

Impact of Energy Sector on Macroeconomic Performance: Case of Kazakhstan

**Meruert Makhmutova, PhD
Public Policy Research Center**



Public Policy Research Center

Центр Анализа Общественных Проблем

65, Kazybek bi, office 421, Almaty, 050000 Rep. of Kazakhstan

Tel.: +7 (7272) 670340, 670432. Fax: +7 (7272) 670340.

E-mail: meruertmakhmutova@hotmail.com

www.pprc.kz

Introduction

Kazakhstan

- **GDP per capita**
 - \$1,200 in 2000
 - **\$8,452 in 2008**
- **Population: 15.778 mln. (on 1 January 2009)**
 - Urban 8.423 mln
 - Rural 7.354 mln

Kazakhstan was one of the fastest growing economy among the former SU. The average annual GDP growth was almost 10 % in 2003-2007.

- This remarkable growth pattern was increasingly dependent on the inflow of oil and gas revenues.
- Banking sector was the second rapidly expanding sector of economy which growth was based on cheap foreign wholesale funding
- Limited “real” investment opportunities: real estate bubble
- Offsetting strength: very low public debt

Oil and Gas Sector in Kazakhstan Economy

Figure 1. Oil Production and Export

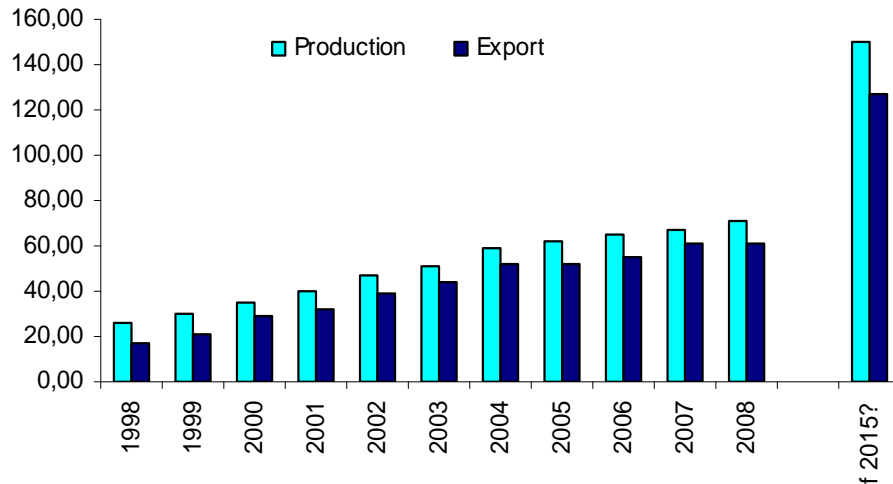
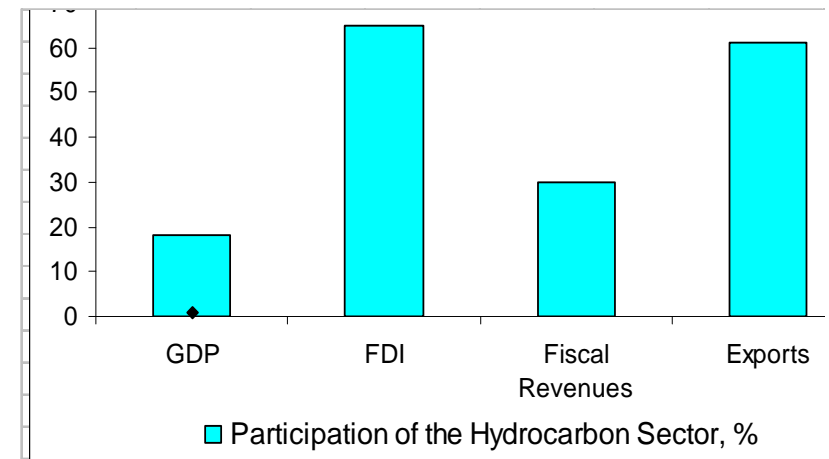


Figure 2. Economy Dependent on Hydrocarbon Sector



Kazakhstan growth slowing significantly

Table 1. Main macroeconomic indicators, 2003-2009

	2003	2004	2005	2006	2007	2008	Jan-June 2009
GDP growth, %	9.3	9.6	9.7	10.7	8.9	3.2	-2.3
Industrial production growth, y-o-y, %	9.1	10.1	4.6	7.2	5.0	2.1	-2.7
Manufacturing sector, y-o-y	7.9	8.9	6.0	7.3	6.7	-2.6	-9.5
Fixed capital investment growth, % y-o-y	16.6	10.6	22.1	10.6	13.5	14.8	7.3
Government balance, % GDP	-1.0	-0.3	0.6	0.8	-1,7	-2,1	-1.5
Inflation (CPI), % change, e-o-p	6.8	6.7	7.5	8.4	18.8	9.5	8.5
Current account, million USD	-0.27	0.34	-1.06	-1.99	-8.23	6.6	-3.7
Unemployment, %	8.8	8.4	8.1	7.8	7.3	6.6	6.7 (for 2Q 2009)
Reserves (including gold) million USD, e-o-p)	4962	9277	7070	19127	17629	19872	18597

Sources: Agency of Statistics, National Bank, Ministry of Finance

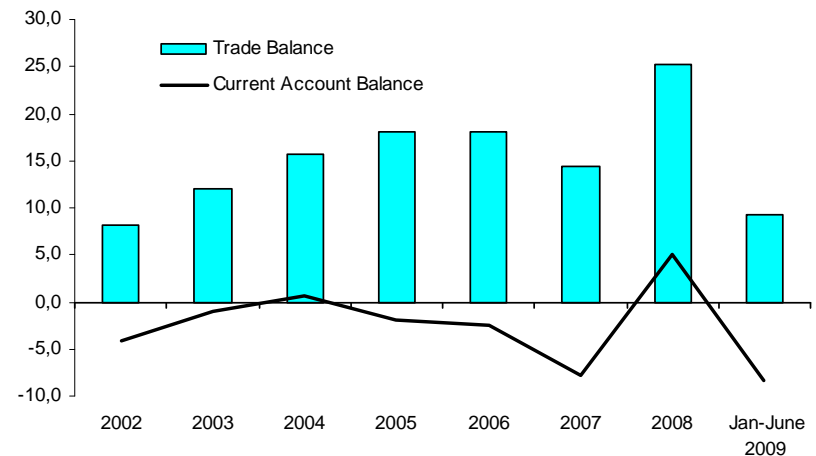
General slowdown

- Tradable sectors were first to register slowdown
 - Industrial output grew by 2.1% in 2008 down from the 5% recorded in 2007
 - Agricultural production fell by 5.6% in 2008 y-o-y
 - Manufacturing fell by 2.6% in 2008 y-o-y
- Non-tradables down from very high growth rates
 - Financial services fell by 0.5% in 2008 down from the 41.8% in 2007
 - Construction sector growth slowed to 1.9% in 2008 down from 16.4% in 2007

Current account and trade balance

- High commodity prices and weak demand for import in 2008 generated a record foreign trade surplus. Surplus more than doubled to \$33.5 billion as export increased by 49% y-o-y, while the growth of import slowed to 16% y-o-y
- 2007 current account deficit (7.8% of GDP) reverted to a surplus of 5.3% of GDP in 2008 (BoP)

Figure 3. Current Account and Trade Balance (in percent of GDP)



The Sensitivity of GDP, Trade Balance to Oil Prices Shocks

Figure 4. Trade balance and Oil Prices

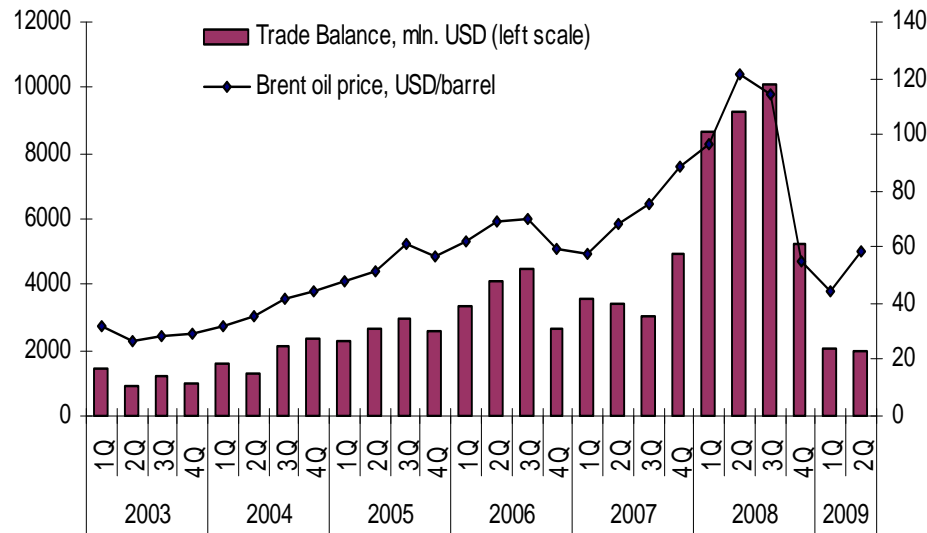
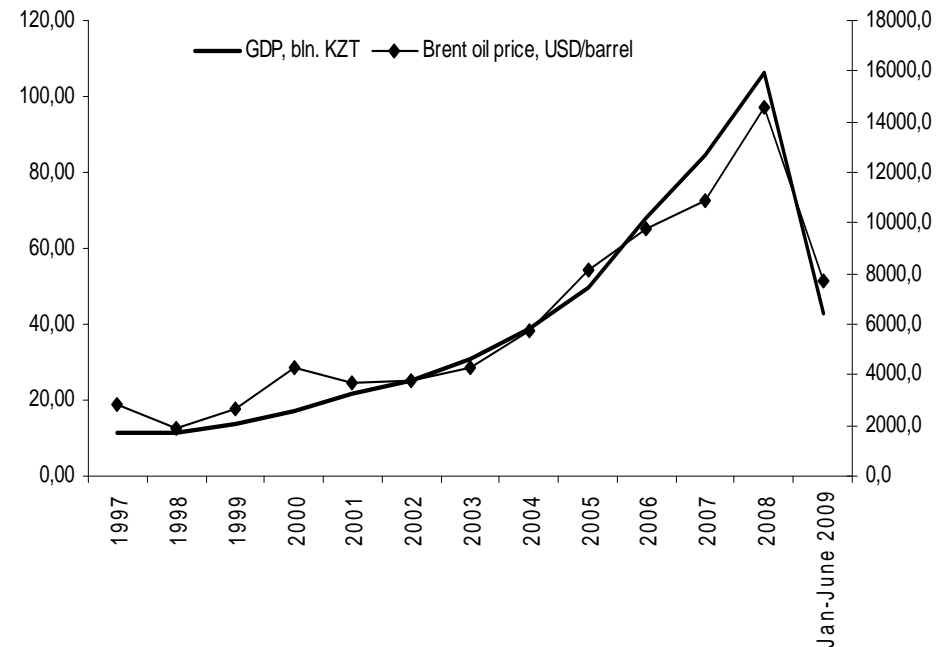


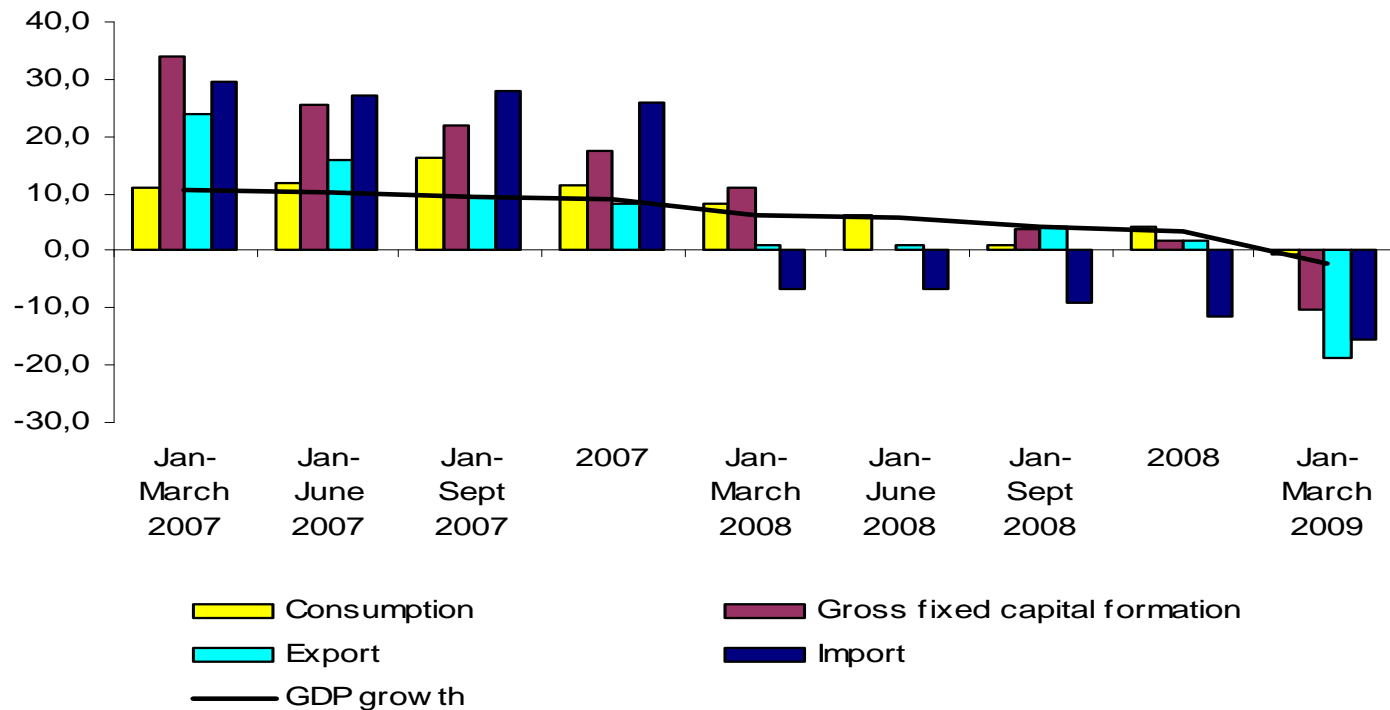
Figure 5. GDP and Oil Prices



Sources: Agency of Statistics, National Bank, EIA

Investments declined dramatically and import down as a result of weak domestic demand

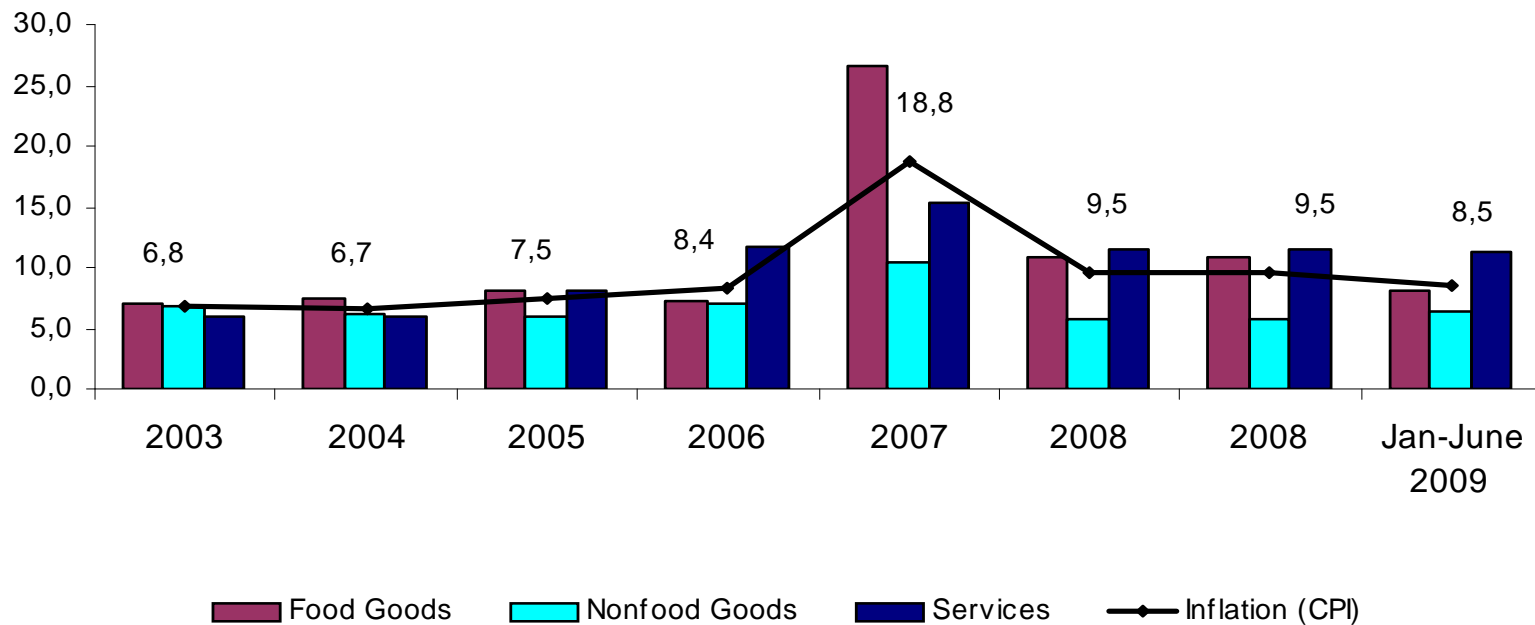
Figure 6. Kazakhstan real GDP by quarter, 2007-2009, % change y-o-y



Source: Agency of Statistics

Consumer price index, % change (at the end of period, to Dec. previous year)

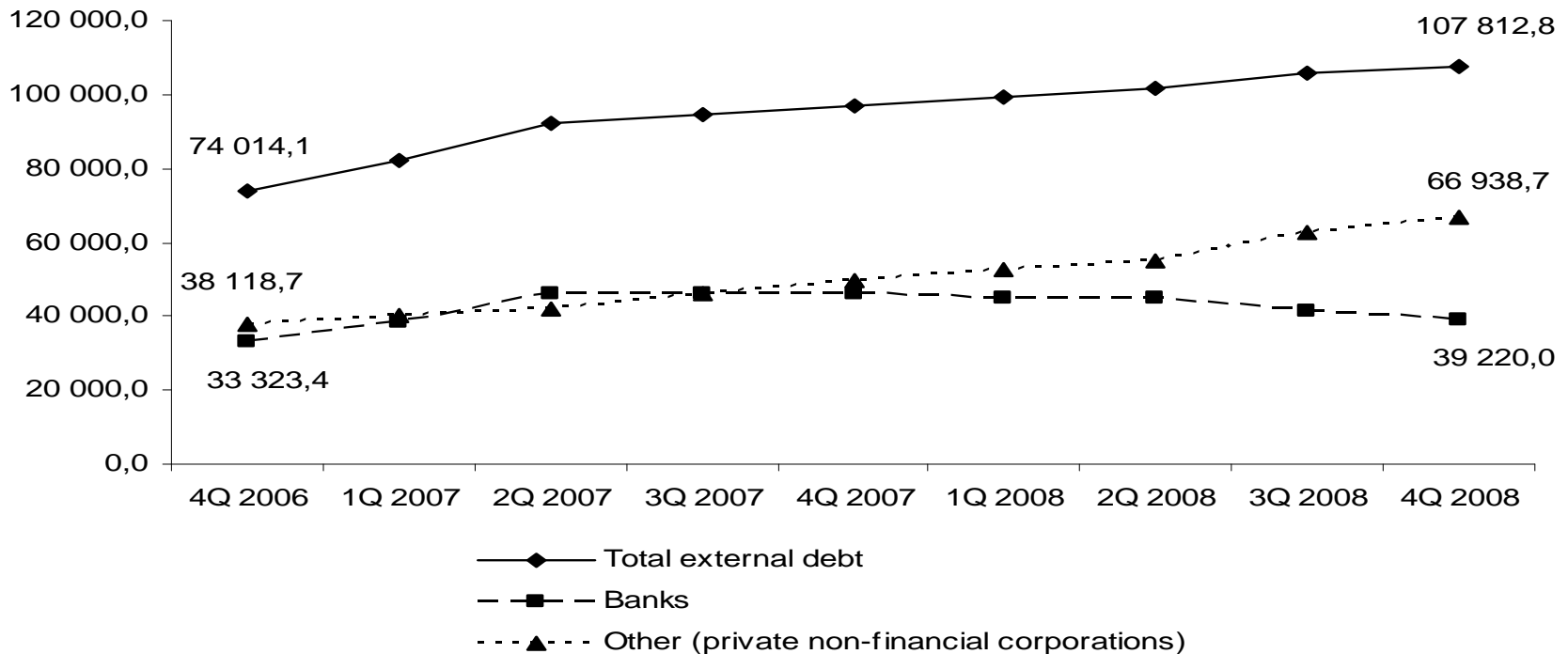
Figure 7. CPI by components, %



Source: Agency of Statistics

While public external debt remains moderate, private (corporate and bank) debt grew fast

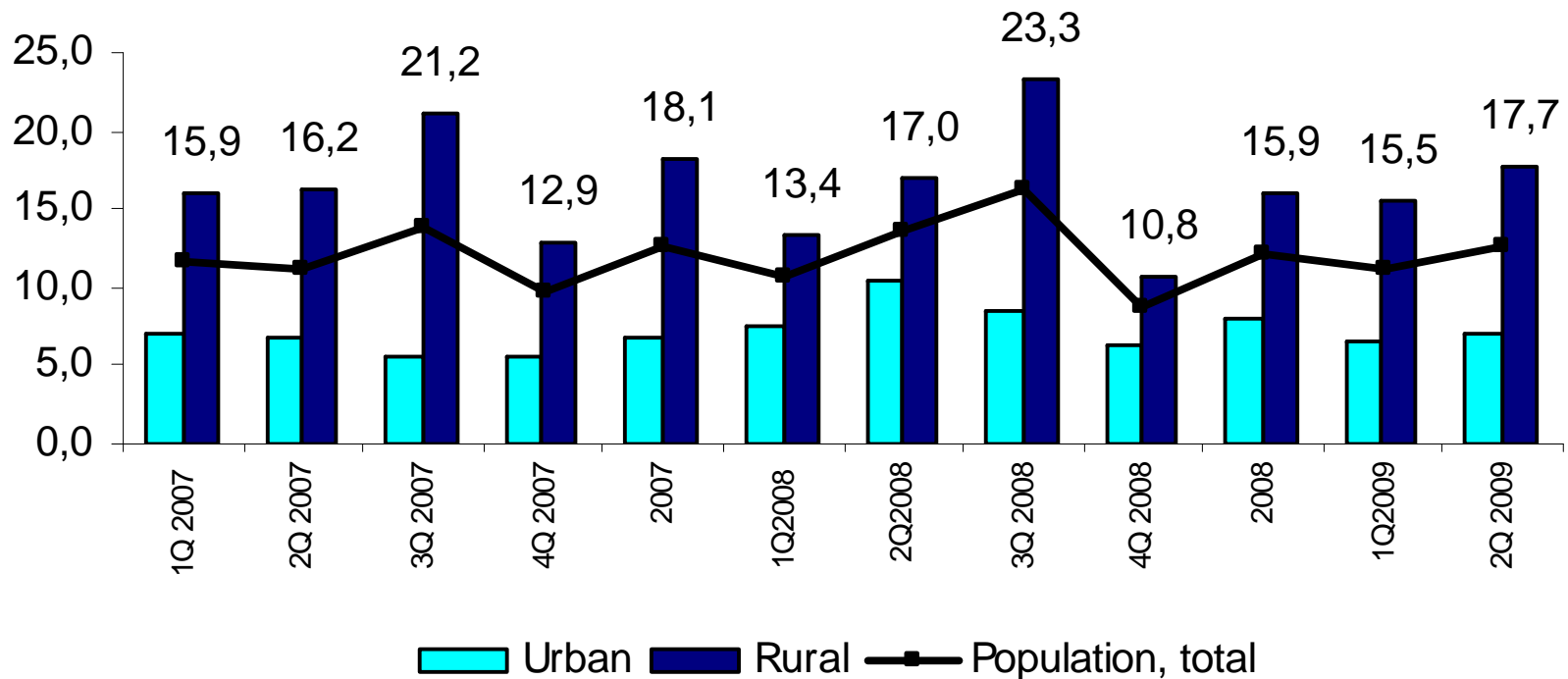
Figure 8. Total external debt stock and private (corporate and banking) debt stock (\$ millions)



Source: National Bank

Statistical data doesn't reflect impact of crisis on poor households

Figure 9. Share of population with income lower than subsistence level



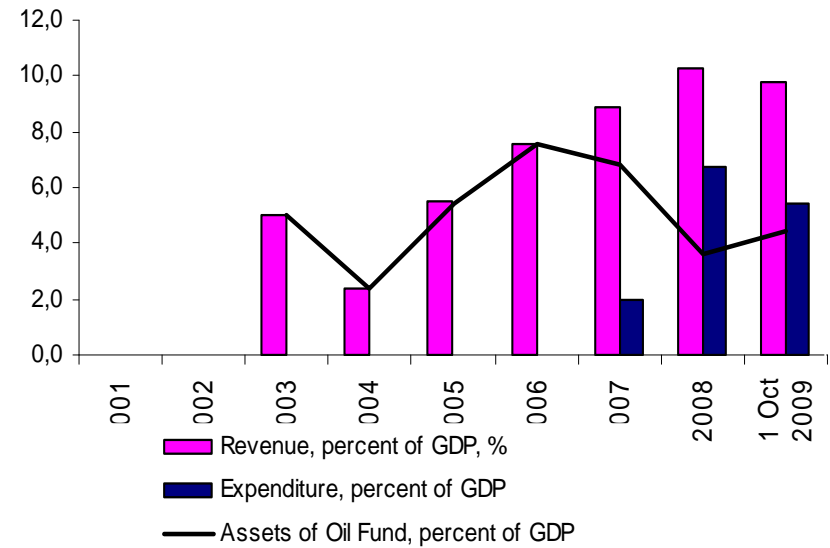
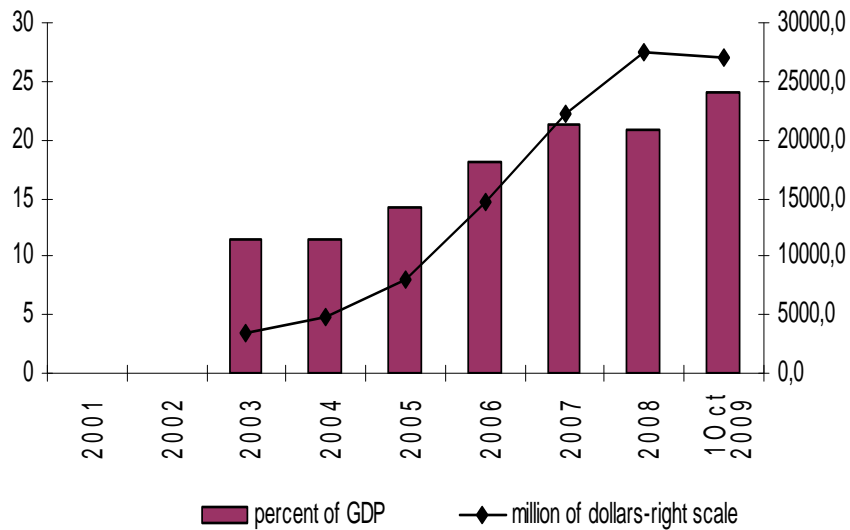
Source: Agency of Statistics

Policy response: massive and broadly appropriate, loosening monetary stance and providing fiscal support to ease liquidity crisis

Table 2. Aggregate fiscal, quasi-fiscal and monetary cost and sources of financing of anty-crisis policy measures

	Fiscal	Quasi-fiscal	Monetary	Total, \$
National Budget		Tax cuts on \$4.2 bln.		4.2
National Oil Fund	\$ 4 bln in 2007 \$10 bln in 2008			14.0
National Bank			\$2.9	2.9
Total, \$	14.0	4.2	2.9	21.1

Balance of NFRK



Monetary response

- Kazakhstan's National Bank devalues the tenge by 22% to 149.66 from 122.32
- Statement of the National Bank (Feb 4, 2009) : the currency may fluctuate about 3% either side of its target rate (150 tenge to the dollar)

Why impact of crisis was so painful?

Economy depends on :

- Oil prices
- Capital inflows
- Foreign debt of banks and companies
- Small sector of SME
- Non diversity of the Economy
- Low level of competitiveness

Conclusion

- Kazakh economy is facing a number of challenges, including lower oil and commodity prices, problems in banking sector
- Constrains of credit availability are negatively affecting on development of the economy
- Current crisis is reducing household's income