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Kazakhstan:
Shift from consumption to investment promotion

Kazakhstan's GDP growth in 2012 was primarily driven by expanding household and government consumption. We expect that shifting the focus of the government policies will cause a slowdown in private consumption growth to 6-5% in real terms in the coming years. Investment growth, by contrast, is expected to pick up and reach 9% in 2015. Improving investment dynamics will provide for an acceleration of overall real GDP growth: by 2015, GDP growth will reach 6.5%.

Kazakhstan's real GDP increased by about 5% in 2012. Growth decelerated compared to 2011 by 2.5 p.p. – primarily due to a drop in production of the oil sector, ferrous metallurgy, and agriculture. Oil extraction decreased by 1.4% because of technical difficulties, which are perceived to be only temporary. In 2013, Kazakhstan's oil production is expected to increase by 9% to 1.73 million barrels per day (bpd)[1], in particular owing to the start of the Kashagan field operation[2]. During the first year, oil extraction in the new field is forecasted to be only about 100 thousand bpd, but in 2014, the volume may reach already 300 thousand bpd. World oil prices are assumed to remain near or slightly below USD 100 per barrel during 2013-2015, which should allow for a steady increase in Kazakhstan's oil exports. An increase in capacity of the Caspian Pipeline in 2013 will allow for the transport of increased volumes of oil.

Agriculture suffered from severe drought in 2012, which resulted in an output decline by 18%; provided weather conditions are not extreme during the forecast period, the sector will experience moderate growth. Ferrous metallurgy was affected by the sluggish global demand and the sector's output dropped by 12% in 2012. During 2013-2015, global demand for steel is forecasted to recover, which should boost Kazakhstan's ferrous metals production.

1 According to the US Energy Information Administration forecast.

2 Kashagan is an oil field discovered in 2000, which is estimated to have commercial reserves of 9 to 16 billion barrels of oil – the largest field found in the world during the past 30 years. Full operation of the Kashagan field can potentially allow almost doubling the country's oil production.

In contrast, the transport equipment sector demonstrated exceptionally strong growth in 2012: its output almost doubled. In particular, railway cars production picked up as the state has been creating joint ventures with foreign investors to produce different kinds of passenger and cargo trains – demand for these has been growing inside the country with the government supporting investment into the railroad infrastructure. Besides, production of passenger cars showed very fast growth, which is to a large extent a result of import substitution due to higher import tariffs imposed on cars along with the entry of Kazakhstan into the Customs Union with Belarus and Russia.

The construction sector remained anaemic in 2012 with only 2.9% growth. The sector has still been suffering from the housing bubble effects, so construction companies face difficulties in obtaining financing from banks. The government has announced its intentions to actively participate in the residential construction market, in particular through the state-owned National Welfare Fund 'Samruk-Kazyna', which is going to run construction projects. We forecast that the construction sector will gradually accelerate its growth over the forecast period to reach 10% year-on-year in 2015.

Analysing Kazakhstan's GDP in terms of expenditures reveals that growth in 2012 was primarily driven by expanding household and government consumption. We estimate real household consumption growth in 2012 at 10% year-on-year, higher than the growth of real wages (7.7%) and real household incomes (about 6%) during that period. Double-digit consumption growth continues since 2010, and during all this time it has been faster than growth of wages or household income. A significant factor contributing to that trend is the fast increase in bank lending to finance households' consumption – this kind of short-term loans appears to be a safe harbour for banks in the high-risk and uncertain investment environment. During the first 11 months of 2012, newly issued household consumption loans were 67% higher than during the same period in 2011; in turn, for corporate loans this indicator was 29%. It has been already five years that Kazakhstan's banking sector is in crisis, but so far no light can be seen at the end of the tunnel as the cleansing of banks' balance sheets from bad assets has been advancing rather slowly. Non-performing loans by the most modest estimates still account for about 30% of total loans. The problem loans fund of the National Bank has turned out to be rather inefficient as it buys only non-real estate bad loans, and these constitute a minority of bad loans in the country's banking system. On the bright side, BTA, one of the country's biggest banks, managed to agree on a second restructuring, which decreases its debt by more than three times. Some banks started to set up Special Purpose Vehicles and transfer bad loans to them, but significant progress there is still to be seen.

Investment growth was rather weak in 2012 – according to our estimates, gross fixed capital formation increased by just about 3.5% in real terms. In particular, such meek results were caused by decline in investment into oil exploration and extraction. New investment into the oil sector (especially, the USD 20 billion worth ‘Future growth’ project in the Tengiz oil field) and ongoing projects of transport infrastructure development and modernization of refineries, which are financed in part from abroad, should support the investment dynamics in the years to come. Besides, the government has announced shifting its priorities from supporting consumption through multiple raises of pensions and salaries to infrastructure development, residential construction, human capital development, and industry diversification. Thus we expect to see a boost to investment from the government side. Shifting the focus of government policies will cause a slowdown in private consumption growth to 6-5% in real terms in the coming years. Investment growth, by contrast, is expected to pick up – to 5% in 2013, 7% in 2014, and 9% in 2015.

Exports of goods in 2012 increased only by about 3% in USD terms, reflecting the drop in oil and metals exports. Merchandise imports, on the other hand, grew quite fast, by about 15% in USD terms. (Export growth was mostly in physical terms, while in the case of imports, price increases accounted for more than half of the growth.) Such dynamics caused a narrowing of the current account surplus from 7.2% of GDP in 2011 to about 4.3% of GDP in 2012 (the decline in the trade surplus was partially offset by a decrease in the negative income balance due to lower profits of multinational oil companies). We expect that imports will continue to grow fast to satisfy the increasing investment demand. Exports will also pick up, but, notwithstanding increasing oil production, they will grow at a slower pace than imports. The current account surplus will remain at a hefty 5-6% of GDP during the forecasting period. Thus it will be improving investment dynamics providing for an overall real GDP growth acceleration: by 2015, GDP growth will reach 6.5%.

Table KZ

Kazakhstan: Selected Economic Indicators

	2008	2009	2010	2011	2012 1)	2013	2014 Forecast	2015
Population, th pers., average 2)	15674.0	16093.5	16323.3	16558.7	16793.7	16950	17100	17200
Gross domestic product, KZT bn, nom.	16053	17008	21816	27572	30073	33500	37500	42300
annual change in % (real)	3.3	1.2	7.3	7.5	5.0	5.0	6.0	6.5
GDP/capita (EUR at exchange rate)	5800	5100	6800	8200	9300	10000	11100	12300
GDP/capita (EUR at PPP)	9200	9000	9700	10400	10900	.	.	.
Consumption of households, KZT bn, nom.	6871	7913	9721	11569	13400	15200	17100	19000
annual change in % (real)	7.8	0.6	11.8	10.9	10.0	6.0	6.0	5.0
Gross fixed capital form., KZT bn, nom.	4309	4727	5307	5772	6200	6800	7600	8800
annual change in % (real)	1.0	-0.8	3.8	3.9	3.5	5.0	7.0	9.0
Gross industrial production								
annual change in % (real)	2.6	2.7	9.6	3.8	0.5	4.0	7.0	10.0
Gross agricultural production								
annual change in % (real)	-6.9	14.6	-11.7	26.8	-17.8	12.0	5.0	5.0
Construction industry								
annual change in % (real)	1.7	-3.3	2.4	2.8	2.9	5.0	8.0	10.0
Employed persons, LFS, th, average 3)	7857.2	7903.4	8114.2	8301.6	8507.7	8590	8680	8770
annual change in %	3.0	0.6	2.7	2.3	1.0	1.0	1.0	1.0
Unemployed persons, LFS, th, average 3)	557.8	554.5	496.5	473.0	474.8	.	.	.
Unemployment rate, LFS, in %, average 3)	6.6	6.6	5.8	5.4	5.3	5.0	5.0	5.0
Reg. unemployment rate, in %, end of period 3)	0.6	0.6	0.4	0.4	0.4	.	.	.
Average gross monthly wages, KZT 4)	60805	67333	77611	90028	102052	.	.	.
annual change in % (real, gross)	-1.0	3.2	7.6	7.1	7.8	.	.	.
Consumer prices (HICP), % p.a.	17.0	7.3	7.1	8.3	5.2	7.0	6.0	6.0
Producer prices in industry, % p.a.	36.8	-22.0	25.2	27.2	3.5	5.0	5.0	6.0
General governm.budget, nat.def., % of GDP								
Revenues	25.1	20.6	19.7	19.5	19.3	.	.	.
Expenditures	27.2	23.5	22.1	21.5	22.3	.	.	.
Deficit (-) / surplus (+)	-2.1	-2.9	-2.4	-2.1	-3.0	-2.0	-2.0	-1.5
Public debt, nat.def., % of GDP	8.3	12.3	14.4	11.8	12.7	14.0	15.0	16.0
Central bank policy rate, % p.a., end of period 5)	10.5	7.0	7.0	7.5	5.5	.	.	.
Current account, EUR mn 6)	4298	-2950	1322	9770	6823	8700	10800	12000
Current account, % of GDP	4.7	-3.6	1.2	7.2	4.3	5.1	5.7	5.7
Exports of goods, BOP, EUR mn 6)	48905	31504	46376	63551	71866	76700	84419	94500
annual growth rate in %	38.5	-35.6	47.2	37.0	13.1	6.7	10.1	11.9
Imports of goods, BOP, EUR mn 6)	26128	20769	24786	29125	36736	40000	44000	50500
annual growth rate in %	7.5	-20.5	19.3	17.5	26.1	8.9	10.0	14.8
Exports of services, BOP, EUR mn 6)	3007	3038	3203	3239	3801	4100	4300	4600
annual growth rate in %	15.5	1.0	5.4	1.1	17.3	7.9	4.9	7.0
Imports of services, BOP, EUR mn 6)	7556	7200	8534	7845	9806	11100	12500	14000
annual growth rate in %	-11.8	-4.7	18.5	-8.1	25.0	13.2	12.6	12.0
FDI inflow, EUR mn 6)	9732	9497	8750	9869	10986	11900	13100	13800
FDI outflow, EUR mn 6)	818	2266	5934	3311	1101	1400	1600	1700
Gross reserves of NB excl. gold, EUR mn	12630	14352	19044	19477	16746	.	.	.
Gross external debt, EUR mn	76278	78674	89283	96821	107000	.	.	.
Gross external debt, % of GDP	84.1	95.1	80.1	71.7	68.2	.	.	.
Average exchange rate KZT/EUR	177.04	205.68	195.67	204.11	191.67	197.6	197.6	200.2
Purchasing power parity KZT/EUR 7)	111.01	118.00	137.95	160.26	163.84	.	.	.

Note: Gross industrial production and producer prices refer to NACE Rev. 2 (including E - Water supply, sewerage, waste management and remediation activities).

1) Preliminary and wiiw estimates. - 2) From 2009 according to census March 2009. - 3) From 2012 according to census March 2009. - 4) Excluding small enterprises, engaged in business activities.- 5) Refinancing rate of NB. - 6) Converted from USD with the average exchange rate. - 7) wiiw estimates based on the 2005 International Comparison Project benchmark.

Source: National statistics (National Bank, Agency of Statistics etc). Forecasts by wiiw.