KAZAKHSTAN: Full recovery in sight

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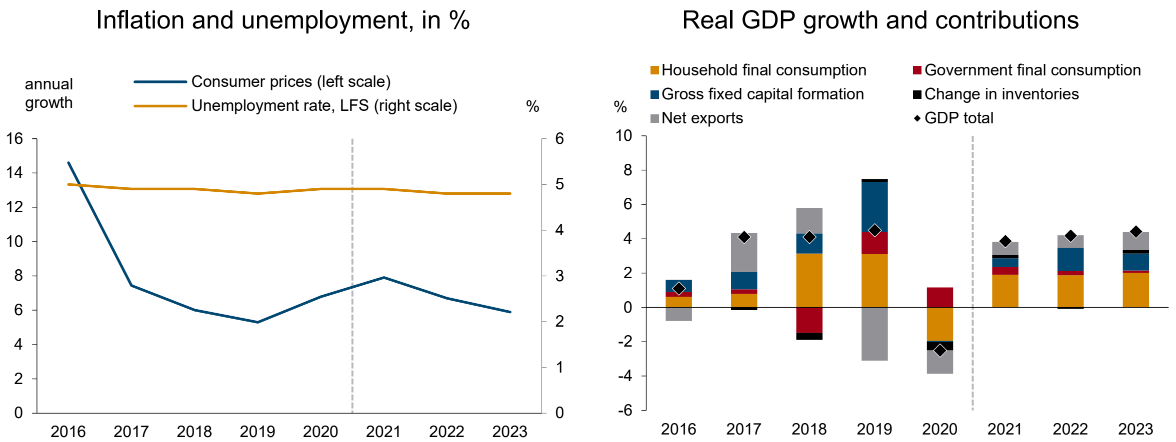
Economic revival is accelerating, with a full rebound to pre-pandemic performance in sight for this year. Rising consumer demand and new fiscal stimuli will support strong performance in the coming years, but inflationary pressure is re-emerging and is likely to persist next year. The forecasts for 2021 and 2022 have been revised upwards to 3.9% and 4.2%.

Figure 4.9 / Kazakhstan: Main macroeconomic indicators



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

Economic revival is more robust than previously expected, and indicators of sentiment are capturing positive expectations for the future. The economic recovery has been gaining momentum this year. After real GDP growth of 2.3%, year on year, in the first half year, the short-term indicator compiled by the national statistical office has suggested 3.9% annual growth for the first eight months of 2021.[27] The recovery is being driven by a positive performance in almost all the economic sectors that go to make up this indicator – apart from transportation, which is still in recession (-1.4%, year on year, over January-August 2021). In July, consumer confidence reached its highest level since 2018. Simultaneously, business expectations also point to rising demand. Hence, we expect a stronger recovery for this year and next than our summer projections suggested.

Manufacturing is likely to perform strongly, while the impact on mining of the easing of oil production cuts remains to be seen. While manufacturing grew by 5.6% over January-August 2021 (compared to the corresponding period of 2020), mining continued to decline (by 1.4%). We expect

[27] The short-term indicator used captures, on a monthly basis, the real output of the main economic sectors – agriculture, industry, construction, trade, transport and communications. Altogether, these account for more than 60% of GDP and have proved to be a good approximation of real GDP growth.

manufacturing to remain strong amid rising demand, with pharmaceuticals, machinery and food (meat) benefiting most. Moreover, manufacturing production will get an additional boost from two state support programmes – the Economy of Simple Things and the Business Road Map – which will be extended to next year, with allocated funding of around 1% of GDP (or USD 2.3bn). Thus, pandemic-induced anti-crisis measures to retain jobs and maintain production are evolving to fit the longer-term state goal of import substitution and diversification of production and export. To give an example, pharmaceuticals are evolving on the back of pandemic response measures: the total output of medical products is reportedly expected to meet 17% of domestic demand this year (up from 14% in 2019); the state target is 50% by 2025. Kazakhstan has even started producing its own vaccine against COVID-19 – QazVac. Unlike manufacturing, oil production posted an overall annual decline of 4% over the first eight months of 2021, but the relaxation of OPEC+ production cuts is likely to become more visible only later this year.

Despite the favourable global oil markets – with their high prices and growing demand – Kazakhstan's oil sector is likely to need another year to bounce back fully to its 2019 export level; but the medium-term prospects are favourable. Oil exports in dollar terms grew by only 2%, year on year, over the first seven months of 2021, reflecting a decline of 11.6% in volume and (surprisingly) an increase in value of only around 15%, despite global oil prices rising by over 60% over the same period. Nevertheless, we expect the recent relaxation of OPEC+ production cuts to result in positive annual real oil production for this year. The authorities also expect an increase in oil production in tonnes, which will result in 0.5% growth in 2021 and 3% in 2022. To sum up, both oil exports and overall goods exports are likely to reach their 2019 values (in dollar terms) only in 2022. On the other hand, if the Tengiz oil field completes its enlargement project in time and can start operating with expanded capacity in 2023, then the additional 10% increase in oil production will provide an impetus to economic growth over the medium term.

The performance of gross fixed investments has been mixed, reflecting the continued boom in construction and the decline in investment in the mining sector observed so far. Over January-August 2021, investment grew by 1%, compared to the same period of 2020, owing to the negative contribution of a 22% decline in mining (almost a third of all investments), which almost undid the booming investment in other sectors. The most dynamic growth in investment over the period was observed in construction (150%), manufacturing (80%) and agriculture (43%).

In the medium term, investment is expected to rise on the back of improvements in the mining sector and the continuing government housing and infrastructure programmes. We expect investment in mining to pick up later this year and in 2022, given the favourable global markets and the further growth in housing, transport, water and energy infrastructure construction, due to the priority given to these in the state support programmes for the coming years. Energy infrastructure projects will focus on renewable energy sources. The recent debate on the construction of nuclear power plants to achieve this goal has provoked a mixed public response. Instead of subsidising lending for housing (a programme that expires this year), a new support scheme is to be developed soon, to be managed by the Housing Construction Savings Bank of Kazakhstan. The use of excess pension fund savings for housing (started in 2021) will remain, and those funds will be handled via accounts with the above-mentioned bank.

Fiscal stimuli are likely to persist in the medium term, which will require changes in the public finance system. Traditionally, funding for fiscal packages has occurred through an increase in transfers from the National Oil Fund to the budget,[28] and an additional expansion of the budget deficit. To counteract the depletion of the National Oil Fund reserves, a budgetary rule is to be implemented. In order to cover the generous social fiscal support and meet the active industrial policy needs without swelling the budget deficit, the government envisages improving tax collection and introducing measures to control the volume and efficiency of budget expenditure by the end of 2021. However, amendments to the legislation, with specific measures, have yet to be drawn up. As a first step, it is likely that the collection of various taxes will be transferred to local authorities (after the transfer of the collection of tax on small and medium-sized enterprises netted an extra 25% in 2020).

Despite the ongoing health crisis and the reintroduction of regional containment restrictions, real private consumption growth in 2021 is likely to bounce back almost to 2019 levels, thanks to strong growth in real wages and a return of consumer credit growth. Retail trade recorded annual growth of 6.1% in real terms over the first eight months of 2021, despite restrictions being partially reimposed in several regions following a spike in coronavirus infections in July-August. Although trade has not yet reached the 2019 level, growth is expected to accelerate by the end of the year. Private consumption is supported by rising real wages and consumer lending. The labour market situation is improving. Real wages in the whole economy rose by 9% annually for the first half of the year (albeit unevenly across sectors). Larger gains are visible in finance, trade and communications, thanks to their robust performance; but also in health and education, which were targeted by state support. The cumulated volume of new credits for consumption was 50% higher in January-August 2021 than in the same period of pre-crisis 2019. Consumption growth will remain strong for the coming year, due to the ongoing recovery and the recently announced 50% hike in the minimum wage (from 42,500 to 60,000 tenge) and in public-sector salaries in 2022.

The high rate of inflation is unlikely to be brought under control by the end of this year. Against earlier expectations, the consumer price index picked up to reach 8.9%, year on year, in September 2021 – 1.7 percentage points (pp) above the year's lowest figure for annual inflation (7.2% in April). A rise in food prices in September (11.5% year on year) represented the main driver of annual inflation (a contribution of 4.5 pp). A combination of high global food prices, drought (which has affected domestic agriculture) and market inefficiencies (leading to an increase in the costs of distribution chains) lay behind the upwards trend. For month-on-month growth, the contribution of the food sub-component peaked in June, with a 0.7 pp contribution to the 1% monthly growth (monthly food inflation was far above what would normally be expected). Non-food and services inflation was almost totally responsible for the monthly inflation of 0.5% and 0.4% in August and September. The figures are exacerbated by the revival in demand, as well as by rising global commodity prices, an increase in transportation costs, imported inflation from the country's trading partners (Russia) and high fuel prices (which producers partly pass on to final goods).

Balancing the effects of inflation control measures and new fiscal stimuli, we expect only a gradual slowdown of inflation in the medium term. The central bank reacted with two policy rate hikes, each of 25 basis points, in July and September. Additional state measures to curb food prices are to be expected – especially price control along the value and distribution chains from producer to

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28 Those transfers are accounted on the revenue side of the budget; thus they do not augment the budget deficit.

consumer, aimed at creating greater competition and at avoiding additional costs through intermediation along the whole agri-food value chain. On the other hand, new fiscal measures to stimulate investment and consumption in the coming years will make the inflation-containment task more difficult. Additionally, the great uncertainty is related to the balance of global development factors. To sum up, we expect the fight against inflation to still be on the agenda in the years to come.

The low uptake of vaccination suggests that the health crisis will persist next year and will be a negative risk for recovery speed. As of 30 September, just 34.5% of the population of Kazakhstan was fully vaccinated, while an additional 5.7% had had a first dose. However, experience shows that any restrictions on economic activity are likely to be mitigated by additional fiscal support measures.

Given the better-than-expected economic performance, we have revised our forecasts for 2020 upwards. New fiscal stimuli and a full recovery in exports and investments are likely to support further high growth in the medium term. A full recovery in 2021 to the 2019 level is expected for the baseline scenario, and we have revised our real GDP growth forecasts for this year up by 0.4 pp – from 3.5% to 3.9%. Stronger-than-anticipated economic growth in many sectors and a recovery in private consumption (despite restrictions remaining) lie behind this revision. Along with a recovery in oil production and exports, the recently announced new fiscal stimuli for the coming years – consisting of an increase in wages and public investments – will be supportive of real GDP growth of above 4% for 2022 and 2023. An additional impetus to growth in 2023 will come from the expanded oil production in the Tengiz oil field. High inflation (expected to moderate only next year) remains a downside risk for 2021, along with possible fresh lockdowns on account of the low rate of vaccination. Higher-than-expected oil and commodity prices present an upside risk for the development of exports (although they are a downside risk in terms of bringing inflation under control).

Table 4.9 / Kazakhstan: Selected economic indicators

	2018	2019	2020 1)	2020 January-June	2021 January-June	2021 Forecast	2022 Forecast	2023 Forecast
Population, th pers., average	18,276	18,514	18,756	18,696	18,932	19,000	19,200	19,400
Gross domestic product, KZT bn, nom.	61,820	69,533	70,649	28,400	32,265	80,700	89,100	97,700
annual change in % (real)	4.1	4.5	-2.5	-1.8	2.4	3.9	4.2	4.4
GDP/capita (EUR at PPP)	17,740	18,480	18,020	.	.	.	.	.
Consumption of households, KZT bn, nom.	31,514	35,571	36,620	.	.	.	.	.
annual change in % (real)	6.1	6.1	-3.8	.	.	3.7	3.6	3.9
Gross fixed capital form., KZT bn, nom.	13,091	16,318	17,445	.	.	.	.	.
annual change in % (real)	5.4	13.8	-0.3	.	.	2.0	5.5	4.0
Gross industrial production								
annual change in % (real)	4.4	4.1	-0.5	3.1	1.5	2.9	3.8	4.5
Gross agricultural production								
annual change in % (real)	3.5	-0.1	5.7	3.0	3.2	.	.	.
Construction industry								
annual change in % (real)	4.6	13.2	11.6	11.2	11.9	.	.	.
Employed persons, LFS, th, average	8,695	8,781	8,732	8,749	8,793	8,820	8,950	9,070
annual change in %	1.3	1.0	-0.6	0.0	0.5	1.0	1.5	1.3
Unemployed persons, LFS, th, average	444	441	449	448	451	450	450	460
Unemployment rate, LFS, in %, average	4.9	4.8	4.9	4.9	4.9	4.9	4.8	4.8
Reg. unemployment rate, in %, eop	1.0	1.1	1.5	2.0	2.4	.	.	.
Average monthly gross wages, KZT 2)	162,673	186,815	213,003	206,184	241,187	244,300	271,100	297,100
annual change in % (real, gross)	1.7	9.1	6.8	9.2	9.0	6.3	4.0	3.5
Consumer prices, % p.a.	6.0	5.3	6.8	6.4	7.3	7.9	6.7	5.9
Producer prices in industry, % p.a.	19.0	5.1	-8.0	-8.6	22.3	25.0	3.0	3.0
General governm.budget, nat.def., % of GDP								
Revenues	17.5	18.3	20.6	24.9	22.5	18.0	18.5	19.0
Expenditures	18.8	20.2	24.5	27.7	26.0	21.5	21.1	21.0
Deficit (-) / surplus (+)	-1.3	-1.8	-4.0	-2.8	-3.5	-3.5	-2.6	-2.0
General gov.gross debt, nat.def., % of GDP	26.0	24.9	30.5	27.0	28.7	30.5	30.0	30.0
Stock of loans of non-fin.private sector, % p.a.	3.0	5.9	5.5	7.9	12.9	.	.	.
Non-performing loans (NPL), in %, eop	7.4	8.1	6.9	9.0	4.8	.	.	.
Central bank policy rate, % p.a., eop 3)	9.25	9.25	9.00	9.50	9.00	9.50	9.25	8.75
Current account, EUR m 4)	-117	-6,519	-5,681	451	-2,003	-4,600	-3,600	-3,600
Current account in % of GDP	-0.1	-4.0	-3.8	0.7	-3.2	-2.9	-2.0	-1.9
Exports of goods, BOP, EUR m 4)	50,712	51,953	41,437	23,826	22,332	48,500	51,700	54,800
annual change in %	21.1	2.4	-20.2	-6.1	-6.3	17.0	6.6	6.0
Imports of goods, BOP, EUR m 4)	29,030	35,759	32,426	15,018	14,547	32,900	35,200	37,400
annual change in %	7.3	23.2	-9.3	-3.7	-3.1	1.5	7.0	6.3
Exports of services, BOP, EUR m 4)	6,205	6,918	4,411	2,365	2,213	4,700	5,100	5,300
annual change in %	7.8	11.5	-36.2	-24.3	-6.4	6.5	8.5	3.9
Imports of services, BOP, EUR m 4)	10,156	10,238	7,126	3,982	2,794	6,600	7,200	7,500
annual change in %	13.8	0.8	-30.4	-15.9	-29.8	-7.4	9.1	4.2
FDI liabilities, EUR m 4)	71	3,322	6,488	4,386	1,995	4,200	.	.
FDI assets, EUR m 4)	-3,933	-1,944	1,183	617	546	1,200	.	.
Gross reserves of CB excl. gold, EUR m 4)	14,460	9,004	9,827	10,066	11,117	.	.	.
Gross external debt, EUR m 4)	139,732	141,596	133,159	141,966	140,046	141,000	142,500	143,000
Gross external debt, % of GDP	91.9	87.3	88.9	94.7	87.5	88.0	81.0	75.0
Average exchange rate KZT/EUR	406.66	428.51	471.44	444.89	511.27	504	507	513

1) Preliminary. - 2) Excluding small enterprises, engaged in entrepreneurial activity. - 3) One-day (overnight) repo rate. - 4) Converted from USD.

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