

Macroeconomic Trends and Forecast

Republic of Kazakhstan

Research Department

December 2020



Summary

Trends:

- GDP is expected to contract by **3.0%** YoY in 2020 (**4.5%** YoY growth a year earlier)
 - ✓ Wide scale economic shock caused by the COVID-19 pandemic
 - ✓ Decreased domestic and foreign demand
 - ✓ Government crisis-response economic measures
- Inflation will reach **7.3%** YoY in December 2020 (**5.4%** a year earlier)
 - ✓ Growth in food prices in global market
 - ✓ Weakened national currency
- Base rate will be set at **9,0%** as of end 2020
- State budget deficit will reach **3.5%** of GDP (compared to **1.9%** of GDP a year earlier)

Forecasts 2021-2022:

- In 2021-2022 economic growth is expected to reach an average of **4.3%** p.a.:
 - ✓ Fading effects of the pandemic
 - ✓ Global economy stabilization
 - ✓ Supportive fiscal policy
- Medium-term risks shifted towards greater GDP decline due to global uncertainty spurred by the pandemic
- Slowdown of inflation
 - ✓ Subdued foreign and domestic demand
 - ✓ Stabilization of the national currency

Forecast. Economic growth to recover on account of implementation of public programs

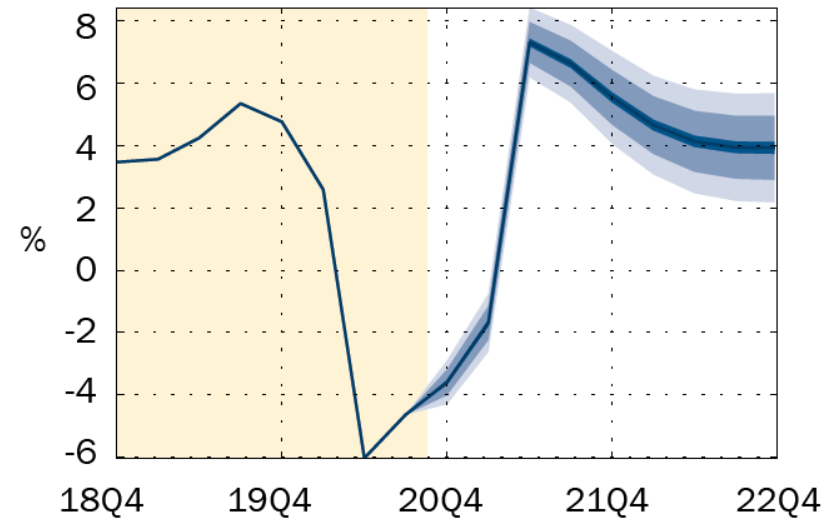
GDP will increase by **4.4%** in 2021 and by **4.2%** in 2022:

- + Global economy recovery and commodity markets stabilization
- + Expansionary fiscal policy
- + Implementation of state development programs

The economy is expected to reach pre-crisis level in mid-2021.

Risks to the medium-term forecasts are shifted towards a downturn

Real GDP
(year-on-year growth rate)



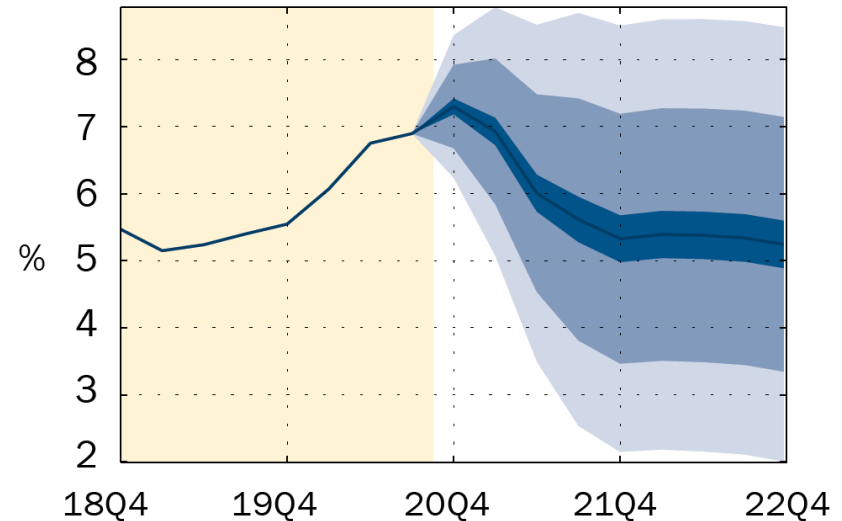
Note: seasonally adjusted data.
Source: EDB calculations

Forecast. Inflation to slowdown of in 2021-2022 amid moderate demand

Inflation to slow down to **5.3%** YoY by the end of 2020, and to **5.2%** YoY – in 2022:

- Weak domestic demand
- Petering out of the 2020 high base effect
- Easing pressure from the exchange rate and world food prices
- Monetary policy conditions

Inflation
(the last month in a quarter vs. the last month of the

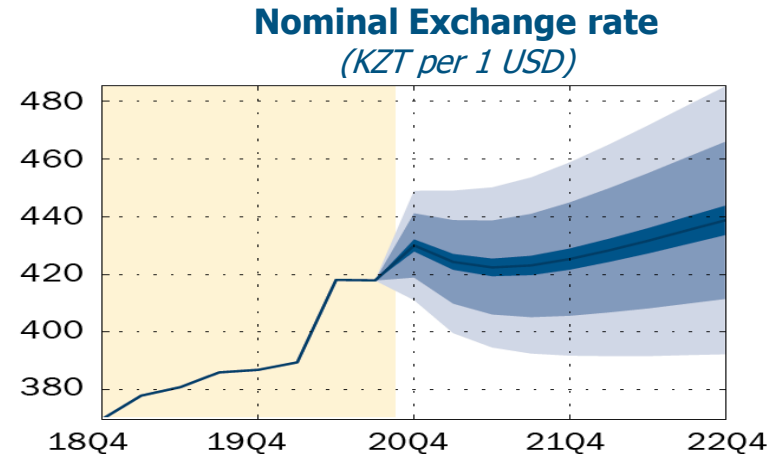
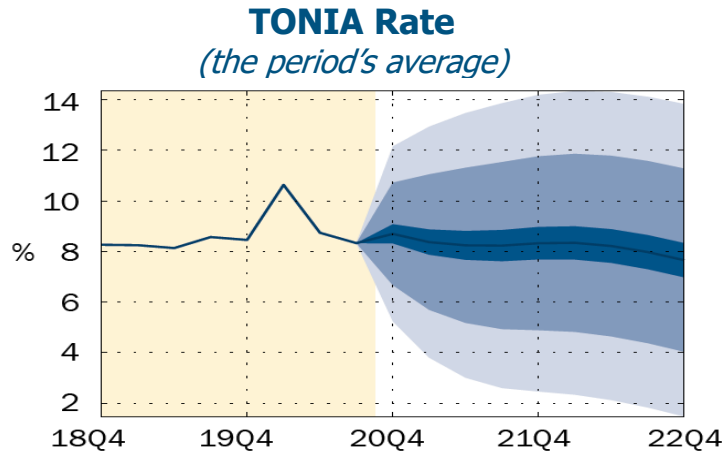


Note: seasonally adjusted data.

Source: EDB calculations

Forecast. The base interest rate might be decreased by 0.25 pp at most in case of reduction of inflationary

- The economy will operate below its potential, which will pave the way for a loosening of monetary policy. However, the implementation of this scenario is possible provided that devaluation and inflation expectations weaken.
- In the short term, it is expected that the tenge will win back the lost positions if the pandemic is brought under control and the geopolitical situation normalizes. In the medium term, the tenge will continue to weaken at a rate of about 1-2% per year.



Forecast. Risks are downward shifted

- Uncertain development of the global epidemiological situation raises the probability of slower recovery of the economy of Kazakhstan
- An increase in demand and a reduction in the export volumes of a number of food products may drive up their prices in the world market and as a consequence increases inflationary risks in Kazakhstan
- Geopolitical tensions in the region (the likely tightening of anti-Russian sanctions) may increase volatility in the domestic currency market

Forecast. Key Macroeconomic Indicators



| Indicator | 2017 | 2018 | 2019 | 2020F | 2021F | 2022F |
|---|-------|-------|-------|-------|-------|-------|
| GDP in constant prices (<i>% growth YoY</i>) | 4.1 | 4.1 | 4.5 | -3.0 | 4.4 | 4.2 |
| Consumer price index (<i>% growth in December to previous year's December</i>) | 7.1 | 5.3 | 5.4 | 7.3 | 5.3 | 5.2 |
| TONIA rate (<i>the year's average%</i>) | 9.9 | 8.4 | 8.4 | 9.1 | 8.3 | 8.0 |
| National currency to U.S. Dollar exchange rate (<i>the year's average</i>) | 326.0 | 344.7 | 382.8 | 413.9 | 423.8 | 433.5 |

Source: National agencies, EDB calculations