

## Slow recovery underway, amid persistent risks

### General Information



<b>GDP</b>	USD133.6bn (World ranking 55, World Bank 2016)
<b>Population</b>	17.8mn (World ranking 64, World Bank 2016)
<b>Form of state</b>	Republic / authoritarian presidential rule
<b>Head of state</b>	Nursultan A. NAZARBAYEV (President)
<b>Next elections</b>	2020, presidential



### Strengths

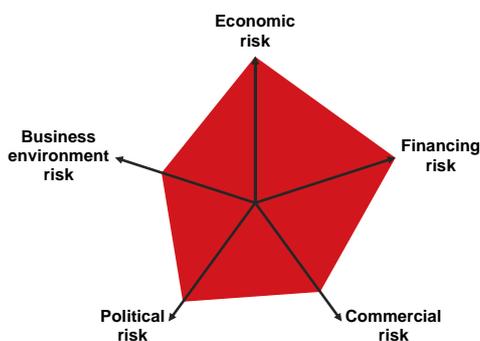
- Abundance of raw materials (e.g. hydrocarbons)
- The National Fund of the Republic of Kazakhstan (NFRK, the national oil fund) still holds ample assets (USD56bn in October 2017 although down from a peak of USD77bn in August 2014)
- Strategic location in Central Asia: benefits from China's Belt and Road Initiative in terms of FDI and infrastructure investment

### Weaknesses

- Authoritarian political regime
- Interventionist and protectionist economic strategy
- High dependence on global commodity prices
- Exchange rate vulnerability to external shocks
- Vulnerability to Russian business cycle
- Political instability (i.e. leadership transition)
- Regional instability in Central Asia
- High external debt burden

### Country Rating

**D4**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Italy	20% 1	34% Russian Federation
China	11% 2	22% China
Russian Federation	10% 3	5% Germany
Netherlands	9% 4	4% United States
Switzerland	7% 5	3% Italy

By product (% of total)

Exports	Rank	Imports
Crude Oil	55% 1	9% Industrial Machinery
Non-Ferrous Metals	10% 2	7% Iron and Steel
Iron and Steel	8% 3	6% Electrical Machinery
Inorganic Chemicals	6% 4	5% Manufacturers of Metal
Natural Gas	5% 5	4% Specialized Machinery

Source: Chelem (2016)

## Economic Overview

### Growth to pick up in 2017

After real GDP growth bottomed out in 2016, driven by the plunge in global commodity prices, 2017 will see a rebound. This is due to higher oil prices and an increased volume of exports (thanks to the resumption of the *Kashagan* offshore oil field). In this context, there will also be an acceleration of fixed investment growth in the oil and gas sector and metals. However, mineral products and various metals accounted for 82% of exports in 2016.

Together with the World Bank, Kazakhstan devised the *National Investment Strategy 2018-22*, which is to promote FDI inflows into non-resource industries, diversify the economy and boost the export potential of the country. China's *Belt and Road Initiative* may also become a regional driver of rising FDI flows into transportation, mining and manufacturing.

### Improving economic fundamentals

After two sizable devaluations in 2009 and 2014, the government decided to float the exchange rate and adopt an inflation-targeting regime in August 2015. This has helped offset the slide in commodity prices due to higher tax revenues from USD exports, while preserving export competitiveness with Russia.

After the peg to the USD was abolished, the KZT lost a third of its value within a month and inflation soared to an annual average of 14.6% in 2016. Yet, with stronger exports and investment inflows, the currency is set to appreciate, which will bring down imported inflation and may even help consumption. Headline inflation has fallen due to base effects but will remain elevated. The KZT will remain volatile.

Monetary policy is set to remain tight despite some anticipated policy rate cuts as disinflation will keep real interest rates high. Fiscal policy has been supportive of economic activity during the slow-down, but consolidation will be the new norm. The fiscal deficit should narrow from -6.5% of GDP in 2017 to below -4% in 2018. Total Government debt will remain at sustainable levels (21.5% of GDP).

### High external debt level is a concern

Thanks to improving terms of trade and rising export volumes, the current account deficit is expected to narrow to -4.2% of GDP in 2018. A major concern remains the sharply increased external debt-to-GDP ratio (119% at end-2016), stemming from both rising debt and the decline of GDP in USD terms.

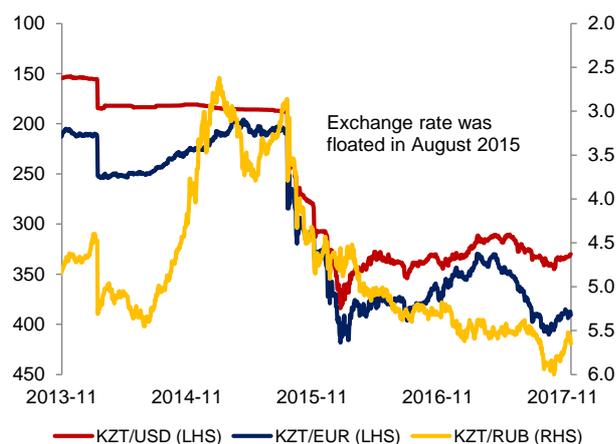
Foreign exchange (FX) reserves have stagnated at roughly USD20bn since 2014, sufficient to cover a little less than 50% of the estimated external debt payments due in 2018 (USD40bn), well below an adequate ratio of 100%. Yet, assets from the NFRK (USD56bn in Oct. 2017) provide some cushion with respect to the modest level of official FX reserves.

### Key economic forecasts

	2016	2017e	2018f	2019f
GDP growth (% change)	1.1	4.0	3.2	3.5
Inflation (% , yearly average)	14.6	7.6	7.3	7.3
Fiscal balance (% of GDP)	-4.1	-6.5	-3.7	-3.6
Public debt (% of GDP)	21.0	22.5	21.5	20.5
Current account (% of GDP)	-6.4	-5.0	-4.2	-4.0
External debt (% of GDP)	119.2	108.0	104.0	99.0

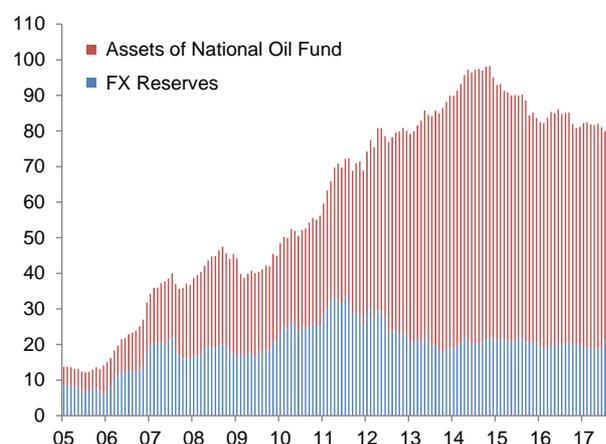
Sources: National statistics, IHS, Euler Hermes

### Evolution of Exchange Rate



Sources: National Bank of Kazakhstan, IHS, Euler Hermes

### Foreign Exchange (FX) Reserves and Assets of National Oil Fund (NFRK) (in USD bn)



Sources: National Bank of Kazakhstan, Euler Hermes

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