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POLICY BRIEFING
KAZAKHSTAN

Economic implications on Kazakhstan of the war in Ukraine and the sanctions against Russia

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Summary

KAZ affected through several channels from the war in Ukraine and sanctions against RUS

Energy prices

- » The war has led to **higher global energy prices**
- » KAZ as a major oil exporter strongly benefits from rising energy prices; higher **exports implicate a positive balance of payments shock of 10% of GDP**

Remittances, tourism and exports

- » **Remittances and tourism revenues** are – in contrast to most central Asian countries – not important for KAZ economy; therefore, **no effect on KAZ**
- » KAZ has **a significant export exposure towards RUS**; 12% of total exports
- » **But: so far no effect on exports to RUS**; in fact, slight increase in 6M2022 yoy was registered

Migration

- » Possible positive effect via **migration of (qualified) workforce and companies** from RUS to KAZ

Macroeconomic implications

- » State budget benefits from higher oil revenues; likely **positive shock on GDP** but also strong increase of inflation
- **Positive side effects on the KAZ economy so far in particular through higher oil prices, but strong inflation poses a problem for the economy**

Outline

1. Introduction
2. Economic outlook in RUS in 2022
3. Implications of higher energy prices
4. Exposure through remittances, tourism and exports
5. Migration of workforce and companies
6. Macroeconomic effects
 - I. Inflation
 - II. Public finance
 - III. Economic growth

1. Introduction

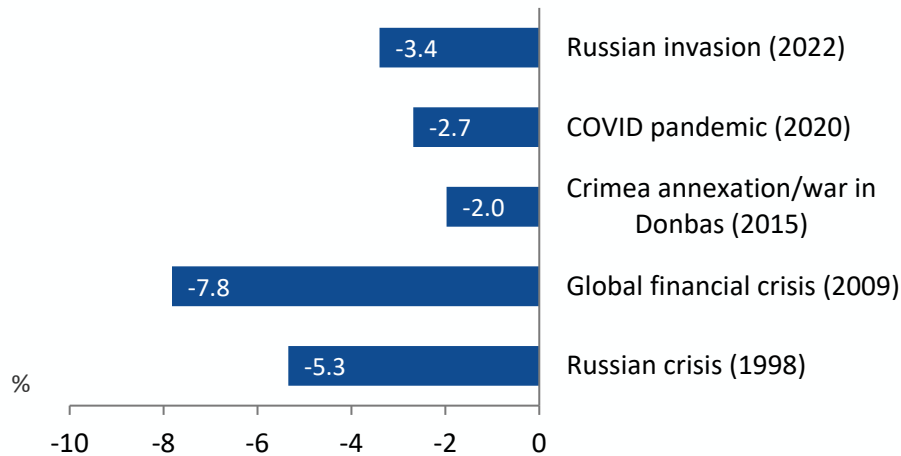
- » The war in UKR and the sanctions against RUS might affect other economies through different channels, including:
 - Increasing energy prices
 - Exposure to the RUS economy linked to remittances, tourism and exports
 - Migration flows

Aim of this policy briefing

- » Estimation and analysis of these effects on KAZ
- » Assessment of the macroeconomic implications on KAZ

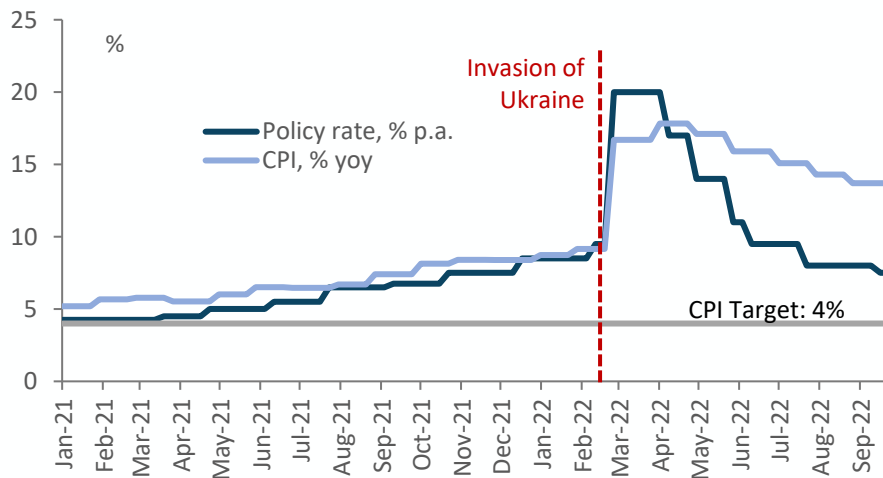
2. Economic outlook in Russia in 2022

Historic GDP declines



Sources: Rosstat and IMF October 2022 forecast

Inflation and key policy rate



Source: CBR

Severe economic and financial damage

- » The war has led to several waves of sanctions on RUS by Western countries
- » According to new IMF Oct forecast RUS real GDP likely to decline by 3.4% in 2022; economy is expected to shrink in 2023 as well
- » Thus, impact in 2022 lower than previously anticipated but still severe, larger than impact of COVID pandemic
- » Inflation accelerated after the start of the war, exchange rate weakened
- » CBR is facing a trade-off between supporting the real economy and financial stability / inflation objectives
 - To avoid run on deposits, CBR hiked the key rate to 20% p.a. in Feb-22
 - Once financial stability was restored, the key rate was gradually cut to 7.5% p.a., though inflation is still above target

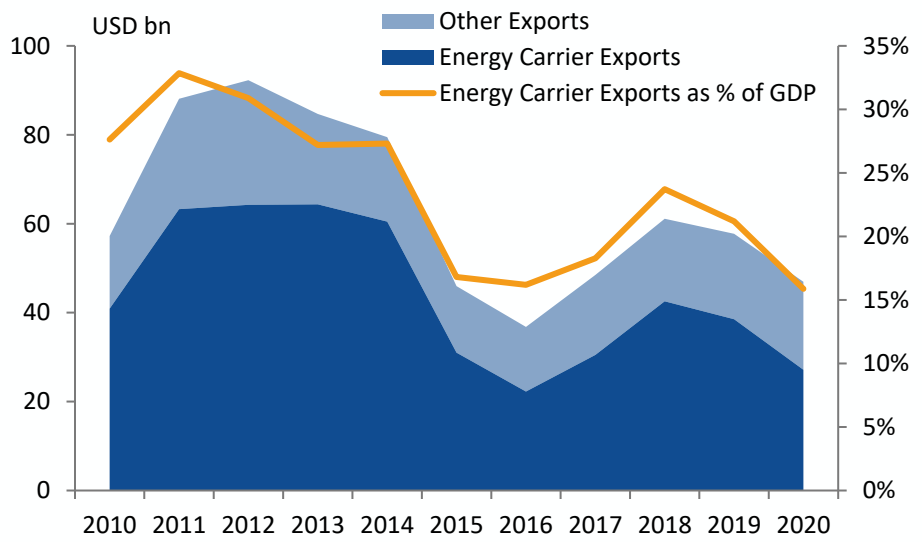
3. Implications of higher energy prices

Energy balance

<i>PJ, avg. 2017-2019</i>	Con- sumption	Production	Imports	Exports
Crude oil	75	3,791	1	2,914
Oil products	466	623	60	217
Natural gas	736	1,309	431	1,057
Coal	1,478	1,927	33	495
Renewables	45	45	-	-

Source: IEA, UN Comtrade, own calculations

Energy exports



Source: IEA, UN Comtrade, own calculations

Domestic consumption

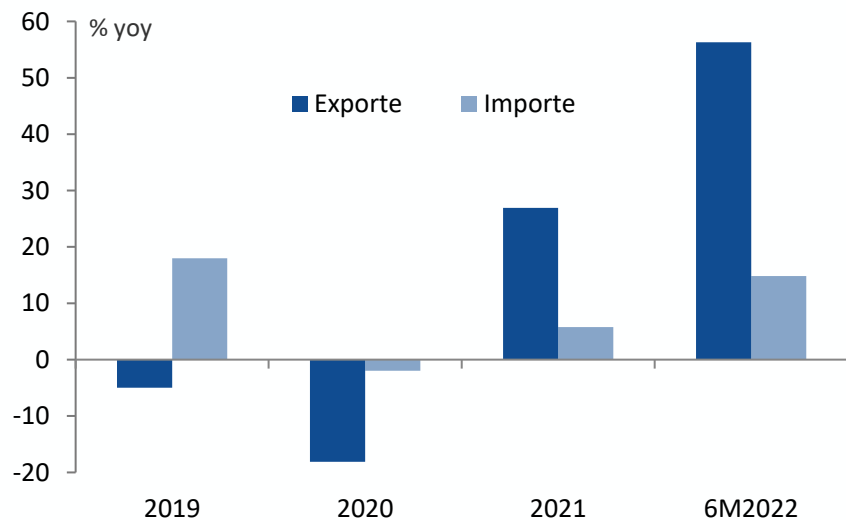
- » Coal and gas intensive energy system
 - Mostly satisfied by domestic production
 - Imports of natural gas at low prices from RUS & UZB as northern and central regions of KAZ not connected to domestic pipeline system
- **Rising energy prices pose no problem for KAZ on the import side**

Exports

- » Among largest producers globally of crude oil (2%), gas (0.8%) & coal (1.4%), with significant reserves
- » Energy carriers exports fundamental to KAZ economy: 2010 – 2020 between 58%-76% of exports
- » Re-Branding from Urals crude to KEBCO very important step to avoid sanctions and discounted export prices

3. Implications of higher energy prices (cont'd)

External trade



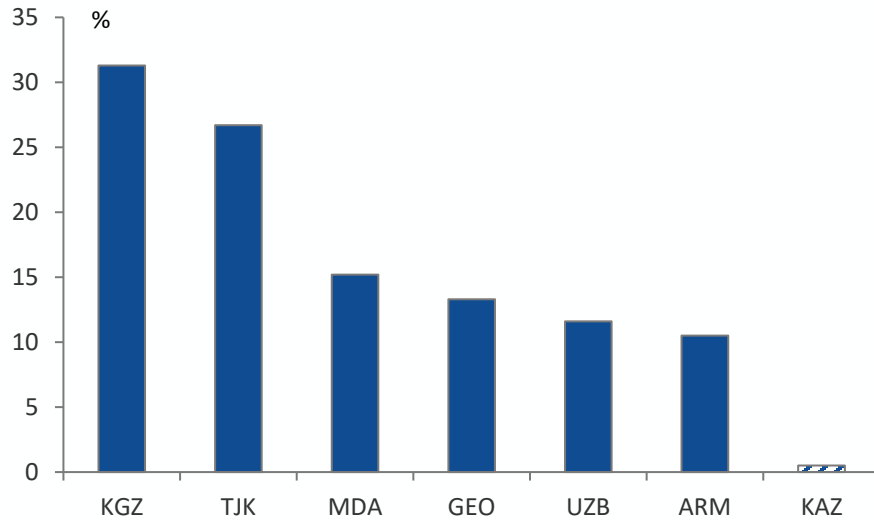
Source: IEA, UN Comtrade, own calculations

Exports

- » Increase by 56% or USD 15.2 bn in 6M2022
- » Of which USD 11.4 bn due to oil exports increase; mainly price effect as volumes increased only by about 10%
- **Price shock leads to higher exports amounting to 10% of GDP (annualised shock)**
- **Strong positive effect on current account balance, the exchange rate and GDP**
- **Kazakhstan highly profits from higher energy prices**

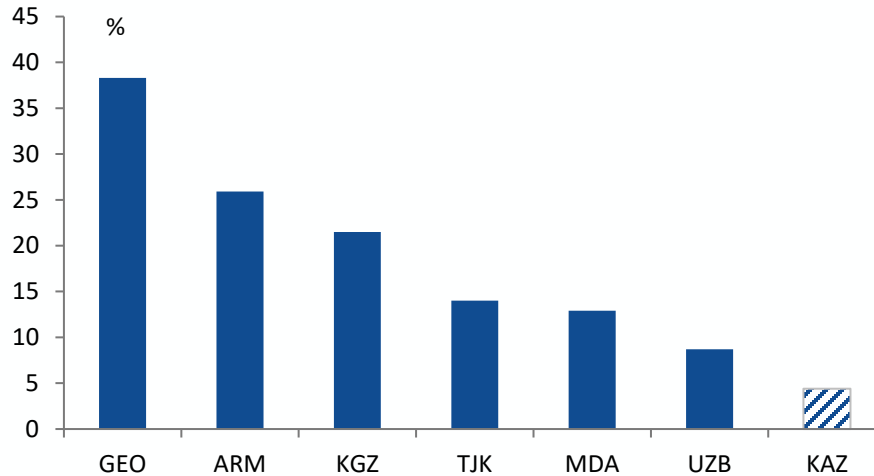
4. Kazakh exposure to Russia

Share of personal remittances inflow in GDP



Source: World Bank, data for 2020

Visitor spending in total exports



Source: World Travel & Tourism Council, data for 2019

Potential exposure to RUS

- Remittances
- Tourism
- Exports

Remittances

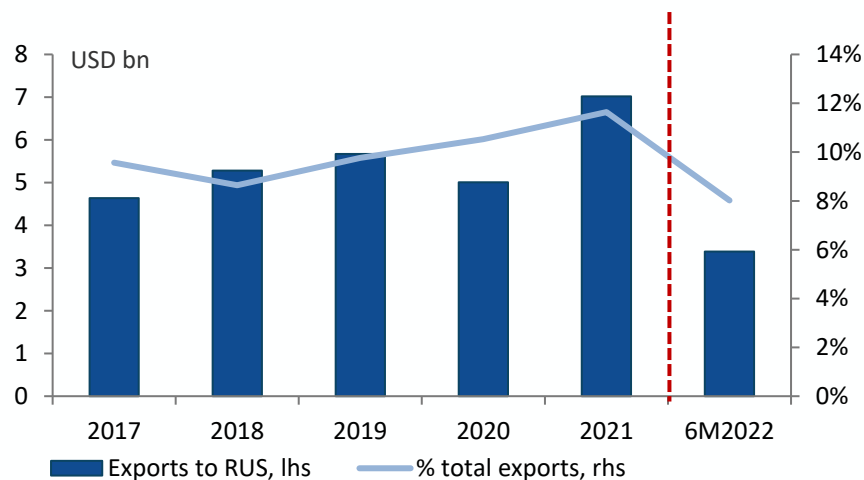
- » Remittances play no major role in the economy of KAZ
- » In fact, KAZ is a net-payer of remittances
- » Thus, no exposure towards RUS

Tourism

- » Tourism spending only 4.4% of total exports, lowest indicator in peer group
- » Only 21% of inbound arrivals from RUS
- » Very limited exposure towards RUS
- **No shock due to declining remittances or declining tourism expected**

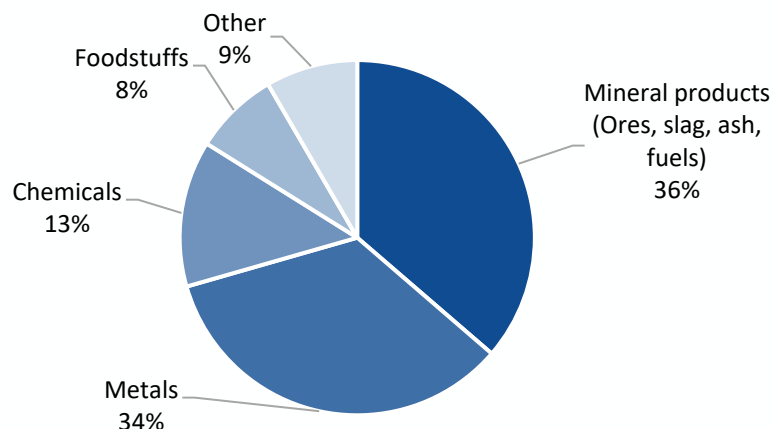
4. Kazakh exposure to Russia (cont'd)

KAZ exports of goods to RUS



Source: Bureau of Statistics Kazakhstan

Structure of KAZ exports to RUS, 2021



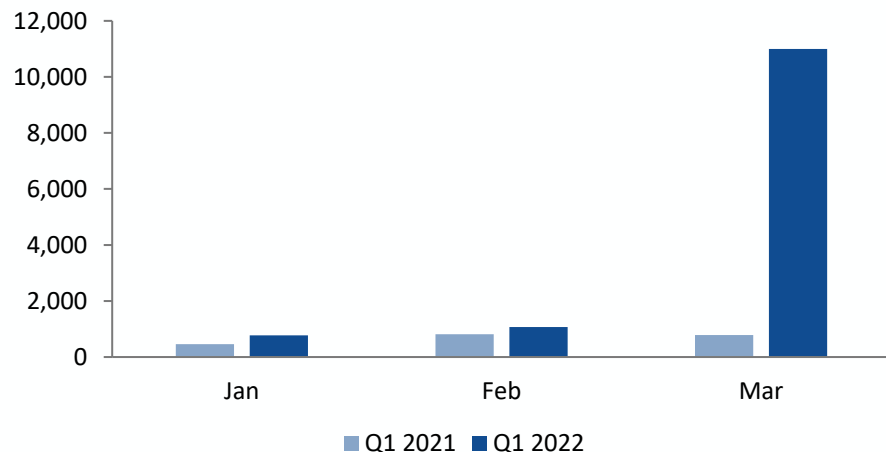
Source: Bureau of Statistics Kazakhstan

Exports

- » 2021: goods worth USD 7.0 bn were exported to RUS
- » RUS important market for KAZ exports, 12% of total exports
- » Main exports are mineral products and metals
- » Early forecasts predicted a significant decline of exports to RUS due to economic slowdown
- » However, data for 6M2022 shows a different picture; exports slightly increased (+0.5% yoy)
- » **Expected export shock due to economic decline in Russia did not materialise**

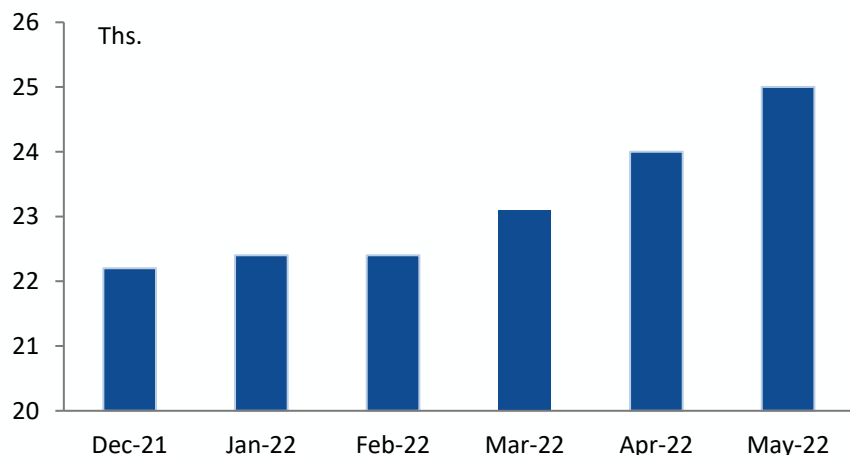
5. Migration of workforce and companies to KAZ

Russians receiving IIN in KAZ



Sources: inform.kz

Foreign companies in KAZ



Sources: Bureau of National Statistics of Kazakhstan

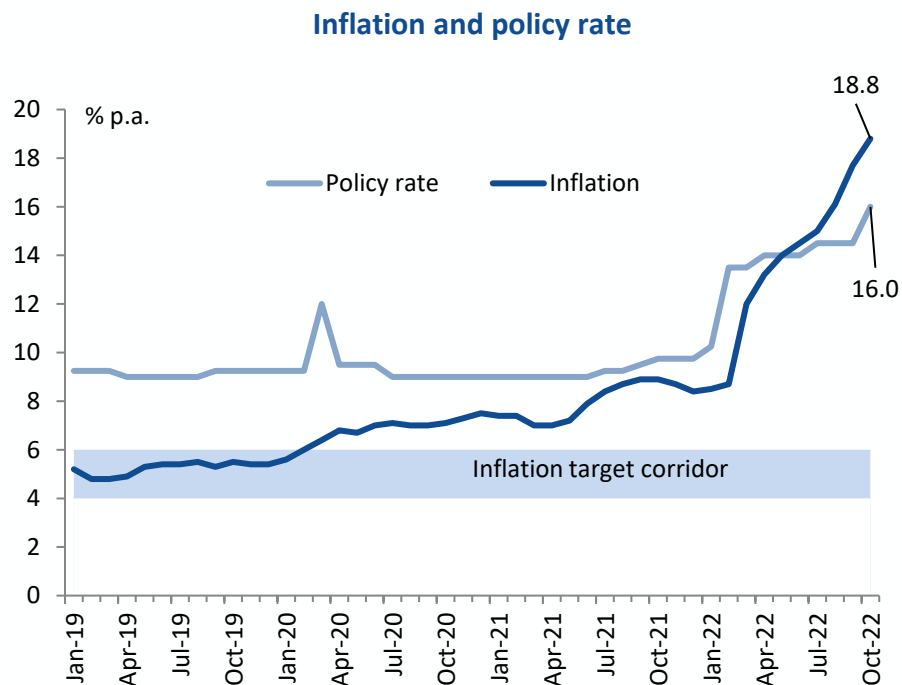
Individuals

- » Number of granted “individual identification numbers” (IIN) to RUS citizens reached 11,000 in Mar-2022, increased 14 times yoy
- » IIN is the condition to open a bank account, receive income, buy property
- » Also border crossing from RUS increased strongly (200k in 3M2022 vs 122k in 3M2021)
- **Expected export shock due to economic decline in Russia did not materialise**

Companies

- » Due to difficult situation, many companies in RUS try to find alternative locations
- » 6M2022: number of foreign businesses in KAZ increased by 2,700 (+12.7%)
- » Majority of companies relocated from RUS (+1,566 companies)
- **KAZ likely to benefit from relocating companies and (highly skilled) individuals**
- **Research needed to assess impact on the economy, as done by GET for GEO & ARM**

6. Macroeconomic effects: inflation

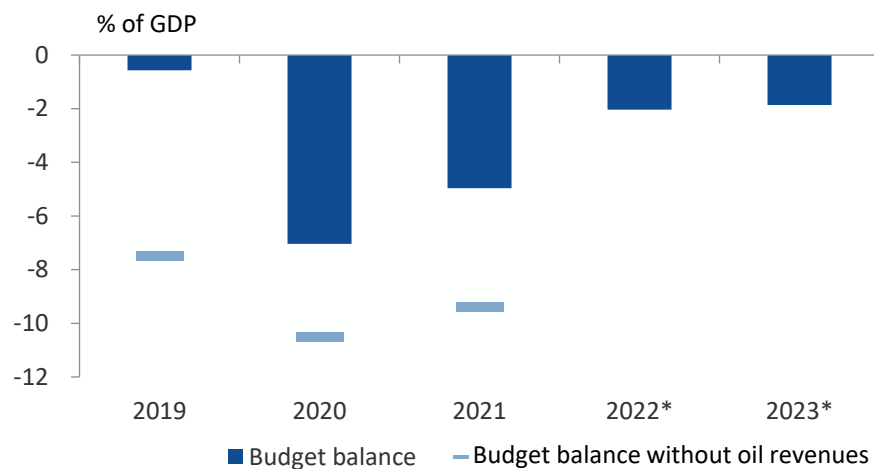


Source: National Bank of Kazakhstan

- » 2021: inflation remained well above NB's target band of 4-6%
 - » 2022: further increase since beginning of the war in Ukraine
 - » Main reason: higher food prices
 - » Price of fuels (except of diesel) frozen following riots at the beginning of the year
 - » NB hiked its policy rate by 425 bp since start of the war to anchor expectations
 - » Another increase by 150 bp in October
 - » However, so far inflation continues to grow
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- **Strong growth of inflation since beginning of the war**
 - **Urgent economic and social issue**

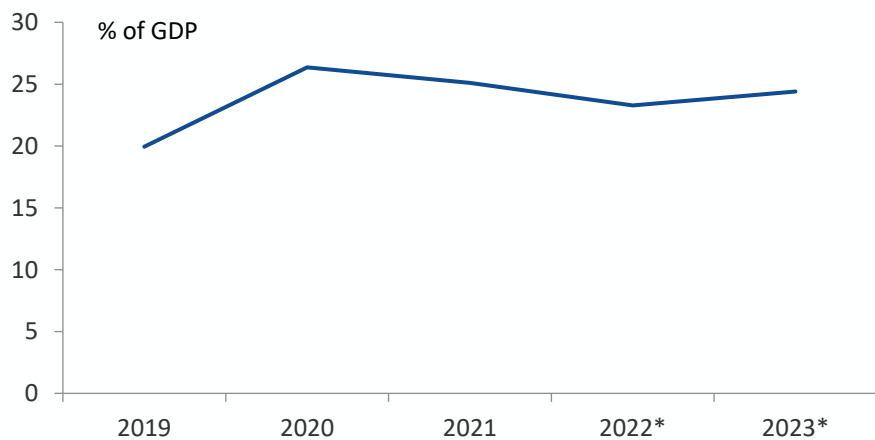
6. Macroeconomic effects: public finance

Budget balance



Source: IMF; *forecast

Public debt



Source: IMF; *forecast

State budget balance

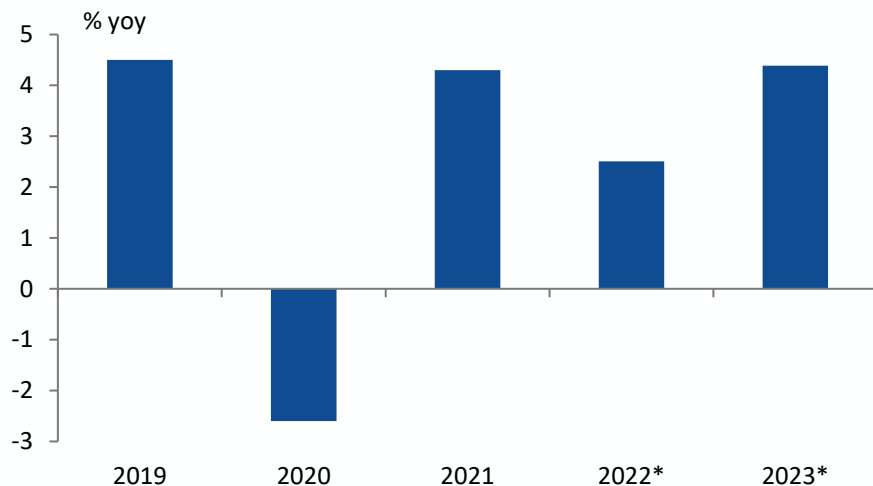
- » Budget highly dependent on oil revenues
- » 2021: overall balance -5.0% of GDP, w/o oil revenues the deficit would have reached 9.4% of GDP
- » 2022: decrease of budget deficit expected due to higher oil revenues

Public debt rate

- » Debt level at approx. 23% of GDP in 2022 rather low in int. comparison; to remain below 30% in the medium term
- » No risk of over-indebtedness, debt level is low and revenues high
- **KAZ state budget benefits from high oil price in the short term**
- **In the medium term, however, advisable to reduce dependence on oil**

6. Macroeconomic effects: economic growth

Real GDP growth



Source: Bureau of National Statistics of Kazakhstan; *IMF forecast

Regional Comparison of Real GDP Forecasts for 2022

	2021	2022*	2023*
Kazakhstan	4.1	2.5	4.4
Uzbekistan	7.4	5.2	4.7
Russia	4.7	-3.4	-2.3
Kyrgyzstan	3.7	3.8	3.2
Tajikistan	9.2	5.5	4.0
Turkmenistan	4.6	1.2	2.3
Germany	2.6	1.4	-0.7
Euro Area	5.2	3.0	-0.1

Source: IMF; *forecast

- » In spring 2022, weak GDP growth forecasted
- » However, the expected negative effect of the war in UKR and the sanctions against RUS on the Kazakh economy did not materialise
- » Instead: strong increase of exports due to higher oil prices should support GDP growth
- » On top: potential upsides via high-skilled migration & relocation of RUS firms
- » Recent data: GDP grew by 3.6% in 6M2022
- » Recent forecast: GDP to grow by 2.5-3.0%

➤ **No negative shock; on the contrary, some positive shocks in 2022 on KAZ**

Risk: problems for exporting oil through RUS (main export route)

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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