Summary

Trends:

- In the first half of 2019 GDP growth accelerated to 4.1% YoY (3.8% YoY a year earlier):
  - Expanding domestic demand (consumer and investment)
  - Real exports growth due to trade in non-oil goods
- Inflation stays within its target range:
  - Food prices growth acceleration, moderate growth in other prices
- Reduction of base interest rate
- The State budget’s deficit:
  - Increased expenditures

Forecast 2019-2021:

- Economic activity is projected to accelerate in 2019:
  - Expanding domestic demand
- GDP growth around 3.5% per year in 2020–2021
- Inflation acceleration in 2019
- In 2020–2021 consumer price growth is projected to keep within the target range
- Reduction of base interest rate in the medium term
Real Sector. Economic Activity slows down

In the first half of 2019 GDP grew by **4.1% YoY** (vs. 3.8% YoY in 1Q2019):

- Consumer demand expanded as real incomes rise and the Government implemented new social initiatives
- Investment in fixed capital grew by 11.7% YoY
- Housing construction growth, supported by the implementation of State programs
- Real exports growth, mainly on account of trade in non-oil goods

- Industrial output growth slowed down due to suspension of production at key oilfields and by lower metallurgy output resulting from the ArcelorMittal Temirtau accident that occurred in late 2018

Source: Statistics Committee of the RK Ministry of National Economy, authors’ calculations
Inflation. Stays Within Target Range

Inflation was 5.4% YoY in June 2019, an upward trend appeared in 2Q2019:

+ World grain and meat prices grow
+ Tenge weakening

- Non-food goods appreciation slowed down from 6.4% YoY in January 2019 to 6.1% YoY in June 2019
- Service tariff growth declined from 3.4% YoY in January 2019 to 1.2% YoY in June 2019

Source: Statistics Committee of the RK Ministry of National Economy, NBRK
External Sector. Current Account Deficit Expands

Current account deficit expands

- Weak price situation in the world markets of oil and metals
- Growing deficit of the balance of services
  + Decline of foreign direct investors’ income

Capital outflow on financial account transactions

  + Residents increasingly placed financial assets abroad
  + Repayment of external debt

- Growth of incoming foreign direct investment

Decreased international reserves

Source: NBRK, authors’ calculations
Fiscal Sector. Budget Deficit

The Republic’s budget posted a deficit of 0.9% of GDP in the first half of 2019 (vs. 0.7% of GDP a year before):

+ Increase in the budget’s income was driven by growth of both transfers and tax revenues

− Increased expenditures: welfare expenses grew by 24.2% YoY, public sector employees’ wages and salaries increased, more funds were allocated to the Government’s social initiatives

Public debt remains stable (0.6% more than at the beginning of the year in nominal terms)

Source: RK Ministry of Finance, authors’ calculations
Monetary Sector. Reduction of Base Interest Rate

Reduction of base interest rate to 9.0% in April 2019 from 9.25% at the beginning of the year:

- Deceleration of inflation in 1Q2019

Kazakh tenge weakening:

- Rising devaluation expectations

Source: NBRK, authors’ calculations
Forecast. Economic Growth to Slow Down in Medium Term

The GDP growth rate over 2019 is projected at **4.2%**:

- Measures to stimulate consumption
- High investment activity
- Tenge weakening will promote the expansion of non-oil exports

Economic growth to be near potential around **3.5%** per year in 2020–2021

Source: authors’ calculations, EEC
Forecast. Inflation to Slow Down in 2020–2021

Inflation over 2019 – **5.9%**

- Increase of grain prices (lower harvest in 2019)
- Swine fever in China – meat prices growth
- Expanding domestic demand

Inflation to slow down in 2020–2021

- Measures taken by the National Bank (base interest rate raised to 9.25 in September 2019, tighter retail lending requirements)
- Weak inflation in the main trade partner countries

Source: authors’ calculations, EEC
Forecast. Interest Rate Policy to Remain Neutral

The interbank tenge loan rates to fluctuate around their neutral level, that we estimate at 7.5–8%, in 2019–2021.

Tenge weakening will continue in the projection horizon, which results from higher inflation expected in the RK than in its main trade partner countries.
## Forecast. Key Macroeconomic Indicators

### Key Macroeconomic Indicators of the RK

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<tbody>
<tr>
<td><strong>GDP in constant prices</strong> (% growth YoY)</td>
<td>1.1</td>
<td>4.0</td>
<td>4.1</td>
<td>4.2</td>
<td>3.5</td>
<td>3.4</td>
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<tr>
<td><strong>Consumer price index</strong> (% growth in December to previous year’s December)</td>
<td>8.5</td>
<td>7.1</td>
<td>5.3</td>
<td>5.9</td>
<td>5.4</td>
<td>5.1</td>
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<tr>
<td><strong>TONIA rate</strong> <em>(the year’s average % per annum)</em></td>
<td>15.6</td>
<td>9.9</td>
<td>8.4</td>
<td>8.4</td>
<td>7.6</td>
<td>7.1</td>
</tr>
<tr>
<td><strong>Nominal Kazakh Tenge to U.S. Dollar Exchange Rate, KZT per USD</strong> <em>(the year’s average)</em></td>
<td>342.2</td>
<td>326.1</td>
<td>345.0</td>
<td>383.0</td>
<td>400.7</td>
<td>422.5</td>
</tr>
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**Note:** P = Projected  
**Source:** calculations by the authors, EEC