one of the most anaemic with a mere 0.8% growth, reflecting the ongoing issues in the banking system. The transport sector benefited from the export surge and demonstrated the highest growth in value added among the services sectors – 3.9% year on year. The share of services in GDP has been in decline since the previous year and was at 56.5% in the first half of 2017, 1.3 p.p. lower than in 2016; the share of the mining industry was on the rise instead. Given the government's significant efforts to revamp the banking system and to stimulate the restructuring of the economy, in particular to decrease its dependency on the oil sector, these developments are likely to be a temporary setback.

In terms of expenditures, growth continues to be driven by investment and net exports.

Investment is on the rise owing to the supportive fiscal policy, in particular the 'Nurly Zhol' programme, which has provided funding to infrastructure projects, SMEs support, and construction. Government funds accounted for 15.4% of total sources of investment financing in June-August 2017, up by 1.9 p.p. relative to the same period of 2016. The trade surplus has been increasing, as import growth is slower than that of exports due to still lasting effects of the sharp depreciation of the national currency at the end of 2015-beginning of 2016. Though the Kazakh tenge has regained some of its value with respect to the US dollar recently, consumers' ability to buy imports remains subdued – the average wage in the first half of 2017 was still 20% lower in USD terms than in 2015.

Household income has been declining in real terms for the second year in a row regardless of the overall positive economic dynamics.

In January-June 2017, real household income was 1.3% lower than during the same period of 2016. Still, private consumption has been experiencing some growth, which is primarily financed by bank loans. Newly issued consumer loans increased during January-June 2017 by 57% relative to the same period of the previous year and accounted for about 15% of total nominal household income. This is a worrying sign, pointing to risks to sustainability of consumption growth as well as to the quality of the banks' loan portfolios.

The ability to support wage growth through fiscal expenditures will be limited as the government is pursuing fiscal consolidation in an effort to decrease the non-oil budget deficit and cut down on the use of the National Oil Fund resources. Unwinding of the fiscal stimulus is expected to be gradual to minimise its impact on growth. The guaranteed transfer from the National Fund (currently at KZT 2.9 trillion or about USD 8.8 billion) will decline to KZT 2 trillion (about USD 6 billion) by 2020 to reduce oil revenue dependence. The non-oil budget deficit should decrease from 8.3% of GDP in 2016 to 7% of GDP by 2020 and 6% of GDP by 2025. The government is working on new Customs and Tax Codes in order to reduce costs of doing business and expand the taxation base, which should help to increase non-oil revenues.

The government is determined to provide substantial support to the ailing banking sector. The sector still has not recovered from the consequences of the 2008 crisis, and non-cleansed balance sheets have been a bottleneck to credit expansion. In January-August 2017, regardless of the positive consumer loans dynamics, newly issued loans to corporate clients decreased by 8% year on year; the total stock of loans in August 2017 was only 2.9% higher than a year before. The National Bank of

Kazakhstan announced to allocate KZT 500 billion (about USD 1.5 billion) to help banks recapitalise starting from August 2017. According to the conditions of the programme, the bank shareholders will have to add their own capital to the funds loaned by the National Bank (at least one third of additional capital should be from own sources) and provide a detailed plan of actions to improve banks' sustainability. It appears that in anticipation of the programme banks have already started to reveal non-performing loans hidden in their balance sheets – on 1 August, the share of NPLs in total loans was at 12.8%, 6 p.p. higher than at the beginning of the year.

Stronger industry performance makes us revise upward the forecast of GDP growth in 2017 – to 3%. The oil sector will continue to be a major determinant of economic developments as the impact of the economic restructuring programmes is likely to take effect only in the medium to longer run. As oil prices are expected to remain stable over the forecasting period, GDP growth will remain at 3-3.5% in 2018-2019. Consumption of households will continue to grow at a slower pace than investment during the forecast period. Imports will be gradually gaining momentum as consumers' purchasing power will be increasing and investment projects will require increased imports of machinery and equipment.

Table 13 / Kazakhstan: Selected economic indicators

	2013	2014	2015	2016 ¹⁾	2016 January-June	2017	2017 Forecast	2018 Forecast	2019
Population, th pers., average	17,035	17,289	17,544	17,794	17,733	17,976	18,100	18,350	18,600
Gross domestic product, KZT bn, nom.	35,999	39,676	40,884	46,971	19,357	20,936	52,700	57,500	62,500
annual change in % (real)	6.0	4.2	1.2	1.1	0.1	4.2	3.0	3.0	3.5
GDP/capita (EUR at PPP)	17,500	18,200	18,700	18,900	.	.	.	.	.
Consumption of households, KZT bn, nom.	17,617	18,806	21,492	24,550	.	.	.	.	.
annual change in % (real)	10.6	1.1	1.8	1.0	.	.	2.0	2.5	3.0
Gross fixed capital form., KZT bn, nom.	7,877	8,552	9,355	10,333	.	.	.	.	.
annual change in % (real)	5.5	4.4	4.2	3.0	.	.	5.5	5.0	6.5
Gross industrial production									
annual change in % (real)	2.5	0.3	-1.6	-1.1	-1.6	7.8	4.0	5.0	5.0
Gross agricultural production									
annual change in % (real)	9.7	1.0	3.4	5.4	3.0	3.1	.	.	.
Construction industry									
annual change in % (real)	3.5	4.6	5.8	7.4	6.6	5.9	.	.	.
Employed persons, LFS, th, average	8,571	8,510	8,624	8,553	8,437	8,498	8,600	8,640	8,680
annual change in %	0.7	-0.7	1.3	-0.8	-0.9	0.7	0.5	0.5	0.5
Unemployed persons, LFS, th, average	471	452	451	446	447	439	450	450	460
Unemployment rate, LFS, in %, average	5.2	5.0	5.0	5.0	5.1	4.9	5.0	5.0	5.0
Reg. unemployment rate, in %, eop	0.3	0.4	0.4	0.4	0.8	1.1	.	.	.
Average monthly gross wages, KZT ²⁾	109,141	121,021	126,021	142,898	138,185	145,108	156,000	170,300	185,900
annual change in % (real, gross)	1.9	3.9	-2.3	-1.1	-1.7	-2.4	2.0	3.0	3.0
Consumer prices (HICP), % p.a.	5.8	6.7	6.6	14.6	15.8	7.6	7.0	6.0	6.0
Producer prices in industry, % p.a.	-0.3	9.5	-20.5	16.8	11.9	20.9	12.0	5.0	2.0
General governm.budget, nat.def., % of GDP									
Revenues	17.7	18.5	18.7	19.8	21.4	23.9	19.0	19.0	18.5
Expenditures	19.7	21.2	20.9	21.4	23.7	24.4	20.7	20.4	19.7
Deficit (-) / surplus (+)	-1.9	-2.7	-2.2	-1.6	-2.4	-0.4	-1.7	-1.4	-1.2
Public debt, nat.def., % of GDP	12.6	14.6	22.7	25.0	23.2	23.0	24.0	23.0	22.0
Stock of loans of non-fin.private sector, % p.a.	13.4	7.2	4.7	0.3	26.1	0.3	.	.	.
Non-performing loans (NPL), in %, eop	31.2	23.5	8.0	6.7	7.9	10.7	.	.	.
Central bank policy rate, % p.a., eop ³⁾	5.5	5.5	16.0	12.0	15.0	10.5	10.25	9.75	9.00
Current account, EUR mn ⁴⁾	894	4,621	-4,632	-8,066	-3,557	-2,720	-3,700	-2,400	-2,800
Current account in % of GDP ⁴⁾	0.5	2.8	-2.8	-6.5	-7.1	-4.5	-2.8	-1.7	-1.8
Exports of goods, BOP, EUR mn ⁴⁾	64,435	60,440	41,961	33,673	15,322	21,627	38,800	42,700	45,700
annual change in %	-4.7	-6.2	-30.6	-19.8	-31.2	41.2	15.0	10.0	7.0
Imports of goods, BOP, EUR mn ⁴⁾	38,244	33,162	30,530	25,366	11,360	13,732	26,200	28,000	30,000
annual change in %	0.8	-13.3	-7.9	-16.9	-26.7	20.9	3.0	7.0	7.0
Exports of services, BOP, EUR mn ⁴⁾	3,988	4,981	5,842	5,699	2,779	2,858	5,400	5,700	6,100
annual change in %	6.2	24.9	17.3	-2.4	0.3	2.9	-5.0	6.0	7.0
Imports of services, BOP, EUR mn ⁴⁾	9,379	9,721	10,448	9,997	4,476	4,774	9,600	10,100	10,900
annual change in %	-5.5	3.6	7.5	-4.3	-2.7	6.6	-4.0	5.0	8.0
FDI liabilities, EUR mn ⁴⁾	7,536	5,437	5,568	15,340	6,914	4,171	8,300	.	.
FDI assets, EUR mn ⁴⁾	1,488	1,982	2,990	3,130	2,125	1,243	1,900	.	.
Gross reserves of NB excl. gold, EUR mn ⁴⁾	13,940	17,920	18,555	19,019	18,297	16,527	.	.	.
Gross external debt, EUR mn ⁴⁾	109,137	129,438	140,232	156,368	144,469	147,141	139,200	140,500	142,000
Gross external debt, % of GDP ⁴⁾	61.3	77.7	84.3	126.0	116.5	110.6	104.6	96.8	89.9
Average exchange rate KZT/EUR	202.09	238.10	245.80	378.63	385.76	344.64	396	396	396

1) Preliminary. - 2) Excluding small enterprises, engaged in entrepreneurial activity. - 3) From 2015 one day (overnight) repo rate, refinancing rate of NB before. - 4) Converted from USD.

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