

ECONOMIC MONITOR

KAZAKHSTAN

Overview

- » In 2022, GDP growth is estimated at 2.5%; growth will accelerate to 4.4% in 2023
- » The war in UKR and Western sanctions against RUS did not have the expected negative impact on the KAZ economy so far, instead higher energy prices support exports and GDP
- » Inflation at 18.8% in Oct-22, mainly due to rising food prices, is an issue for the economy and population
- » Volatile exchange rate since start of war in UKR, increased central bank intervention, also restriction of capital movements
- » Exports up 56% in 6M2022, imports up 15%
- » Current account surplus of 3% of GDP expected due to high oil prices
- » Budget deficit of 5.0% of GDP in 2021; lower deficit of 2% in 2022 expected due to high oil revenues; public debt low at about 23% of GDP

Special topics

- » **Energy sector.** Key data, energy export and dominance of RUS in export routes
- » **Oil export via RUS.** Current dispute and risks
- » **Mineral extraction.** Supplier for global digital and energy transformation

Basic indicators

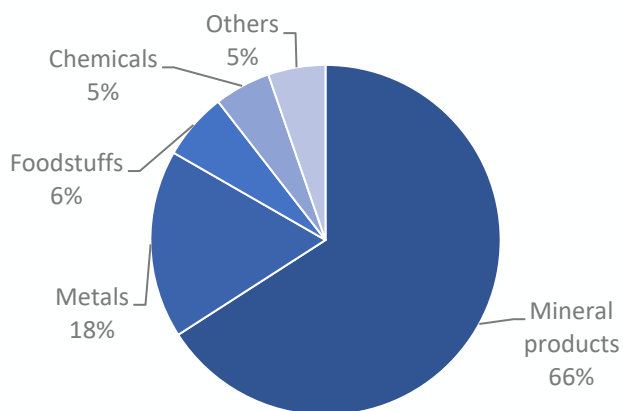
	KAZ	UZB	RUS	KGZ	TJK	TKM
GDP, USD bn	197.1	69.2	1,775.5	8.5	8.5	63.4
GDP/capita, USD	10,380	2,001	12,198	1,283	878	10,310
Population, m	19.0	34.6	145.6	6.6	9.6	6.2

Sources: Bureau of National Statistics, IMF, 2021

Trade Structure

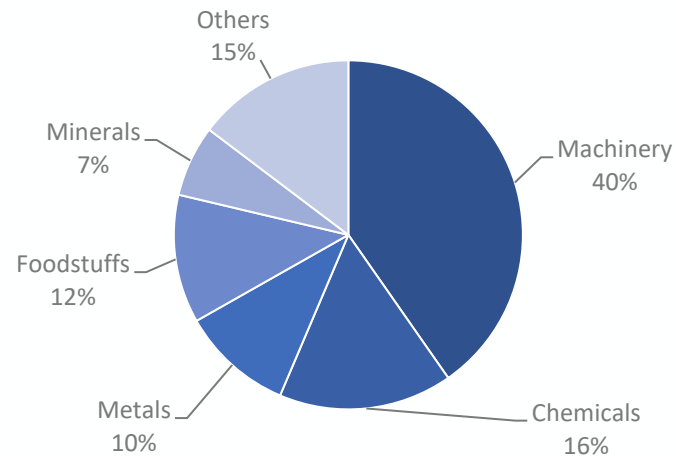
Exports

EU 40% | CHN 16% | RUS 12% | Other 32%



Imports

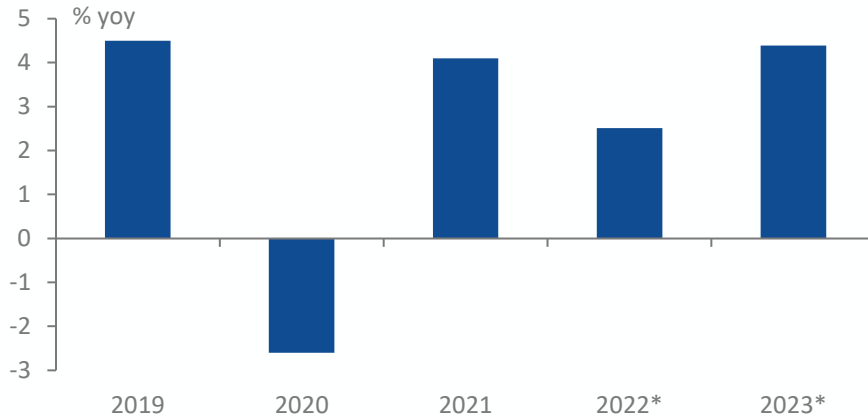
RUS 43% | CHN 20% | EU 14% | Other 23%



Source: Bureau of National Statistics, 2021, Note: Trade in goods

Economic growth

Real GDP growth



Sources: Bureau of National Statistics, IMF, *forecast

Regional comparison of real GDP growth (% yoy)

	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

Sources: IMF, Kiel Institute (for Germany and Euro Area); *forecast

GDP

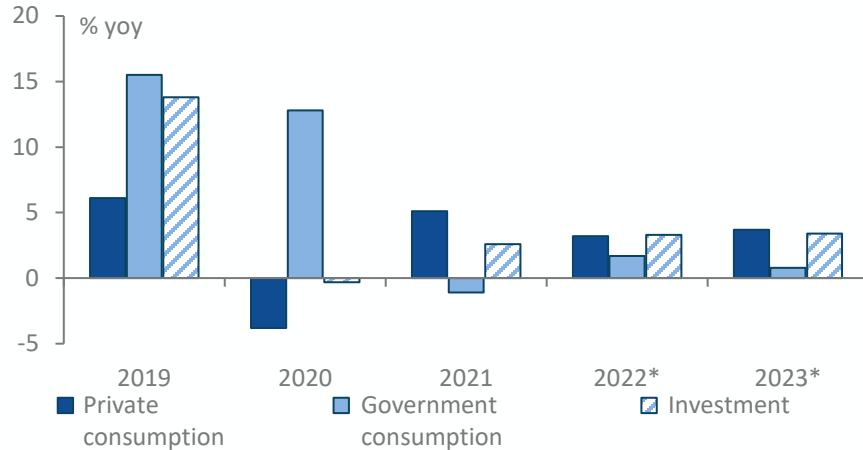
- » 2021: Increase by 4.1%
- » Drivers:
 - Government support for households and companies in need
 - Rising oil price
 - Lifting of COVID restrictions
- » 2022: in spring, weak growth expected due to war in UKR and sanctions against RUS
- » But: so far no negative shock, in 6M2022 growth amounted to 3.6%
- » Forecast from Oct-22: 2.5-3.0% for 2022, upward revision
- » Higher growth in 2023 due increase of oil production

Regional comparison

- » 2021-2023: Similar development as peer group
- **No impact of war so far, growth higher than forecasted in spring**

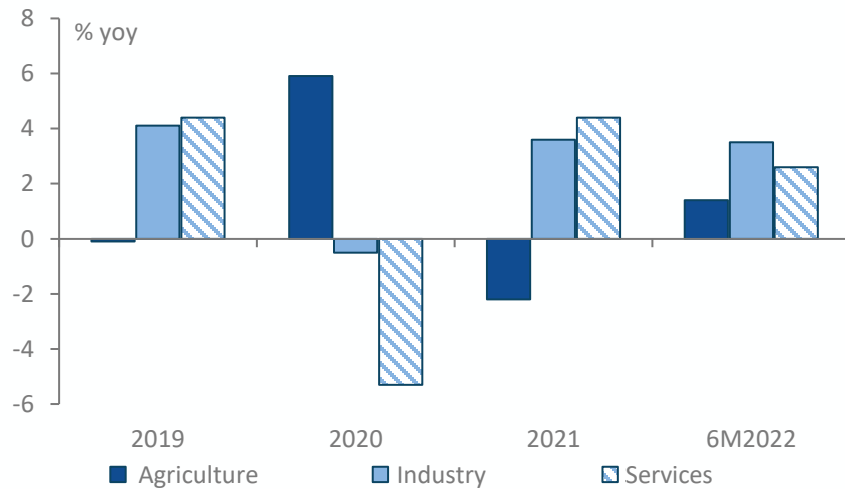
GDP: demand and supply side

Dynamics of GDP components, demand side



Source: World Bank; *forecast

Sector dynamics



Source: Bureau of National Statistics

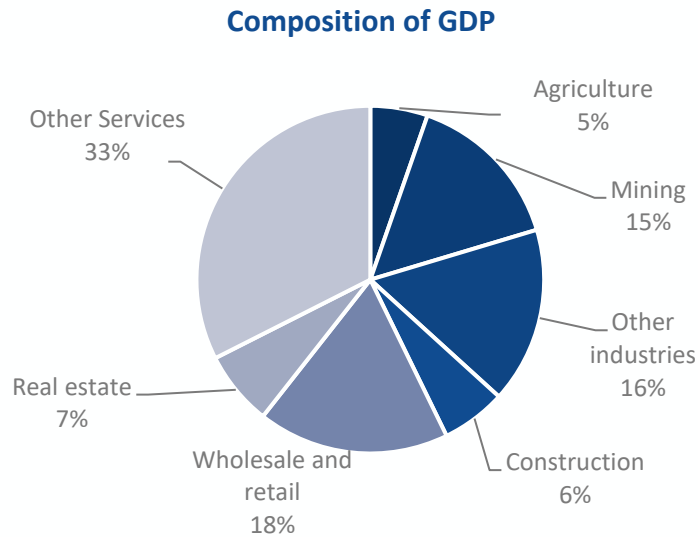
Demand side

- » 2021: Upswing due to rising consumption, based on government support and high credit growth
- » 2022: Consumption and investment as main growth drivers
- » In addition: Rising net exports expected due to higher oil prices

Supply side

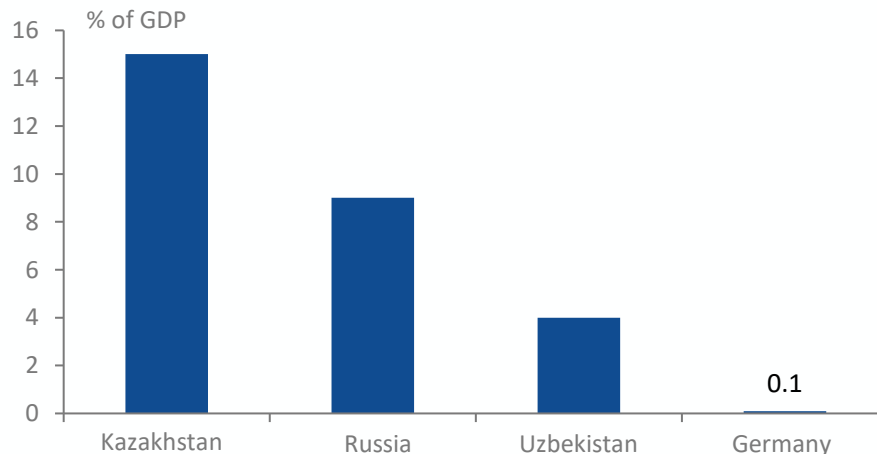
- » Mining growing slightly at 1.9% in 6M2022
- » Industry as a whole above average at 3.5% yoy
- » Services and agriculture also up
- Revival primarily driven by rising consumption and exports
- All sectors on the upswing

Composition of GDP



Source: Kazakhstan Statistics Bureau, 2021

Share of mining in GDP in comparison



Sources: National statistical authorities, 2021

Agriculture

- » Relatively high share in value added in int. comparison
- » Focus: grain cultivation and export
- » Nevertheless: high food imports

Mining

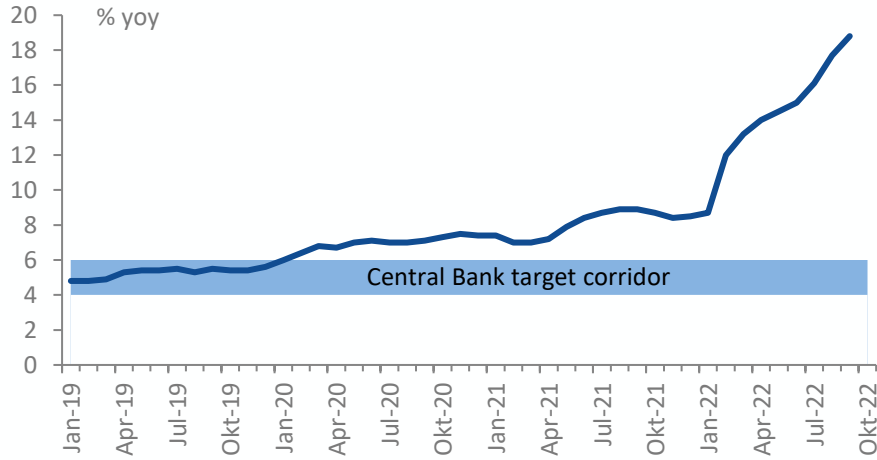
- » With 15% very important sector, which includes the extraction of oil and minerals
- » Central role in exports

Other industry

- » Focus on metal processing and food industry
- Great importance of the mining sector for Kazakhstan

Inflation and monetary policy

Inflation rate

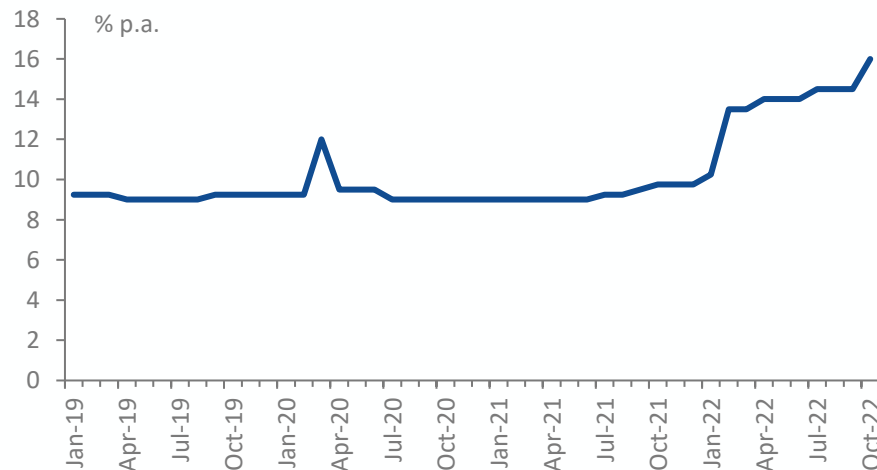


Source: Central Bank of Kazakhstan

Inflation

- » Inflation outside central bank's target corridor since outbreak of corona pandemic
- » Since start of war in Ukraine, further increase to 18.8% (Oct-22)
- » Drivers:
 - Food: bakery products +32%, sugar +74%
- » Gasoline and gas prices frozen following protests in January

Central bank key interest rate



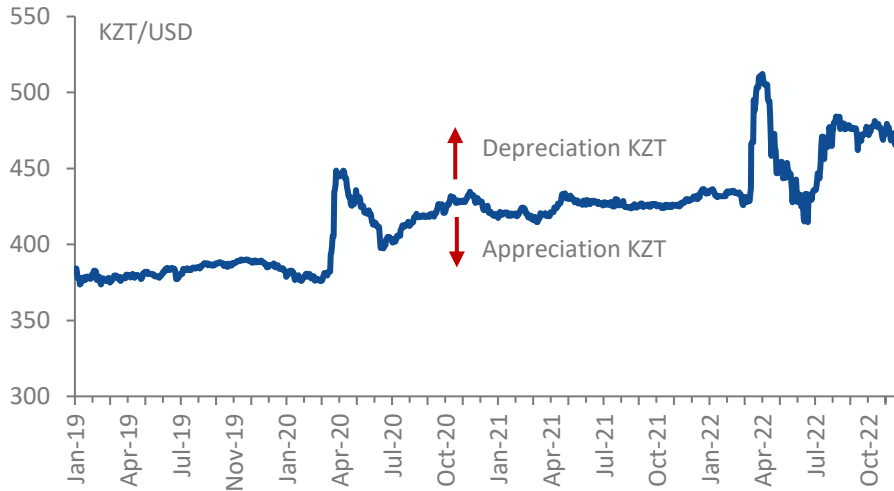
Source: Central Bank of Kazakhstan

Monetary policy

- » Sharp increase in key interest rate since Russia attacked Ukraine to anchor exchange rate and inflation expectations
- » Another increase in October by 100 bp to fight rising inflation
- High inflation urgent economic and social issue
- Significant tightening of monetary policy

Exchange rate and currency reserves

Exchange rate

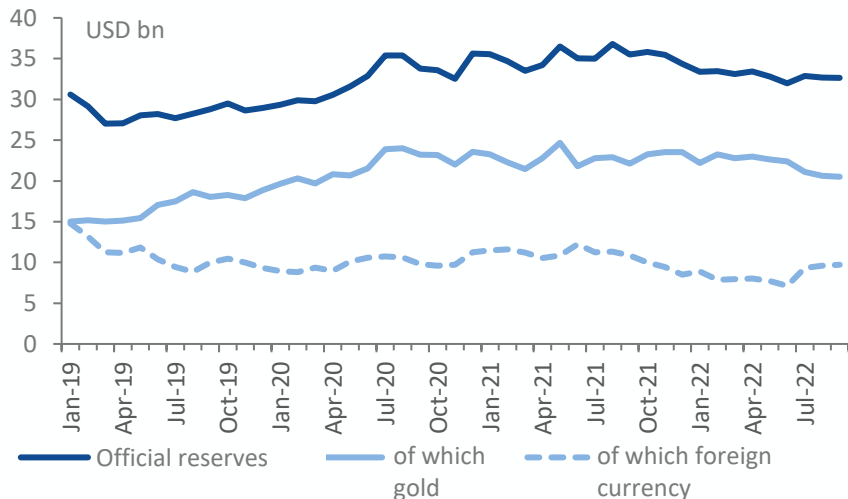


Source: Central Bank of Kazakhstan

Exchange rate

- » 2022: Since the beginning of the year, slight depreciation of the tenge by approx. 7% against the U.S. dollar
- » However, strong volatility in connection with war in Ukraine
- » At the beginning of the war, strong intervention by the central bank on the FX market
- » In addition, capital controls: ban on export of foreign currency over USD 10,000 and gold over 100 grams

International reserves



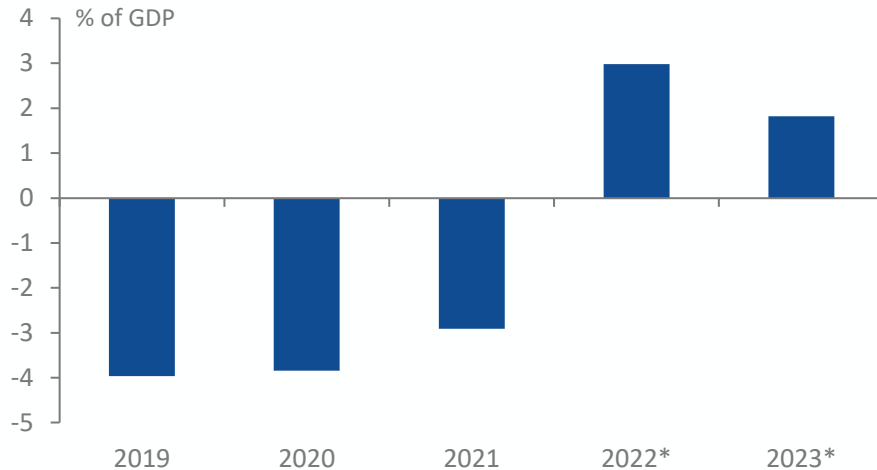
Source: Central Bank of Kazakhstan

Currency reserves

- » Foreign exchange reserves relatively high at USD 33 bn; 8 months of import cover
- » However, increase in recent years mainly due to rising gold price
- » Additional buffer through oil fund with approx. USD 53 bn managed by central bank
- Volatile exchange rate, but sufficient reserves as buffer for external shocks

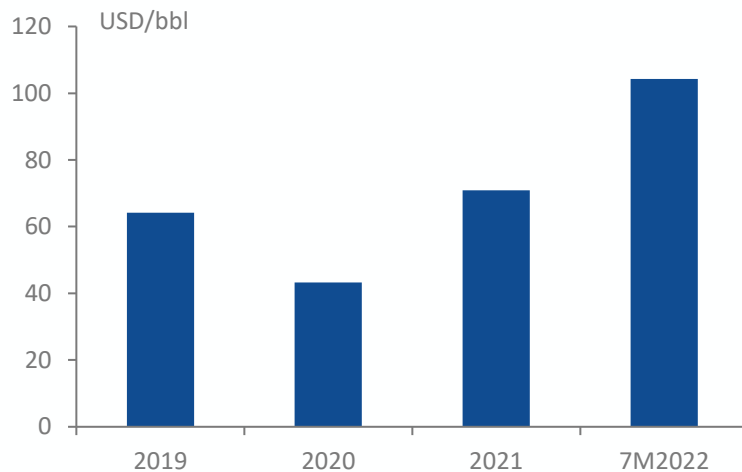
Current account

Current account balance



Source: IMF; *forecast

Oil price (Brent)

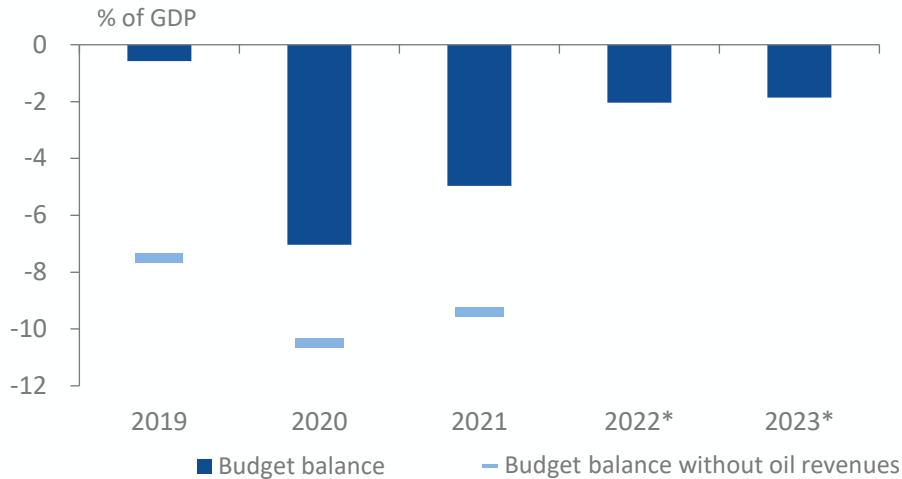


Source: Investing.com

- » Current account surplus of 3% of GDP forecast for 2022
 - » Cause: Significant increase in prices for export goods, especially oil, metals and wheat
 - » Effect according to forecasts only short term, return to deficits in medium term
 - » Need for structural reforms to diversify exports and reduce dependency on oil
-
- High commodity prices lead to current account surplus

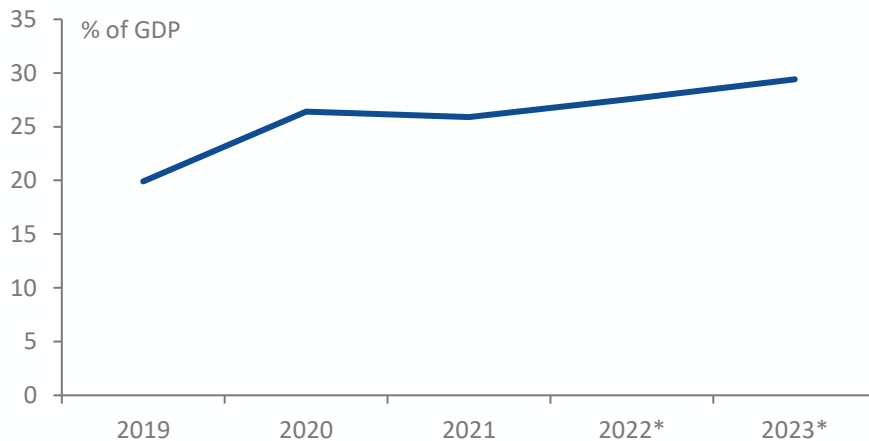
Public finances

Budget balance



Source: IMF; *forecast

Public debt



Source: IMF; *forecast

Budget balance

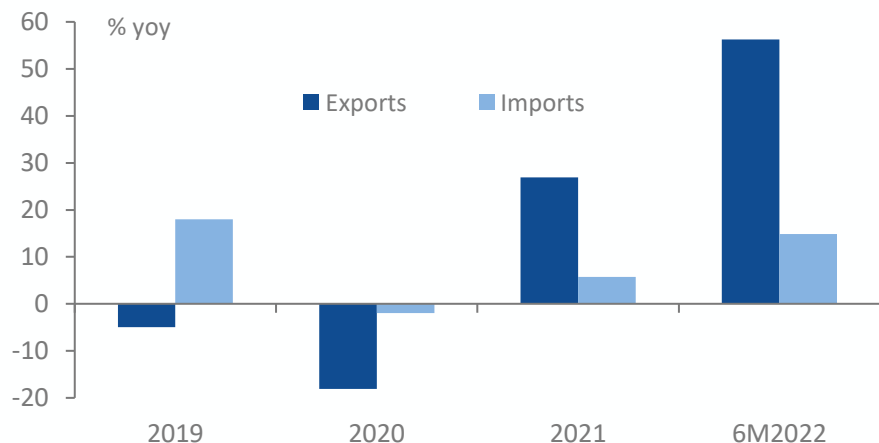
- » 2021: deficit of 5.0% of GDP
- » Pandemic response measures partially still in place
- » Deficits financed by National Oil Fund, bond issues and loans from IFIs
- » 2022: relatively small deficit (-2.0% of GDP) thanks to increase in oil revenues
- » New fiscal rules effective from 2023 to limit use of oil fund
- » However, according to experts, new rules complex, inflexible and partly contradictory

Public debt

- » Debt level low at approx. 23% of GDP in 2022; to remain below 30% in medium term
- No danger of over-indebtedness, as debt level is low and revenues high
- However, budget highly dependent on oil revenues

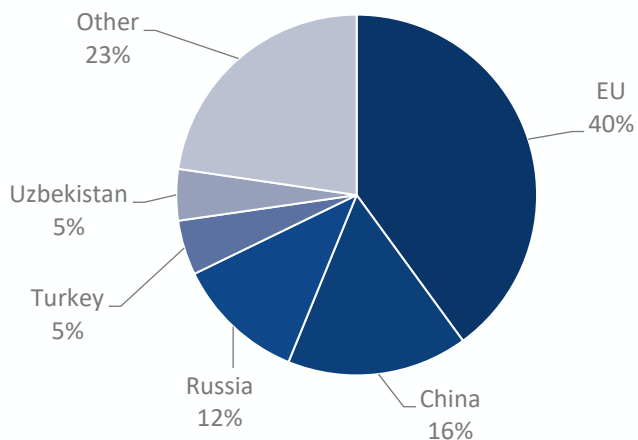
Foreign Trade

Foreign Trade



Source: Kazakhstan Statistics Office; Note: Trade in goods

Exports by country



Source: Kazakhstan Statistics Bureau 2021; Note: Trade in goods

Exports

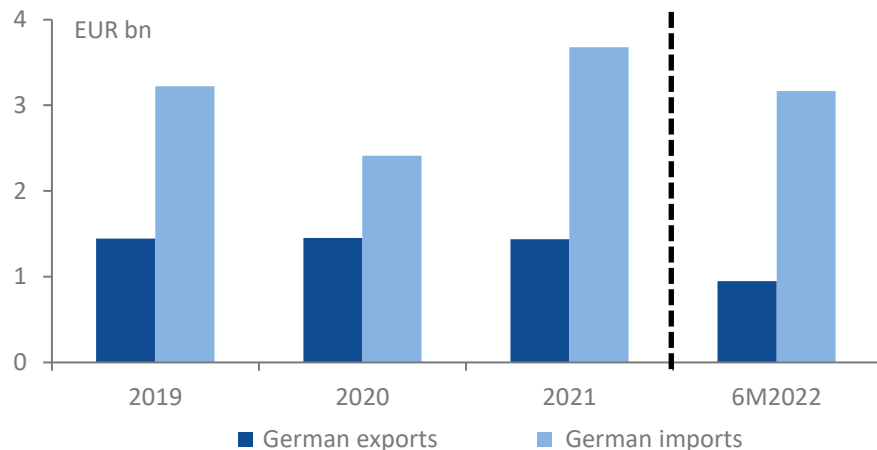
- » 6M2022: Exports up 56% yoy
- » Main driver: crude oil (+85%)
 - However, export volume increases by only just under 10%, therefore growth mainly caused by higher oil prices
- » Exports to RUS almost unchanged (+0.5%); no negative impact of war and sanctions

Imports

- » 6M2022: Imports up 15% yoy
- » Increase in almost all product groups
- » Imports from Russia up 7%
 - Main driver: food +32%
- Significant increase in exports due to higher oil prices
- Initially expected decline in exports to RUS did not materialise

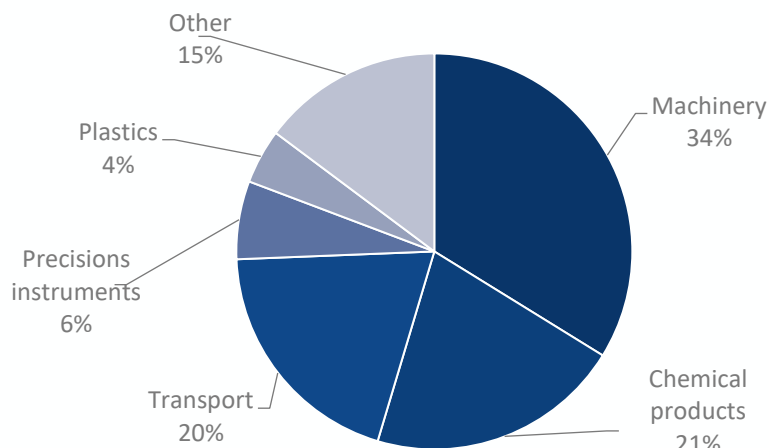
Bilateral trade between Germany and Kazakhstan

German trade with Kazakhstan



Source: Federal Statistical Office; Note: Trade in goods

German exports to Kazakhstan



Source: Federal Statistical Office, Note: Trade in goods 6M2022

Trading volume

- » Significant increase in trade volume to EUR 4.1 bn in 6M2022, +79% yoy
- » German trade deficit with Kazakhstan

German exports

- » 6M2022: goods exports of EUR 948 m, +46% yoy
- » Increase in roughly equal shares due to higher exports of machinery, chemical products and transport equipment

German imports

- » 6M2022: EUR 3,166 m, +92% yoy
- » Imports: 93% mineral products (crude oil)
- » Increase in imports almost exclusively due to crude oil (value: +98%; volume: +11%)
- Strong expansion of German exports to KAZ
- Increase in trade volume, however, about $\frac{3}{4}$ due to rising oil price

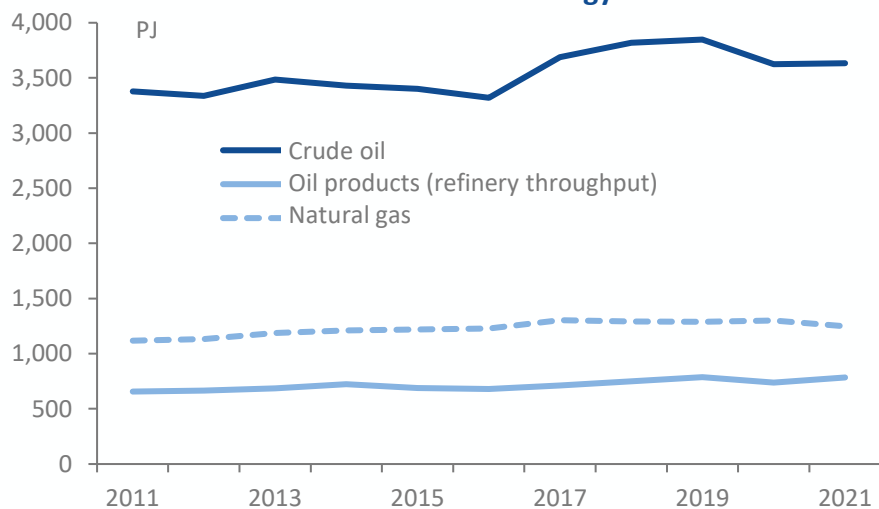
Energy sector: Key data

Energy balance in petajoules (PJ)

2017-2019 Average	Consumption	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	-	-

Sources: IEA, UNComtrade, own calculations

Production of selected energy sources



Sources: BP World Review of Energy 2022, own calculations

» Major international producer; market shares: crude oil 2%, natural gas 0.8% and coal 1.4%

» Since 1991 ca. 60% of FDI in the energy sector

Gas and coal

» Consumption mainly covered by domestic production

» But gas imports from RUS & UZB, as North/Central KAZ not connected to domestic pipeline system

» Emissions to be reduced to zero by 2060

Oil sector

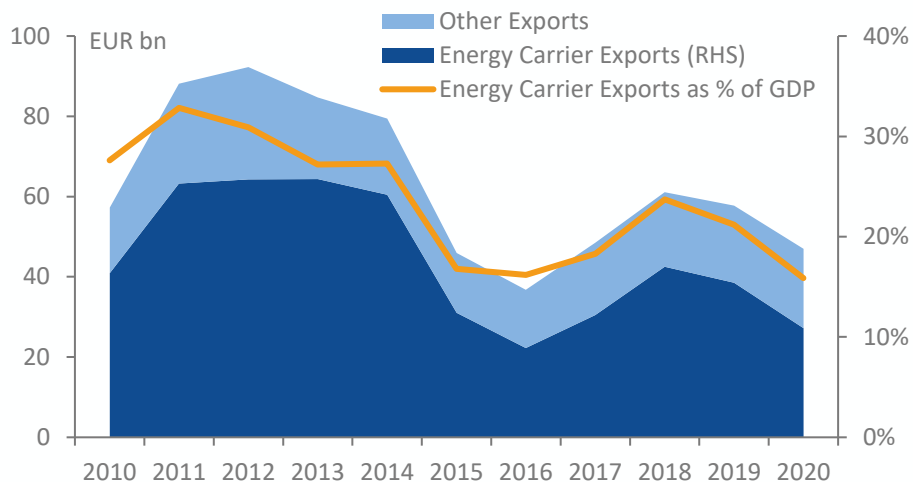
» Oil production based on production sharing agreements between state-owned KazMunaiGaz and international companies (Chevron, Shell, Total, Exxon, CNPC)

» Production increased in the last decade due to additional capacities

» Important energy supplier, especially for crude oil

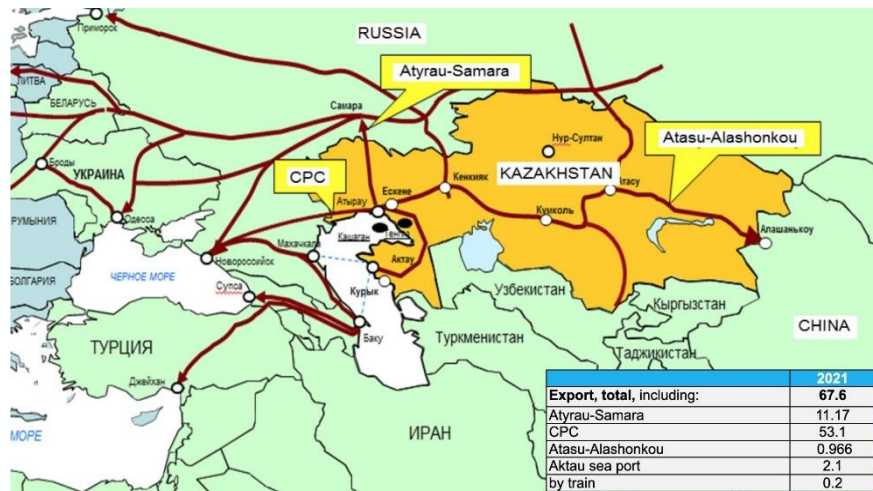
Energy exports and routes

Energy exports and share of GDP



Sources: IEA, UNComtrade, own calculations

Oil export routes and volumes 2021



Source: Ministry of Energy Kazakhstan

Energy Exports

- » Exports of energy sources, 2010 - 2020
 - Between 58%-76% of total exports
 - Between 16%-33% of GDP
 - Oil about 88% of energy exports (Ø USD 38.8 bn per year)

Crude oil export routes (2021)

- » Main production in western Kazakhstan
- » 80% of exports via CPC pipeline (Russian Black Sea port Novorossiysk)
- » 17% via Atyrau-Samara route via RUS
- » 3% via Aktau port (to RUS port of Makhachkala and AZE port of Baku)
- » Only about 1% to China
- Central role of energy for export
- High dominance of RUS in export routes

Oil export via RUS: current dispute and risks

Mar 2022: Interruptions of exports via CPC pipeline

- » Alleged reason: RUS government claimed that two of three loading facilities at Novorossiysk port were damaged by a storm
- » Probable reason: KAZ not supportive towards RUS positions; among other things, no recognition of breakaway “republics” in Donbas
- » Consequence: Export volume temporarily decreased in March

Jul 2022: Renewed threat of interruption of export via CPC pipeline

- » Russian court ruled to shut down CPC pipeline; reason: "environmental concerns"
- » But: higher court lifted order after KAZ prepared measures to strictly comply with Western sanctions against RUS
- » Also: pressure on RUS by CHN to keep CPC pipeline open
- » What are CHN's interests? CHN reliant on KAZ as transit country; also fears own investments in KAZ energy sector and disadvantages of further rising oil prices

Outlook: Blockade risk persists, only limited opportunities for diversification

- » Export to CHN difficult due to bottlenecks in domestic pipelines
- » Increased export to AZE under consideration, but lack of tankers in Caspian Sea
- Risks due to dependence on RUS regarding export routes
- Diversification of energy routes potential topic for cooperation with DEU

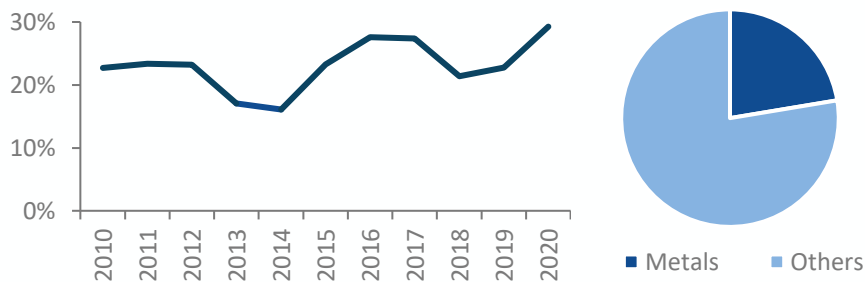
Mineral extraction

Mineral extraction and exports

Mineral	Global Ranking	Share of global production	Share of exports to China	End use
Uranium	1	40.8%	45.0%	Nuclear fuel
Chrome	2	16.5%	2.5%	Stainless steel alloy
Cadmium	5	6.0%	57.3%	Solar-PV, space travel
Baryte	5	5.5%	0.1%	Electronics
Bismuth	4	2,8%	97.3%	Chemistry, Alloys, Metallurgy
Copper	10	2.6%	66.3%	Construction, electrical, EVs, renewable technology
Zinc	8	2.5%	63.8%	Electroplating, alloying

Sources: World Mining Data, UNComtrade, own calculations

Metals and minerals as a share of total exports (2010-2020)



Sources: UNComtrade, own calculations

- » Kazakhstan rich in ore deposits and large producer of minerals, e.g. world's largest producer of uranium
- » Minerals necessary for transformation of global economy (e.g. for solar panels, electromobility, electrics and batteries)
- » Majority of minerals (cadmium, bismuth, copper, zinc) currently exported to China for further processing
 - Strong concentration of minerals value chain in CHN
- » In addition: minerals as basis of own metal processing industry
- » Minerals and metals between 2010 and 2020 on average 22.4% of exports
- Diversification of mineral exports potential topic for cooperation with DEU

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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