Macroeconomic Trends and Forecast

Republic of Kazakhstan

Research Department

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Summary

Trends:

• In 2019 GDP growth accelerated to 4.5% YoY (4.1% YoY a year earlier):
  ✓ Expanding domestic demand (consumer and investment)
  ✓ Growth of public sector expenditures

• Inflation was within its target range:
  ✓ Food prices growth acceleration, moderate growth in services prices

• Base interest rate set at 9.25% as of end 2019

• The State budget deficit:
  ✓ Increased expenditures for social initiatives

Forecast 2020-2022:

• Economic activity is projected to fall down in 2019 by 1.0%:
  ✓ Lockdown to contain COVID-19
  ✓ Oil production will decrease
  ✓ Export will decline
  ✓ Authorities’ measures to support economic activity

• GDP growth will recover in 2021-2022 as the worldwide lockdown will be eased

• Inflation will accelerate in 2020 and get back the target in 2021-2022
Real Sector. Economic Activity accelerated

In 2019 GDP grew by **4.5%** (4.1% in 2018):

+ Consumer demand expanded as real incomes rose and the Government implemented new social initiatives
+ Investment in fixed capital and construction growth
- Temporary decrease of output in the mining industries as oil production was suspended at the key oilfields for planned repairs

*Source: Statistics Committee of the RK Ministry of National Economy, calculations by the authors*
Inflation was **5.4%** 2019 (5.3% in 2018):

- World grain and meat prices grew
- A hike in vegetable price inflation in domestic market
- Non-food goods and Services inflation decelerated

**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
- Decreased deficit of the balance of services
- Decline of foreign direct investors’ income

Capital outflow on financial account transactions:

- Residents increasingly placed financial assets abroad
- State Eurobond placements

Decreased international reserves

Source: NB RK
The State budget posted a deficit of 1.9% of GDP in 2019 (1.3% of GDP in 2018):

- Increase in the budget’s income was driven by growth of both transfers and tax revenues.
- Increased expenditures: welfare expenses grew by 26.0% YoY, public sector employees’ wages and salaries increased, more funds were allocated to the Government’s social initiatives.

Public debt increased by 7.1% compared to the beginning of 2019:

- Eurobond placement.

Source: RK Ministry of Finance, calculations by the authors.
Monetary Sector. Base Interest Rate sat at 9.25 at the end of 2019

Reduction of base interest rate to 9.0% in April 2019 from 9.25% at the beginning of 2019:
+ Deceleration of inflation in 1Q2019

Increase of base interest rate to 9.25% in September 2019:
- Acceleration of inflation risks in the 2\textsuperscript{nd} half of 2019

Kazakh tenge weakening:
- Rising devaluation expectations

Source: NBRK, calculations by the authors
Forecast. Pandemic will affect the economy through the following channels

External

- Weak external demand (-0.6 pp)
- Commodities prices (-1.1 pp)
- Oil prices drop, effect of OPEC+ (-0.7 pp)

Domestic

- Lockdown will temporary decrease output, consumption, investments, external trade with total effect of ([-2,3] – [-3,5])
- Policy response (1.3-2.6 pp)

Note: contribution to GDP growth is presented in parentheses, provided that lockdown lasts 1.5 months
Source: authors’ calculations
**Forecast. Decrease of Economic Activity in 2020**

GDP growth is expected to decrease by **1.0%** in 2020:

- Consequences of the COVID-19 pandemic
- Authorities’ measures to support economic activity

Recovery of economic activity in 2021–2022:

- World economy and commodity markets stabilize
- Implementation of structural reforms

Risks Shifted Towards Growth Deceleration

Source: authors’ calculations
Forecast. Acceleration of Inflation in 2020

Acceleration of inflation in 2020 to 7.5%:

+ National currency depreciation
+ Short term hike of domestic demand for essential goods in 1Q2020

Inflation in 2021–2022 – within the NB RK target:

- Disinflationary impact of domestic demand
- Decrease of exchange rate undervaluation

Source: authors’ calculations
There is a potential for policy rate reduction because of existence of disinflationary risks in the medium term. The rate may temporary fall below its neutral level in 2021 to support economic activity.

Early in 2020, the tenge was pressurized by the fall of oil prices and worsening global economic outlook. Those factors are likely to persist in the coming months, and the national currency’s exchange rate versus the U.S. dollar will stay close to its current levels. Then we expect the tenge to partially regain lost ground, as oil prices gradually recover and the world economic situation stabilizes.
## Forecast. Key Macroeconomic Indicators

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<tbody>
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<td><strong>Consumer price index</strong></td>
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<td>( % growth December to previous year’s December)</td>
<td>7.1</td>
<td>5.3</td>
<td>5.4</td>
<td>7.5</td>
<td>5.2</td>
<td>4.3</td>
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<td><strong>GDP in constant prices</strong></td>
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<td>( % growth YoY)</td>
<td>4.1</td>
<td>4.1</td>
<td>4.5</td>
<td>-1.0</td>
<td>5.5</td>
<td>4.1</td>
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<td><strong>Inerbank rate</strong></td>
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<td>(the year’s average, % per annum)</td>
<td>9.9</td>
<td>8.4</td>
<td>8.4</td>
<td>9.5</td>
<td>7.8</td>
<td>6.3</td>
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<td><strong>Nominal exchange rate</strong></td>
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<td>KGS per USD (the year’s average)</td>
<td>326</td>
<td>345</td>
<td>383</td>
<td>421</td>
<td>450</td>
<td>468</td>
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Note: P - projected
Sources: authors’ calculations