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Kazakhstan

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The Economist Intelligence Unit

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"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

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Briefing sheet

Editor: **Maximilien Lambertson**

Forecast Closing Date: **September 13, 2018**

Political and economic outlook

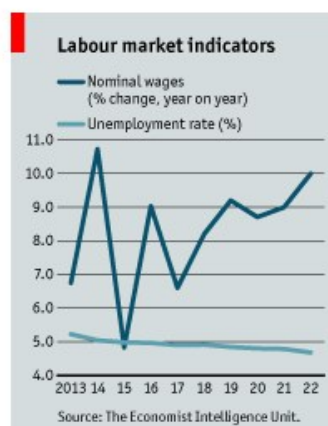
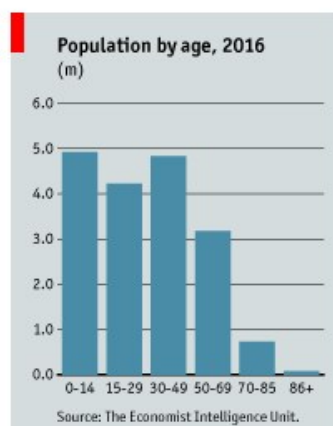
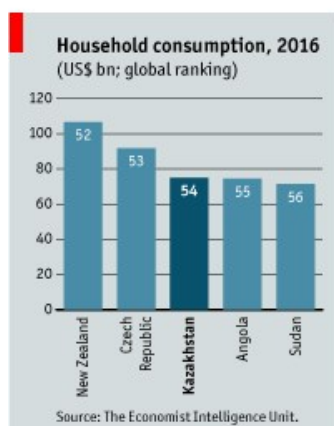
- Uncertainty about how and when a transition of power away from the president, Nursultan Nazarbayev, will take place is the main risk to political stability in The Economist Intelligence Unit's 2018-22 forecast period.
- Our core forecast is that Mr Nazarbayev, who is 78, will serve out his term to 2020, but a snap presidential election could be called in 2019. In either case, we expect a managed succession process that maintains elite unity. The successor's identity remains unclear.
- Since independence in 1991, no election in Kazakhstan has been judged free or fair by credible international observers. We do not expect this trend to change in 2018-22.
- The relationship with Russia will remain of primary importance in the forecast period. However, Kazakhstan will be wary about further political or economic integration, such as via the Eurasian Economic Union. It will pursue a multi-vector foreign policy.
- Following a pick-up in real GDP growth to 3.9% in 2017, we forecast average annual growth of 3.3% in 2018-22. The extractive sector will drive this, but capital spending on infrastructure will be substantial, driven by government expenditure and Chinese investment.
- The government will undertake limited reforms to improve the business environment. Its privatisation programme, even if successfully executed, is unlikely to have a significant impact on productivity or competitiveness.
- The state has provided support to the banking sector. However, deficiencies in financial oversight persist, and there is a risk of further serious problems emerging in the sector.

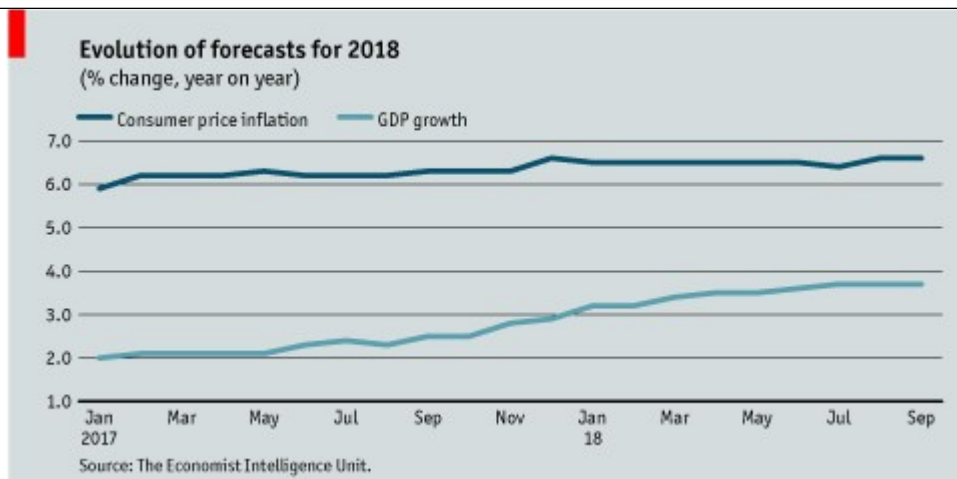
Key indicators

	2017 ^a	2018 ^b	2019 ^b	2020 ^b	2021 ^b	2022 ^b
Real GDP growth (%)	3.9	3.7	3.4	3.0	3.0	3.1
Consumer price inflation (av; %)	7.4	6.6	6.5	5.6	5.5	5.4
Government balance (% of GDP)	-1.8	-1.3	-1.2	-1.2	-0.9	-0.7
Current-account balance (% of GDP)	-3.4	-0.8	-1.2	-1.3	-1.5	-2.1
Money-market rate (av; %)	10.4	8.8	9.4	9.5	9.3	9.0
Unemployment rate (%)	4.9	4.9	4.8	4.8	4.8	4.7
Exchange rate Tenge:US\$ (av)	326.00	349.26	388.08	392.39	383.27	373.33

^a Actual. ^b Economist Intelligence Unit forecasts.

Market opportunities





Key changes since August 13th

- After falling by 2.5% against the US dollar after the US announced new sanctions against Russia on August 8th, the tenge continued to weaken through to mid-September, when it reached Tenge380:US\$1. We now forecast that the tenge will end 2018 at Tenge385:US\$1.
- We expect the steady depreciation of the tenge against the dollar since the second quarter to boost imported inflation and inflation expectations. We now forecast average consumer price inflation of 6.5% in 2019, up from 6% previously.
- Producer price inflation picked up to 24.6% year on year in August, driven by an uptick in mining and intermediate goods prices. We now forecast average producer price inflation of 19.4% in 2018, up from 17.7% previously.

The month ahead

- **October 2nd—Consumer price inflation (September):** Kazakhstan experienced disinflation in January-July, but the inflation rate picked up slightly in August. The September figure will indicate whether the recent depreciation of the tenge has boosted growth in consumer prices. We expect a clear pick-up in price growth.
- **October 12th—Industrial production (September):** Industrial production growth slowed to an average of 4.1% year on year in January-August, from 8.5% a year earlier, owing to slower growth in oil output. We expect this trend to hold in September.
- **October 15th—Policy rate decision:** The National Bank of Kazakhstan (the central bank) is likely to hold the policy rate steady, owing to recent shocks to the tenge and rising inflation expectations.

Major risks to our forecast

Scenarios, Q2 2018	Probability	Impact	Intensity
Another drop in oil prices restrains economic growth in 2018-22	High	High	16
Diversification fails to advance	Very high	Moderate	15
Succession issue causes political and policy uncertainty	Very high	Moderate	15
The banking system requires further bail-outs	Very high	Moderate	15
Capital markets develop slowly in spite of launch of new financial centre in Astana	High	Moderate	12

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.

Outlook for 2018-22

Political stability

Nursultan Nazarbayev, the president, has been in power since before the collapse of the Soviet Union. Nur Otan (Radiant-Fatherland), the party headed by the president, dominates parliament. Economic and political power is shared and contested by elite networks based on economic and bureaucratic alliances, overlaid in some cases by historical or imagined clan allegiances. Parliament provides little check on the presidential administration and the government, but it does offer limited scope for revisions to legislative initiatives in response to lobbying and public opinion.

Mr Nazarbayev appears to enjoy strong public support, and living standards have risen in the past two decades during his tenure. However, high levels of inequality persist and public dissatisfaction could increase in the coming five years, with economic performance forecast to remain weaker than in 2000-14. Sporadic protests and strikes are possible in provincial areas and single-industry towns, prompted by corruption, inequality and a lack of economic opportunities. The risk of mass popular unrest remains low, but the government appears to view even small-scale protests as a potential threat to stability.

Mr Nazarbayev turned 78 in July, and his eventual departure from the political scene remains the principal risk to political stability. Constitutional reforms passed in March 2017 grant parliament a greater say over government appointments and abolish some presidential powers. However, in practice the presidency will remain the strongest political institution, and the impact of these reforms will be limited as long as Mr Nazarbayev remains in power.

The reforms are still significant, as they suggest that preparations for a political transition are under way. After Mr Nazarbayev's departure, the redistribution of powers could enable a more collective system of rule, with parliament exercising greater oversight over government and the legislative process. The next president is likely to be weaker than Mr Nazarbayev and may not enjoy the same authority over the political and economic elites. Even under such a scenario, however, political decision-making is likely to remain opaque, highly informal and authoritarian. How and when a transition of power will be enacted remains uncertain, and there is no clear successor. Kazakhstan's super-presidential system has blocked the development of effective institutions that would have ensured political stability and provided a clear source of legitimacy for a new president. Corruption is endemic, civil society is weak and the media are highly controlled. There is a risk that Mr Nazarbayev's exit from office will trigger a destabilising power struggle between elites, but The Economist Intelligence Unit assumes that all parties have an interest in ensuring an outwardly consensual transition. Our baseline forecast is that Mr Nazarbayev will continue in office until at least 2020, but the risks to this scenario have grown, given the recent reforms. The transition will be perceived as a moment of potential regime vulnerability, which could weigh on business confidence.

Election watch

Formal political opposition has been marginalised. Since Kazakhstan gained independence in 1991, none of its elections has been judged free or fair by credible international observers. Presidential candidates are now prohibited from nominating themselves, which means that candidates will be nominated by parties that are supportive of the administration. The next presidential election is scheduled for 2020, but there is a significant possibility that it will be called early to forestall any potential organised political opposition—particularly in the event of a further economic shock—or as part of a succession process.

International relations

Kazakhstan has been relatively successful in pursuing a multi-vector foreign policy, retaining good relations with the West, China and Russia. Avoiding excessive dependence on any country or bloc by diversifying trade and investment links will remain a priority. Kazakhstan will be an enthusiastic participant in China's Belt and Road Initiative to boost regional connectivity and infrastructure, but China's growing economic footprint will remain controversial domestically. Russia's cultural, economic and political influence over Kazakhstan is declining, but Russia will remain its paramount diplomatic and security partner throughout the 2018-22 forecast period, and the Kazakh leadership will seek to maintain strong ties under almost all circumstances.

Kazakhstan is a member of the Eurasian Economic Union (EEU), which also includes Armenia, Belarus, the Kyrgyz Republic and Russia. The EEU aims to create a common market and regulatory regime. In practice, institutional harmonisation is limited, and a significant number of formal and informal barriers to trade persist. Any successor to Mr Nazarbayev will probably be less instinctively integrationist than the current president. Kazakhstan is highly unlikely to leave the EEU formally, but regulatory harmonisation could, in effect, be allowed to lapse.

There remains a risk that Kazakhstan's succession process will become internationalised, with Russia seeking to play a prominent role. Kazakhstan has a large ethnic Russian population, concentrated in areas bordering Russia. Although inter-ethnic relations are reasonably good at present, Russia could seek to mobilise this constituency in the future, particularly if it perceives that the Kazakh leadership is seeking to reorient the country's foreign policy. However, Kazakhstan has no interest in deep integration with Western economic or security structures, mitigating the risk of geopolitical confrontation.

Policy trends

The government periodically stresses the need to increase productivity, diversify the economy away from hydrocarbons, reduce the role of the state and increase the effectiveness of the bureaucracy. In 2018-22 we expect limited progress in these areas, given the government's poor reform record, the ineffectiveness of the bureaucracy, and overlapping political and economic interests.

By 2020 the government plans to sell stakes in about 900 companies, totalling more than US\$7bn. According to government statistics, it has so far sold stakes in 434 companies, raising Tenge251bn (US\$719m). Past precedent suggests that there will be delays in the privatisation process, particularly for the eight major firms (mainly in the energy and transport sectors) in which the government intends to offer stakes via Initial Public Offerings (IPOs) in 2018-20. There is a risk of weak investor appetite for these, and much depends on the credibility of the Astana International Financial Centre, which was officially launched in the capital in July 2018. Given the symbiotic relationship between the government and major businesses, the transfer of assets from public to private ownership may not in itself have a significant impact on productivity or competitiveness.

The banking sector continues to struggle as a result of the fallout of the 2008-09 financial crisis and the tenge's depreciation in 2014-15, and the sector's stability remains a significant systemic risk. The government has used public funds from various sources—including the National Fund of the Republic of Kazakhstan (NFRK, the sovereign wealth fund) and the state pension fund—to bail out some financial institutions. According to the National Bank of Kazakhstan (NBK, the central bank), the share of non-performing loans (NPLs) in total loans stood at 8.8% at the start of August 2018, down from 31.2% at the start of 2014. However, the true level of NPLs may be significantly higher than officially reported, and the factors that exacerbated the banking crisis in 2009—notably corrupt and lax lending practices, and poor corporate governance—persist.

Fiscal policy

Our forecast for general government spending (including that of local authorities) is extrapolated from the central (republican) budget. According to figures from the Ministry of Finance, in 2017 the general government deficit widened to 1.8% of GDP, from 0.3% in 2016. This expansion was driven by higher spending, some of which was directed to supporting the banking sector through the purchase of non-performing assets. The government funded the higher expenditure by a Tenge1.09trn (US\$3.35bn) increase in the “targeted” transfer (earmarked for specific expenditure) from the NFRK.

In January-July 2018 the deficit narrowed to Tenge202.7bn, from Tenge1.1trn in the same period of 2017. Tax receipts rose by 15.3%, to Tenge4.2trn, supported by higher oil prices, rising oil production and a pick-up in the services sector. This offset a 19.5% increase in social security spending, to Tenge1.6trn, and a 6.2% increase in education spending, to Tenge1.1trn. We expect the budget deficit to narrow to 1.3% of GDP in full-year 2018, and further in subsequent years, to less than 1% of GDP by 2021, as the government cuts expenditure as a percentage of GDP and oil prices remain around US\$70-78/barrel. Dependence on oil revenue (estimated at one-third of total fiscal revenue in 2017) remains a risk. The government intends to reduce the size of the NFRK transfer, from Tenge2.6trn in 2018 to Tenge2trn by 2020. NFRK assets stood at US\$56.5bn at the end of August, equivalent to 33.7% of forecast 2018 GDP and down from US\$61.2bn at end-2016 (45.8% of 2016 GDP).

Monetary policy

Since mid-2015 the NBK has shifted away from a managed peg of the tenge to inflation targeting. The end-2018 inflation target is 5-7%, falling to 4-6% at end-2019 and “below but close to 4%” from end-2020 onwards. Dollarisation of the economy remains relatively high, and the limited level of financialisation constrains the NBK’s ability to influence interest rates and the money supply, as well as inflation expectations, through open-market operations. The oil price and movements in the Russian rouble will continue to play a dominant role in driving the exchange rate, money supply and inflation expectations.

On September 3rd the NBK held its policy rate at 9%, after a 25-basis-point cut in June. It noted that inflation in August was at the exact mid-point of its 5-7% target range, but warned that the risk of inflation nearing the upper range of its 4-6% target corridor in 2019 was rising. It did not exclude the possibility of tightening monetary policy. We forecast average inflation of 6.6% in 2018 (within the target range), but note that a rate increase is possible in the coming months, given the tenge’s depreciation in April-September. In 2019-22, given the move to a floating tenge and our forecast for average inflation of 5-7%, we expect monetary policy to stay relatively tight to maintain positive real interest rates.

International assumptions

	2017	2018	2019	2020	2021	2022
Economic growth (%)						
US GDP	2.3	2.8	2.2	1.3	1.7	1.9
Russia GDP	1.5	1.7	1.8	1.6	1.7	1.8
EU28 GDP	2.6	2.1	1.8	1.7	1.8	1.9
World GDP	3.0	3.0	2.8	2.4	2.7	2.8
World trade	5.3	4.0	3.7	3.0	3.9	3.7
Inflation indicators (% unless otherwise indicated)						
US CPI	2.1	2.5	2.4	1.6	1.8	1.9
Russia CPI	3.7	3.1	4.5	4.3	4.1	4.1
EU28 CPI	1.7	1.8	1.8	1.8	1.8	1.9
Manufactures (measured in US\$)	2.0	7.6	3.4	2.2	3.8	3.2
Oil (Brent; US\$/b)	54.4	73.5	72.5	70.0	74.8	77.3
Non-oil commodities (measured in US\$)	7.6	4.6	1.3	1.7	-1.1	1.5
Financial variables						
US\$ 3-month commercial paper rate (av; %)	1.1	2.0	2.7	2.6	1.7	2.0
€ 3-month rate	-0.3	-0.2	-0.1	0.4	0.9	1.4
US\$:€ (av)	1.13	1.18	1.19	1.21	1.21	1.24
Tenge:US\$ (av)	326.00	349.26	388.08	392.39	383.27	373.33

Economic growth

Kazakhstan has a growing labour force and considerable catch-up potential, but the poor business environment, weak competition in some sectors and large distances to global markets will remain significant constraints. Growth since the early 2000s has largely been driven by the expansion of the extractive sector and high commodity prices, which have supported growth in consumption and government spending. Although it is a declared policy priority, the government has struggled to diversify industrial production away from mining and to expand the tradeables sector.

According to the Ministry of Economy, real GDP grew by 4.1% in the first half of 2018, down slightly from 4.2% a year earlier. In full-year 2018 we forecast a slight slowdown in real GDP growth to 3.7%, from 3.9% in 2017. The industrial sector (which accounts for about one-third of GDP) is expected to decelerate. Output growth from the Kashagan oilfield will slow as it reaches capacity, and we forecast modest growth of 1% in overall oil output. Disinflation for most of this year as well as pension and wage increases have returned real cash income to growth, which will support private consumption. However, the shocks to the tenge since April risk boosting inflation and savings. In addition, the fragility of the banking sector will hold back private lending growth.

In 2019-22 we forecast average annual growth of 3.1%. Faster wage and credit growth will boost private consumption, and an expanding workforce and continuing urbanisation will support output and productivity gains. However, Kazakhstan's trend growth rate is likely to be significantly lower than during the past decade. Investment from China will remain substantial, for example in transport infrastructure, but non-tariff barriers will constrain trade gains from improved transport connections. Ongoing consolidation of the banking sector will hold down lending, and there remains a risk of further financial shocks, such as a sharp stockmarket correction, which could hit business confidence.

Economic growth

%	2017 ^a	2018 ^b	2019 ^b	2020 ^b	2021 ^b	2022 ^b
GDP	3.9	3.7	3.4	3.0	3.0	3.1
Private consumption	1.5	2.2	3.8	3.8	4.3	4.5
Government consumption	2.1	1.0	1.0	1.0	1.0	1.0
Gross fixed investment	4.0	4.0	4.1	4.0	4.0	4.0
Exports of goods & services	2.2	6.0	3.1	2.1	2.8	2.7
Imports of goods & services	-4.5	5.5	4.6	4.4	5.7	5.5
Domestic demand	1.9	1.9	3.5	3.4	3.8	3.8
Agriculture	3.2	3.8	3.0	2.8	2.8	2.9
Industry	6.3	4.7	4.5	4.0	2.8	2.7
Services	2.4	3.2	2.8	2.5	3.2	3.4

^a Actual. ^b Economist Intelligence Unit forecasts.

Inflation

Slowing food price growth drove consumer price disinflation from 6.8% year on year in January to 5.9% in July. Inflation accelerated slightly to 6% in August, owing to higher food prices. We expect a pick-up in inflation in the remainder of the year owing to the depreciation of the tenge that began in the second quarter, boosting imported inflation and inflation expectations. We forecast full-year average inflation of 6.6%—within the NBK's 5-7% range for 2018. In 2019-22 we expect external inflationary pressures (global food and non-oil commodity prices) to be weak but we do not expect the NBK to get inflation down to its medium-term target (below 4%) in 2018-22, given the oil price's strong impact on the exchange rate, money supply and inflation expectations.

Exchange rates

The tenge's movements partly reflect those of oil prices and the Russian rouble. Although oil prices have been supportive in 2018, rising above US\$70/b from April onwards, the tenge has depreciated steadily against the US dollar. When the US imposed new sanctions on Russia on April 6th, the rouble lost about 12% of its value against the dollar, and the tenge followed suit, falling by about 5%. The tenge began to depreciate again in late May, driven by a seasonal rise in demand for foreign currency in the summer holiday period and an NBK rate cut on June 4th. By end-July it had fallen to Tenge347.1:US\$1, from Tenge319:US\$1 at end-March. When the US announced further sanctions against Russia on August 8th, the rouble fell by 6.6% in the next two days. The tenge again followed suit, but to a lesser extent, falling by 2.5% to Tenge357.3:US\$1. Given the tenge's smaller depreciation against the dollar, it has since weakened further, to around Tenge380:US\$1 by mid-September, which has brought the tenge:rouble exchange rate closer to Tenge5.5:Rb1, where the tenge had originally settled after the NBK moved to a free float in mid-2015.

In the remainder of 2018 and in 2019 we expect global oil prices to remain above US\$70/b and the NBK to pause its rate cuts. In addition, the tenge's real effective exchange rate has fallen well below its 2013 high, suggesting that the currency is not overvalued. These factors are supportive of the Tenge:US dollar exchange rate, which we now forecast to end 2018 at Tenge385:US\$1 and 2019 at Tenge386.2:US\$1. The trajectory of the rouble presents the main risk to this outlook. If more US sanctions are imposed against Russia, the rouble and hence the tenge will again fall against the dollar. However, the NBK may decide that the tenge has weakened too much and intervene, which it has so far refrained from doing in 2018. With a dip in oil prices in 2020, we expect the tenge to weaken against the dollar, before appreciating in 2021-22 as oil prices rise.

External sector

Rising oil exports and a higher average oil price in 2017 narrowed the current-account deficit to 3.4% of GDP, from 6.6% in 2016, although foreign direct investment inflows decelerated owing to a slowdown in geological prospecting activity. In 2018 we expect higher oil prices to reduce the current-account deficit further, to 0.8% of GDP. In 2019-22 we forecast that higher private consumption will boost import demand, and that oil prices will remain within a US\$70-78/b range. Given high foreign involvement in Kazakhstan's oil sector, net income flows will continue to be strongly negative. We thus expect the current-account deficit to widen to an average of 1.5% of GDP in 2019-22. In 2018-22 there is a risk that direct investment, credit and private portfolio inflows will be lower than the average of the past decade, owing to perceptions of higher economic and political risk, as well as lower commodity prices than pre-2014.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2017 ^a	2018 ^b	2019 ^b	2020 ^b	2021 ^b	2022 ^b
Real GDP growth	3.9	3.7	3.4	3.0	3.0	3.1
Industrial production growth	8.4	4.7	4.5	4.0	2.8	2.7
Gross agricultural production growth	3.2	3.8	3.0	2.8	2.8	2.9
Crude oil & NGL production ('000 b/d)	1,730.9	1,748.2	1,765.7	1,783.4	1,792.3	1,797.7
Unemployment rate (av)	4.9	4.9	4.8	4.8	4.8	4.7
Consumer price inflation (av)	7.4	6.6	6.5	5.6	5.5	5.4
Consumer price inflation (end-period)	7.0	7.4	6.1	6.0	5.4	5.4
Government balance (% of GDP)	-1.8	-1.3	-1.2	-1.2	-0.9	-0.7
Exports of goods fob (US\$ bn)	49.3	63.8	65.4	66.8	70.9	74.8
Imports of goods fob (US\$ bn)	31.8	36.8	38.8	40.9	44.0	47.3
Current-account balance (US\$ bn)	-5.4	-1.3	-1.9	-2.3	-2.9	-4.5
Current-account balance (% of GDP)	-3.4	-0.8	-1.2	-1.3	-1.5	-2.1
External debt (end-period; US\$ bn)	167.5 ^c	172.7	178.4	183.1	187.6	192.5
Exchange rate Tenge:US\$ (av)	326.0	349.3	388.1	392.4	383.3	373.3
Exchange rate Tenge:US\$ (end-period)	331.3	385.0	386.2	391.6	382.5	375.0
Exchange rate Tenge:Rb (av)	5.59	5.52	5.80	5.73	5.73	5.71
Exchange rate Tenge:Rb (end-period)	5.75	5.63	5.76	5.61	5.84	5.75

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates.

Quarterly forecasts

Quarterly forecasts

	2017				2018				2019			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GDP												
% change, year on year	3.1	5.3	4.2	3.1	4.1	4.2	3.0	3.7	3.7	3.2	3.5	3.4
Consumer prices												
% change, quarter on quarter	2.7	1.6	0.7	2.2	1.9	1.2	0.6	3.4	1.2	1.2	1.2	2.4
% change, year on year	7.8	7.6	7.0	7.4	6.6	6.2	6.1	7.3	6.5	6.5	7.1	6.0
Producer prices												
% change, quarter on quarter	8.4	-2.5	1.2	6.5	7.4	2.7	6.2	3.5	5.5	1.3	1.8	1.4
% change, year on year	27.7	14.6	7.7	13.8	12.8	18.8	24.8	21.2	19.2	17.5	12.7	10.4
Exchange rate Tenge:US\$												
Average	322.46	314.72	332.41	334.41	323.22	329.75	359.55	384.50	385.02	385.80	390.82	390.67
End-period	314.79	321.46	340.43	331.31	319.02	341.31	372.02	384.99	385.41	388.31	390.74	386.15
Interest rates (%; av)												
Money-market rate	11.5	10.6	10.1	9.3	9.0	8.7	8.6	8.8	8.9	9.1	9.6	10.0
Long-term bond yield	7.2	7.8	9.0	9.2	9.2	9.2	9.3	9.5	10.4	10.6	10.7	10.9

Data and charts

Annual data and forecast

	2013 ^a	2014 ^a	2015 ^a	2016 ^a	2017 ^a	2018 ^b	2019 ^b
GDP							
Nominal GDP (US\$ bn)	228.3	218.5	179.3	133.7	158.1	167.7	165.3
Nominal GDP (Tenge bn)	34,727	39,150	39,757	45,740	51,543	58,567	64,135
Real GDP growth (%)	5.9	4.3	1.0	0.9	3.9	3.7	3.4
Expenditure on GDP (% real change)							
Private consumption	10.7	1.4	1.8	1.2	1.5	2.2	3.8
Government consumption	1.7	9.8	2.4	2.3	2.1	1.0	1.0
Gross fixed investment	5.5	4.4	4.2	3.0	4.0	4.0	4.1
Exports of goods & services	2.7	-2.5	-4.1	-4.5	2.2	6.0	3.1
Imports of goods & services	7.8	-4.0	-0.1	-2.0	-4.5	5.5	4.6
Origin of GDP (% real change)							
Agriculture	11.2	1.3	3.5	5.4	3.2	3.8	3.0
Industry	3.1	1.8	0.1	1.7	6.3	4.7	4.5
Services	6.9	5.7	3.1	0.9	2.4	3.2	2.8
Population and income							
Population (m)	17.2	17.5	17.7	18.0	18.2	18.4	18.6
GDP per head (US\$ at PPP)	22,704	24,239	24,075	24,359	25,954 ^c	27,112	28,297
Recorded unemployment (av; %)	5.2	5.0	5.0	5.0	4.9	4.9	4.8
Fiscal indicators (% of GDP)							
General government budget revenue	18.4	18.7	19.2	20.4	22.4	22.5	20.7
General government budget expenditure	19.7	19.9	20.7	20.6	24.2	23.8	21.9
General government budget balance	-1.4	-1.2	-1.5	-0.3	-1.8	-1.3	-1.2
Public debt	13.1	14.8	23.4	25.7	27.1	25.4	24.5
Prices and financial indicators							
Exchange rate Tenge:US\$ (end-period)	153.61	182.35	339.47	333.28	331.31	384.99	386.15
Exchange rate Tenge:€ (end-period)	211.17	221.97	371.31	348.94	395.29	444.66	469.18
Consumer prices (end-period; %)	4.6	7.3	13.8	8.5	7.0	7.4	6.1
Producer prices (av; %)	-0.2	9.4	-20.5	16.9	15.5	19.4	14.8
Stock of money M2 (% change)	1.5	-8.2	8.0	46.2	7.5	14.9	1.8
Lending interest rate (av; %) ^d	11.2	10.9	13.2	15.3	14.2	13.0	13.2
Current account (US\$ m)							
Trade balance	34,792	36,245	12,672	9,193	17,444	27,029	26,602
Goods: exports fob	85,596	80,309	46,516	37,263	49,294	63,824	65,366
Goods: imports fob	-50,803	-44,064	-33,844	-28,069	-31,850	-36,795	-38,764
Services balance	-7,074	-6,298	-5,106	-4,756	-4,413	-5,948	-6,769
Primary income balance	-25,148	-22,477	-11,150	-12,917	-17,927	-22,228	-21,449
Secondary income balance	-1,297	-1,331	-1,550	-393	-457	-149	-312
Current-account balance	1,274	6,140	-5,135	-8,874	-5,353	-1,296	-1,928
External debt (US\$ m)							
Debt stock	149,704	157,695	153,381	163,758	167,505 ^c	172,678	178,410
Debt service paid	30,917	31,165	34,953	20,310	39,301 ^c	41,318	36,641
Principal repayments	28,342	27,854	31,266	17,413	33,756 ^c	34,257	28,320
Interest	2,575	3,311	3,686	2,897	5,545 ^c	7,061	8,321
International reserves (US\$ m)							
Total international reserves	24,678	29,209	27,871	29,713	30,747	31,380	32,096

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates. ^d Interbank loans.

Sources: IMF, International Financial Statistics; Statistics Agency of the Republic of Kazakhstan; World Bank, International Debt Statistics.

Quarterly data

	2016		2017			2018		
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
General government finance (Tenge bn)								
Revenue	2,401.7	2,773.5	2,306.6	2,703.6	3,783.4	2,774.1	2,652.8	2,598.9
Expenditure & net lending	2,218.5	2,893.1	2,126.3	2,540.8	4,704.2	3,114.1	2,416.6	2,699.6
Balance	183.2	-119.5	180.3	162.8	-920.7	-340.0	236.2	-100.7
Output								
GDP at current prices (US\$ bn)	33.2	47.4	31.4	34.4	38.2	53.5	35.3	n/a
GDP at constant 2005 prices (Tenge bn)	3,228.4	3,680.2	3,089.1	3,301.4	3,364.0	3,795.7	3,215.7	n/a
Real GDP (% change, year on year)	1.5	2.5	3.1	5.3	4.2	3.1	4.1	n/a
Industrial production (% change, year on year)	-4.3	-1.6	5.6	10.2	11.6	6.4	5.2	3.7
Employment, wages and prices								
Unemployment ('000)	444.7	441.3	439.2	439.3	441.0	439.3	437.9	441.4
Unemployment rate (% of labour force)	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Monthly earnings (Tenge)	141,759	146,208	142,380	141,277	148,493	155,786	n/a	n/a
Monthly earnings (% change, year on year)	13.9	8.5	10.1	5.2	4.8	6.6	n/a	n/a
Consumer prices (% change, year on year)	17.3	9.5	7.8	7.6	7.0	7.4	6.6	6.2
Producer prices (% change, year on year)	26.2	17.9	27.7	14.6	7.7	13.8	12.8	18.8
Financial indicators								
Exchange rate Tenge:US\$ (av)	341.5	334.9	322.5	314.7	332.4	334.4	323.2	329.8
Exchange rate Tenge:US\$ (end-period)	334.9	333.3	314.8	321.5	340.4	331.3	319.0	341.3
Deposit rate (av; %)	11.7	10.9	10.1	9.1	9.2	8.6	7.6	6.5
Lending rate (av; %) ^a	15.5	15.7	15.6	13.8	13.8	13.5	12.8	12.8
3-month real money-market rate (av; %)	-3.0	2.8	3.4	2.9	2.9	1.8	2.2	2.4
Long-term government bond yield (av; %)	5.3	5.4	7.2	7.8	9.0	9.2	9.2	9.2
M1 (end-period; Tenge bn)	4,039	4,590	4,928	5,011	5,477	4,968	4,807	5,577
M1 (% change, year on year)	22.9	51.3	37.4	18.7	35.6	8.2	-2.4	11.3
M2 (end-period; Tenge bn)	11,214	12,566	12,747	13,612	14,096	13,513	13,351	14,433
M2 (% change, year on year)	33.1	46.2	30.9	27.3	25.7	7.5	4.7	6.0
Sectoral trends								
Coal (m tonnes)	25.6	32.7	29.6	23.1	27.3	31.3	n/a	n/a
Natural gas (bn cu metres)	5.4	5.9	6.0	5.6	5.5	5.9	n/a	n/a
Crude oil (m tons)	301.8	354.6	355.3	364.7	366.0	378.3	382.5	391.2
Electricity (m kwh)	21,558	27,086	27,112	23,932	24,015	28,146	n/a	n/a
Foreign trade (US\$ m)								
Exports fob	9,471	10,516	10,849	12,267	11,408	13,819	13,779	n/a
Imports cif	6,497	7,494	6,069	7,593	7,396	8,247	7,247	n/a
Trade balance	2,974	3,022	4,779	4,674	4,012	5,572	6,532	n/a
Foreign payments (US\$ m)								
Trade in goods balance	2,346	2,432	4,299	4,266	3,577	5,302	6,429	6,091
Services balance	-1,529	-1,335	-931	-1,081	-1,114	-1,287	-911	-952
Primary income balance	-2,808	-3,849	-4,676	-4,554	-4,071	-4,627	-6,083	-5,946
Current-account balance	-2,058	-2,879	-1,403	-1,481	-1,724	-745	-593	-835
Reserves excl gold (end-period)	20,634	20,096	19,054	18,858	20,239	18,249	17,451	17,162

^a Interbank loans.

Sources: Statistics Agency of the Republic of Kazakhstan; IMF, International Financial Statistics; Ministry of Finance; National Bank of Kazakhstan.

Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Tenge:US\$ (av)												
2016	365.8	359.2	344.9	337.2	332.7	336.5	341.0	344.9	338.6	332.0	339.1	333.7
2017	331.1	320.2	316.1	312.2	313.5	318.4	325.3	332.7	339.2	337.1	332.5	333.7
2018	327.0	321.9	320.7	324.9	328.3	336.1	344.2	356.5	n/a	n/a	n/a	n/a
Exchange rate Tenge:US\$ (end-period)												
2016	371.6	349.8	343.1	330.4	336.7	338.9	352.8	339.0	334.9	333.5	340.3	333.3

2017	326.3	312.5	314.8	313.9	311.2	321.5	326.7	334.7	340.4	334.0	331.6	331.3
2018	322.4	318.7	319.0	327.9	330.7	341.3	347.1	361.3	n/a	n/a	n/a	n/a
Real effective exchange rate (1997=100; CPI-based)												
2016	76.6	78.0	79.5	79.5	81.1	80.6	80.8	79.5	80.8	83.0	84.0	86.8
2017	87.3	90.1	91.2	91.5	90.3	88.5	86.3	83.4	80.4	82.6	85.1	84.6
2018	84.8	85.8	86.0	86.3	87.9	86.8	n/a	n/a	n/a	n/a	n/a	n/a
Budget revenue (Tenge bn)												
2016	446.0	800.6	594.8	762.7	876.9	652.2	802.8	850.3	748.6	1,040.2	849.3	884.0
2017	554.8	898.9	852.9	904.4	964.5	834.7	2,004.6	914.4	864.4	770.6	889.7	1,113.8
2018	883.3	925.4	844.1	809.7	895.1	894.0	997.1	n/a	n/a	n/a	n/a	n/a
Budget expenditure (Tenge bn)												
2016	735.5	706.6	702.7	702.7	717.4	757.1	729.1	722.9	766.6	845.4	886.8	1,160.8
2017	641.1	832.8	652.3	791.9	908.6	840.3	2,991.9	850.5	861.8	873.9	911.3	1,329.0
2018	814.2	800.6	801.8	843.7	859.1	996.7	1,101.6	n/a	n/a	n/a	n/a	n/a
Budget balance (Tenge bn)												
2016	-289.6	94.0	-107.9	60.0	159.5	-104.9	73.7	127.4	-18.0	194.8	-37.5	-276.8
2017	-86.4	66.1	200.6	112.5	55.9	-5.6	-987.3	63.9	2.6	-103.3	-21.6	-215.1
2018	69.1	124.8	42.3	-34.0	36.0	-102.7	-104.6	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2016	17.8	17.1	12.2	13.9	13.5	13.2	12.2	11.5	11.5	10.7	10.9	11.1
2017	10.3	10.5	9.5	9.4	9.0	8.8	9.0	9.1	9.4	8.5	8.6	8.6
2018	7.9	8.0	6.8	6.7	6.5	6.2	6.2	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)^a												
2016	14.6	12.8	14.3	16.3	15.8	16.7	16.8	16.9	12.8	16.0	15.9	15.2
2017	16.7	15.3	14.9	15.1	12.0	14.3	14.4	14.3	12.6	13.9	13.1	13.4
2018	13.8	11.2	13.4	13.2	12.7	12.6	12.8	n/a	n/a	n/a	n/a	n/a
M1 (% change, year on year)												
2016	6.1	8.0	17.2	27.3	15.2	17.2	22.2	20.5	22.9	36.4	44.5	51.3
2017	45.1	41.8	37.4	30.5	29.7	18.7	21.7	17.7	35.6	16.5	12.9	8.2
2018	15.9	7.9	-2.4	-3.0	-1.6	11.3	7.3	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2016	12.3	14.8	25.0	29.1	29.9	25.5	37.8	33.2	33.1	34.6	33.1	46.2
2017	41.5	36.4	30.9	33.0	29.8	27.3	18.1	18.6	25.7	19.3	14.3	7.5
2018	10.0	11.0	4.7	3.9	2.9	6.0	10.4	n/a	n/a	n/a	n/a	n/a
Industrial production (% change, year on year)												
2016	-0.7	0.1	-1.8	-3.1	-5.3	0.1	0.1	-7.5	0.1	1.2	1.1	1.8
2017	4.9	4.0	8.3	10.9	10.7	7.5	7.4	14.4	6.9	0.6	5.0	5.4
2018	5.2	6.1	4.7	4.5	6.4	4.2	4.4	n/a	n/a	n/a	n/a	n/a
Retail sales (% change, year on year)												
2016	-7.4	-1.2	-0.8	-0.2	2.1	0.2	-0.1	4.0	0.1	5.5	0.0	6.4
2017	3.5	5.6	7.3	5.7	9.0	4.6	9.2	5.4	7.3	5.0	4.8	8.1
2018	4.3	3.8	5.8	7.1	5.1	6.7	6.1	n/a	n/a	n/a	n/a	n/a
Unemployment rate (%)												
2016	5.1	5.1	5.0	5.0	5.0	5.0	4.9	4.9	4.9	4.9	4.9	4.9
2017	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
2018	4.9	4.9	4.9	4.9	4.9	4.9	4.9	n/a	n/a	n/a	n/a	n/a
Kazakhstan stock exchange index KASE (end-period; Dec 7th 2000=100)												
2016	859	941	971	940	1,041	985	1,062	1,112	1,191	1,284	1,328	1,358
2017	1,500	1,558	1,554	1,547	1,563	1,660	1,800	1,970	2,049	2,043	2,057	2,163
2018	2,329	2,362	2,437	2,384	2,503	2,412	2,362	2,232	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2016	14.4	15.2	15.7	16.3	16.7	17.3	17.7	17.6	16.6	11.5	8.7	8.5
2017	7.9	7.8	7.7	7.5	7.5	7.5	7.1	7.0	7.1	7.7	7.3	7.1
2018	6.8	6.5	6.6	6.5	6.2	5.9	5.9	6.0	n/a	n/a	n/a	n/a
Producer prices (av; % change, year on year)												
2016	4.2	8.8	8.2	15.3	16.4	18.7	24.8	26.3	26.1	19.9	17.8	15.5
2017	25.3	31.2	26.7	18.4	15.3	9.6	4.8	7.7	9.5	12.1	11.6	17.6
2018	12.2	13.7	13.5	15.8	18.3	22.2	24.3	24.6	n/a	n/a	n/a	n/a
Average monthly wages (% change, year on year)												
2016	6.5	5.0	1.0	14.8	9.2	5.4	13.4	13.9	14.3	15.9	14.5	-1.9
2017	7.7	15.1	7.6	1.8	4.9	9.1	3.7	4.1	6.5	5.6	5.0	8.8
2018	9.9	3.6	9.6	9.0	10.0	13.8	6.4	n/a	n/a	n/a	n/a	n/a
Total exports fob (US\$ m)												
2016	2,757	2,873	2,654	2,737	2,735	2,994	3,162	3,025	3,284	2,827	3,687	4,003

2017	3,260	3,628	3,960	3,973	4,155	4,139	3,806	3,456	4,146	4,020	4,579	5,220
2018	4,083	4,688	5,008	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total imports cif (US\$ m)												
2016	1,595	1,668	1,966	2,086	2,076	1,996	1,909	2,329	2,260	2,506	2,404	2,584
2017	1,988	1,893	2,189	2,285	2,685	2,624	2,427	2,463	2,507	2,666	2,782	2,799
2018	2,335	2,192	2,720	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US\$ m)												
2016	1,163	1,205	688	651	659	999	1,253	696	1,024	321	1,283	1,418
2017	1,273	1,735	1,772	1,689	1,470	1,515	1,380	994	1,639	1,354	1,797	2,421
2018	1,748	2,496	2,288	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US\$ m)												
2016	18,875	18,687	19,339	19,912	19,471	20,291	20,033	20,222	20,634	20,007	19,841	20,096
2017	19,363	19,071	19,054	18,775	18,998	18,858	21,508	20,649	20,239	19,527	18,884	18,249
2018	18,265	17,960	17,451	18,023	17,365	17,162	n/a	n/a	n/a	n/a	n/a	n/a

^a Interbank loans.

Sources: IMF, International Financial Statistics; Haver Analytics.

Annual trends charts

Annual trends charts

Real GDP growth
(% change)



Source: The Economist Intelligence Unit.

Consumer price inflation
(av; %)



Source: The Economist Intelligence Unit.

Budget balance
(% of GDP)



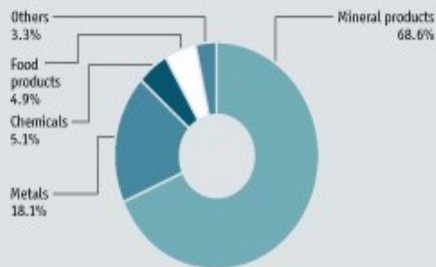
Source: The Economist Intelligence Unit.

Public debt
(% of GDP)



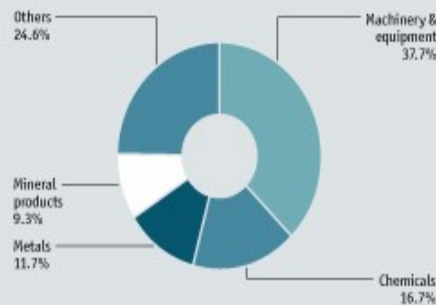
Source: The Economist Intelligence Unit.

Principal exports, 2017
(share of total)



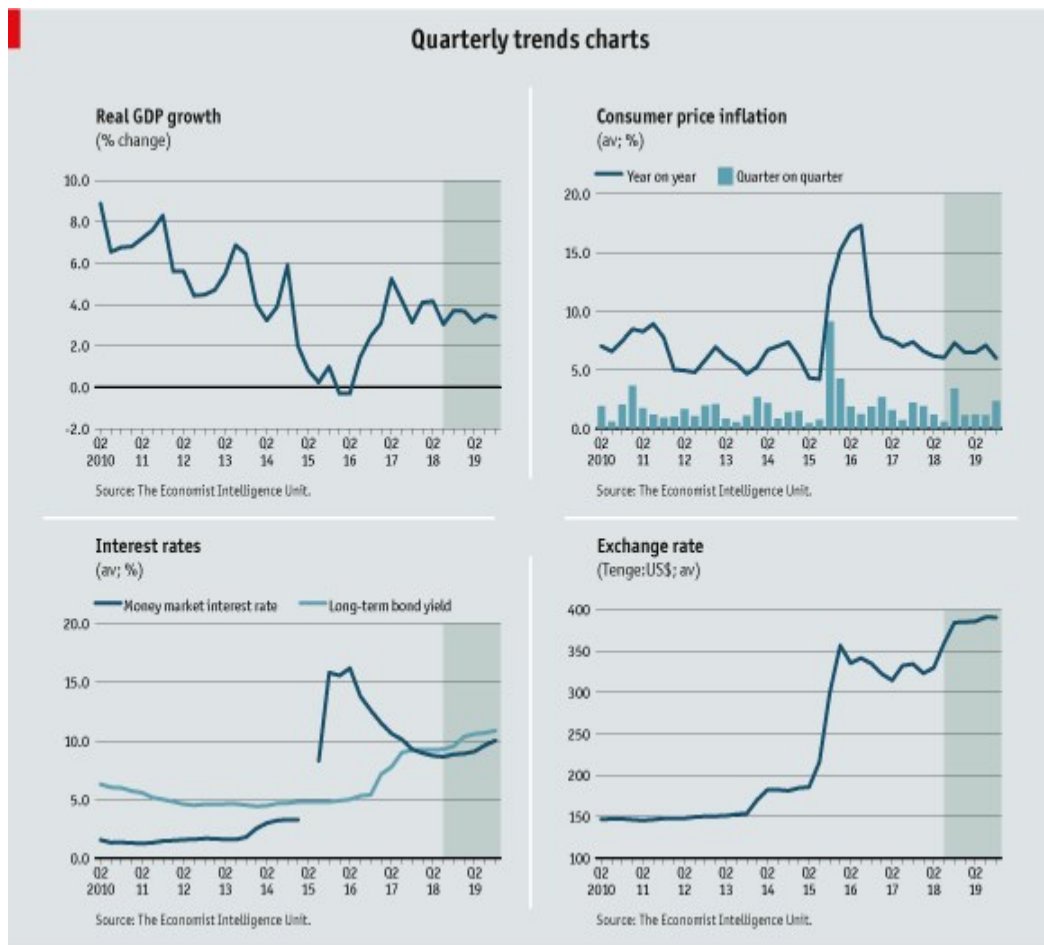
Source: The Economist Intelligence Unit.

Principal imports, 2017
(share of total)



Source: The Economist Intelligence Unit.

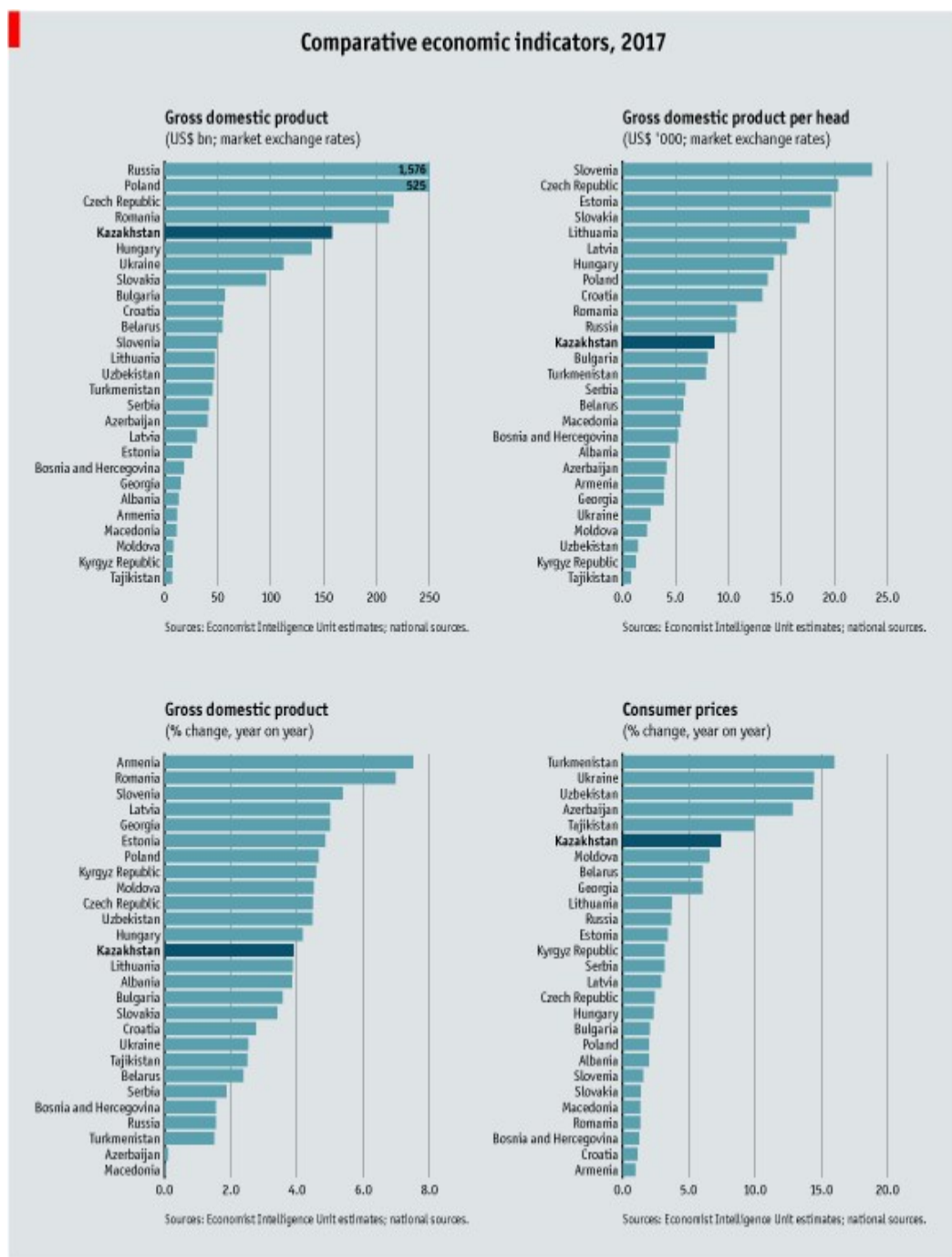
Quarterly trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

2,717,300 sq km

Population

18.2m (2017 UN estimate)

Main towns

The capital was moved from Almaty to Astana (formerly Akmola) on December 10th 1997

Population in '000 (2009 census)

Almaty: 1,366

Astana: 613

Shymkent: 603

Karaganda: 460

Aktobe: 346

Taraz: 321

Pavlodar: 318

Ust-Kamenogorsk: 304

Climate

Continental. Average temperature in Astana in winter: -18°C; in summer: 20°C. Average temperature in Almaty in winter: -8°C; in summer: 22°C

Languages

Kazakh is the state language. Russian has the status of an official language and is the de facto language of administration

Weights and measures

Metric system

Currency

Tenge

Fiscal year

Calendar year

Time

Six hours ahead of GMT; five hours ahead of GMT in western Kazakhstan

Public holidays

January 1st-2nd (New Year's Day); January 7th (Orthodox Christmas Day); March 8th (Women's Day); March 21st-23rd (Novruz); May 1st (Unification holiday); May 7th (Defender's Day); May 9th (Victory Day); July 6th (Capital City Day); August 22nd (Kurban Ait); August 30th (Constitution Day); December 3rd (First President's Day); December 17th-18th (Independence Day)



Political structure

Official name

Republic of Kazakhstan

Legal system

On December 16th 1991 the Republic of Kazakhstan became the last of the former Soviet republics to declare its independence following the collapse of the Soviet Union. Parliament approved amendments to the 1995 constitution in 2007, ostensibly aimed at redistributing the balance of power away from the presidency in favour of the legislature

National legislature

Bicameral: 107-seat Mazhilis (lower house), 47-seat Senate (upper house)

Electoral system

Universal suffrage over the age of 18 for the presidential and Mazhilis elections; senators are partly elected by the regions and partly appointed by the president

National elections

April 2015 (presidential); March 2016 (Mazhilis); June 2017 (half of the Senate). Next elections: 2020 (half of the Senate); 2020 (presidential); 2021 (Mazhilis)

Head of state

The president, Nursultan Nazarbayev, first elected in December 1991 (term extended following a referendum in 1995). Re-elected in January 1999, December 2005, April 2011 and April 2015

National government

Council of Ministers, headed by a prime minister (appointed by the president). In practice, Mr Nazarbayev exercises extensive control over the political and economic spheres

Main political parties

Nur Otan (Radiant-Fatherland); Communist Party of Kazakhstan (KPK); Ak Zhol (Bright Path); Republican People's Party of Kazakhstan (RNPK); Party of Patriots; Communist People's Party of Kazakhstan (KNPK). The alliance of Azat (Freedom) and the National Social Democratic Party (OSDP), which merged in October 2009 to form OSDP Azat, collapsed in February 2013

Council of Ministers

Prime minister: Bakytzhan Sagintayev

First deputy prime minister: Askar Mamin

Deputy prime minister & agriculture minister: Askar Myrzakhmetov

Culture & sport: Arystanbek Mukhamediuly

Defence: Saken Zhasuzakov

Economic integration: Zhanar Aytzhanova

Economy: Timur Suleimenov

Education & science: Yerlan Sagadiev

Energy: Kanat Bozumbayev

Finance: Bakhyt Sultanov

Foreign affairs: Kairat Abdrakhmanov

Health & social development: Elzhan Birtanov

Information & communication: Dauren Abayev

Internal affairs: Kalmukhanbet Kasymov

Investment & development: Zhenis Kasymbek

Justice: Marat Beketayev

Labour & social security: Tamara Duiseynova

Religious affairs: Nurlan Yermekbayev

Head of the presidential administration

Adilbek Dzhaksybekov

Speakers of parliament

Kassym-Jomart Tokayev (Senate)

Nurlan Nigmatulin (Mazhilis)

Central bank chairman

Daniyar Akishev

Recent analysis

Generated on September 14th 2018

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

Politics

Forecast updates

Convention signed on legal status of Caspian Sea

August 13, 2018: Political stability

Event

On August 12th, at the Fifth Caspian Summit held in Aktau, Kazakhstan, the presidents of Azerbaijan, Kazakhstan, Iran, Russia and Turkmenistan—the five countries bordering the Caspian Sea—signed a convention determining the legal status of the Caspian Sea.

Analysis

The agreement ends 20 years of negotiations. According to a statement by the Ministry of Foreign Affairs of Kazakhstan, three items were up for discussion at the summit: the legal status of the Caspian Sea; co-operation in the Caspian in the fields of economy, transport, environment, protection of bio-resources and security; and regional and global issues.

The main obstacle that has long prevented any resolution to the issue of the Caspian's legal status is whether this body of water should be legally defined as a sea or a lake. This is of critical importance, as being a lake would imply that the resources would have to be equally shared between all the coastal countries. Defining it as a sea would ensure that each country's share depended on the length of its respective coastline and would imply that Iran, with the shortest coastline, would have claim to the smallest portion. Hence Iran had previously insisted on defining it as a lake.

Although the full text of the convention has not yet been made public, it appears that the countries have agreed to define the surface of the Caspian as a sea, but have not defined the division of the seabed. The convention has set the limits of the states' territorial waters at 15 nautical miles from the coast, with the limits of sovereign fishing waters set at a further 10 nautical miles. According to the Kazakh Ministry of Foreign Affairs, the convention also allows for the laying of pipelines along the seabed, as long as these observe "ecological requirements". This suggests that the Trans-Caspian Pipeline (TCP)—a gas pipeline between Turkmenistan and Azerbaijan—could potentially be constructed.

Impact on the forecast

The agreement is historic and could boost investment and exploration for new oil and gasfields in the Caspian basin, and eventually lead to the construction of the TCP. However, the delimitation of the seabed between Azerbaijan, Iran and Turkmenistan remains unclear. This will continue to limit the development of oil and gasfields in the southern part of the Caspian.

Authorities pursue online dissenters

September 11, 2018: Political stability

Event

Two social network users are being prosecuted in western Kazakhstan over posts that they made in an opposition-linked forum in a messaging application. The case highlights the government's increased attempts to stamp out online dissent.

Analysis

Aygul Akberdi and Ablovas Dzhumayev, a married couple, face separate trials on charges of inciting social strife through their postings on the Telegram messenger application earlier this year. Ms Akberdi faces a further charge of seeking the forcible overthrow of the state. Both deny the charges. Mr Dzhumayev's trial began on July 31st; Ms Akberdi's trial has yet to start.

Both had posted remarks in an online forum created by Democratic Choice of Kazakhstan (DVK), an opposition group set up by Mukhtar Ablyazov, a France-based entrepreneur who was convicted in Kazakhstan *in absentia* on corruption charges last year. Mr Ablyazov is a long-standing political foe of Nursultan Nazarbayev, the Kazakh president. He spent three and a half years in a French detention centre fighting extradition to Russia to face fraud charges, but was freed in 2016 after a French court ruled that the Russian extradition request was political and had been made at Kazakhstan's behest.

In 2017 Mr Ablyazov set up DVK with the stated intention of overthrowing Mr Nazarbayev. In March this year DVK was banned in Kazakhstan by a court that ruled that it was extremist. DVK is a marginal opposition group whose activity is mainly carried out online. In the second quarter of 2018 it called for protests in Kazakhstan, and small demonstrations were held in several towns, leading to some arrests. These protests have since petered out after a call by DVK for protests in July was largely ignored. The penalties for protesting without official permission are stiff, including jail terms, and people are reluctant to take the risk.

Organised opposition is absent in Kazakhstan, as opposition parties have been closed by the courts in some cases, and others have ceased to function under official pressure. After eradicating organised opposition, the authorities have turned their attention to combating online dissent. They are particularly concerned with counteracting dissent among supporters of Mr Ablyazov, as the cases of Mr Dzhumayev and Ms Akberdi illustrate.

Impact on the forecast

These cases are in line with our forecast that the government will crack down on any form of dissent in the forecast period, paying particular attention to counteracting alleged supporters of Mr Ablyazov.

Analysis

Oil theft trial ends with 24 convictions

August 30, 2018

On August 2nd the trial ended—after seven months—of 26 people accused of involvement in an organised crime ring that had siphoned oil out of pipelines in western Kazakhstan. Long prison sentences were issued to 24 of the defendants, who included a former senior police officer. In recent years [the widespread occurrence of oil theft has become a cause of official concern](#), owing to lost sales and tax revenue, and also its potential to provide a funding source for organised criminal groups. In view of the collusion of some security force members with organised crime rings engaged in oil theft—and given the vast, sparsely populated areas in western Kazakhstan in which the activity occurs—we expect the government to have only limited success in combating this illegal trade in the 2018-22 forecast period.

The longest sentence went to Yerkin Izbasar, the group's leader, who received a 12-year term in a maximum-security prison. The court, in the western city of Aktobe, heard that he and six other

defendants had set up an organised crime ring called Four Brothers, which had been active in Kazakhstan since the 1990s until their arrest in December 2016, following security-force operations at two oil refining companies: Aktobe Neftepererabotka and Vernal Oil Kazakhstan. In total, there were 26 defendants in the trial. All were charged with illegally acquiring, transporting and selling oil stolen from pipelines, which the court found to have caused damage worth Tenge39m (US\$112,000).

Twenty-four of the defendants—who included entrepreneurs involved in oil trading and transportation—were convicted and sentenced to jail terms of three to 12 years, some of which were immediately reduced under an amnesty. Two were acquitted.

Police involvement

Rakhat Akhanov, the former head of the Interior Ministry's Criminal Police Department, was convicted of abuse of office for collaborating with the crime ring to facilitate and cover up oil theft. Mr Akhanov received a seven-year prison term, which was immediately reduced under an amnesty, to five years and three months.

Previous cases

[During the last two years, the authorities have cracked down on oil theft.](#) In a trial that concluded in August 2017, a court convicted a group of people involved in siphoning oil out of pipelines in the Aktobe region. The group's members received jail terms of between five and 15 years. Among those convicted was Kenzhegali Burkitov, a former commander from an Interior Ministry special forces group called Arlan, who was sentenced to six years in jail. The court found that he had made arrangements to allow vehicles carrying oil stolen from CNPC-AktobeMunaiGas (a Chinese-Kazakh oil and gas joint venture) to travel unhindered by law-enforcement bodies. The criminals had paid him Tenge2m per month to ensure safe passage.

Law-enforcement officials made [a series of arrests in May 2017](#) in four cities in southern and western Kazakhstan: Aktobe, Kyzylorda, Shymkent and Taraz. The detainees included Nurlan Serikbayev, the former transport prosecutor of Kyzylorda, who was convicted in December 2017 of abuse of office for aiding and abetting oil theft by an organised crime ring. He received a two-year prison term, which was immediately reduced on amnesty to two years of restricted freedom (living under conditions similar to parole).

Crackdown attempts

The latest trial and previous cases indicate that large-scale oil theft by organised criminal groups remains widespread, despite government attempts to crack down. Efforts to curb the theft are hampered by the involvement of corrupt law-enforcement officials. This reflects our view that corruption in state bodies and in the security forces will remain rife in the forecast period. Furthermore, the leniency with which corruption among law-enforcement officials is often treated—as in the cases of Mr Akhanov and Mr Serikbayev, whose sentences were reduced—reduces the effectiveness of their prosecutions as a deterrent. We believe that, despite the authorities' efforts to prevent oil theft, it will remain a significant problem during the 2018-22 forecast period.

Economy

Forecast updates

New US sanctions on Russia hit tenge

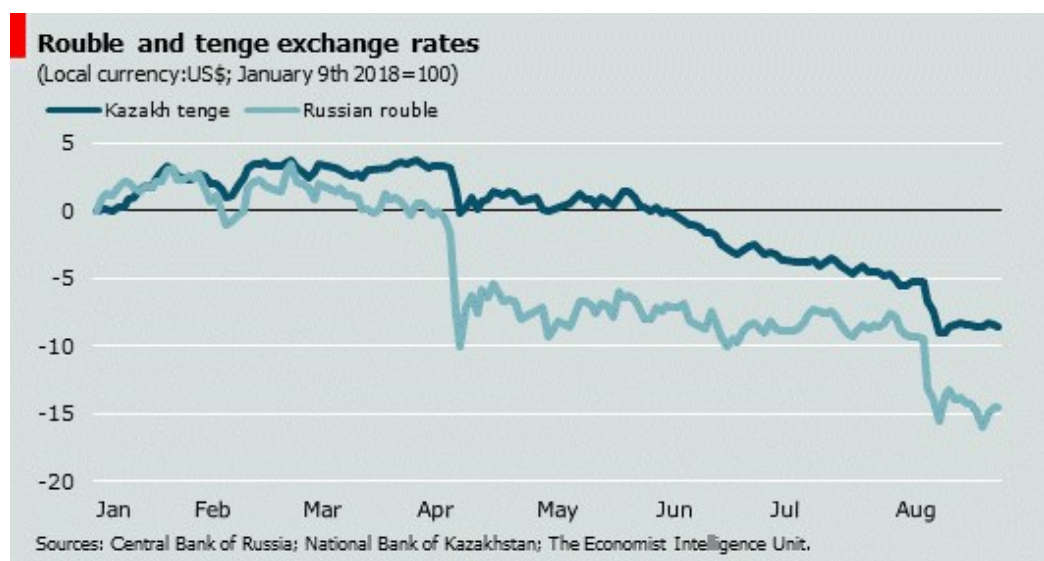
August 30, 2018: Exchange rates

Event

When [the US announced new sanctions against Russia on August 8th](#), the Russian rouble fell by 6.8% against the US dollar by August 14th. The tenge followed suit, but to a lesser extent, falling by 4% to Tenge363.3:US\$1. The two currencies have since stabilised, and the tenge averaged Tenge361:US\$1 in the second half of August.

Analysis

The weakening of the tenge in early August follows [two shocks on the Kazakh currency](#) in the second quarter of 2018. The first shock was prompted by new US sanctions on Russia on April 6th, and the second by the National Bank of Kazakhstan (NBK, the central bank) cutting its policy rate.



Since mid-2015 the NBK has shifted away from a managed peg of the tenge to inflation targeting. The NBK released statements in August 2018 reiterating that the tenge was in a free float. It said that it had not intervened in the foreign-exchange market this year, but would consider doing so in the case of extreme currency volatility.

As a result of the free float, the tenge's movements partly reflect those of oil prices and the Russian rouble. Although oil prices have been supportive in 2018, the weakening of the rouble against the US dollar has hit the tenge, giving Russia's importance as a trading partner for Kazakhstan. In addition, the Kazakh population's perception of the tenge exchange rate has yet to adjust to the NBK's policy shift to a floating currency. As a result, each additional depreciation of the tenge against the dollar weakens confidence in the Kazakh currency and risks boosting inflationary expectations. On August 23rd the NBK released a statement defending the floating exchange-rate regime and explaining that the previous fixed exchange-rate regime forced the NBK to intervene to the tune of US\$40bn when global oil prices collapsed in 2014-15.

Given the tenge's smaller depreciation against the US dollar compared with the rouble this year, we expect it to weaken further in order to avoid an over-appreciation against the rouble. This will also be stoked by increasingly negative domestic sentiment over the stability of the currency.

Impact on the forecast

We maintain our forecast that the tenge will weaken further, ending 2018 at Tenge373.6:US\$1. In 2019 we expect global oil prices to remain steady and the NBK to pause its rate cuts, which will support the tenge. Risks are to the downside, including the likely imposition of additional US sanctions on Russia.

Extractive and transport sectors drive economy in H1

August 30, 2018: Economic growth

Event

According to the Statistics Agency of the Republic of Kazakhstan (SARK), value-added real GDP grew by 4.2% year on year in the first half of 2018, down slightly from 4.3% in 2017.

Analysis

According to a sectoral breakdown of real GDP, industry grew by 5.2% year on year in the first half of 2018, faster than agriculture (up by 4%), construction (3.8%) and services (3.7%). Within industry (33% of first-half nominal GDP), mining and quarrying grew by 5.5%, and manufacturing by 5.2%, accounting for 18% and 12.8% of nominal GDP respectively. This is indicative of the continuing expansion of Kazakhstan's extractive sector. [Oil production increased by 7.6% year on year in the first half of 2018](#), reaching 38.5m tonnes, driven by higher production at the Kashagan oilfield.

Although the services sector (59% of nominal GDP) grew more slowly than industry, its 3.7% growth was an improvement from the 2.4% figure in the first half of 2017. Within services, wholesale and retail trade grew by 5.9% in January-June 2018, up from 2.4% in the same period last year. The pick-up was driven by steady consumer price disinflation, and by pension and wage increases. This led to a recovery in real wages, which rose by 2.1% year on year in the first half of 2018, after contracting steadily since early 2015.

In the first six months of 2018, transport and storage services rose by 4.9% year on year, and information and communication services grew by 5.9%. The transport and communication sector has increased in importance, following years of investment in transport and logistics infrastructure as part of [the government's efforts to position Kazakhstan as a major transit hub](#) along the land route from China to Europe, and as part of China's Belt and Road Initiative. In January-June 2018 transport and communication services accounted for 10.6% of GDP, up from 9.8% in 2012.

We expect a slowdown in real GDP growth, to 3.4% in the second half of 2018. We expect output growth at Kashagan to slow down as it reaches full capacity. Furthermore, the shocks to the tenge (since April) risk boosting inflation and savings, and the fragility of the banking sector will continue to hold back private lending growth. All these factors point to a slowdown in services.

Impact on the forecast

The real GDP growth figure for the first half of 2018 is in line with our full-year 2018 forecast of 3.7%.

Current-account deficit narrows in first half

August 30, 2018: External sector

Event

In the first half of 2018 the current-account deficit narrowed to US\$1.4bn, from US\$2.9bn a year earlier.

Analysis

The smaller current-account deficit was mainly driven by a larger merchandise trade surplus, which grew to US\$12.5bn, from US\$8.6bn a year earlier. Merchandise exports increased by 21.8% year on year to reach US\$28.6bn, boosted by higher global oil prices, which averaged US\$71/barrel in the first half of 2018, up from US\$52.2/b a year earlier. Merchandise exports grew at a much slower pace, rising by 7.8% year on year in the first half of 2018, to US\$16.1bn.

The primary income account, the other major component of Kazakhstan's current account, posted a deficit of US\$12bn in the first half of 2018, widening from a deficit of US\$9.2bn a year earlier. Given the high foreign involvement in Kazakhstan's oil sector, income outflows are strongly negative and increase in line with oil prices. The National Bank of Kazakhstan (NBK, the central bank) noted that the income of foreign direct investors rose by 32.8% to US\$11.2bn, more than half of which was used to finance subsidiaries of Kazakh firms.

The services account posted a deficit of US\$1.9bn in the first half, little changed from the US\$2bn deficit a year earlier, and the secondary income account posted a deficit of US\$55m, down from US\$207m in the same timeframes.

On the financial account, net foreign direct investment inflows rose to US\$4.8bn in the first half, from US\$3.1bn in the year-earlier period. The NBK noted that the inflows were driven by foreign-affiliated companies' debt repayments to Kazakh firms. In addition, non-residents paid out sizeable dividends to Kazakh firms and residents. Net portfolio outflows stood at US\$2bn in the first half, in contrast to net inflows of US\$5.1bn a year earlier, owing to the repurchase of shares in KazMunayGaz Exploration Production (KMG EP, the upstream subsidiary of the state-owned oil and gas company, KMG), part of plans to delist KMG EP from the London Stock Exchange and [eventually float an Initial Public Offering of KMG in its entirety](#). At the end of the first half of 2018, Kazakhstan's foreign-exchange reserves including gold stood at US\$30.1bn, roughly the same as a year earlier, and providing about eight months of import cover.

Impact on the forecast

We will consider increasing our full-year 2018 current-account deficit forecast, from US\$1.3bn at present, in our next forecasting round.

Central bank withdraws licences of two banks

August 30, 2018: Policy trends

Event

On August 27th the National Bank of Kazakhstan (NBK, the central bank) withdrew the banking licences of Qazaq Banki and Eksimbank.

Analysis

In April [the president, Nursultan Nazarbayev, had singled out these two banks \(and also a third, Bank of Astana\) for criticism](#), accusing shareholders of poor management and running up debts. This led to a run on the three banks, and on April 27th the NBK suspended Qazaq Banki's licence for "systematically" failing to meet its payment obligations. [In May the NBK suspended for three months the licences of Eksimbank and Bank of Astana](#) to receive deposits and open new accounts. At the start of August the share of non-performing loans (NPLs) in total loans stood at 53.7% for Eksimbank, 35.2% for Bank of Astana and 15% for Qazaq Banki.

In withdrawing the licences for Qazaq Banki and Eksimbank, the NBK cited among other issues their "systematic violations of prudential standards". It noted that their low share of assets and liabilities in the overall banking sector (0.2% for Eksimbank and 0.8% for Qazaq Banki) meant that their licence withdrawals would not pose risks to other financial institutions. The NBK added that most depositors' funds were guaranteed by Kazakhstan's deposit guarantee fund, with only 2% of Qazaq Banki's depositors and 1% of Eksimbank's depositors having funds in excess of the amount guaranteed.

The Kazakh banking sector continues to struggle with the legacy of the 2008-09 crisis and the tenge depreciation in 2014-15. Despite some reforms, corruption and weak lending practices remain a problem, and the owners of some of the largest banks are politically exposed. According to the NBK, the sector-wide NPL ratio stood at 8.8% at the start of August, down from 31.2% at the start of 2014. At the start of July 79.4% NPLs were provisioned, down from 89.2% at the start of the year. The share of NPLs stood at 15.2% at Halyk Bank, Kazakhstan's largest bank, which accounts for one-third of the banking sector's assets following [its merger with Kazkommertsbank \(Qazkom\) in July](#). At the end of June banks' claims on other financial corporations were down by 34.6% year on year and broadly flat on the private sector.

Impact on the forecast

The withdrawal of the two banks' licences is in line with our forecast that the banking sector will remain weak in the forecast period. We expect lending growth to be much weaker in 2018-22 compared with pre-2014 rates.

Fiscal deficit narrows sharply in first seven months

August 31, 2018: Fiscal policy outlook

Event

In January-July, the general government deficit narrowed to Tenge202.7bn (US\$560m), from Tenge1.1trn (US\$3.4bn at 2017 average exchange rates) in the same period as last year.

Analysis

In January-July revenue fell sharply, by 10.9% year on year, to Tenge6.2trn. In January-July transfer receipts fell to Tenge1.9trn, down from Tenge3.2trn in the same period of 2017. This is related to the winding down of the government's three-year stimulus package, launched in 2015, which was funded by transfers from the National Fund of the Republic of Kazakhstan (NFRK, the sovereign wealth fund). Tax receipts rose by 15.3%, to 4.2trn, supported by higher oil prices, [rising oil production](#) and [a pick-up in growth in the services sector](#). Revenue from the government's privatisation programme remains underwhelming. The government hopes to sell stakes in about 900 companies, totalling more than US\$7bn, by 2020. Although it has so far sold stakes in 433 companies, many of these were small, raising a total of just Tenge246bn (US\$680m).

General government expenditure declined by 18.8% year on year in the first seven months of 2018, to Tenge6.2trn. This was mainly driven by a sharp fall in the category of "other spending", to Tenge100.8bn, from Tenge2.2trn a year earlier. Social security spending rose by 19.5%, to Tenge1.6trn, owing to an increase in pension payments. Education spending rose by 6.2%, to Tenge1.1trn, driven by a 30-50% increase in teachers' salaries.

Despite higher global oil prices, which averaged US\$71/barrel in the first half of 2018, up from US\$52.2/b a year earlier, NFRK assets dipped to US\$56.8bn at the end of July, equivalent to 33% of forecast GDP in 2018, and down from US\$61.2bn at end-2016 (45.8% of forecast GDP levels in 2016). Total government debt remains low, at US\$43.3bn at the end of June 2018, equivalent to 25.6% of forecast GDP, down from 27.1% at end-2017. The data so far this year support our forecast for the deficit to narrow from 1.8% of GDP in 2017 to 1.3% in 2018. In 2019-22 we expect the deficit to contract further, as the government reduces targeted NFRK transfers to the budget (separate from the extra stimulus transfers) as part of the new budget rule and oil prices remain around US\$68-78/b.

Impact on the forecast

The January-July fiscal data are in line with our forecast of a deficit equivalent to 1.3% of GDP in full-year 2018.

Inflation picked up modestly in August

September 7, 2018: Inflation

Event

In August consumer price inflation stood at 6% year on year—up slightly from 5.9% in June and July but lower than an average of 6.6% in January-March.

Analysis

The slight pick-up in inflation was driven by faster growth in food prices, which rose by 4.8% year on year in August, from 3.9% in July. Meanwhile non-food goods and paid services saw disinflation in August. Transport price growth slowed, owing to slower gasoline inflation (at 8.8%, from 9.6% in July)—a result of [improved domestic refining capacity](#).

Kazakhstan has experienced relatively steady disinflation since late 2016, in line with the stabilisation of the tenge supported by the recovery in oil prices. However, since April 2018 [the tenge has fallen steadily against the US dollar](#), owing to shocks to the Russian rouble triggered by new US sanctions on Russia.

Despite the weaker tenge, the August inflation figure was the exact midpoint of the 5-7% target band of the National Bank of Kazakhstan (NBK, the central bank) for end-2018. On September 3rd the NBK held its policy rate steady at 9%. It noted that the risk of inflation nearing the upper range of its 4-6% target corridor in 2019 was rising. It did not exclude the possibility of tightening monetary policy. However, it also said that inflationary expectations in July stood at just 5.6%, and that the share of respondents in its inflation expectations survey who thought that price growth was rising had fallen from 52.1% at the beginning of 2018 to 43.5% in July.

Owing to shocks to the tenge in April-August, we expect imported inflationary pressures and inflation expectations to pick up in October-December 2018. In 2019-22 we expect external inflationary pressures (global food and non-oil commodity prices) to be weak and the tenge's real effective exchange rate to strengthen. We forecast 6% average inflation in 2019, in line with the NBK's expectation that inflation will near the upper range of its target corridor in that year. We do not expect inflation to slow to the NBK's end-2020 target of 4%, given the rouble and the oil price's prominence in driving the exchange rate, money supply and inflation expectations.

Impact on the forecast

The August inflation figure is in line with our average inflation forecast of 6.6% in 2018. We expect the NBK to hold its policy rate through to the end of this year, with a rise possible if the tenge falls sharply against the US dollar.

Analysis

Two largest banks complete merger

August 28, 2018

On July 27th Halyk Bank and Kazkommertsbank (Qazkom) completed a merger that created a financial institution controlling over one-third of Kazakhstan's banking sector by assets. The merger compounds the risks presented by the banking sector's concentrated ownership structure, with the newly merged bank owned by relatives of Nursultan Nazarbayev, the president. Our assessment remains that there is a material risk that official oversight will be inadequate.

Under the terms of the merger, which took 18 months to complete, Halyk Bank—Kazakhstan's largest by assets, and controlled by Timur Kulibayev, the husband of Mr Nazarbayev's younger daughter, Dinara Nazarbayeva—assumed ownership of the ailing Qazkom. Halyk Bank acquired 96.81% of shares in Qazkom at the symbolic price of Tenge2 (0.6 US cents) per share. It purchased 86.09% of shares in the bank from Kenes Rakishev, Qazkom's previous owner, and 10.72% from Samruk-Kazyna, the sovereign wealth fund that controls all state assets. The merger created a bank with combined assets worth Tenge8.3trn (US\$23bn). Halyk Bank now controls 34% of

Kazakhstan's banking sector.

This was the first successful merger to be completed out of three that were planned, after intended mergers between Tsesnabank and Bank CenterCredit, and between Bank RBK and Qazaq Banki failed to take place.

Liquidity problems

The merger is intended to resolve liquidity problems at Qazkom, stemming in part from its acquisition of the ailing BTA Bank and BTA's large portfolio of distressed assets in 2014. Qazkom was [bailed out in December 2016](#) via a Tenge400.8bn (US\$1.2bn at end-2016 exchange rates) loan from the National Bank of Kazakhstan (NBK, the central bank).

Under the terms of the merger, Qazkom transferred Tenge2.4trn in non-performing loans (NPLs) to the Problem Loans Fund (PLF), the state vehicle handling distressed assets in the banking sector, and the Almex holding company (which owns Halyk Bank) recapitalised Qazkom with a liquidity injection of Tenge65.2bn in November 2017. Halyk Bank has a healthy portfolio: in 2017 it posted growth in net profits of 31.9%, to Tenge173.4bn.

Distressed assets

Kazakhstan's banking sector continues to struggle with a problem of distressed assets dating back nearly a decade, to the financial crisis of 2009. This legacy was compounded by the fall in oil prices in 2014 and the economic slowdown and depreciation of the tenge against the US dollar in 2015-16, which raised the cost of foreign-currency liabilities and weakened asset quality.

Efforts to resolve the burden of NPLs have yielded some results: as of July 25th the share of NPLs in the credit portfolio of Kazakhstan's banks stood at 8.75%, down from 10.7% a year earlier. The share of NPLs in Halyk Bank's portfolio stood at 7% on July 25th, compared with 26% at Qazkom. However, the true level of NPLs may be significantly higher than officially reported, and [in May the NBK suspended for three months the licences of two banks](#) owing to liquidity crises. The IMF has called for the re-establishment of consolidated reporting to present a clear picture of NPLs. According to the NBK, at the start of July the average return on assets and return on equity over the preceding 12 months were both negative, at -0.23% and -1.84% (compared with 1.58% and 13.97% a year earlier).

State support has propped up the banking sector

[In April Mr Nazarbayev ordered an end to state bail-outs for the banking sector](#). He said that despite "unprecedented support" for the sector worth a total of Tenge3trn in recent years, it had failed to provide the lending that is required to stimulate the economy. On June 28th the IMF also expressed the view that, following "several years of fiscal stimulus and significant support to the banking sector in 2017", consolidation is required "to put the public finances on a sustainable path and restore buffers". It noted efforts made to strengthen the financial sector, including state support for the Halyk-Qazkom merger; bail-outs in the form of NBK-subordinated loans to five banks, which had helped to ensure stability in the sector; and the withdrawal or suspension of licences from several smaller banks that had breached prudential requirements. The IMF recommended further action to improve the health of the financial sector, including the adoption of "a strengthened business model, with enhanced governance, management, and operations", and efforts to eradicate weak credit-risk management.

Risks remain

We stand by our forecast that that the banking sector will remain weak in the forecast period. We believe that problems in Kazakhstan's banking sector are compounded by its concentrated ownership structure, and the fact that the owners of some of the largest banks are highly politically exposed individuals. We believe that the merger between Halyk Bank and Qazkom increases the risk that official oversight of their operations will be inadequate.