

Hard hit by persistently low oil prices and impact of Russia crisis

General Information



GDP	USD184.4bn (World ranking 50, World Bank 2015)
Population	17.5mn (World ranking 63, World Bank 2015)
Form of state	Republic / authoritarian presidential rule
Head of state	Nursultan A. NAZARBAYEV (President)
Next elections	2017, legislative (upper house)



Strengths

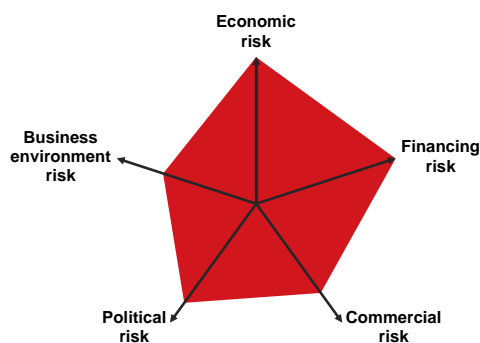
- Abundance of raw materials, in particular hydrocarbons
- The National Fund of the Republic of Kazakhstan (NFRK, the national oil fund) still holds ample assets (USD65bn in July 2016 though this was down from a peak of USD77bn in August 2014)

Weaknesses

- Authoritarian political regime
- Interventionist and protectionist economic strategy
- Regional instability in Central Asia
- High vulnerability to world commodity prices
- Vulnerability to Russian business cycle
- Weak monetary policy track record
- Exchange rate vulnerability to external shocks
- Banking sector crisis from 2009 not yet resolved
- High external debt burden

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	17% 1	31% Russia
Russia	12% 2	29% China
Germany	9% 3	5% Germany
France	9% 4	3% other CIS
Romania	5% 5	3% Ukraine

By product (% of total)

Exports	Rank	Imports
Crude Oil	56% 1	6% Leather
Non Ferrous Metals	6% 2	5% Cars And Cycles
Iron Steel	6% 3	4% Refined Petroleum Products
Natural Gas	5% 4	4% Engines
Basic Inorganic Chemicals	5% 5	4% Miscellaneous Hardware

Source: Chelem (2014)

Economic Overview

Growth to remain modest

Kazakhstan has an abundance of raw materials, in particular hydrocarbons. Commodities accounted for 88% of exports in 2014. But this lack of economic diversification makes the economy highly vulnerable to the global demand for and the prices of commodities. It is exposed to the business cycle of Russia, its main trading partner. Moreover, the shutdown of the offshore Kashagan oilfield in October 2013 (unlikely to resume before 2017) due to damage to the pipeline infrastructure has hit the country.

As a result, economic growth decelerated from an average annual +8% in 2000-2013 to +4.3% in 2014 and +1.2% in 2015. In 2016, real GDP contracted by -0.2% y/y in Q1 and grew by +0.4% y/y in Q2. Euler Hermes expects the recovery to continue, but only gradually, resulting in full-year growth of +0.4% in 2016 and +2% 2017.

Economic fundamentals to remain weak

In line with the growth slowdown in recent years, economic fundamentals have weakened and risks have increased. As the KZT which was quasi-pegged to the USD appreciated sharply against the RUB and the Kazakh economy lost competitiveness, the Central Bank eventually devalued the KZT markedly against the USD – first by -17% in February 2014 and then by -30% in August 2015 when it also moved from the peg to a managed floating regime. The KZT has remained volatile thereafter and is currently down about -80% from end-2013. However, against the RUB, it is back to the level from early 2013. There is a significant risk that the KZT may depreciate further against the USD in the next 6-12 months.

The sharp drop of the KZT has caused inflation to surge from 4.8% y/y at end-2013 to 17.6% in August 2016. Headline inflation should fall soon due to base effects but remain elevated at an average 8% in 2017.

The fiscal balance shifted to a large deficit of -5.3% of GDP in 2015 and is forecast to post further shortfalls of -4% or more of GDP in 2016-2017.

Likewise, the current account balance shifted to a deficit of -2.6% of GDP in 2015 which is forecast to widen to -4.1% in 2016 and to remain high in 2017.

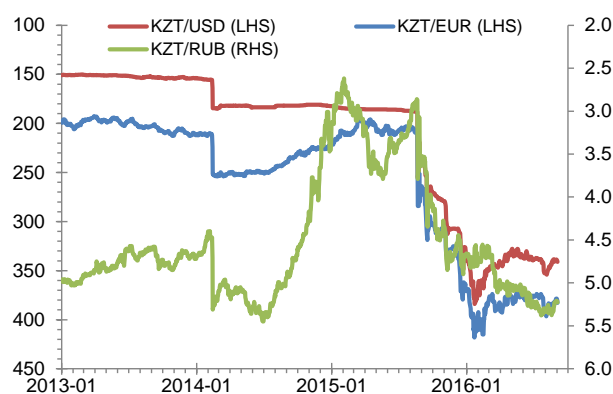
The Central Bank's FX reserves have stagnated at around USD20bn since 2014, sufficient to cover just about 50% of the estimated external debt payments falling due in the next 12 months, well below an adequate ratio of at least 100%. However, assets in the NFRK (USD65bn in July 2016) still provide some cushion with regard to the modest official FX reserves.

Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	4.3	1.2	0.4	2.0
Inflation (% , end-year)	7.4	13.6	8.5	7.6
Fiscal balance (% of GDP)	1.8	-5.3	-4.5	-4.0
Public debt (% of GDP)	14.7	23.3	23.7	24.0
Current account (% of GDP)	2.8	-2.6	-4.1	-3.5
External debt (% of GDP)	69.2	83.6	130.0	118.0

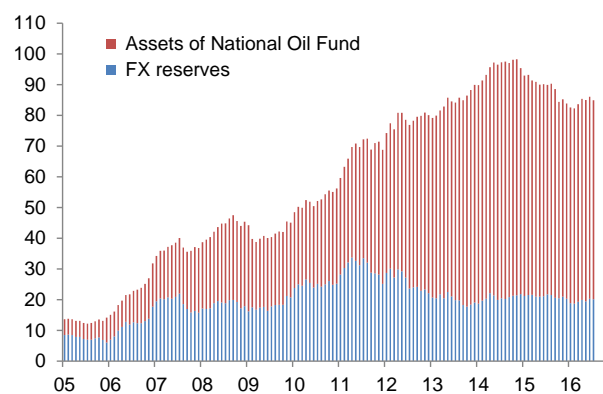
Sources: National statistics, IHS, Euler Hermes

Exchange rate



Sources: National Bank of Kazakhstan, IHS, Euler Hermes

Foreign exchange (FX) reserves and assets of National Oil Fund (NFRK) (USD bn)



Sources: National Bank of Kazakhstan, Euler Hermes

DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2016 Euler Hermes. All rights reserved.

View all Euler Hermes Economic Research online

<http://www.eulerhermes.com>

Contact Euler Hermes Economic Research Team

research@eulerhermes.com

Last review: 2016-09-08
Country Risk Analyst:

Manfred Stamer
manfred.stamer@eulerhermes.com