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# New government, old challenges in the Kazakh economy

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## Abstract

Kazakhstan is a landlocked country and one of the largest economies in Central Asia. Its area is almost twice as large as that of the other countries in the region, and the Kazakh economy is the second largest in the post-Soviet space and the largest in Central Asia. The country's gross domestic product per capita reached USD 11,243 (2022). [According to World Bank's classification](#), Kazakhstan belongs to the so called upper middle income countries. In terms of GDP, it is second only to Russia in the Commonwealth of Independent States. And the country's population recently passed the 20 million mark (2024). In Kazakhstan complex political and social changes have taken place in recent years, changes such as the change of constitution, renaming the capital Nursultan to Astana and others. In addition, the changes in the Kazakh government at the beginning of February 2024 have significantly improved the chances of the implementation of Tokayev's ambitious economic development plans.

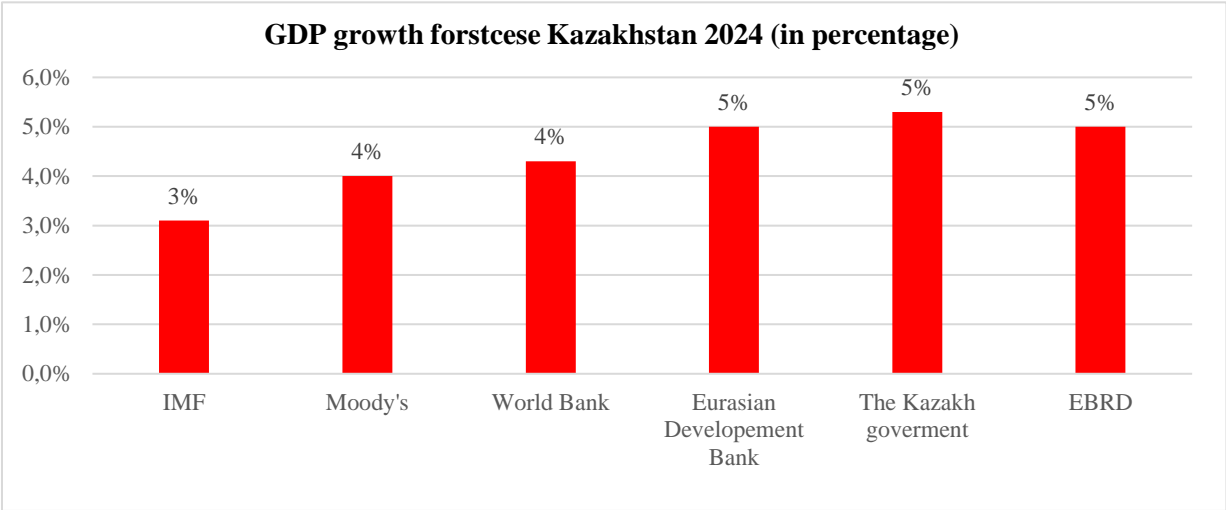
**Keywords:** Kazakhstan, economy, inflation, trade

## Introduction

Against the backdrop of continued tense monetary conditions in 2023, the negative consequences of the war in Ukraine and the conflict in the Middle East as well as the weak growth of the Chinese economy, the forecasts for global economic growth in 2024 are relatively pessimistic. According to the [latest](#) IMF forecast (2024, January), global growth will be 3.1% in 2024 and 3.2% in 2025, with the forecast for 2024 being 0.2 percentage points higher than in the October 2023 [forecast](#). The upward revision was due to the better-than-expected resilience of the United States and several large emerging and developing countries, as well as fiscal support in China.

Kazakhstan has set itself an [ambitious goal](#) to double the size of the national economy to USD 450 billion by 2029. International financial institutions forecast an economic growth of 3 percent to 4 percent for this year. [According to](#) the Ministry of National Economy, real economic growth will grow by 5.3 percent in 2024 and increase further to 6 percent by 2028. The National Bank of Kazakhstan pointed out in November 2023, that GDP growth could be between 3.2 and 4.2 percent in 2024 and between 5.5 and 6.5 percent in 2025. The reason why the National Bank revised its economic development forecasts for 2024-2025, was the postponement of the [Tengiz field](#) expansion project to 2025. A driving factor of GDP growth will be domestic demand in 2024, supported by strong fiscal spending. According to the National Bank's analysis, oil investment projects and investments in other sectors are expected to continue due to the stable positive demand dynamics.

The Kazakh [government](#) expects economic growth of at least 5.3 percent in 2024. In 2023, Kazakhstan's GDP grew by 5.1 percent, GDP increased by 3.1 percent in 2022. The main driver of growth in 2023 were construction sector with 13.3 percent, trade with 11.3 percent, information and communication services with 7.1 percent, transportation services – 6.9 percent of growth, while industry expanded by a rate of 4.3 percent, below the national average. [The World Bank](#) expects Kazakhstan's GDP to grow by 4.3 percent in 2024, 4.5 percent in 2025 and 3.1 percent and 5.7 percent respectively.



Source: own compilation based on the IMF, Moody's, World Bank, Eurasian Development Bank, The Kazakh government and EBRD data

While economic growth was robust in 2023, the balance of the economy could be maintained. The country’s international reserves amounted to 96 billion dollars (first eleven months of 2023) including the assets of the National Fund, which increased by USD 4 billion and exceeded USD 60 billion. It is also noted that foreign trade turnover in the first 11 months of 2023 increased by 2.2 percent to USD 126 billion. In the first eleven months of 2023 the surplus on the trade balance was USD 16 billion.

**Balance in the Kazak economy**

According to figures of the National Bank of the Republic of Kazakhstan, the current account balance in the first nine months of 2023 was negative and the deficit amounted to USD 6.7 billion (in the corresponding months of 2022 the current account surplus amounted to USD 7.4). During the same period, trade surplus amounted to USD 14.6, the decrease in the surplus is associated with an increase in goods imports, while the export declined. Exports of goods fell by 8.5 percent and amounted to USD 58.9 billion. Imports of goods increased by 24.6 percent and amounted to USD 44.3 billion. The commodity boom in the international market burst in 2023, the adverse effects on Kazak trade were obvious last year, at the same time, the overall balance of the economy was maintained and did not negatively effect the long term prospects of the Kazak economy.

## Selected balance of payments figures (in million USD)

	2019	2020	2021	2022	2023	2023		
						I	II	III
<b>Current Account</b>	-7 027,7	-10 960,4	-2 671,8	7 078,7	-6 661,8	-1 463,1	-3 390,6	-1 808,0
<b>Trade balance</b>	18 420,8	6 009,0	24 228,1	34 983,8	14 597,9	5 213,4	4 346,9	5 037,6
<b>Exports</b>	59 541,4	44 065,1	65 790,6	85 613,1	58 936,2	18 993,3	19 811,1	20 131,9
<b>Imports</b>	41 120,7	38 056,1	41 562,5	50 629,3	44 338,4	13 779,9	15 464,2	15 094,3
<b>Services</b>	-3 786,7	-3 237,4	-2 099,5	-1 550,1	-1 543,1	-396,9	-625,9	-520,4
<b>Primary incomes</b>	-22 724,5	-15 077,7	-24 165,8	-25 515,2	-18 946,1	-6 080,6	-6 789,7	-6 075,9
<b>Compensation of employees, net</b>	-1 599,4	-899,9	-1 137,8	-1 283,9	-1 071,4	-298,9	-386,9	-385,5
<b>Investment income</b>	-21 257,0	-14 304,6	-23 163,1	-24 366,5	-17 976,0	-5 815,4	-6 436,5	-5 724,2
<b>Secondary income</b>	231,1	239,2	233,1	246,0	1 185,3	11,9	-24,0	1 197,3

Source: National Bank of the Republic of Kazakhstan, own compilation

### Borrowing and lending in Kazakhstan

The banking sector in 2024 continues to play a [key role](#) in ensuring financial stability and supporting the country's economic growth. [Reforms](#) aimed at strengthening the financial system and increasing confidence in banking institutions help develop lending and expand access to financial services for households and businesses.

According to the Kazakh National Bank latest [data](#) the total volume of loans increased by 19.7 percent in 2023 and amounted to 34.6 trillion Kazakh national currency, tenge. 47.5 percent of the total credit volume is corporate credit<sup>1</sup> and 52.5 percent is credit to private households. In 2023, loans to companies increased by 14.1 percent and amounted to 16.5 trillion tenge, while loans to private households increased by 25.4 percent to 18.2 trillion tenge. The total volume of loans – measured in national currency - increased by 20.5% to 31.7 trillion tenge, while total loan volume in foreign currency grew by 11.9 percent to 3.0 trillion tenge (including the revaluation of their currency). Loans from the banking sector accounted for 86 percent of the total volume of loans.<sup>2</sup>

<sup>1</sup> Non-financial legal entities and sole proprietors who have received loans for business purposes.

<sup>2</sup> The remaining part organizations engaged in microfinance activity (microfinance organizations, credit partnerships and pawnshops) and as loans to business (loans to legal entities and individual entrepreneurs for business purposes) and loans to persons (loans to individuals for purposes not related to business).

## Changing social and demographic conditions

Due to the ambitious [goals](#) set by the Kazakh government and the growing Kazakh economy, improving the country's social demographic conditions is a key goal for Astana.

The social and demographic conditions in 2024 are characterized by changing fertility and mortality rates and migration, that have a direct impact on the labor market, consumer demand and social policy planning. Natural population growth continues to be positive. The implementation of the migration policy concept ensured a positive migration balance for the first time in the past ten years. Since the beginning of the year, 13 569 kandas<sup>3</sup> have arrived in the country.

According to the latest [official](#) data, the population of Kazakhstan was 20.03 million in January 2024, an increase of 1.5 percent on the previous year. The proportion of the [urban population](#) is highest in Karagandy (81.6 percent), Ulytau (79.2 percent) and Aktobe (74.9 percent) regions and the lowest in the Almaty (16.2 percent), Turkistan (24.7 percent) and Zhambyl (43.3 percent) regions.

The employment [rate](#) of the population aged 15 and over was 65.3 percent in 2022, while the employment rate of the labor force was 95.1 percent. The unemployment rate<sup>4</sup> for 2022 remained stable at 4.9 percent. The number of unemployed<sup>5</sup> amounted to 458.3 thousand people. The proportion of NEET<sup>6</sup> youth who are neither employed nor in education or training was 6.5 percent.

The number of people aged 15 and over in the labor force in the third quarter of 2023, based on the results of an employment sample survey, was 9.6 million, of whom 9.1 million were employed. The employment rate of the population aged 15 and over was 65.5 percent. [According](#) to the sample survey of population employment for 2022. 9.4 million people was. This means that the number of people in employment rose by around 0.2 million last year.

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<sup>3</sup> Ethnic Kazakhs who returned to Kazakhstan.

<sup>4</sup> According to the methodology of the International Labor Organization.

<sup>5</sup> According to the International Labor Organization (ILO) methodology.

<sup>6</sup> Youth not in employment, education or training (NEET) – This indicator presents the share of young people who are not in employment, education or training (NEET), as a percentage of the total number of young people in the corresponding age group, by gender. Young people in education include those attending part-time or full-time education, but exclude those in non-formal education and in educational activities of very short duration. Employment is defined according to the OECD/ILO Guidelines and covers all those who have been in paid work for at least one hour in the reference week of the survey or were temporarily absent from such work. Therefore NEET youth can be either unemployed or inactive and not involved in education or training. Young people who are neither in employment nor in education or training are at risk of becoming socially excluded – individuals with income below the poverty-line and lacking the skills to improve their economic situation.

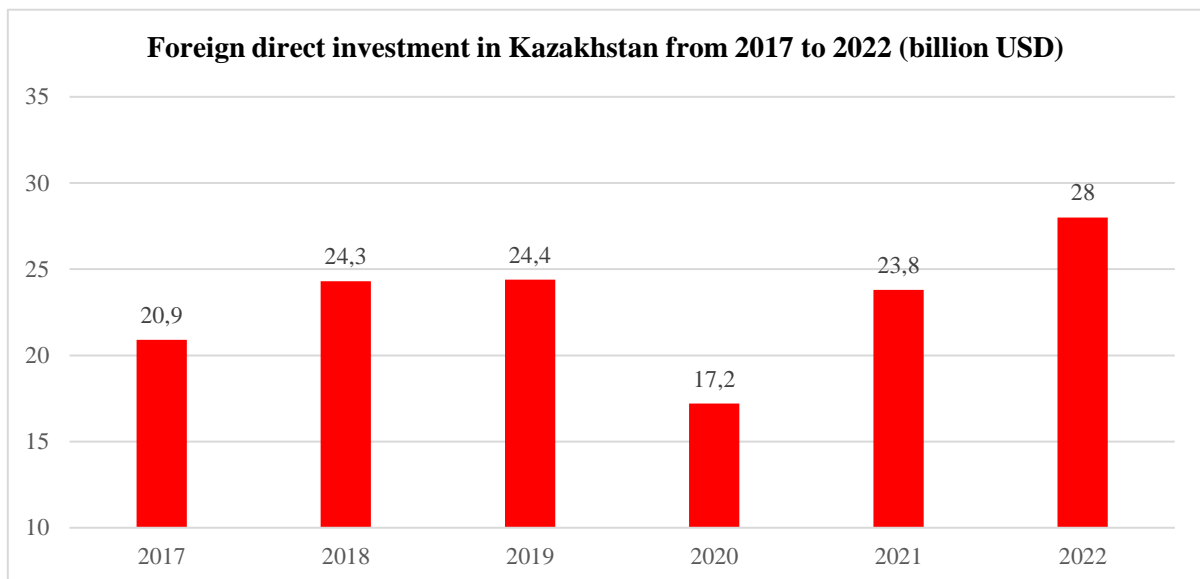
## Key labor market indicators in Kazakhstan

Year	Labor force,	Employed	Including		Unemployed	Unemployment rate, %
			wage-earners	self-employed workers		
2020	9 180 845	8 732 040	6 686 666	2045374	448 805	4.9
2021	9 256 757	8 807 113	6 710 206	2096907	449 644	4.9
2022	9 429 809	8 971 539	6 847 300	2 124 239	458 270	4.9

Source: [Qazstat](#), own compilation.

### The dominance of the West: foreign direct investments

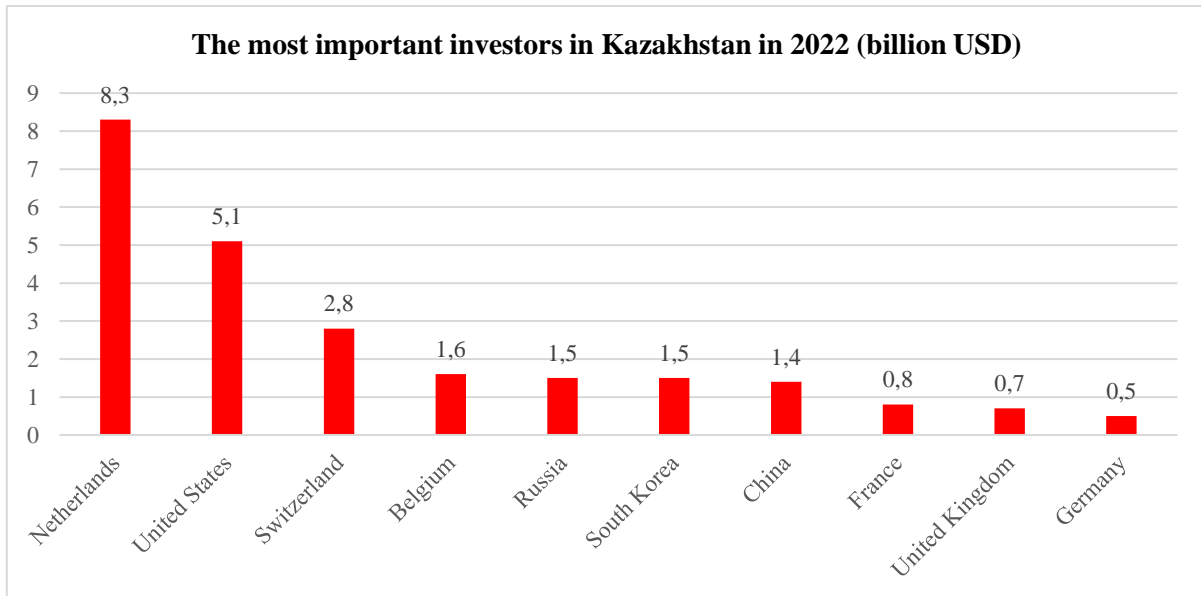
The government aims to attract at least USD 150 billion in foreign investment over the next seven years. At the end of [2022](#), the gross capital inflow of foreign direct investment (FDI) to Kazakhstan reached USD 28 billion, an increase of 17.7 percent compared to 2021 (USD 23.8 billion).



Source: Kazakh Invest National Company, <https://invest.gov.kz/media-center/press-releases/pritok-pryamykh-inostrannykh-investitsiy-v-kazakhstan-dostig-rekordnogo-znacheniya-za-poslednie-10-l/>

According to the [latest data](#), Kazakhstan ranks 6<sup>th</sup> in the world in terms of foreign direct investment. In this respect Kazakhstan's most biggest investors are: Netherlands, the United States, Switzerland, and Belgium. The regional structure of FDI shows a clear West-dependence in this case. Russia and China are far from being dominant in this area.





Source: <https://invest.gov.kz/media-center/press-releases/pritok-pryamykh-inostrannykh-investitsiy-v-kazakhstan-dostig-rekordnogo-znacheniya-za-poslednie-10-l/>

According to official [data](#), the largest inflows were in the mining sector – USD 12.1 billion (an increase of 25 percent), manufacturing – USD 5.6 billion (+2.7 percent), wholesale and retail trade – USD 5.1 billion (+36 percent), professional, scientific and technical activities – 1.2 billion dollars (2.2-fold increase), transportation and storage – 1.2 billion dollars (+13.5 percent). Similar to many less advanced economies, Kazakhstan needs modernization, upgrading its economy and enhancing the domestic value add content of its production.

By region, Atyrau region had the highest level of investment with USD 8.3 billion (48.3 percent increase), Almaty – USD 7.6 billion (+10.9 percent), Astana – USD 2.2 billion (+107.2 percent).

In the first half of 2023, a remarkable 13.3 billion dollars in foreign direct investment (FDI) flowed into Kazakhstan. The Netherlands, the USA, Switzerland, Russia, China, South Korea, Belgium, France, the United Arab Emirates and Luxembourg were the largest contributors.

Given these conditions it comes as no surprise, that the mining sector attracted the largest share of FDI by industry (USD 5.6 billion), followed by manufacturing (USD 2.9 billion), wholesale and retail trade (USD 2.5 billion), finance and insurance (USD 488.2 million), transportation and storage (USD 577.8 million), construction (USD 189.8 million), professional and technical activities (USD 159.6 million) and real estate (USD 234.3 million).

There are basically two main reasons why the above-mentioned countries are Kazakhstan's most important cooperation partners, the cooperation in the energy sector and agriculture are key motives for deep economic relations with the above countries, as the example of the Netherlands shows.

As Kazakhstan, with its traditionally strong oil and gas sector, strives for a greener and more sustainable economy and moves towards less dependence on oil and gas, Kazakhstan is diversifying its economy, and during this process Dutch and Swiss knowledge is utilized. In addition, oil and gas sector, agriculture is the second largest area of Kazakh-Dutch cooperation after energy. Dutch solutions are in demand in the local agricultural industry in the following sub-sectors: high-tech greenhouses, crop protection, fertilizers, poultry farming, robotization, processing lines, animal feed production.

### **Institutional frameworks of investment attraction**

In Kazakhstan, the Ministry of Foreign Affairs is the state authority responsible for regulating and promoting foreign investment. The activities of the Investment Committee include decisions on the granting of investment preferences, the conclusion of investment contracts and monitoring compliance with the terms of investment contracts.

In 2017, the government [established](#) the National Company Kazakh Invest JSC with the aim of promoting the sustainable socio-economic development of Kazakhstan by attracting foreign direct. Kazakh Invest is the sole negotiator to discuss the prospects and conditions for the implementation of investment projects. It manages investment projects on a one-stop-shop basis, which includes state support to investors in the form of investment preferences, assistance in obtaining various permits. In addition to Kazakh Invest, the state-owned [Kazakhstan Investment Development Fund](#) facilitates foreign direct investment by participating in the projects of qualified investors and thus sharing their investment risks, as well as by providing in-kind services [such as](#): land rights, infrastructure and access to resources through regional government agencies, tax incentives (VAT, corporate income tax, land and property tax exemptions) from government agencies and favorable local and foreign currency loans (commensurate with the currency risk of the asset to be created or developed) from development institutions.

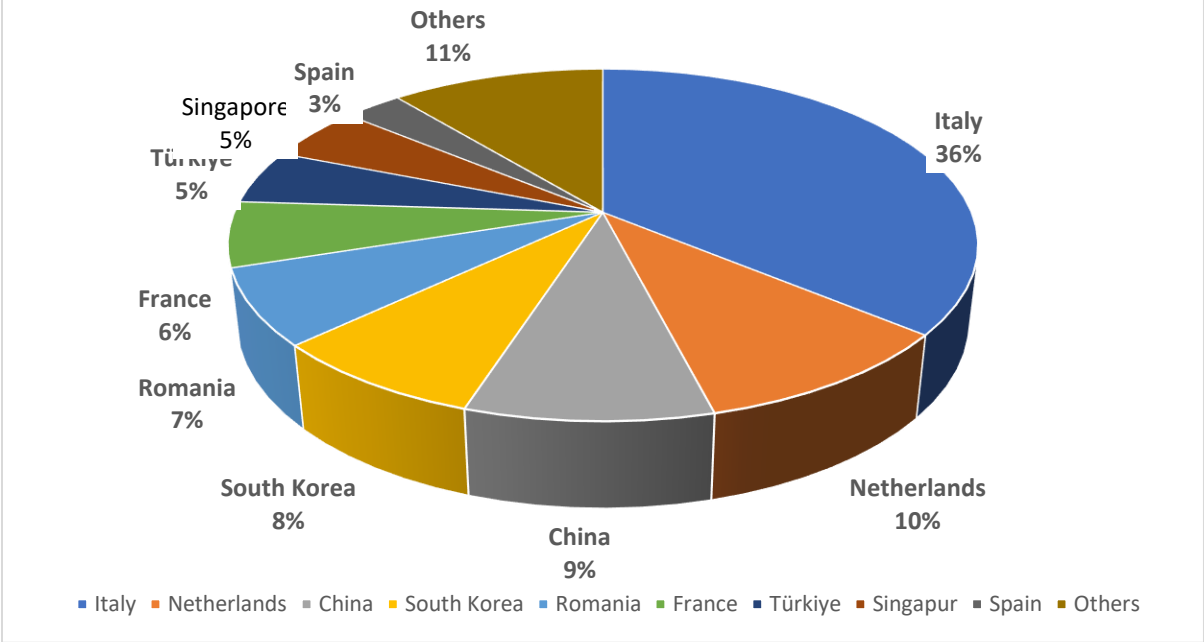
### **End of energy boom markets?**

Recent changes in trade dynamics have led to a decline in Kazakh exports abroad, while imports have continued to rise. The main reason for this change is the boom in energy and commodity markets seem to be over by now. According to the [Bureau of National Statistics](#), Astana's foreign trade turnover amounted to USD 139.8 billion in 2023, an increase of 3.2 percent compared to the previous year. Of this, 56.2 percent was accounted for by exports worth 78.6 billion dollars, while imports accounted for 43.8 percent and amounted to USD 61.1 billion. It is worth noting that exports fell by 7 percent, while imports increased by 20.1 percent.

In addition, the data shows that Astana's export primarily comprises crude oil and petroleum products, followed by uranium, refined copper, copper ores and concentrates, ferro-alloys,

wheat and meslin<sup>7</sup>. On the domestic market, on the other hand, passenger cars, smartphones, telephones, car bodies and cabins, medicines as well as transportation and aircraft spare parts were imported. The difference in export and import structure proves our conclusion that the Kazakh economy needs to move towards more domestic value added content.

Top 10 buyers of Kazakh crude oil in the first 11 months of 2023 (January-November)



Source: own compilation based on [Energy Analytics](#) data

Despite the fact that Kazakhstan is the largest country in Central Asia and borders on China, the second largest economy in the world, Italy was Astana's largest export partner in 2023, followed by China, Russia and Netherlands.

Kazakhstan's most important import partners in 2023 (in percentage)		Kazakhstan's most important export partners in 2023 (in percentage)	
<b>China</b>	27.4%	<b>Italy</b>	18.9%
<b>Russia</b>	26.5%	<b>China</b>	18.7%
<b>Germany</b>	5.2%	<b>Russia</b>	12.4%
<b>USA</b>	4.2%	<b>Netherlands</b>	5.2%
<b>South Korea</b>	3.6%	<b>Türkiye</b>	5%
<b>Türkiye</b>	3.3%	<b>South Korea</b>	4.8%

Source: own compilation based on Qazstat datas

<sup>7</sup> Meslin or meslin flour - bakery improvers or animal feeds or in certain industries such as the textile or paper industries or in metallurgy (for the preparation of foundry core binders). Top exporters of the meslin flour are Türkiye and Kazakhstan.

In January-December of 2023, Kazakhstan recorded a slight decrease in [trade](#) with the Eurasian Economic Union (EAEU), resulting in a nominal 2.8 percent drop to USD 28.5 billion (February 2024 data). Despite this, during this duration, Kazakh export to the EAEU countries slightly increased by 9.4% and achieved USD 11 billion, whereas imports plummeted by 9.3 percent to USD 17.4 billion. This fluctuation in trade highlights the ever-changing dynamics within the region and the impact of global economic shifts. While challenges persist, Kazakhstan remains a key player in the EAEU's trade landscape, continuously striving for growth and collaboration.

The main share of goods in Kazakhstan's exports in the period January-December 2023 (in percentage)	
<b>Crude oil and crude oil products obtained from bituminous minerals</b>	53,8%
<b>Radioactive chemical elements and radioactive isotopes</b>	4,4%
<b>Refined copper and raw copper alloys</b>	4,1%
<b>Copper ores and metal alloys</b>	3,9%
<b>Ferroalloys</b>	3%

Source: Qazstat datas

**Key challenge: high inflation**

The biggest challenge for Kazakhstan is high inflation, which reached 20.7 percent in January 2023. [According](#) to the National Bank of the Republic of Kazakhstan, inflation in December 2023 stood at 9.8 percent and in January 2024 slowed down to 9.5%. This shows that the operational and medium-term measures implemented together with the National Bank are justified.

In Kazakhstan in order to curb price growth, a set of anti-inflationary response measures for was adopted. For example: tariffs for utilities have been frozen as part of our main objectives, a ban was applied on the export of certain goods from the Republic of Kazakhstan due to recent developments, marginal prices for fuels and lubricants have been set; also, a six-month ban was imposed on the export of gasoline and diesel fuel by road.

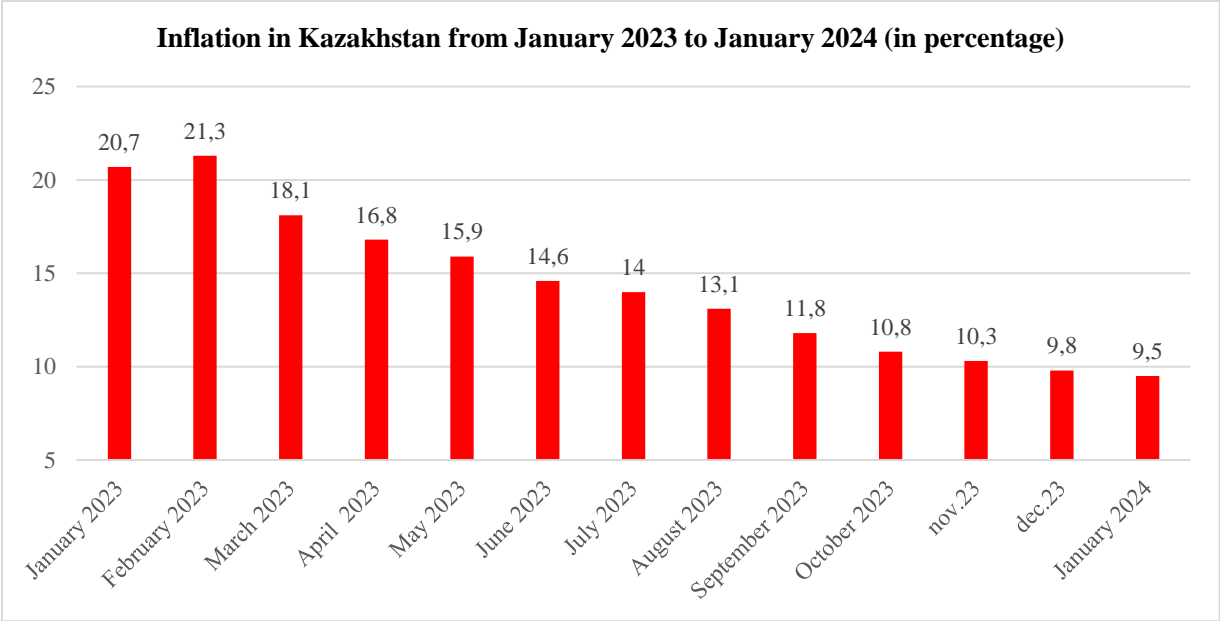
Now the government additional measures are being considered to enhance goods' physical availability, regulate prices, control the state, and implement systemic measures aimed at reducing inflation.

Beside that because of growing inflation in the second half of 2021, the National Bank began to gradually tighten its monetary policy. In 2021, the interest rate was raised three times to 9.75%. In 2022, the National Bank gradually raised the key rate to 16 percent (from 27 October 2022) to minimize the impact of an external shock and ensure price stability. The National Bank is also taking measures to ensure the stability of the foreign exchange market.

In addition as part of the implementation of a separate set of measures to control and reduce the

level of inflation, work is underway to expand credit facilities, i.e. „[revolving scheme](#)” were introduced by the National Bank (preferential lending of retail facilities). In exchange for preferential loans, retail chains assume counter obligations to curb prices for certain volumes of certain types of products.

According to [National Bank’s forecasts](#), inflation is likely to drop to 5 percent by the end of 2025. The bank's latest forecasts indicate that inflation will be between 7.5 percent and 9.5 percent in 2024, and between 5.5 percent and 7.5 percent in 2025. These forecasts carry certain risks that could prevent reaching the inflation target. These risks include unanchored inflation expectations, aggressive fiscal spending and the growth of borrowing. Additional uncertainties arise from fluctuations in food prices due to poor harvests and the ongoing reforms in regulated pricing.



Source: Trandingeconomics data

### Summary

In recent years, the Kazakh economy has experienced a steady growth, supported by the stable development of key industries. In 2024, the country continues to adapt to changing global economic conditions, including fluctuations in commodity prices and global economic challenges. According to the latest forecasts by international financial institutions, the Kazakh economy is expected to see moderate GDP growth in 2024, indicating continued stabilization after a period of global economic turmoil. An important role in achieving these indicators is played by economic diversification aimed at reducing dependence on hydrocarbon exports and developing the domestic consumer market, investment in infrastructure and innovation.

The Kazakh government continues to implement strategic programs aimed at improving the investment climate, supporting small and medium-sized enterprises and developing human capital. These measures are intended to ensure long-term economic growth and improve the

population's standard of living.

To sum it up, the Kazakh economy will most likely show sustainable growth and adaptation to changing global economic conditions. The ongoing reforms aimed at economic diversification, private sector development and investment in innovative technologies create a solid foundation for the country's further economic development. The successes in the field of digitalization, the improvement of the investment climate and the intensification of international cooperation open up new business opportunities and increase the competitiveness of the Kazakh economy on the global stage. At the same time, attention to social policy and the development of human capital helps to improve the quality of life of the population and maintain social stability. It should be noted that Kazakhstan still faces challenges related to the need to further improve its economic model, reduce dependence on the mining sector and overcome the consequences of the global economic turmoil.

In order to achieve its economic goals, Kazakhstan, like Hungary, must focus on two very important areas, namely reducing inflation, which the Hungarian government has already successfully managed and the country's social and demographic situation.