Центр развития

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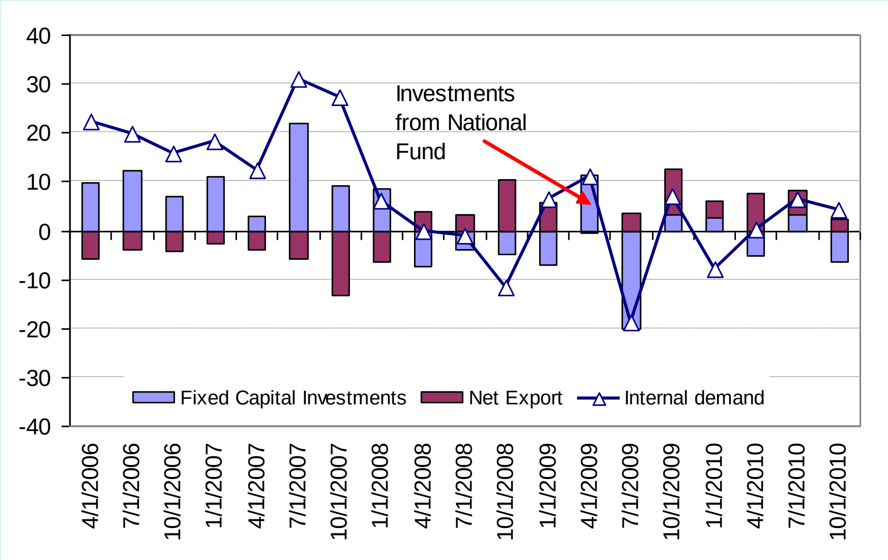
Kazakhstan: specialty of the recovery and midterm perspectives

Oxana Ossipova

Moscow, 2011

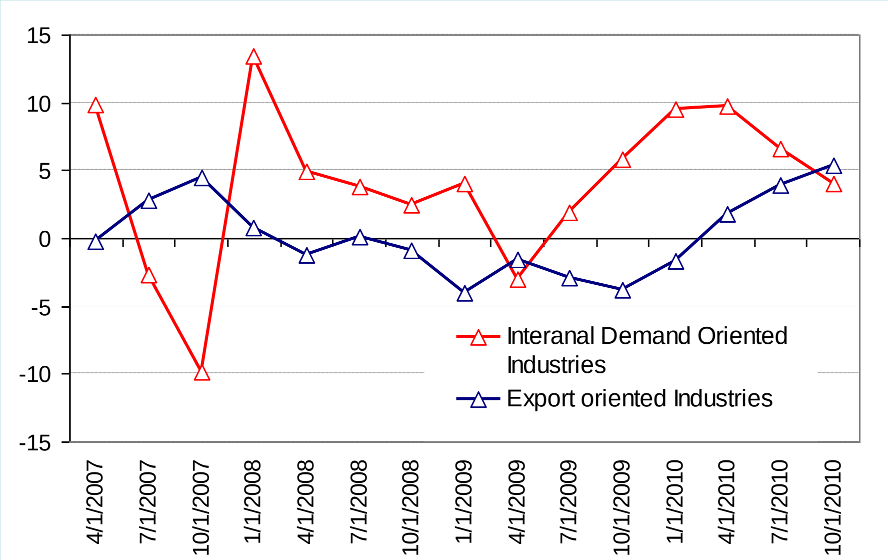
Economic structure: investment growth too small to help economy recover fast

GDP on Demand (%)



Sources: Statistics Agency of Kazakhstan, Development Center

Industrial Production (growth rate, %)

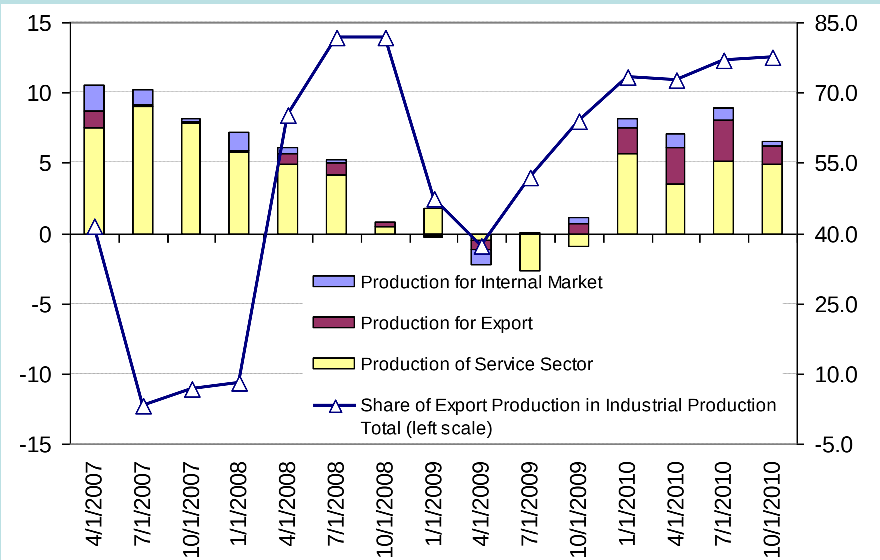


Sources: Statistics Agency of Kazakhstan, Development Center

- Investments from National Fund during the crisis helped to keep capital investments growth, but do no help to defend economy from decline.
- Main source of economic growth after the crisis is external demand. Internal demand still in stagnation. Unstable capital investments restrain economic growth.
- Export oriented industries growth return to pre crisis level. Industries oriented on internal demand oriented industries rate of growth is unstable.

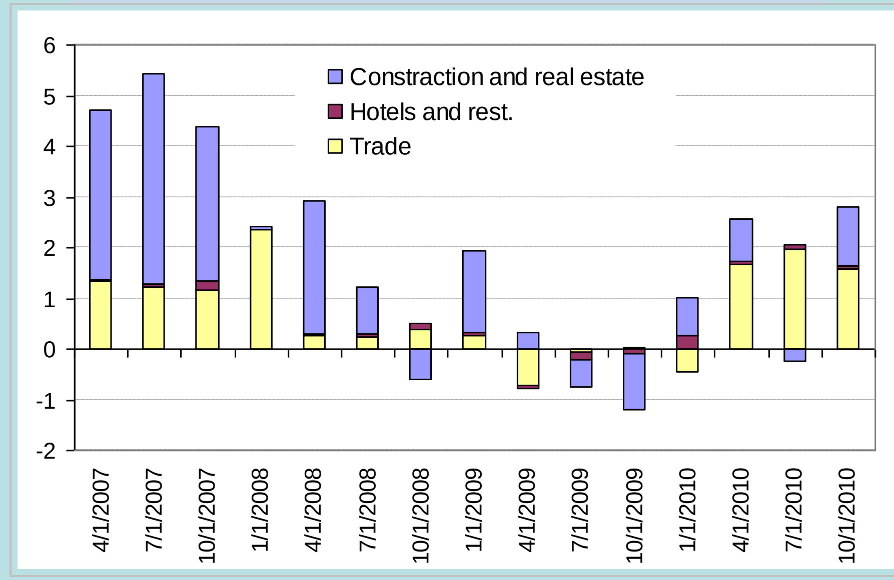
Economic structure: investments stimulate construction and trade growth

GDP on Production Side (%)



Sources: Statistics Agency of Kazakhstan, Development Center

Input of Major Services to GDP Growth (%)

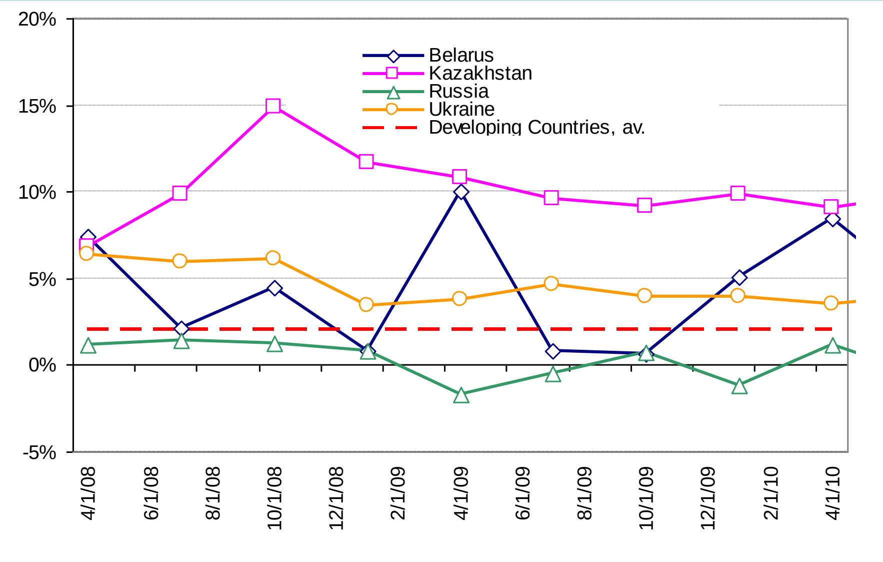


Sources: Statistics Agency of Kazakhstan, Development Center

- During economic recovery services more quickly return to stable growth even more the production for export. Average input to economic growth of services on production side is still lower then before the crisis.
- Among major services only trade recover to pre crisis level. Construction and real estate input to economic growth still very low.

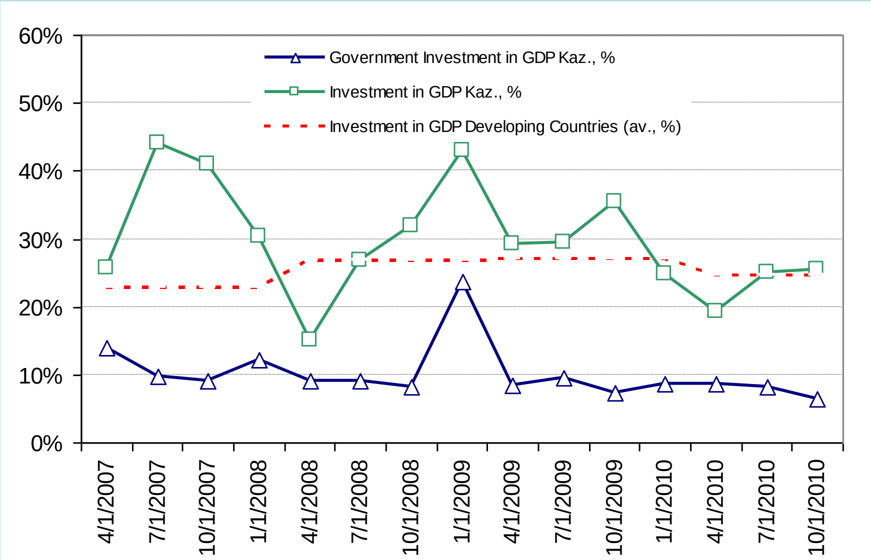
Investments Relative Current Income

Foreign Direct Investments (flows, % GDP)



Sources: Statistics Agency of Kazakhstan, IMF, UN, Development Center

Investment (iclud. Government) in GDP (%)

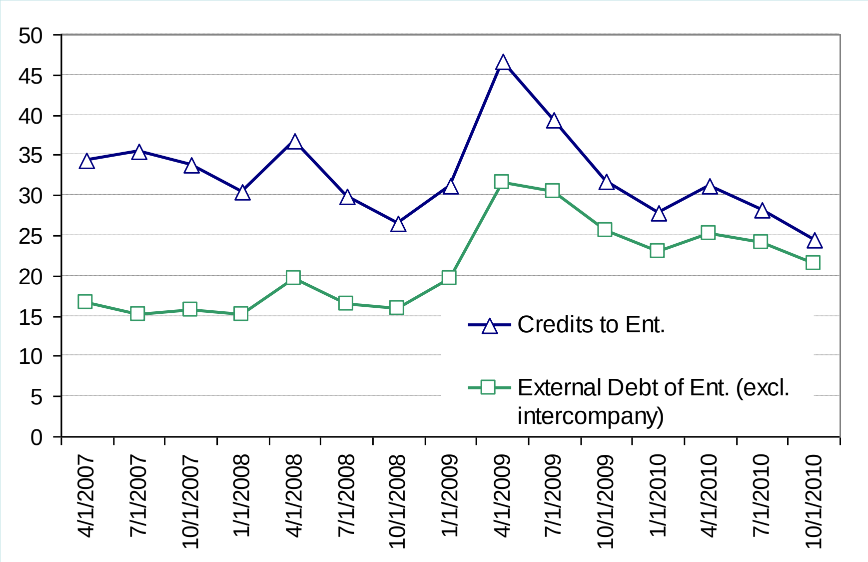


Sources: Statistics Agency of Kazakhstan, MOF Kazakhstan, UN

- Economy can not be described as starving from low investments, especially in comparison to current income.
- FDI to GDP in Kazakhstan is highest among major CIS countries. During the crisis FDI kept relatively stable that might be a sign of retaining attractiveness of economy to foreign investors.
- Share of investments to GDP is slightly higher then average level of developing countries. Government support is major driver for investments growth of the country. Government input (directly in form of assets buy and credit to enterprises and indirectly in form of support to national economy) nearly 30% to total fixed capital investments each year.

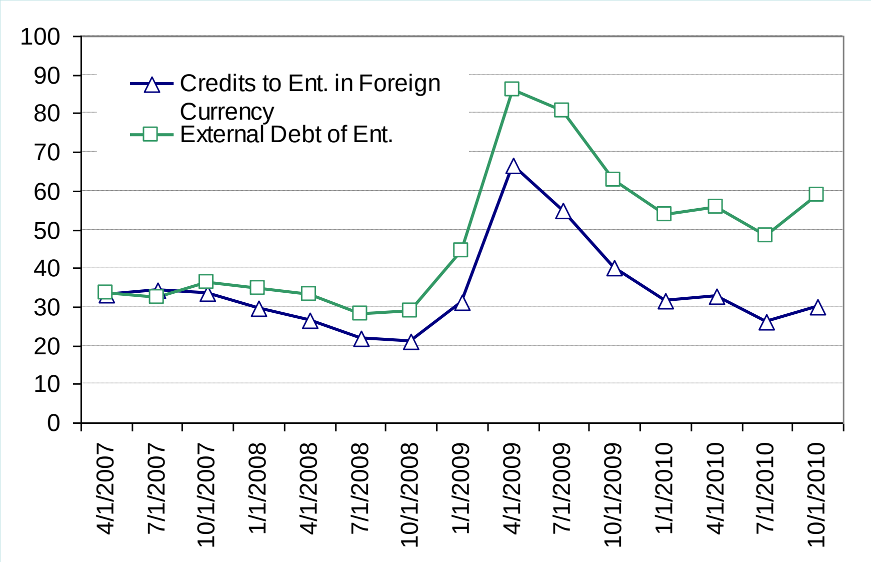
Corporate Debt Ratios

Corporate Debt Ratio to GDP (%)



Sources: MOF, National Bank

Corporate Debt Ratio to Export (%)

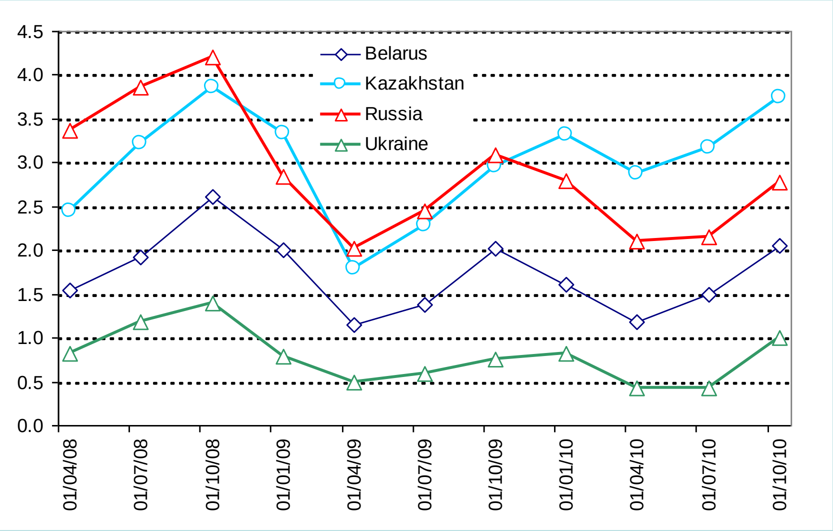


Sources: MOF, National Bank

- Corporate debt burden relative GDP is not very high and declined substantially after the crisis. Bank credits and external debt of enterprises together are nearly 50% of GDP (nearly 80% of GDP next after crisis ER devaluation).
- External debt burden to export also declined from peak 90% after devaluation to 60%. Bank credits to enterprises in foreign currencies are now equal to 30% (declined twice from its peak).
- Debt burden evaluation should take into account that external debt is mostly long-term. At the same time inter company external debt (that we exclude from evaluation) play substantial role and also participate in current income redistribution, including income from export.

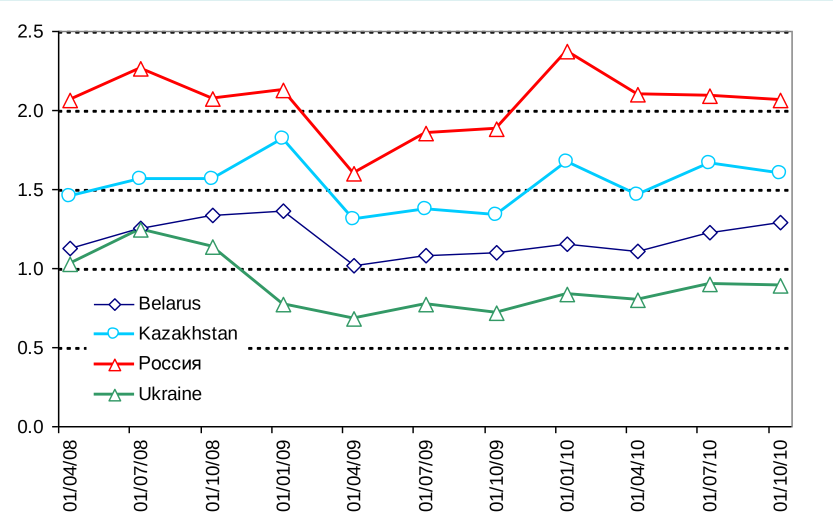
Economic competitiveness: labor costs to productivity

Income Produced per Employed less Wage (per q., th. USD)



Sources: Statistics Agency of Kazakhstan, Development Center

Wage (per q., th. USD)

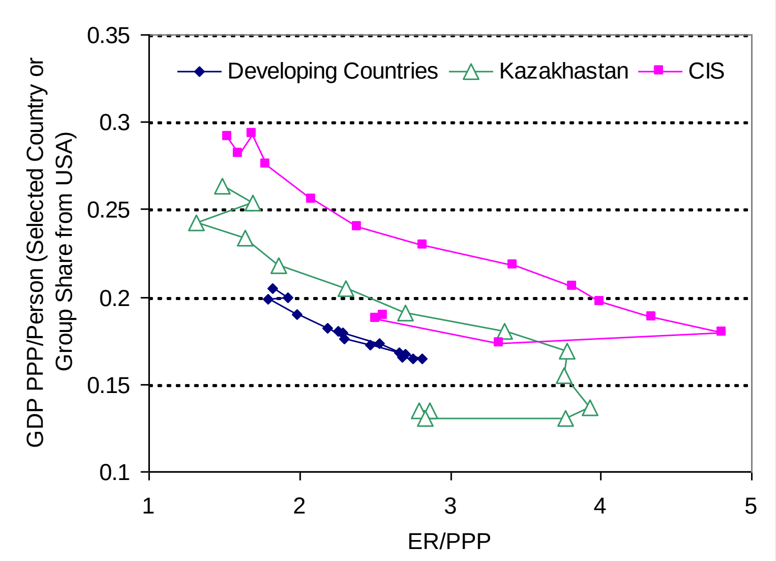


Sources: Statistics Agency of Kazakhstan, Development Center

- Labor productivity in Kazakhstan is highest among the major CIS countries.
- High labor productivity is not due to low wage. It is higher in average then in Belarus and Ukraine.
- Relatively high labor productivity with moderate wage might stimulate investments in labor intensive industries and help to achieve aim of economic diversification.

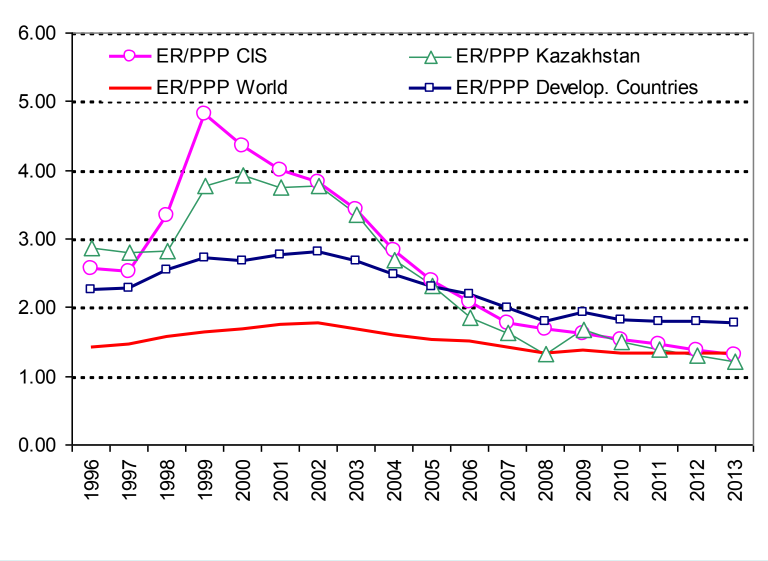
Economic competitiveness: Fear of Currency Appreciation

Total Productivity and RER (1996-2009)



Sources: IMF World Economic Outlook

Ratio of ER to PPP (1996-2009)

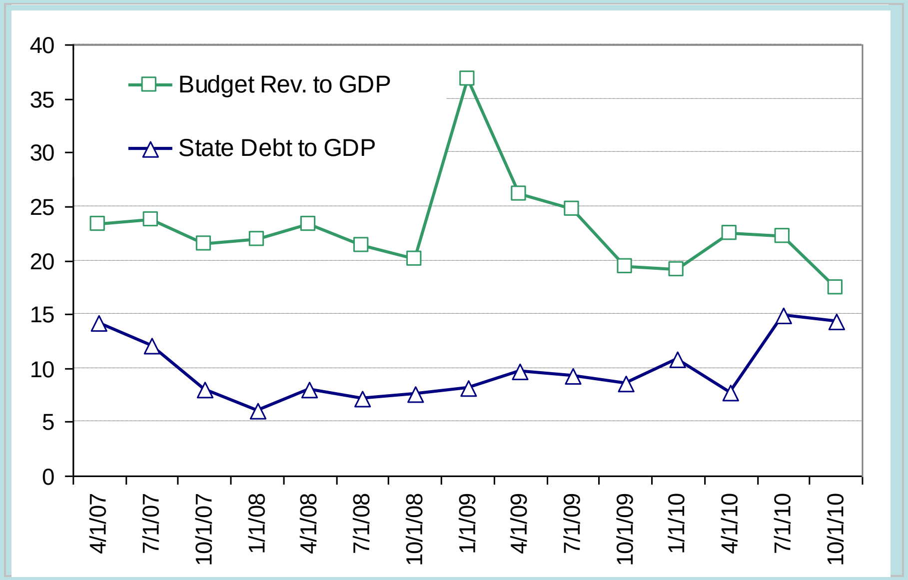


Sources: IMF World Economic Outlook

- Crisis break trend to RER appreciation. Temporally devaluation of national currency was bounded to average CIS.
- Potential for appreciation still exists due to continued increase in total economic productivity, which is higher then average for developing countries.

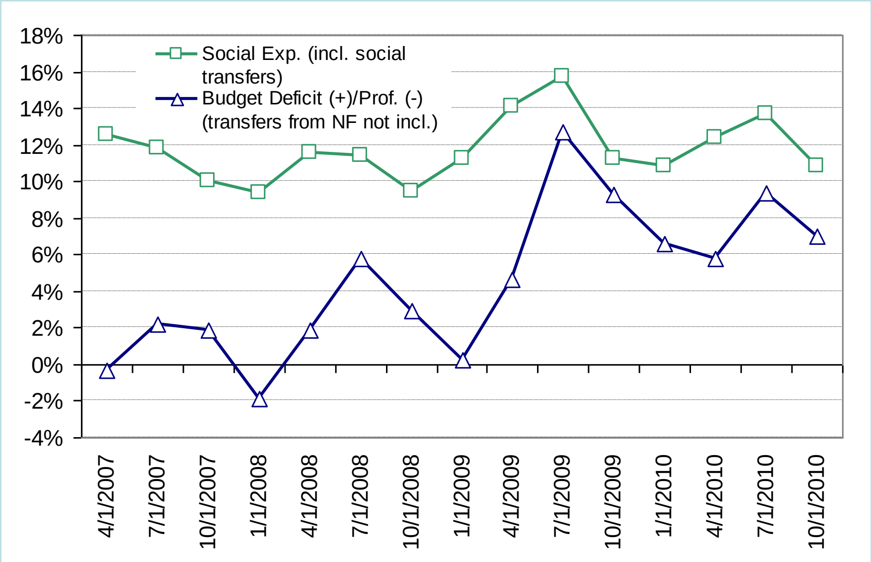
Budget Stability: Tax Burden and Social Expenditures

Tax Burden and State Debt (% GDP)



Sources: MOF, Statistics Agency of Kazakhstan

Social Exp. and Budget Deficit (% GDP)

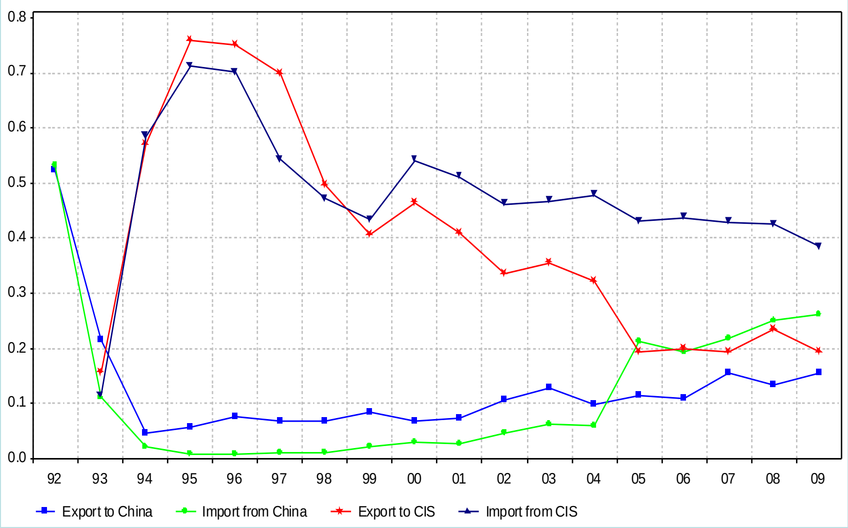


Sources: MOF, Statistics Agency of Kazakhstan

- Effective tax burden (total budget revenue to GDP) on economy continue to decline after crisis. State debt growth still moderate and its ratio to GDP just returned to pre crisis level.
- Most important factor for budget deficit growth and future tax burden increase is social expenditures that will grow simultaneously with pension liabilities. Government social expenditures slightly increase during the crisis in spite of revenue decline.

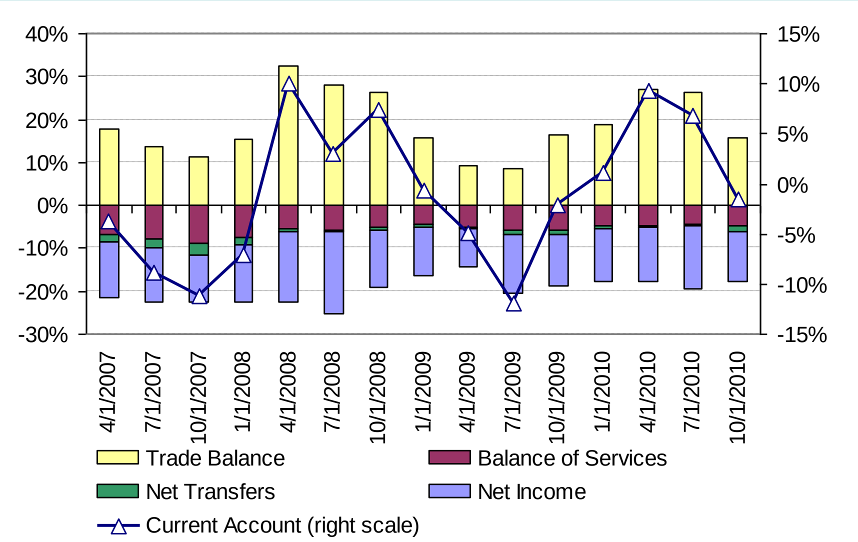
External Trade and Balance of Payment

External Trade with Major Partners (share from Total)



Sources: IMF DOT

Current Account (% of GDP)

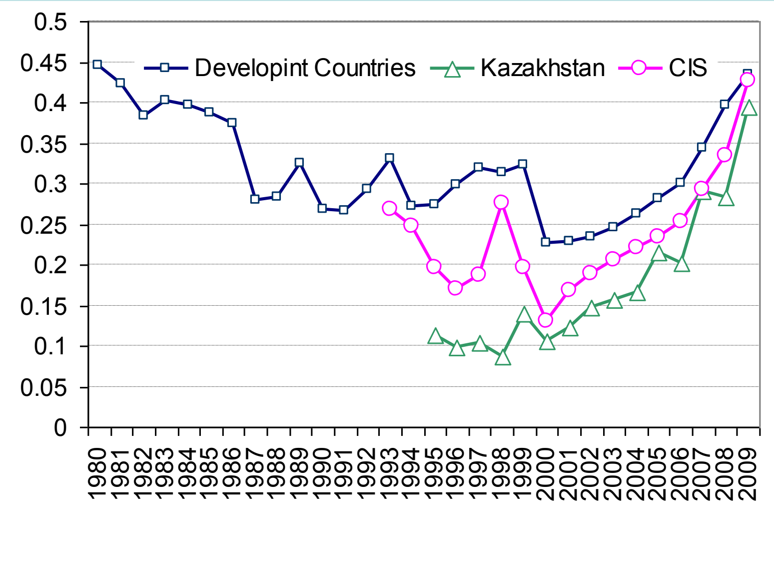


Sources: National Bank

- Trade inflows are important for current income payments. Positive trade flows are mostly set up in trade with developed countries.
- Constantly increasing trade turnover with China, while turnover with CIS decline. Kazakhstan is more open to trade with neighborhood countries and benefit from price and transport costs. While neighbor countries participate in redistribution of export flows from developed countries.

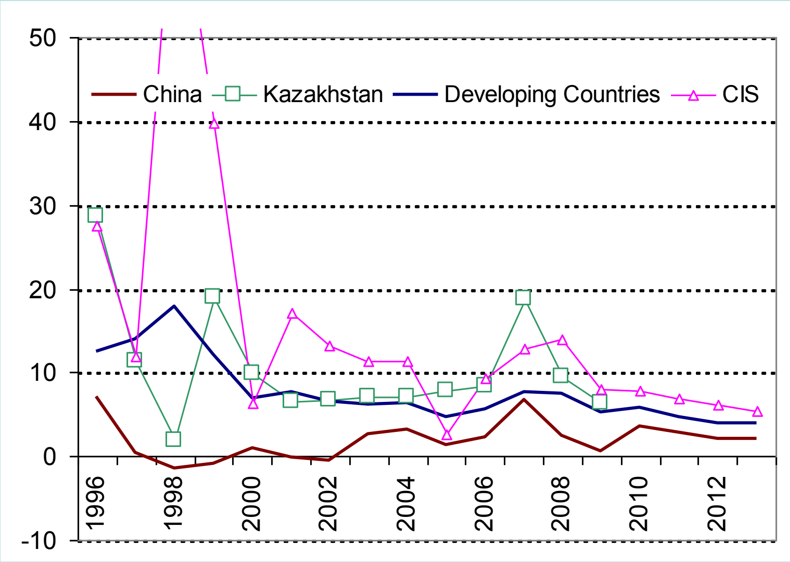
Monetary and Price Stability

Money to GDP



Sources: Reuters, IMF IFS

Inflation (end of per. %)



Sources: IMF World economic outlook

- Monetization of economy sharply increase in crisis due to monetary and budget policy weakening and domestic credit growth. At the same time money to GDP ratio is still lower then CIS and average for developing countries.
- Inflation peaked in crisis gradually return to its midterm trend – lower then average for CIS countries and close to average for developing countries.

Economic Indicators: Midterm Forecast

				ЦР					IMF		
	2010	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
GDP, %	**7.7**	10.7	12.8	3.3	6.5	7.0	5.1	5.5	5.9	6.3	6.5
Investments, %	**0.1**	16.5	22.1	1.8	2.1	4.2	-	-	-	-	-
Final Consumption, %	**8.5**	9.8	11.5	-1.2	6.6	8.9	-	-	-	-	-
Current Account, % GDP	**5.0**	4.6	-0.1	-2.3	1.8	1.0	2.0	2.8	3.3	2.7	2.5
Inflation, %	**7.9**	8.9	7.8	9.5	6.1	6.6	6.8	6.3	6.2	6.0	6.0
ER (n.c. to USD)	**148**	141	135	162	167	172	138	133	128	124	120
Budget Rev., % GDP	**20.0**	21.1	22.3	17.3	18.5	19.8	25.0	25.5	25.8	25.7	25.8
M3, %	**26.0**	24.2	30.5	10.5	17.8	19.6	-	-	-	-	-

- Due to potential in real growth of raw materials export production we expect return investment growth to pre crisis level in coming two years. This help to increase economy growth to 10-12%, then economy return to lower economic growth.
- Demand for investment import contribute to return to balanced current account.
- Short term increase in inflation next year will bound ER appreciation. When transition inflation shock disappear currency should return to its appreciation trend.
- Increase in M3 growth is due to investments demand.
- We also test possible external shock due to expected weakening global economic demand in 2013.