



الوكالة الإسلامية الدولية للتصنيف  
Islamic International Rating Agency

# ECONOMIC & BANKING SECTOR OVERVIEW

**Republic of  
Kazakhstan**

*July, 2019*

## ECONOMY - TRENDS AND PERFORMANCE

Kazakhstan (“the Country”) is the largest landlocked, and area wise ninth largest country in the world with one of the lowest population densities globally. A GDP of USD 183.8b and a population of 18.5m makes it an upper-middle income economy with a per capita GDP of USD 9,331 in 2018.

Kazakhstan shares borders with two of the world’s major economies being China and Russia, with which it maintains close trade links, in addition to strong trade relations with other countries within Commonwealth of Independent States (CIS). The country has

benefitted from surge in its oil exploration activities during 2000-2007, and the oil boom from 2010-2014, with GDP per capita increasing 10x from USD 1,229 in 2000 to USD 12,712 in 2014, and significant decline in country’s poverty rate. Kazakhstan has sizeable oil reserves which are estimated at 30b barrels, with a production of 1,927,000 b/day (703.4m b/year) during 2018. Given expectation of higher production capacity from Tengiz oil field, additional production of 260,000 b/day (94.9 mn b/year) is likely to materialize by 2022.

The Country has weathered the oil price crash beginning in 2015 while continuing to be in a trade surplus. Having declined to its lowest of 1.1% in 2016, real GDP growth recovered to 4.1% in 2018. Given the ongoing volatility in, and a depressed long-term outlook for oil prices and despite continued buoyancy expected in the non-oil economy, real GDP growth is expected to recede closer to its long-term GDP growth equilibrium of below 3.5% over 2019-2021.

Current account has been historically supported by a strong trade balance, which has remained in surplus over the years, given Kazakhstan’s substantial exports of hydrocarbon and metals. At its nadir, current account deficit touched -5.9% of GDP during 2016 due to weak oil prices and exports, before recovering gradually to a largely balanced position at -0.03% of GDP in 2018, with the upturn in hydrocarbon prices. Downside risks to the current account stem from the depressed long-term price outlook for oil and deceleration in economic growth in Europe as the leading destination for Kazakhstan’s exports. Due to considerable foreign investment largely in oil and gas sector, primary income deficit is considerable and moves in positive correlation with oil prices. As such, it serves as a counter-cyclical buffer, falling in tandem with lower oil prices, thus providing some relief to deteriorating current account balance in times of narrowing trade surplus.

Kazakhstan has been following a fiscal consolidation path marking progressive reductions to the deficit. Oil revenues constituted over 30% of total revenues in 2018, while lower than level prior to 2015. Implementation of an amended Value Added Tax (VAT) framework, increase in excise duty and oil related taxes, have led to a significant reduction in fiscal deficit to -1.2% of GDP in 2018, aided also by an improving oil economy during the year. Some widening of the deficit is expected in the current year on account of expected investment in social development, targeted at low income groups. With normalization of these beyond 2019, fiscal position is likely to resume its improving trajectory. Unexpected movements in

| Amounts in USD'b, unless otherwise stated   | 2015   | 2016  | 2017  | 2018  |
|---|--------|-------|-------|-------|
| Population (Mn)   | 17.7   | 17.9  | 18.2  | 18.5  |
| GDP per capita (USD)  | 10,510 | 7,715 | 9,030 | 9,331 |
| GDP - constant prices growth rate (%)   | 1.2    | 1.1   | 4.0   | 4.1   |
| Inflation (CPI Year End, %)   | 13.6   | 8.5   | 7.1   | 5.3   |
| Unemployment Rate (%)   | 5.1    | 4.9   | 4.9   | 4.8   |
| Current Account Balance as % of GDP   | -3.3   | -5.9  | -3.1  | -0.03 |
| Fiscal Balance as % of GDP  | -2.2   | -1.6  | -2.6  | -1.2  |
| General Govt. Debt as % of GDP  | 21.9   | 19.7  | 20.8  | 18.1  |
| Gross External debt (USD, Bn)   | 153.0  | 163.3 | 167.2 | 158.8 |
| External debt as % of GDP   | 83.0   | 119.0 | 102.7 | 93.1  |
| Gross International Reserves  | 27.9   | 29.7  | 31.0  | 30.9  |
| Source: Kazakhstan in Figures – Ministry of National Economy of the Republic of Kazakhstan Committee of Statistics, IMF |        |       |       |       |

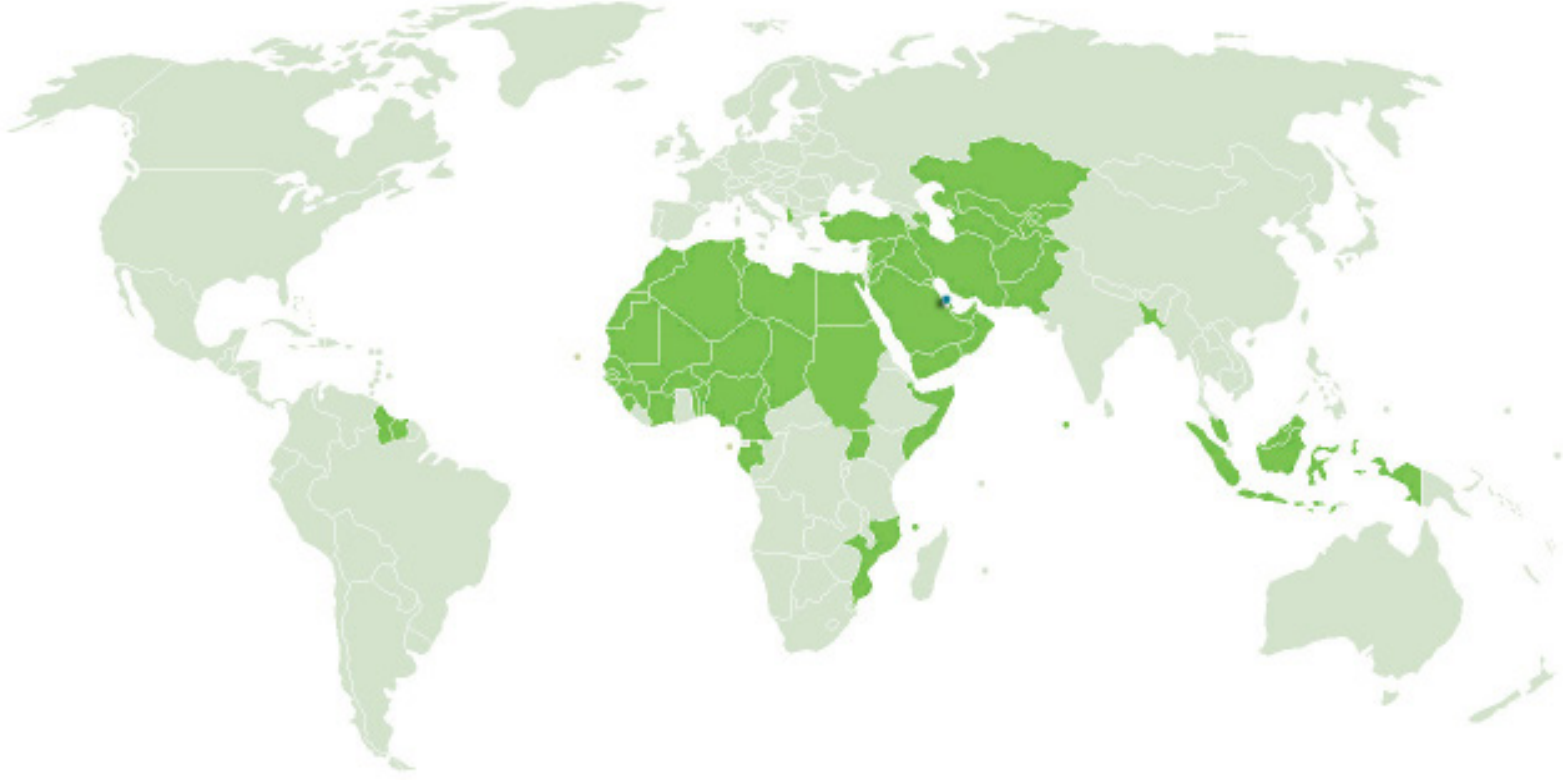
oil prices may significantly alter the position.

External debt has historically remained high, and mostly comprises intercompany loans largely in the oil and gas sector. General government and banking sector external debt remained low. Almost 95% of external debt is long-term; reserve coverage of debt repayments due in 2019, suggests adequate cover.

The Country reverted to a floating rate regime in 2015, following which the National Bank of Kazakhstan (NBK) has been able to implement an effective, inflation-targeting, monetary policy mechanism. Tenge has remained relatively stable recently, and inflation has also moderated, remaining within targeted inflation bands of 5%-7% for 2018, and 4%-6% for 2019. Given expectations of no further policy rate increments by the Fed for the year, NBK opted to cut the benchmark rate by 25 bps in April'2019, and held it unchanged during latest monetary policy meeting in June'2019. However, there remains potential for further cuts given a managed inflation outlook and possibility of a Fed rate cut in the offing.

The Country's financial sector poses one of the more significant challenges to the economy. Financial indicators suggest weakness with regards to the incidence of non-performing loans (NPLs). The government took various measures to stabilize the sector, including support from the wealth fund. Other remedial measures included a strengthening of the supervisory mandate for early identification and resolution for troubled banks, which has resulted in recent consolidation of the sector. While NPL indicators have improved, the quantum of rescheduled loans in the banking system continues to be a source of concern.

There have been concerted government efforts to press forward the agenda of better health and education, although there is room for further advancement in the health sector. As per a report released by the United Nations Development Programme in September'2018, Kazakhstan has ascended the Human Development Index and is placed in the 'very high' human development category.



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