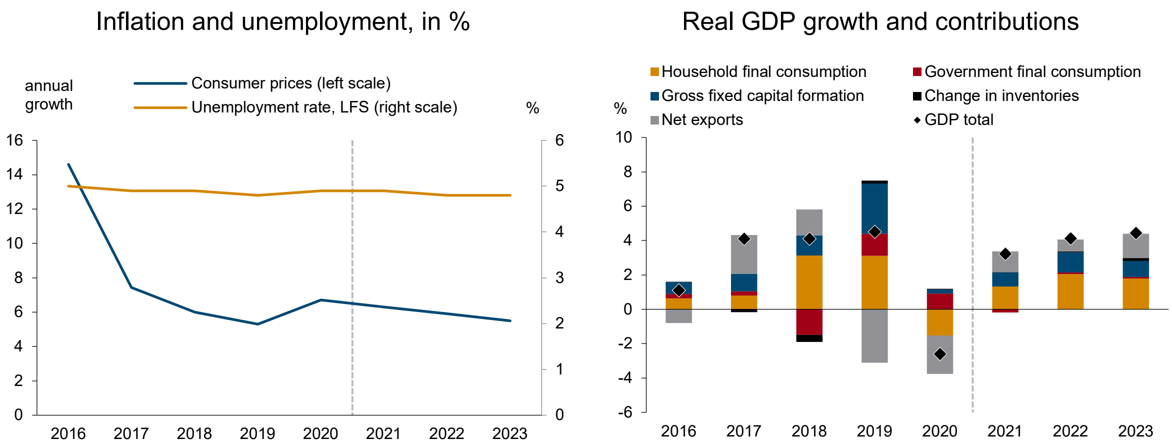
KAZAKHSTAN: Rapid recovery in doubt

ALEXANDRA BYKOVA

After a relatively moderate real GDP decline of 2.6% in 2020 (thanks to a large anti-crisis fiscal package), economic recovery of 3.2% is expected for 2021. Although the high price of oil could suggest a more robust economic revival, the remaining pandemic-related restrictions on economic activity and the slow vaccination rate will impede a full recovery in consumption this year. Economic growth is likely to accelerate to above 4% in 2022-2023, driven by consumption, exports and investment.

Figure 4.9 / Kazakhstan: Main macroeconomic indicators



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

Despite the adverse impact of the lockdowns, the decline in the price of oil and the oil production cut agreed by OPEC+, the recession in 2020 was relatively mild – thanks in part to the large fiscal stimulus. The annual real contraction in the economy of 2.6% in 2020 was mainly due to a 7.3% decline in trade and a 17.2% slump in transport and storage activities; together, these contributed 2.8 percentage points (p.p.) to the decline in real GDP. In addition, the mining sector contributed 0.6 p.p. to the fall – a result of the collapse in the oil price and the cut in oil production from May 2020, in compliance with the OPEC+ decision. Government support measures, such as subsidised loans and direct public orders, cushioned the effects of the recession and stimulated high annual growth in agriculture (5.6%), manufacturing (3.9%) and construction (11.2%); together, these contributed 1.6 p.p. to last year's economic performance. The anti-crisis measures taken under the government programme 'Economy of Simple Things' reinforced the import-substitution direction of government policy. This was especially visible in the way pharmaceutical production soared by 47% year on year in 2020.

The labour market impact of the pandemic was limited, thanks to specially targeted programmes that prevented a big spike in unemployment. While employment fell by 0.5% on an annual basis, more than 120,000 people were classified as inactive, leaving the unemployment rate almost unchanged at 4.9% in 2020, according to the Labour Force Survey. The labour market responded to the pandemic merely by reducing working hours and increasing part-time employment, which rose from 6.7% of total employment in 2019 to 8.5% in 2020. Additionally, the share in total employment of those temporarily absent from work jumped from 1.5% in 2019 to 3.4% last year. More unemployed persons started to register their status officially, as that allowed them to benefit from new state support measures. Although the number of registered unemployed peaked in September 2020, there were still 50,000 more registered unemployed at the end of February 2021 than a year previously. The anti-crisis labour market measures included public works organised by local authorities and a targeted employment programme. In particular, guaranteed purchase of production, included by the Samruk-Kazyna state investment company in its offtake contracts, was conditional on firms retaining their employees or creating new jobs. Consequently, around 200,000 jobs were reportedly preserved in 2020.

The fiscal pandemic response in 2021 is expected to be far more muted than last year, assuming no full prolonged lockdowns in 2021. Since the fiscal support measures had mostly expired by the end of 2020, the fiscal support package for 2021 currently envisaged by the government is estimated to be less than 1% of GDP, compared to 8.7% in 2020. Employment support measures and subsidised lending for small and medium-sized enterprises have been extended until the end of 2021, amid the ongoing pandemic. The salaries of medical workers will be hiked again this year, as will pensions and the salaries of teachers, as was already envisaged under the pre-crisis budget for 2021. The amount of business support is uncertain, as the regulation of import substitution still needs to be adjusted to comply with World Trade Organization (WTO) rules (after the transition period for Kazakhstan expired in 2020) and local content provisions in oil and gas sector investment contracts need to be abolished. Meanwhile, better tax administration measures (specially aimed at reducing the hidden economy and customs declaration fraud in trade with China), public-sector reforms and cuts to budget spending are all back on the government agenda. Therefore, the budget deficit is likely to decline gradually over the next years, from 4% of GDP in 2020 to 3.5% in 2021 and 2% in 2023.

If the health crisis worsens and new restrictions are introduced, Kazakhstan has enough fiscal space to fund new anti-crisis measures. The announcement of new measures in the event of a strict lockdown seems plausible, given that targeted state support was increased several times last year after new lockdowns (most recently in early September). Kazakhstan has enough fiscal space for additional measures, thanks to the National Oil Fund, which amounted to 35% of GDP as of the end of February 2021 and which protects the economy against oil price fluctuation shocks. A slump in oil prices last year and an upward rally this year had no impact on the budget, as revenues from oil exports – except export duties on crude oil and petroleum products – flow directly into the National Oil Fund. In turn, a particular sum set by the budget law – so-called transfers from the National Oil Fund – constitutes a part of the budget revenue each year. As a result, it was possible to allow the non-oil budget deficit – calculated without oil revenues and transfers – to balloon from 6.3% in 2019 to 11.6% in 2020; that could potentially be repeated in 2021, if the course of the pandemic requires it, even though the baseline scenario for this year envisages a figure of 8%. Along with an increase in transfers from the National Oil Fund of USD 4.1bn in 2020 (compared to 2019) and a widening of the budget deficit by USD 3.7bn, the fiscal package funding last year was achieved by extra-budgetary financing of around USD 6bn.

Possible further restrictions on economic activity due to the ongoing pandemic and the slow rate of vaccination are jeopardising the rapid revival of consumption in 2021. In view of the weak capacity of the health system to cope with a spike in COVID-19 infections and mortality – most dramatically illustrated in July 2020, when monthly mortality rose to over 2.3 times[24] the figure for July 2019 and containment measures were reintroduced – a new wave of the pandemic can be expected to lead to further restrictions, limiting the consumption revival this year. Currently, Kazakhstan is trying to impose only local restrictions in those regions that see a spike in coronavirus infections. The full lifting of restrictions is unlikely in 2021, as vaccination roll-out is very slow. On the supply side of the vaccination campaign, local production of the Sputnik V vaccine started in December 2020, while the delivery of the Pfizer/BioNTech and Sinovac vaccines are expected later in 2021. The vaccination of priority groups started in February 2021 and should be opened up to the broader population from May, with a target of having a third of the population vaccinated by the end of 2021. On the demand side, the low rate of willingness of the population to be vaccinated – put at just 56% of the population by the BISAM Central Asia Survey – may prevent a speedy uptake. We do not expect real consumption to recover to its 2019 level this year, owing to the ongoing pandemic and the low vaccination rates. Moreover, the reintroduction of stricter containment measures – such as full lockdowns, which are not in the baseline scenario – is quite possible, and this remains a downside risk for recovery.

An acceleration in investment, especially in the oil sector, is expected in the coming years. The government housing construction programme is continuing, and oil-sector investment projects are likely to resume and accelerate, given the favourable oil prices. In particular, the Tengiz oil field enlargement project is likely to be speeded up, after pandemic containment measures delayed work in 2020. Despite investment promotion measures, there are no signs of expected higher investment inflows in other sectors of the economy. An acceleration in house prices is a risk that may materialise, if demand for new apartments – stimulated by a programme of partial subsidies on mortgage loan repayments – outstrips construction volumes.

The National Bank of Kazakhstan is likely to focus on the macroeconomic stabilisation goal amid current inflationary pressure, and therefore no major stimuli for the economy and no policy rate cuts are expected in 2021. The acceleration in inflation, driven by food prices, is expected to continue for at least the first months of this year. As well as high global market prices, distribution channel distortions have contributed to the rapid growth of food prices, which has persisted despite price controls being introduced in 2020 on some categories of socially important products. A slowing of food price inflation is likely after the new harvest, but non-food and tariff sub-components of inflation could pick up later this year, as the recovery gets under way. Movement in the exchange rate has been decoupled from oil price dynamics since 2020. Only a very small appreciation (1.3%) was visible in early 2021, despite rapidly rising oil prices. Due to high inflation and a weaker Russian rouble, a slight tenge depreciation trend for 2021-2023 is more plausible. A small policy rate cut can be expected in the next years if inflation slows. High interest rates will prevent credit growth for business as soon as subsidised lending stops, but consumer lending is likely to resume along with the recovery. The banking sector shows no sign of deterioration so far, with the non-performing loans ratio down to 6.9% as of the end of February 2021. As from 2021, foreign banks and insurance companies are allowed to open branches in Kazakhstan, in accordance with WTO rules; this could make it hard for smaller banks to compete and may lead to consolidation in the next few years.

[24] Annual excess mortality in Kazakhstan in 2020, relative to the average number of deaths in 2015-2019 is expected to reach 24%.

The recovery in merchandise exports in dollar terms will be quicker than previously anticipated, given the rapid upward correction of the oil price. A revival of exports was an important factor behind a revision of real GDP growth forecasts for 2021 – up from 2.5% to 3.2%. Although the trade balance nearly halved in 2020 compared to the previous year (from 8% to 4.5% of GDP), lower foreign direct investment (FDI) income outflows prevented a large current account deterioration last year. The current account deficit will improve only gradually over the next few years, as the repatriation of FDI income is likely to increase due to higher oil revenues. Along with a higher oil price, a partial relaxation of the oil production cut imposed by OPEC+ will lead to a small growth in physical export volumes in 2021-2022. Yet in 2023, the government of Kazakhstan expects the oil production level to increase by 10m tonnes after completion of the Tengiz oil field expansion project. Volatility in oil prices reflects uncertainty about future price development, and a downward correction remains a downside risk to the growth forecast.

Forecasts for 2021 are associated with great uncertainty as regards both the pandemic and the recovery of consumption, and no rapid recovery is likely this year. An acceleration in economic activity to above 4% is expected in 2022-2023, driven by household consumption, exports and investment. On the upside, a higher-than-predicted oil price could lead to a stronger recovery. The downside risks include fresh lockdowns if the virus spread accelerates, a slower-than-expected vaccination roll-out in 2021 and 2022, a drop in the oil price and a slower recovery on the part of trading partners. No political changes can be expected in Kazakhstan, as the parliamentary elections held in January 2020 – criticised by international observers – unsurprisingly preserved the majority of the ruling Nur Otan party.

Table 4.9 / Kazakhstan: Selected economic indicators

	2017	2018	2019	2020 1)	2021	2022	2023
						Forecast	
Population, th pers., average	18,038	18,276	18,514	18,754	19,000	19,200	19,400
Gross domestic product, KZT bn, nom.	54,379	61,820	69,533	70,134	77,500	84,700	92,000
annual change in % (real)	4.1	4.1	4.5	-2.6	3.2	4.1	4.4
GDP/capita (EUR at PPP)	17,020	17,200	17,950	17,510	.	.	.
Consumption of households, KZT bn, nom.	27,987	31,514	35,571	36,800	.	.	.
annual change in % (real)	1.5	6.1	6.1	-3.0	2.6	4.0	3.5
Gross fixed capital form., KZT bn, nom.	11,799	13,091	16,318	16,600	.	.	.
annual change in % (real)	4.5	5.4	13.8	1.0	3.5	5.0	4.0
Gross industrial production							
annual change in % (real)	7.3	4.4	4.1	-0.7	2.8	3.0	4.5
Gross agricultural production							
annual change in % (real)	3.0	3.5	-0.1	5.6	.	.	.
Construction industry							
annual change in % (real)	2.8	4.6	13.2	11.2	.	.	.
Employed persons, LFS, th, average	8,585	8,695	8,781	8,739	8,870	9,000	9,120
annual change in %	0.4	1.3	1.0	-0.5	1.5	1.5	1.3
Unemployed persons, LFS, th, average	442	444	441	451	460	450	460
Unemployment rate, LFS, in %, average	4.9	4.9	4.8	4.9	4.9	4.8	4.8
Reg. unemployment rate, in %, eop	0.8	1.0	1.1	1.5	.	.	.
Average monthly gross wages, KZT 2)	150,827	162,673	186,815	214,090	216,700	235,700	254,900
annual change in % (real, gross)	-1.7	1.7	9.1	7.3	2.3	2.7	2.5
Consumer prices, % p.a.	7.4	6.0	5.3	6.7	6.3	5.9	5.5
Producer prices in industry, % p.a.	15.3	19.0	5.1	-8.0	8.0	3.0	3.0
General governm.budget, nat.def., % of GDP							
Revenues	21.3	17.5	18.3	20.7	18.0	18.5	19.0
Expenditures	23.9	18.8	20.2	24.7	21.5	21.0	21.0
Deficit (-) / surplus (+)	-2.7	-1.3	-1.8	-4.0	-3.5	-2.5	-2.0
General gov.gross debt, nat.def., % of GDP	25.7	26.0	24.9	30.7	31.0	30.5	30.0
Stock of loans of non-fin.private sector, % p.a.	0.0	3.0	5.9	5.5	.	.	.
Non-performing loans (NPL), in %, eop	9.3	7.4	8.1	6.8	.	.	.
Central bank policy rate, % p.a., eop 3)	10.25	9.25	9.25	9.00	9.00	8.75	8.50
Current account, EUR m 4)	-4,516	-117	-6,437	-5,139	-4,900	-3,300	-1,700
Current account in % of GDP	-3.1	-0.1	-4.0	-3.5	-3.1	-1.9	-0.9
Exports of goods, BOP, EUR m 4)	41,866	50,712	51,953	41,043	51,700	53,800	57,000
annual change in %	30.6	21.1	2.4	-21.0	26.0	4.1	5.9
Imports of goods, BOP, EUR m 4)	27,060	29,030	35,759	31,668	33,300	35,300	36,700
annual change in %	14.2	7.3	23.2	-11.4	5.2	6.0	4.0
Exports of services, BOP, EUR m 4)	5,757	6,205	6,952	4,549	5,000	5,300	5,600
annual change in %	4.7	7.8	12.0	-34.6	9.9	6.0	5.7
Imports of services, BOP, EUR m 4)	8,924	10,156	10,244	7,281	8,000	8,500	8,900
annual change in %	0.3	13.8	0.9	-28.9	9.9	6.3	4.7
FDI liabilities, EUR m 4)	4,171	71	3,010	6,739	.	.	.
FDI assets, EUR m 4)	847	-3,933	-1,833	1,332	.	.	.
Gross reserves of CB excl. gold, EUR m 4)	15,505	14,460	9,004	9,827	.	.	.
Gross external debt, EUR m 4)	140,153	139,732	141,600	131,650	142,000	142,500	143,000
Gross external debt, % of GDP	94.9	91.9	87.3	88.5	88.0	82.0	77.0
Average exchange rate KZT/EUR	368.32	406.66	428.51	471.44	483	489	495

1) Preliminary and wiiw estimates. - 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.