

Kazakhstan Outlook 2016

MACROECONOMIC outlook

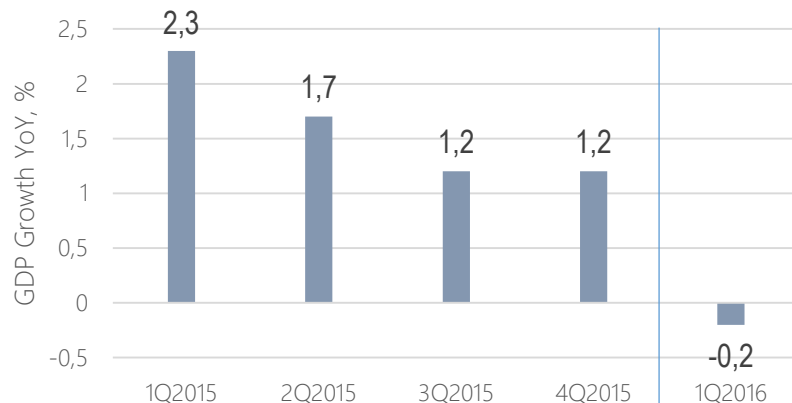
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Macroeconomic Environment



Low oil prices, slowdown in FDI, and negative spillovers from slowdown in Russia and China have been putting downward pressure on economic activity.

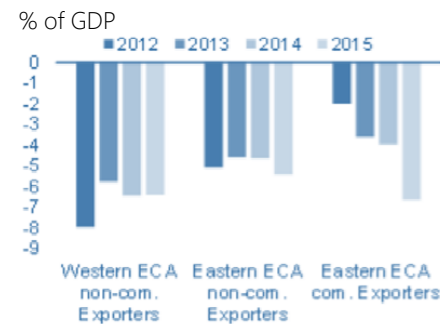
Economy shrunk in the first quarter of 2016



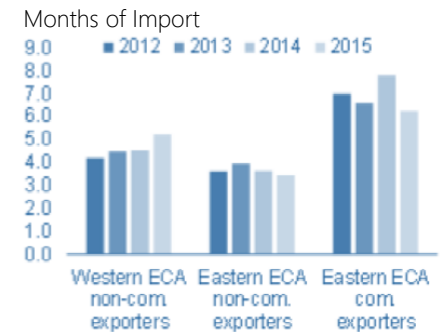
Source: National Bank of Kazakhstan

Similar situation is observed in the whole region

Current Account Balances (ECA Region)



Foreign Reserves (ECA Region)



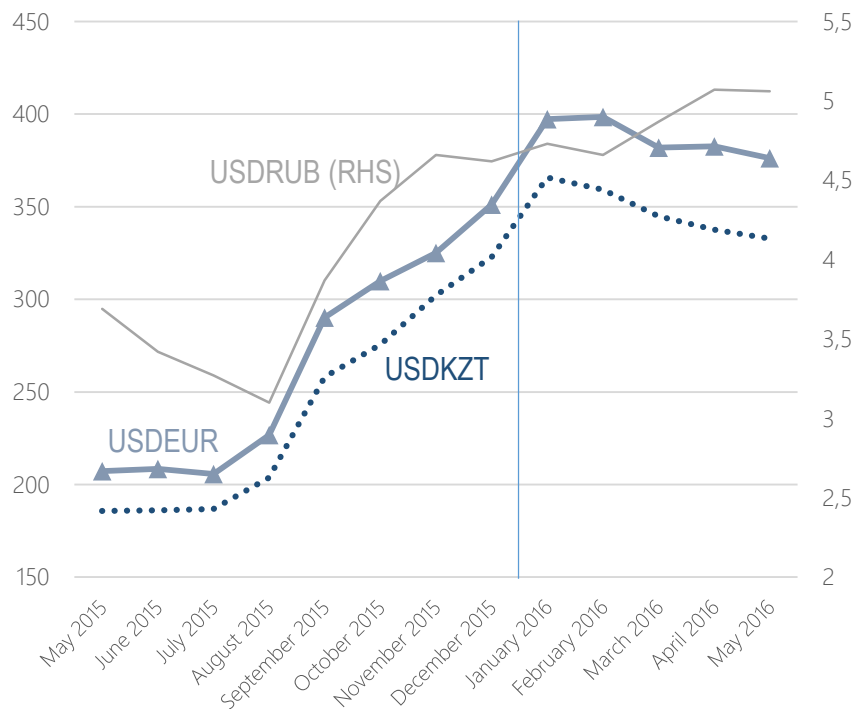
Source: World Bank

- Negative heritage of global financial crisis has not been eliminated (high share of NPLs)
- Fiscal policy is constrained by the weakness of output

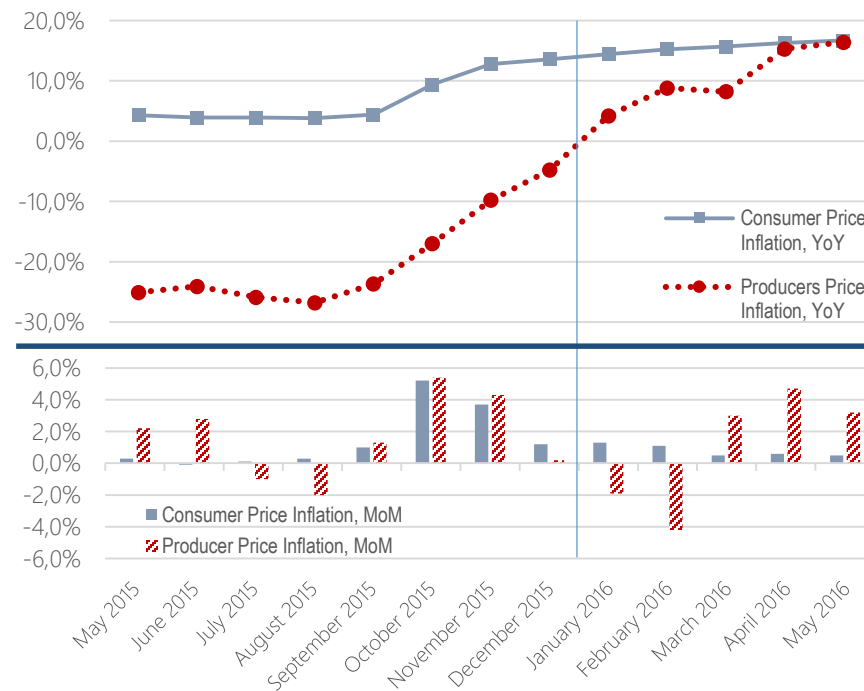
Macroeconomic Environment



Shift to floating exchange rate in August 2015 led to a sharp tenge depreciation...



... which resulted in plummeting inflation



Source: National Bank of Kazakhstan, Kazakhstan Statistics Committee

Downward pressure on trade and current account

Figure 1. Current account is in deficit

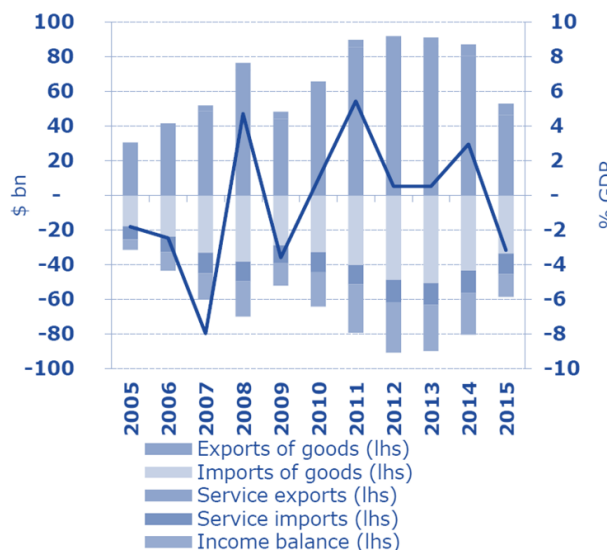
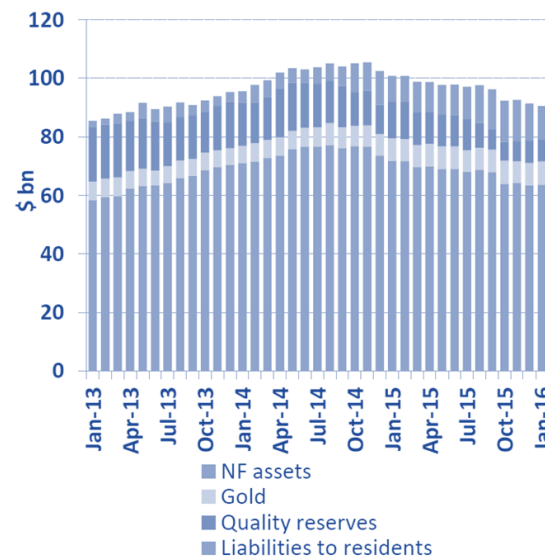


Figure 2. International reserves and liquidity

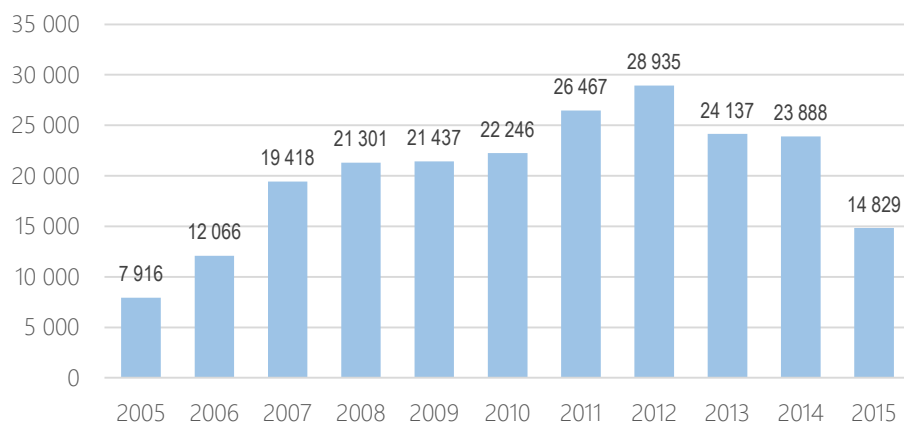


Source: Halyk Finance

- The current account was in deficit of 3,2% GDP in 2015, compared to a surplus of 2,1% GDP on average in 2010-2014
- External debt amounted to \$153,5 bln (83,3% of GDP) with the public sector debt accounting for 7,9% of the total external debt

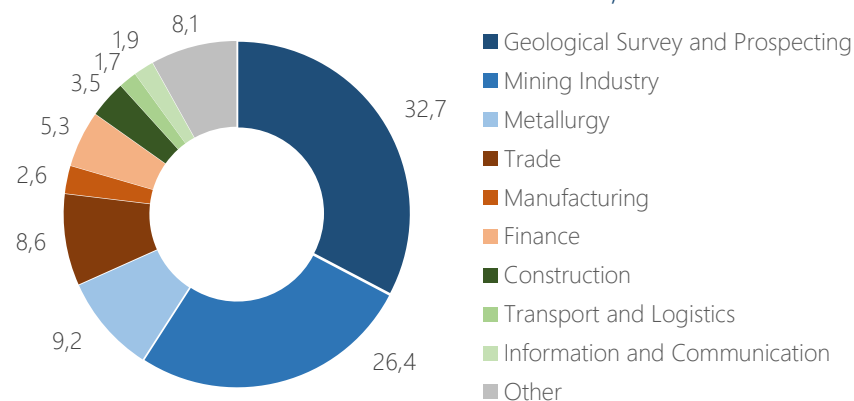
In 2015, the volume of FDI in Kazakhstan dropped by almost 40%...

Gross FDI inflows to Kazakhstan, 2005-2015



Source: National Bank of Kazakhstan

FDI Structure in 2005-2015, %



Source: National Bank of Kazakhstan

... despite recent success in international rankings

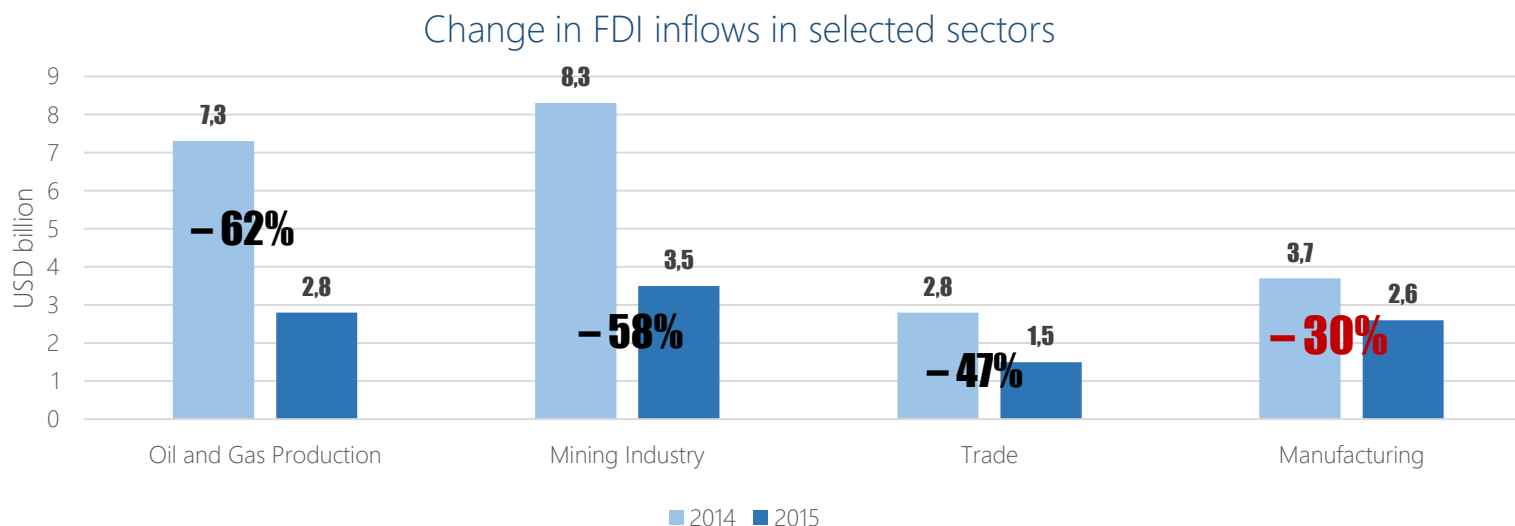
World Bank Doing Business Rank



WEF Global Competitiveness Report



During the period of overall investment deceleration
manufacturing turned out to be the most resilient sector

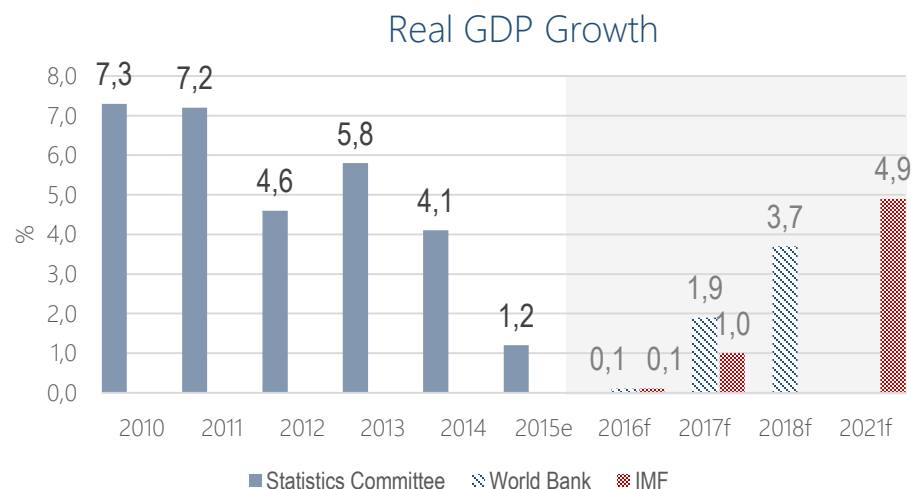


Source: National Bank of Kazakhstan



Manufacturing share in total FDI went from 15,4% to 17,3%

A rebound is projected in 2017, though in the medium term the growth is likely to remain **below its long-run potential**

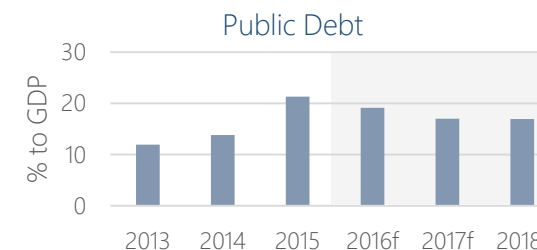
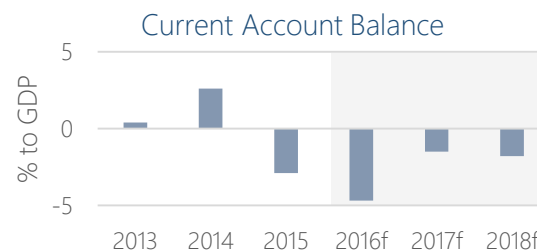
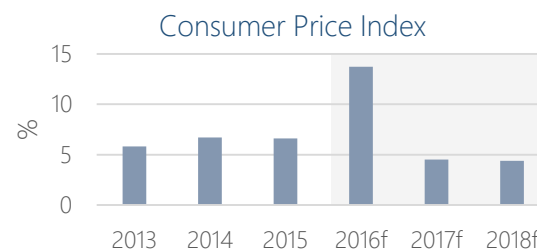


Source: Kazakhstan Statistics Committee, World Bank (April 2016), IMF (April 2016)

Main assumptions for the rebound...

- recovery of commodity prices
- rebalancing of the economies of main trade partners
- favorable regional conjuncture
- easing of geopolitical tensions

...are at large risk



Source: World Bank (April 2016)

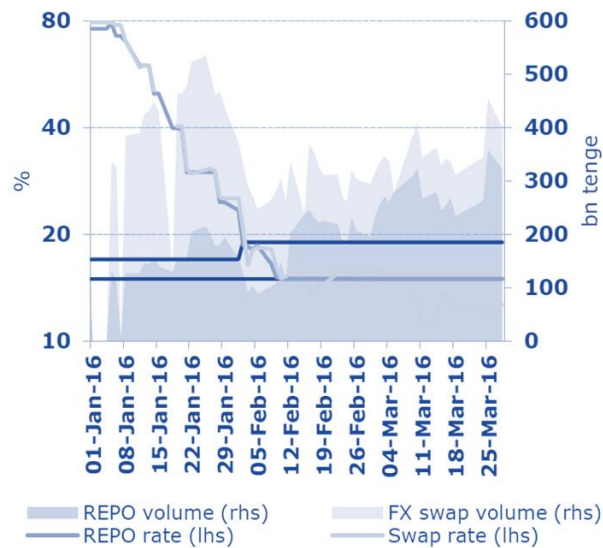
- **Rebalancing of monetary policy.** General stabilization of financial sector: reduction of exchange rate volatility, decreasing inflation, and building confidence to monetary authorities
- **Promoting structural reforms.** Implementation of the Plan of the Nation “100 steps”, implementation of privatization program, boost for investment attraction
- **Safeguard for public investment.** Implementation of infrastructure projects under “Nurly Zhol” program, fiscal consolidation, securing available fiscal buffers (assets of the National Fund)

Monetary Policy



Since the beginning of 2016, pass-through effect of depreciation begins to fade away, but inflationary trends still persist

Figure 1. Monetary easing
ON REPO and ON FX swap



Source: Halyk Finance

Figure 2. Appreciation of USDKZT and USDRUB



Source: Halyk Finance

- Since the beginning of the year NBK is **easing the monetary policy**
- Interventions by NBK are significantly lowered; KZT becomes **more flexible** currency
- NBK is keeping the inflation target for 2016 **at 6-8%** with the projected reduction to 3-4% corridor by 2020

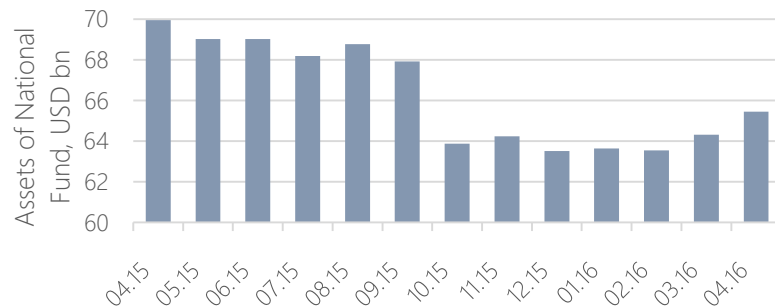
The Plan of the Nation “100 Steps” with a package of structural reforms has good prospects, positive effects are likely to kick in over the medium to long term

- “100 steps” is based on ambitious agenda including **market liberalization** (energy sector restructuring, lifting price control in agriculture), **privatization**, and **investment climate improvement**
- **Implementation milestones:**
 - In the first quarter of 2016, income from privatization amounted to **KZT 1,9 bn**
- The new privatization program is extended **until 2020**

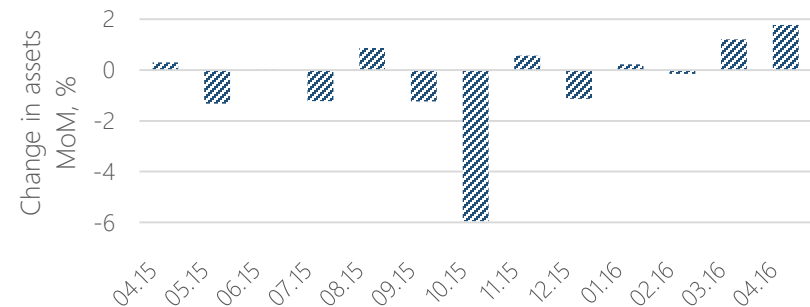
Fiscal Buffers: National Fund



Accumulated fiscal buffers allow sustainable public investment



Source: National Bank of Kazakhstan



- Objectives.
 - Noticeable success in achieving its main objectives: stabilization of the economy; and saving for future generations.
- Stabilization Objective.
 - It is noted that the government used the resources from the National Fund in 2009 to limit the impact of the global financial crisis on the domestic economy. The retrospect reviews by the IMF and World Bank confirm that Kazakhstan responded to the 2008-2009 crisis quite effectively.
- Saving Objective.
 - Has accumulated already exceeding the target of 30% of GDP set to achieve by 2020. Size could reach \$200 billion by 2020 that has a particular significance. It could then accumulate all of its principle while transferring to the budget only its annual return (estimated at 4 percent) that would coincide with the amount of \$8 billion/year. This (transferring only the annual return to the budget) is in line with the Norwegian "bird in hand" fiscal rule, which is considered best practice.
 - In 2015, vetoed further spending from NF (aside from basic annual transfer)

Budget policy revision



- In 2016, the Government revised the budget;
- Public spending volume was increased **by KZT 600 bn**, including
 - **KZT 240 bn for “Nurly Zhol” program** (affordable housing, schools, roads, EXPO-2017, Winter Universiade 2017)
 - **KZT 60 bn for social projects** (education, healthcare, water supply)