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Weekly analysis

THE PUBLIC SECTOR BALANCE IN THE ECONOMY OF KAZAKHSTAN: ADJUSTING LOW OIL PRICES

Kazakhstan is resource rich country, and its economy highly depends on the oil export. Oil prices that have been low since the middle of 2014 had a significant effect on the country's balance of payments and exchange rate. In the pre low oil prices period, the share of the oil export in the country's total export was in average 70%, therefore, decreased oil prices reduced country's export negatively affecting country's balance of payments. The reduced balance of payments in its turn decreased supply of foreign currencies in the country, which led to significant national currency devaluation. Moreover, tax revenues from oil sector were also affected by the low oil prices due to the reduced revenues of oil producing companies. The government had to free-float its currency and had to adopt countercyclical economic policies that aimed to offset the negative effect of low oil prices.

The new adopted countercyclical policies, which are mostly concentrated to support real non-oil sectors, required significant expenses, while the government's ability collect budget revenues were deteriorated due to low oil prices. Along with this, the Ministry of Finance expected that the oil production in the country would decrease from 79.4 million tons in 2015 to 77 million tons in 2016. Thus, in September 2015, while drawing its new plan for 2016-2018 budget the Ministry increased the budget expenses by 7.78% in comparison with 2015's budget expenses to 7.318 trillion tenge ($21.5 billion, hereinafter at current USD/KZT rate 340), while it was expected that budget revenues (excluding transfers from the National Oil fund) would grow only by 0.28% in comparison with 2015 to 3.513 trillion tenge ($10.3 billion). During the budgeting process, it was expected that the oil prices would be $40 per barrel in 2016-2017 and $60 per barrel in 2018. In addition, due to the fact that the expected average currency rate is a very important instrument in budgeting, because it affects the tenge revenues of oil producing companies, the Ministry had to consider the free-floating currency rate during their budgeting process. It was expected that the average currency rate in 2016 would be 300 tenge per dollar.

In November 2015, the Government adopted a slightly changed budget plan, by increasing the budget expenses to 7.666 trillion tenge ($22.5 billion). The adopted budget included 2.977 trillion tenge transfers from the National Oil Fund. The former Minister of National Economy, Erbolat Dosaev, noted that the budget deficit in 2016 would be 723.4 billion tenge ($2.1 billion), which is 1.6% of the country's GDP, while in 2017 and 2018 the Ministry expects 600.8 billion tenge (1.2% of GDP, $1.8 billion) and 558.4 billion tenge (1.0% of GDP, $1.6 billion) deficits. It was also noted that in accordance with 2016-2018 budget plan the Government plans to provide 306 billion tenge for EXPO-2017. The budget revenues were expected at 3.665 trillion tenge ($10.8 billion) excluding guaranteed transfers from the National Oil fund.

A significant amount of money should be allocated to governmental programs, such as the Industrial-innovative development program, the Nurly zhol program, Business Road map 2020, Employment Road map 2020 and Agribusiness 2020. Overall in 2016, the government allocates 2.530 trillion tenge ($7.44 billion) for these countercyclical governmental programs, while in 2015 the sum was 1.914 trillion tenge ($5.6 billion).

The Government could not finance the budget deficit by issuing new government bonds, due to the fact that interest rate at the financial markets was too high. In December 2015 the tenge overnight index average reached 320%, which is a very high rate considering its usual level at 3-5%. Moreover, the Government might not have been able to sell its bonds due to the liquidity shortage in the market. The Government also could not finance its deficit through transfers from the National Oil fund since over 3 trillion tenge had already been allocated from the Fund to the revenue side of the public budget. It should be noted that this amount significantly exceeded the maximum amount of the guaranteed transfers, which were about 2.4 trillion tenge or $8 billion (300 tenge per dollar).

Therefore, the Government decided to finance the deficit through borrowings from the international development institutions. At the end of 2015, the President of Kazakhstan, Nursultan Nazarbayev, ratified a countercyclical support loan agreement between Kazakhstan and the Asian Development Bank (ADB) in the amount of $1 billion, which is 300 billion tenge (300 tenge per dollar). According to the Ministry of Finance, the loan was granted for 5 years with a 3-year grace period. The interest rate of the ADB's loan is the LIBOR + 2% spread. Furthermore, the Kazakh authorities agreed with the International Bank for Reconstruction and Development (IBRD) to allocate $1 billion or 300 billion tenge loan to Kazakhstan. It is important to note that the Government initially planned to receive $2 billion, but only could agree on $1 billion. The loan will be granted for 20 years, including a grace period 2.5 years, with the LIBOR + floating spread interest rate. In addition, the IBRD will charge a fee that will amount 0.25% per year of the undrawn loan balance. Thus, due to these two loans, the foreign debt of Kazakhstan grew from $11.756 billion in October 2015 to $13.850 billion in October 2016, which is a bit more than $2 billion. While the level of domestic debt decreased by 0.01% to 4.320 trillion tenge or $12.705 billion.

Due to further external macroeconomic fluctuations, the Government had to make amendments in the 2016 public budget in March 2016. Expected oil prices in the public budget were decreased from $40 per barrel to 30$ per barrel in 2016-2017, and expected oil production was decreased to 74 million tons. In addition, the average currency rate used for budgeting increased from 300 tenge per dollar to 360 tenge. These factors significantly changed the revenues and expenses of the public budget. The budget expenses increased by 600 billion tenge ($1.8 billion) to 8.227 trillion tenge ($24.1 billion), and the revenues (excluding transfers) decreased to 3.189 trillion tenge ($9.4 billion), while the budget deficit increased by 179.2 billion tenge ($0.5 billion) to 902.7 billion tenge ($2.7 billion) or 2.0% of GDP. The transfers from the Fund also were increased to 3.903 trillion tenge ($11.5 billion).

However, in the second half of 2016 due to the slightly improved oil prices and the recommissioning of the Kashagan oil field, the expected budget revenues increased, which was the reason to review the budget. Therefore, in September 2016 the Government made an amendment in the 2016 budget. In the new amendment, the Kazakh authorities increased the expected revenues (excluding transfers) to 4.2 trillion tenge ($12.3 billion). According to the Minister of National Economy, Kuandyk Bishimbaev, the Government was able to increase expected revenues due to the fact that in the budgeting process it increased average prices of oil from $30 per barrel to $35 per barrel, and increased the expected oil production from 74 million tons to 75.5 million tons. The increased budget revenues allowed decreasing transfers from the Fund by roughly 400 billion tenge ($1.2 billion) or to 3.448 billion tenge ($10.1 billion) in 2016, and increasing budget expenses to 8.646 trillion tenge ($25.4 billion).

In conclusion, it can be stated that in 2016 Kazakhstan's Government along with the Ministry of Finance worked hard to finance their countercyclical policies, while struggled to balance the budget. Next year, the public sector balance can face an easier budgeting process with three reasons. First reason is that the economic situation in the country is improving. According to the Head of the National Bank of Kazakhstan, Daniyar Akishev, the economy will grow by 2% in 2017, while this year the growth rate is expected at 0.5%. The second reason is that Kashagan oil field is recommissioned. The third and last reason is that a possible growth can be seen in oil prices, due to the oil freeze agreement among oil exporting countries. Under these circumstances, the public sector balance can be positively affected by the increase in oil production, in economic growth rate and in oil prices. With a strengthened public sector balance, Kazakhstan can develop stronger economic policies to improve its economy.

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Politics, Foreign Affairs and Security

- During his official visit to Uzbekistan, the President of Turkey Recep Tayyip Erdogan and the Interim President of Uzbekistan Shavkat Mirziyoyev, discussed perspectives of further developing cooperation between two countries and exchanged opinions on regional and international issues of mutual interest. Additionally, the President of Turkey visited the grave of the First President of Uzbekistan, Islam Karimov.
- According to the Foreign Ministry of Turkmenistan, the 16th meeting of the Turkmenistan-European Union (EU) committee was held in Brussels, within the agreement on cooperation and trade. The parties discussed macroeconomic situation, constitutional and social reforms, implementation of technical projects and programs of the EU in the country, energy projects and opportunities to diversify gas supplies to the EU.
- During his official visit to Ashgabat, the President of Palestine, Mahmoud Abbas, and his Turkmen counterpart, Gurbanguly Berdimuhamedov, signed a joint declaration. The parties also signed an agreement on economic cooperation and memorandums of understanding on cooperation in higher education and tourism. Additionally, memorandums of understanding were signed between the Ministry of Economy and Development of Turkmenistan and Investment Promotion Agency of Palestine and between the two countries' chambers of commerce and industry.
- According to the statement released on the website of the US White House, the Southern Gas Corridor, which envisages the transportation of 10 billion cubic meters of Azerbaijani gas from the Caspian Sea region to the European countries through Georgia and Turkey, provides new hope and opportunity for stability and prosperity. The country would support the project to reduce Europe's dependence on Russian gas and strengthen energy security in the region.
- During her official visit to Moscow, the Deputy Foreign Minister of Kyrgyzstan, Dinara Kemelova, and her Russian counterpart, Oleg Syromolotov, had joint consultations on the fight against international terrorism. The sides discussed fight against ISIS threats, elimination of terrorism financing and radicalization, as well as cooperation within the UN, the Shanghai Cooperation Organisation and the Collective Security Treaty Organization organizations.
- During his official visit to Dushanbe, the Deputy Foreign Minister of India, Sujata Mehta, and First Deputy Foreign Minister of Tajikistan, Nizomiddin Zohidi, discussed issues on security and sustainable development of the region, combating terrorism and extremism and the agenda of the upcoming ministerial conference on Afghanistan issues scheduled for December 3-4 in India.
- The President of Russia, Vladimir Putin, signed a resolution on the refusal of the country to become a member of the Rome Statute, which is the basic document establishing the International Criminal Court (ICC). The Foreign Ministry of Russia will send a relevant notice to the UN Secretary-General.
- The National Bank of Kazakhstan announced that the country would issue a commemorative 10,000-tenge banknote with the President of the country, Nursultan Nazarbayev, dedicated to the 25th anniversary of Kazakhstan's independence. The banknote will be issued by the Day of the First President on December 1. It was stated that the banknote would reflect the president's contribution in the country's development.

Economy, Finance and Energy

- During his official visit to Burkina Faso, the Energy Minister of Azerbaijan, Natig Aliyev, met with government heads of Burkina Faso and discussed the cooperation opportunities between two countries in energy. It was also noted that certain commercial agreements were reached between The State Oil Company of Azerbaijan and Burkina Faso's state oil company SONABHY on the supply of oil products to Burkina Faso.
- The state oil and gas company of Russia, Gazprom, reported that the company registered on November 11 for the sixth time this autumn a new historic maximum of gas supplied to Europe within one day (597.9 million cubic meters). The growth in comparison with previous record was 6.2 million cubic meters, which is comparable with a daily supply to the European countries such as Croatia and Denmark.
- The Director of the Institute for Scientific Research on Economic Reforms (ISRER) under the Ministry of Economy of Azerbaijan, Vilayat Veliyev, announced that the country intends to increase energy efficiency by 20% until 2020. It was stated that it is planned to reduce the volumes of gas emissions from boilers by 20% and increase the share of renewable energy in total production to 20%.
- During his visit to Israel, the Prime Minister of Russia, Dmitry Medvedev, and his Israeli counterpart, Benjamin Netanyahu, discussed the establishment of a free trade zone between Israel and the Eurasian Economic Union. It was noted that consultations with other members of the union and Israel on the free trade zone would be held soon.
- According to the European Bank for Reconstruction and Development, the bank is providing a loan for water upgrade in Kyrgyzstani Kyzyl-Kiya city to support water and wastewater modernization in the country. It was also stated that the investment would be co-financed by the European Union's Investment Facility for Central Asia. The total amount of loan supplied by the institutions is $6.7 million.
- According to the Principal Urban Development Specialist of the Central and West Asia Department, Hao Zhang, the Asian Development Bank approved a $120 million loan to improve access to safe, reliable, sustainable, and affordable water supply services for over 260,000 inhabitants in the Kibray and Zangiota districts of Tashkent region. It was stated that the project will significantly reduce time and money spent by households and businesses to access water and provides improved living standards, especially in rural areas.
- The Statistics Committee of the National Economy Ministry of Kazakhstan reported that the country's trade turnover with the Eurasian Economic Union (EAEU) amounted to $9.26 billion in January-September 2016, which is by 26.4% less than the same period in 2015. The country's exports fell by 31.6% to $2.75 billion in this period, while imports were down by 23.9% hitting $6.5 billion. Russia accounts for 93.5% ($8.66 billion) of the country's total trade with the EAEU.
- According to the Investment and Development Minister of Kazakhstan, Zhenis Kasymbek, gross inflows of foreign direct investment reached $9.3 billion in the first half of 2016, which is 25.8% higher than the same period in 2015. In particular, 60% of these investments fell on mining and exploration, 15% on manufacturing, 9% on trade, 5% on the construction and 12% - on other areas.

Society and Culture

- According to the Ministry of Internal Affairs of Kazakhstan, an agreement was signed with the Ministry and the Federal Management on fight against drugs of the US on cooperation in fight against drug trafficking, psychotropic substances of their analogs and precursors.
- The Kazakh Ministry of Health reported that 1,312 health facilities have been built and commissioned in Kazakhstan in 25 years. In particular, 8 medical research centers, 32 specialized health centers, 176 hospitals, 144 health centers, 907 clinics and 45 specialized health care facilities were built.
- The Russian space agency Roscosmos announced that the Soyuz MS-03 spacecraft carrying Russian cosmonaut Oleg Novitskiy, European Space Agency astronaut Thomas Pesquet, and NASA astronaut Peggy Whitson blasted off from the Baikonur space center in Kazakhstan.

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