

# Country Insight Snapshot

## Kazakhstan

February 2018





## OVERVIEW

**OVERALL COUNTRY RISK RATING: DB5b**

**High risk** : Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.

**R**

**Rating Outlook:** Stable

## CORE OUTLOOK

- + An expanding middle class should boost opportunities in the services and consumer-oriented sectors over the medium term.
- + WTO membership and government plans to develop the economy should improve investment opportunities.
- The high level of oil dependency exposes Kazakhstan to rapid changes in the oil price.
- Government plans for economic diversification have been resisted by the country's incumbent elites.

## KEY DEVELOPMENT

The government identifies economic policy objectives for the year ahead, including strengthening the business environment and further developing the country's infrastructure.

### CREDIT ENVIRONMENT OUTLOOK

**A**

**Trend:** Stable

Key Development has had a neutral impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

**R**

**Trend:** Stable

Key Development has had a neutral impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

**A**

**Trend:** Stable

Key Development has had a neutral impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

**R**

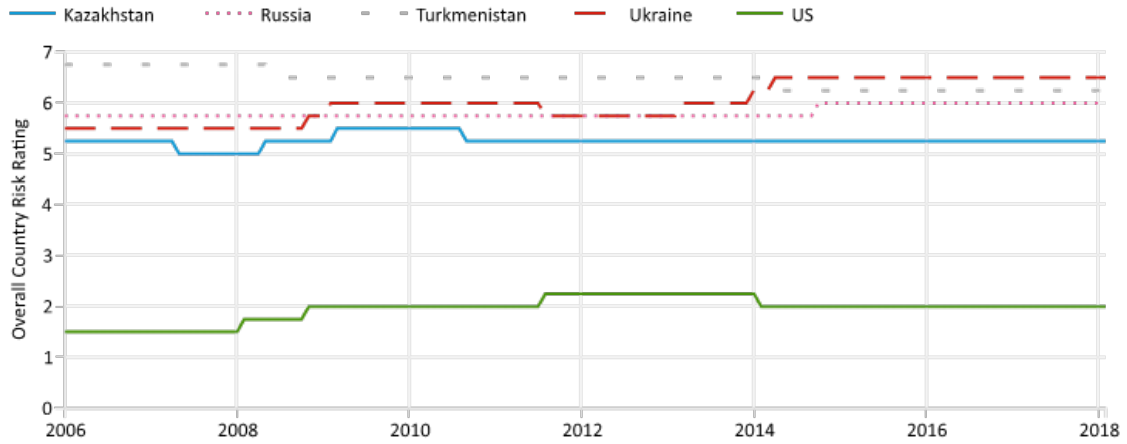
**Trend:** Stable

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

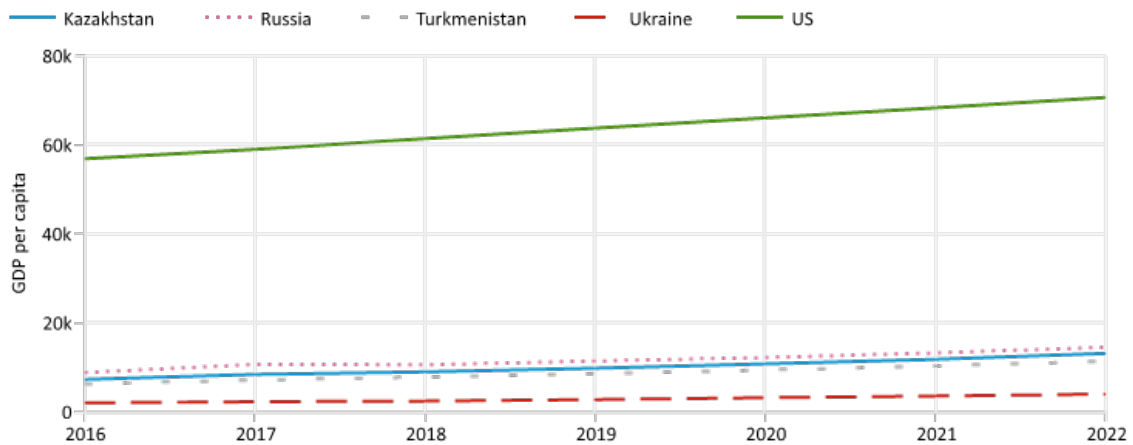
### Rating History and Comparison



Source : Dun & Bradstreet

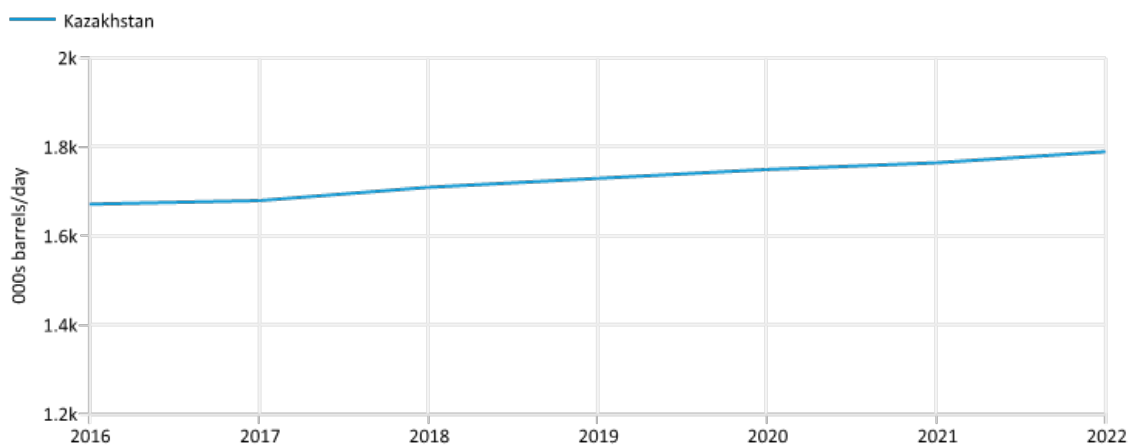
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Crude Oil Production



Source : Dun & Bradstreet



## Economic Indicators

Indicator	2015	2016	2017e	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-3.1	-6.8	-3.9	-3.0	-2.2	-1.7	-1.3	-0.8
Govt balance, % GDP	-2.3	-1.6	-2.9	-1.7	-1.5	-1.2	-1.0	-0.8
Inflation, annual avge %	6.7	14.6	7.4	6.3	6.0	5.5	5.2	5.0
Oil Price, USD/b	52.4	44.0	54.4	59.1	56.0	63.0	75.0	87.0
Real GDP Growth, %	1.0	0.9	3.7	3.1	3.1	3.2	3.5	3.7

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

As of end-November, Kazakhstan's FX reserves stood at USD18.1bn, down from USD18.8bn at end-October. The central bank has been seeking to rebuild reserves since shifting to a free-floating exchange rate regime in 2015, prior to which they were depleted rapidly to defend the slumping currency. The banking sector remains fragile - lenders continue to grapple with distressed assets generated during the 2008-09 financial crisis, and the sharp depreciation of the tenge in 2014-15 has exacerbated this problem further. NPLs accounted for 9.3% of total banking sector loans in December. The true share is actually likely to be higher, as some NPLs have been moved into special purpose vehicles. Meanwhile, banks have been forced to increase tenge deposit rates for corporate clients as part of efforts to reduce dollarisation, thus increasing borrowing costs for businesses. However, banking sector risks are mitigated by the government's recourse to its National Oil Fund.

## TRADE TERMS AND TRANSFER SITUATION

### Minimum Terms: CLC

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: CiA

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: Up to 120 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 1-3 months

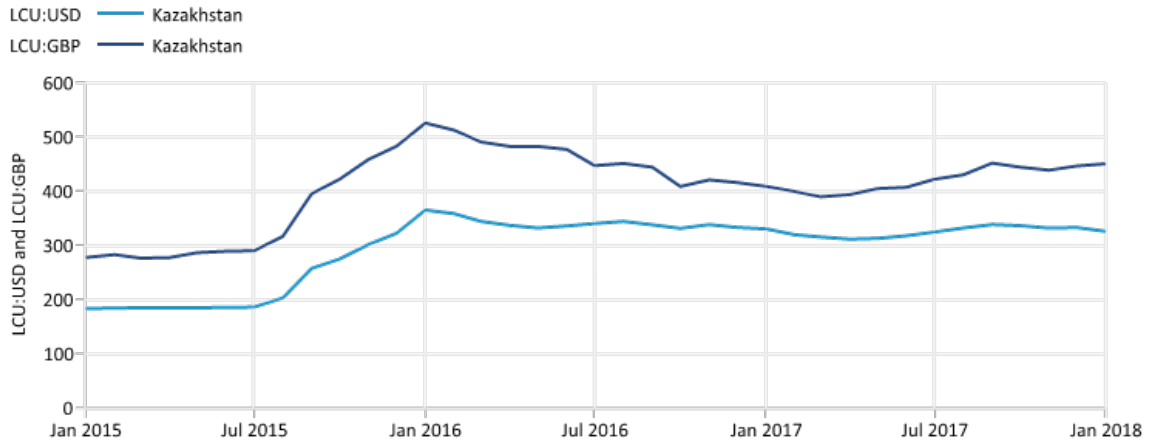
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: 1-3 months

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



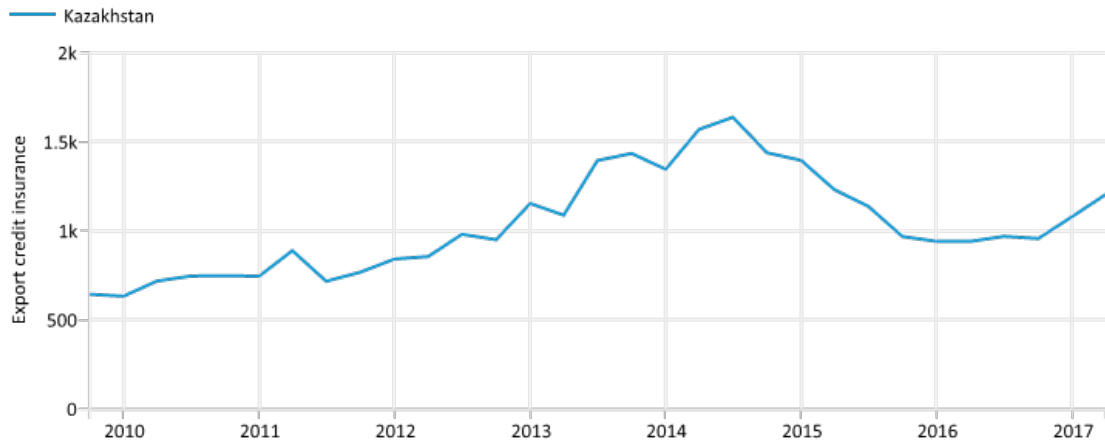
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = Kazakhstani tenge*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### ***Government sets out 2018 objectives***

The short-term outlook for Kazakhstan's risk profile remains broadly stable this month. In late January the government issued a statement outlining its economic policy objectives for 2018. The main areas of focus will be preserving macroeconomic stability, strengthening the business environment, developing certain sectors of the economy, and developing Kazakhstan's infrastructure. The government is aiming for a budget deficit of around 1.1% of GDP this year compared to 2.9% in 2017. While fiscal receipts will be bolstered by higher international oil prices, this will only be enough to reduce the budget gap to 1.7% of GDP in 2018, with a further narrowing to 1.5% of GDP in 2019. Within the business sphere, the authorities plan to introduce a package of measures aimed at improving commercial operations, especially at the regional level, and to simplify the tax system in order to reduce the size of the shadow economy. Next, there will be a concentration on improving Kazakhstan's digital offering, including through the expansion of cloud technology. Although internet penetration is reasonably good by regional standards at nearly 77%, there is still room for expansion in this area. Finally, the government intends to devote additional resources to the strengthening of the country's transport and logistics infrastructure, this as part of the multi-year Nurly Zhol investment programme.

Meanwhile, economic growth should get a boost from a recent easing of monetary policy. The central bank approved a 50-basis points (bp) cut in its main rate to 9.75% in mid-January, this being the first reduction in five months. Rates remain high in absolute terms, but it should also be noted that consumer price inflation is still somewhat excessive: latest figures put it at an annual 6.8% in January, although this is down from a recent high of 7.7% recorded in October. Dun & Bradstreet expects this downward drift to continue over at least the near term, with the overall 2018 inflation rate forecast at 6.3% (and 6.0% next year). Against this backdrop, we predict further interest rate cuts, possibly by as much as a cumulative 250 bp by the end of this year.

### Expropriation/Nationalisation Risk

#### ***Middling rule of law ranking***

Finally, Kazakhstan was ranked at a middling 64th out of 113 countries surveyed in the World Justice Project's recently published *Rule of Law Index 2017-2018*. Within the Eastern Europe and Central Asia region, Kazakhstan stood at fourth out of 13 countries. Within the eight sub-categories which make up a country's overall ranking, Kazakhstan's highest was in 'order and security', at 36th, followed by 'civil justice', at 50th, and 'regulatory enforcement', at 51st. Reflecting the lack of protection for human rights in Kazakhstan, its weakest ranking was in 'fundamental rights', at 94th.



## COUNTRY PROFILE AND STATISTICS

### Overview

Kazakhstan, which declared independence and joined the CIS in 1991, stretches from the Caspian Sea to China and is bordered by Russia to the north and by the Kyrgyz Republic, Uzbekistan and Turkmenistan to the south. Following its transition from a command economy under Soviet rule to a market economy, Kazakhstan boasts the largest economic potential of any former Soviet Republic in Central Asia. Bordering the Caspian Sea and with a huge geographical area, it possesses enormous fossil fuel reserves and ample resources of minerals and metals.

Since independence from the Soviet Union, the country has made little progress towards democracy, with President Nursultan Nazarbayev believing that ‘enlightened authoritarianism’ offers the best path away from the totalitarianism of the past. However, unlike in neighbouring Uzbekistan and the Kyrgyz Republic, Nazarbayev has brought Kazakhstan a considerable degree of political stability, while his free-market economic policies (meddling in the hydrocarbons sector notwithstanding) and strong international oil and gas prices have underpinned robust economic growth.

### Key Facts

Key Fact	Detail
Head of state	President Nursultan NAZARBAYEV
Capital	Astana
Timezone of Capital	GMT +06-00
Official language	Kazakh, Russian
Population (millions)	18.2
GDP (USD billions)	154.9
GDP per capita (USD)	8,511
Life expectancy (years)	69.4
Literacy (% of adult pop.)	99.8
Surface area (sq km)	2,717,300

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2013	2014	2015	2016	2017e
Real GDP growth (%)	5.9	4.3	1.0	0.9	3.7
Nominal GDP in USDbn	227	219	178	132	155
Nominal GDP in local currency (bn)	34,488	39,188	39,384	45,305	50,353
GDP per Capita in USD	13,175	12,506	10,007	7,361	8,511
Population (year-end, m)	17.2	17.5	17.7	18.0	18.2
Exchange rate (yr avge, USD-LCU)	152.1	179.2	221.7	342.2	325.0
Current Account in USDbn	1.1	6.2	-5.6	-9.0	-6.0
Current Account (% of GDP)	0.5	2.9	-3.1	-6.8	-3.9
FX reserves (year-end, USDbn)	19.1	21.8	20.3	19.9	20.3
Import Cover (months)	3.6	4.6	5.4	6.1	5.6
Inflation (annual avge, %)	5.8	6.6	6.7	14.6	7.4
Govt Balance (% GDP)	-2.0	-2.8	-2.3	-1.6	-2.9

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	3.1	3.1	3.2	3.5	3.7
Nominal GDP in USDbn	167	184	204	225	253
Nominal GDP in local currency (bn)	55,087	60,099	65,328	71,012	77,190
GDP per Capita in USD	9,070	9,885	10,872	11,892	13,229
Population (year-end, m)	18.4	18.6	18.8	19.0	19.1
Exchange rate (yr avge, USD-LCU)	330.0	327.0	320.0	315.0	305.0
Current Account in USDbn	-5.0	-4.0	-3.5	-3.0	-2.0
Current Account (% of GDP)	-3.0	-2.2	-1.7	-1.3	-0.8
FX reserves (year-end, USDbn)	20.7	23.5	25.5	28.6	30.6
Import Cover (months)	5.6	5.9	5.8	5.9	6.1
Inflation (annual avge, %)	6.3	6.0	5.5	5.2	5.0
Govt Balance (% GDP)	-1.7	-1.5	-1.2	-1.0	-0.8

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Kazakhstan	Russia	Turkmenistan	Ukraine	US
Income per Capita (USD)	9,070	10,662	7,942	2,513	61,495
Country Population (m)	18.4	144.0	5.9	44.0	326.8
Internet users (% of population)	76.8	76.4	18.0	52.5	76.2
Real GDP Growth (% p.a., 2018 - 2027)	2.5 - 5.0	1.5 - 3.0	4.0 - 6.0	-0.5 - 3.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet





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