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Weekly analysis

# RECENT TRENDS IN FISCAL POLICY IN THE ECONOMY OF KAZAKHSTAN

As it is well known, the economy of Kazakhstan is highly dependent on extractive industries, which has implications for coordinating fiscal policy. During 2014-2016, Kazakhstan's oil and gas revenues decreased by almost two thirds. This sharp decline made it necessary for the Government to reconsider the implications of the fiscal policy. In general, the fiscal policy in the economy of Kazakhstan is being transformed from the model, which is based primarily on oil and gas revenues, to the new budget model, which relies on the diversification in revenue sources.

It should be admitted that the budget deficit in the economy of Kazakhstan has been constantly rising since 2006 and it reached its highest level in 2014 exceeding 1 trillion tenge. However, due to prudential fiscal policy, which included cutting budget expenditures on public security, culture and sport, housing and public utility, as well as increasing transfers from the National Fund, the budget deficit started to decrease since 2014. In 2016, the budget deficit reduced to 737.7 billion tenge compared to 915 billion tenge in 2015. Due to the restrictive budget policies mentioned above, the budget deficit in 2016 constituted about 1.6% of the GDP, which can be considered as tolerable.

It is also worth mentioning that in 2016 the expenditure of the state budget increased by 14.7% reaching 9,433.7 billion tenge or 20.4% of the GDP. The Government managed to increase the key categories of the public expenditures such as education (22.3%), health care (20.3%), social benefits (15.4%), housing and public utilities (14.5%), culture, sports, tourism and media (11.2%) and public security, legal, judicial, criminal-executive activity (4.8%). However, the budget revenues also increased by 21.9% and amounted to 9,308.5 billion tenge or 20.2% of the GDP in 2016. Moreover, in 2016 the tax revenues increased by 23.3% compared to 2015, whereas non-tax revenues and transfers from the National Fund increased by 64.3% and 16.2%, respectively. All categories of tax revenues increased except for the value added tax revenues. The increase in public revenues exceeded the increase in public expenditures which positively affected public deficit.

As it is known, the public budget consists of the republican budget executed by the central government and local budgets executed by local administrations. In 2016, the revenues of local budgets rose by 17.7% while the expenditures grew by 22.6%, which led to 30% increase of local budget deficit. The revenues and expenditure of the republican budget were 7,662.2 billion and 7,899.8 billion tenge, which increased the republican budget deficit by 18.7%. Over the last four-five years, there is an upward trend in the revenues of local budgets, while the revenues of the republican budget are on a downward trend. Thus, since 2014, the ratio of the revenues of local budgets to the revenues of the republican budget decreased from 0.64 to 0.56 and the ratio for expenditures decreased slightly from 0.56 to 0.53. This pattern weakened the role of local budgets in implementing fiscal policy, which caused an inefficiency in fiscal policy implementations. Therefore, the fiscal decentralization has become one of the principal objectives of the Government. In this regard, in June 2017 the President signed a Law on amendments to some legislative acts on the issues of development of local governments, according to which villages that have at least 2000 inhabitants or more will have their own budgets starting from 2018.

The top priorities in the fiscal policy and tax administration under the conditions of low oil prices and reduced oil revenues were specified in the last two Presidential Addresses to the Nation of Kazakhstan. In the Presidential Address to the Nation of Kazakhstan which was presented on January 31, 2017, the President Nursultan Nazarbayev specified three key objectives for the fiscal policy and tax administration. The first one is the necessity to radically improve the efficiency of budget expenditures, especially the expenditures of the Ministries of Labor and Social Welfare, Health, Education and Science, as they account for over 40% of the national budget. The second objective is to improve the efficiency of the guaranteed transfers from the National Fund reducing these transfers to 2 trillion tenge by 2020. Thirdly, the Government should improve the monitoring and controlling process of the external and internal loans of the quasi-public sector.

Due to high fluctuations in oil prices and switch from the fixed exchange regime to the floating exchange regime, which led to a 73% depreciation of tenge in 2015, the fiscal policy in the economy of Kazakhstan faced a high level of uncertainty, which make it problematic for the Government to prepare reliable budget projections for mid-term and long-term perspectives. In fact, since 2014, due to high volatility in oil prices and exchange rates, the budget plans became imprecise and the budget amendments became rather frequent. For instance, in the beginning of 2017 the Parliament of Kazakhstan had to adopt serious amendments to the public budget for 2017-2019 increasing the projected prices of oil from \$35 to \$50 per barrel and decreasing the projected KZT/USD exchange rate from 360 to 330. According to the new budget for 2017, the public expenditures are expected to increase considerably mainly due to the new anti-crisis measures of the Government. The overall guaranteed transfers from the National Fund are expected to stay at 2,880.0 billion tenge. As a result, in 2017 the projected public budget deficit will increase almost threefold from 581.1 billion tenge to 1,547.9 billion tenge accounting for 3.2% of the GDP.

Therefore, the Minister of the National Economy of Kazakhstan, Timur Suleymenov, in his recent interview mentioned that in order to deal with this problem the Ministry is preparing a proposal, according to which it is assumed to switch from three-year budget planning to one-year budget planning. The proposal is aimed at resolving the main problems of the fiscal policy by facilitating the process of using the funds in the real economy, improving the monitoring process of the budget execution and stimulating the cooperation between the public and private sectors.

It could be concluded that in the economy of Kazakhstan, the current reforms and other changes in the fiscal policy can be considered as a response by the Government to overcome current economic challenges. The Kazakhstani authorities have been implementing prudential fiscal policies by introducing specific reforms in order to achieve fiscal stability. However, the success of these reforms and policy changes cannot be fully evaluated without monitoring the process of implementation at least in the mid-term.

**Written by Kanat Makhanov,**
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## Politics, Foreign Affairs and Security

- During his official visit to Sochi, the President of Azerbaijan, Ilham Aliyev, and his Russian counterpart, Vladimir Putin, discussed cooperation in political, trade and economic, humanitarian areas. The parties also exchanged views about the international and regional problems.
- During their official visit to Baku, the Foreign Ministers of Turkey and Turkmenistan, Mevlut Cavusoglu and Rashid Meredov, and their Azerbaijani counterpart, Elmar Mammadyarov, agreed to develop a Road Map for future cooperation for 2017-2020. The sides also discussed the implementation of regional transportation projects focusing on cargo traffic via sea routes.
- During his official visit to Brussels, the Foreign Minister of Uzbekistan, Abdulaziz Kamilov, and the Representative of the European Union for Foreign Affairs and Security Policy, Vice President of the EU Commission, Federica Mogherini, discussed prospects for strengthening regional dialogue and cooperation focusing on reform efforts in Uzbekistan.
- During her official visit to Tashkent, the Director of the Department of the Ministry of Foreign Affairs of India, National Coordinator of India on the Shanghai Cooperation Organization (SCO) issues, Madhumita Hazarika Bhagat, and the Minister of Foreign Affairs of Uzbekistan, Abdulaziz Kamilov, discussed the current agenda of the SCO activities at various levels.
- The Official Spokesman of the Russian Baltic Fleet, Roman Martov, announced that within the framework of the joint Russia-China naval exercises dubbed Maritime Cooperation-2017 the Russian and Chinese seamen, as well as marine aviation crews, will train to organize anti-submarine, anti-aircraft and anti-ship defense, as well as to free a vessel from "pirates" and conduct a search and rescue operation in the Baltic Sea. It was also stated that it is the first time the Chinese warships visited the Russian main Baltic Fleet's base located in Baltiysk in Kaliningrad Region.

## Economy, Finance and Energy

- The State Oil Fund of Azerbaijan, SOFAZ, reported that since early 2001 until July 1, 2017 it received $125.215 billion as part of the project of developing the Azeri-Chirag-Gunashli (ACG) block of fields in the Azerbaijani sector of the Caspian Sea. It was also noted that in January-June 2017, SOFAZ received $3.106 billion within the ACG project development.
- The Deputy Finance Minister of Russia, Sergei Storchak, stated that the country is going to provide an intergovernmental loan worth $700 million to Belarus. It was noted that all documents related to credit arrangement would be signed after the government's decree is issued.
- The Asia Development Bank (ADB) reported that it improved growth prospects for the Central Asian region. According to the ADB, the economic growth in Central Asia is expected to reach 3.2% in 2017 and 3.8% in 2018 compared to 3.1% and 3.5% original projections, respectively. It is forecasted that inflation would reach 8.1% in 2017 and 7.4% in 2018 compared to the 7.8% and 7.3% of previous forecast, respectively.
- The President of Uzbekistan, Shavkat Mirziyoyev, signed a Decree on Measures to Radically Improve Tax Administration, Increase Tax Collection and Other Compulsory Payments aimed to strengthen the responsibility of officials for the timely provision of reliable information related to taxation and develop efficient mechanisms for the prevention of tax offense.
- The National Bank of Kyrgyzstan reported that in July it held the third intervention in the foreign exchange market of the country. The Bank bought $7.7 million to support the weakening of the US dollar. It was noted that since the beginning of the year, the Bank sold $39.75 million and bought $30.11 million.
- The Minister of National Economy of Kazakhstan, Timur Suleimenov, reported that the economy grew by 4.8% in the first half of 2017, while in the same period of 2016 it grew by 0.1%. The main drivers of the economic growth was the manufacturing industry, which grew by 7.8% in January-June 2017, while the same period last year was marked by 1.6% decline. The growth in the consumer goods industry equaled to 17.4%, while the increase in metallurgical industry and food production industry totaled 7.9% and 7.5%, respectively.
- The Automobile Manufacturers Committee of the Association of European Businesses reported that Uzbekistani private Automobile Manufacturer, GM Uzbekistan, sold 4,946 automobiles of Ravon brand in Russia in January-June 2017. It was noted that GM Uzbekistan claimed the 21st place on the volume of sold cars in Russia.
- The Kazakhstani oil and gas company PetroKazakhstan Oil Products announced that its subsidiary company, the Shymkent Oil Refinery, started the shipment of new products, namely, AI-92 Grade high-octane gasolines of Ecological Class K4 (analogous to Euro-4) to the suppliers. It was noted that the plant plans to start to ship AI-96 grade K4 class gasoline, and AI-92 and AI-96 K5 class (Euro-5 alike) in near future.

## Society and Culture

- The President of Azerbaijan, Ilham Aliyev, signed an order to provide one-time allowance to newspapers published in the country. Under the presidential order, $0.59 million will be allocated from the Presidential Contingency Fund to the State Fund for Support to Development of Mass Media. In addition, the President signed a Decree on Additional Measures to Strengthen Social Protection of Media Workers, according to which $2.97 million will be allocated from the President's Reserve Fund to the State Fund for Support of Mass Media Development.
- The Culture Minister of Tajikistan, Shamsuddin Omurbekzoda, reported that the country set up a commission to promote clothing the government deems appropriate for citizens of the Central Asian country aimed at combating "alien" culture, designing clothes for men and women taking into consideration Tajik traditions and modern life style.
- The Ministry of Education and Science of Kyrgyzstan announced that according to the first round of application, 2,520 entrants were enrolled at state universities of Kyrgyzstan for state-financed study. It was noted that the total number of state-financed places is 5,440, while the total number of applicants is 26,103.

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