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MCC CIE Papers

Publisher:

MCC Center for International Economy

Address:

1113 Budapest, Tas vezér utca 3-7.

https://cie.mcc.hu

Editor:

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Budapest 2025.

ISSN 3004-2607

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Szabolcs Veres

Abstract

In terms of area, Kazakhstan is the largest country in Central Asia, and has demonstrated robust economic growth, primarily driven by gas and oil revenues from, which have contributed significantly to the nation's GDP and exports. The agricultural sector, previously in decline, has undergone a substantial recovery, with a focus on wheat production and livestock. The industrial sector, particularly in oil and gas production, mining, metallurgy, and machinery, plays a pivotal role in Kazakhstan's economy. Kazakhstan's foreign trade turnover and partnerships with countries like Italy, China, and Russia highlight Kazakhstan's global economic connections. The Kazakh economy is projected to have a GDP growth of 5.1 percent in 2025. However, the economic development is influenced by factors such as inflation dynamics, budget deficits, and exchange rate changes, which are shaped by elements like oil price volatility and external shocks. In response to these dynamics, the government of Kazakhstan has implemented initiatives to boost GDP and stabilize the central government's budget. These initiatives include economic liberalization and privatization.

Keywords: Kazakhstan, economy, GDP, trade

Introduction

General economic characteristics of Kazakhstan

Kazakhstan, the largest country in Central Asia in terms of territory, has experienced robust economic growth, largely driven by substantial gas and oil revenues, which account for approximately 35 percent of GDP and 75 percent of exports. Kazakhstan's economy is estimated to have grown by 4 percent in 2024 (experienced a 4.4 percent growth GDP between January and November of 2024), driven by growth in both the oil and non-oil sectors, with the impact of the Ukraine conflict remaining negligible. In the medium term, non-oil GDP growth is projected to stabilize at around 3.5 percent. Key downside risks include a potential decline in oil prices, disruptions in oil exports, and sluggish growth among trading partners. Additionally, the ongoing conflict in Ukraine and the resulting geopolitical fragmentation, including secondary sanctions, could pose significant risks to economic activity and investor confidence.

Kazakhstan boasts a wealth of natural resources, including substantial deposits of oil, natural gas, coal, iron ore, manganese, chromite, nickel, cobalt, copper, lead, zinc, bauxite, and uranium. The country also possesses a sizable agricultural area (ranked 14th globally), encompassing arable land and pastures. Agriculture experienced a precipitous decline following the dissolution of the Soviet Union, but has demonstrated a remarkable recovery over the past two decades. The sector accounts for 5.2 percent of the country's GDP and employs 13 percent of the working population. The country's agriculture is extensive, but its development is limited by aging infrastructure. More than half of its products are crops (cereals, including wheat, oilseeds, cucumbers). Kazakhstan is one of the world's leading wheat producers, and the

livestock and dairy sectors account for a significant share of the agricultural sector. The country is almost self-sufficient in agri-food, with gross agricultural output amounting to USD 17.8 billion in the first eleven months of 2023, according to government figures. The substantial harvest included 16.6 million tons of cereals, 2.1 million tons of oilseeds, and 5 million tons of fodder crops, providing ample supplies for the local market.

The industrial sector, contributing around 35 percent to the country's GDP and providing employment for 22 percent of the working population, encompasses diverse sub-sectors. These include oil and gas extraction, mining, metallurgy, chemicals, machinery, and agriculture. The metallurgy sector is distinguished by its specialization in steel production, while the chemical industry's focus lies in petrochemicals and fertilizers. The mechanical engineering sector encompasses a broad spectrum of products, ranging from agricultural machinery to industrial equipment.

The services accounting for 52.6 percent of GDP and employing 66 percent of the working population, is the predominant sector in Kazakhstan and is growing steadily. The financial sector, transport, and technology are the primary services produced in the country. The tourism sector, although not yet well developed, experienced strong growth before the outbreak of the epidemic. The tourism sector in Kazakhstan has demonstrated a consistent growth trajectory, marked by an increase in both domestic and international visitors. This growth is further supported by substantial investments in tourism infrastructure, which are projected to generate employment opportunities for 800,000 individuals within the sector by the year 2029.

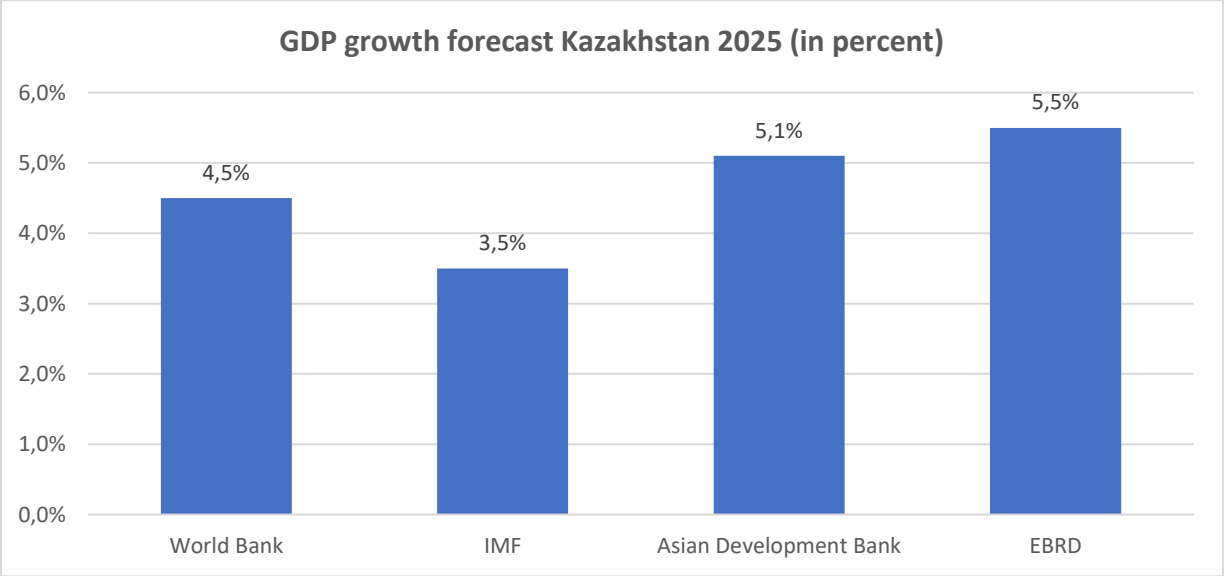
Kazakhstan: Selected Economic Indicators, 2022–26					
				Proj	
	2022	2023	2024	2025	2026
GDP			(Percent)		
Real GDP	3.2	5.1	3.9	5.0	**3.9**
Real Oil GDP	-1.7	7.0	-0.6	8.8	**4.4**
Real Non-Oil GDP	4.6	4.6	5.1	4.0	**3.8**
Inflation					
General government fiscal accounts			(Percent	of GDP)	
Revenues and grants	21.8	21.7	19.5	18.5	**19.0**
Oil revenues	8.0	5.7	5.8	5.7	**5.1**
Non-oil revenues	13.8	16.0	12.7	12.7	**13.9**
Expenditures and net lending	21.7	23.2	22.1	21.6	**21.2**
Overall fiscal balance	0.1	-1.5	-2.6	-3.1	**-2.2**
Non-oil fiscal balance	-7.9	-7.2	-8.4	-8.9	**-7.3**
Gross public debt	23.5	22.8	24.0	25.5	**28.2**
Net public debt	-1.2	0.1	2.6	4.5	**5.7**
Monetary accounts					
Reserve money	11.4	11.6	11.9	12.0	**11.5**
Broad money	33.1	34.0	34.6	35.0	**35.4**
Credit to the private sector	22.7	23.5	24.1	25.0	**26.1**
Balance of payments					

Current account balance	3.1	-3.3	-1.5	-2.3	**-2.3**
Financial account balance	2.6	-0.6	-2.8	-3.0	**-2.5**
Exchange rates			(Units)		
Exchange rate KZT/USD (EOP)	461.0	453.6	…	…	**…**
Memorandum items			(Various	Units)	
Reserves Assets (USD billion)	35.1	35.9	40.2	43.2	**44.5**
In months of following year imports of G&S	5.8	5.9	6.5	6.7	**6.6**
NFRK assets (percent of GDP)	24.7	22.7	21.4	21.0	**22.5**
External debt (percent of GDP)	71.2	61.3	58.4	57.6	**56.4**
NBK policy rate (EOP, percent)	16.8	16.6	…	…	**…**
Crude oil and gas cond. prod. (million tons) 3/	84.2	90.0	89.6	97.3	**101.5**
Unemployment rate (AVG, percent)	**4.9**	**4.7**	**4.7**	**4.6**	**4.6**

Source: UzStat and IMF data

Growth prospects

According to the Asian Development Bank (ADB) economic forecast for Asia and the Pacific, the Kazakhstan economy is projected to experience an acceleration in GDP growth, reaching 5.1 percent in 2025. Concurrently, inflation is forecast to decline to 6.1 percent. Concurrently, the National Bank of Kazakhstan anticipates GDP growth in the range of 4 percent to 4.5 percent in 2025 and approximately 4.6 percent to 5.6 percent in 2026. However, it is crucial to note that these forecasts underscore the vulnerability of the Kazakh economy to external shocks, particularly the volatility of the price of oil, the country's primary export commodity. The potential for a decline in oil prices is predicted to be influenced by an escalation in US oil production and exports to global market.



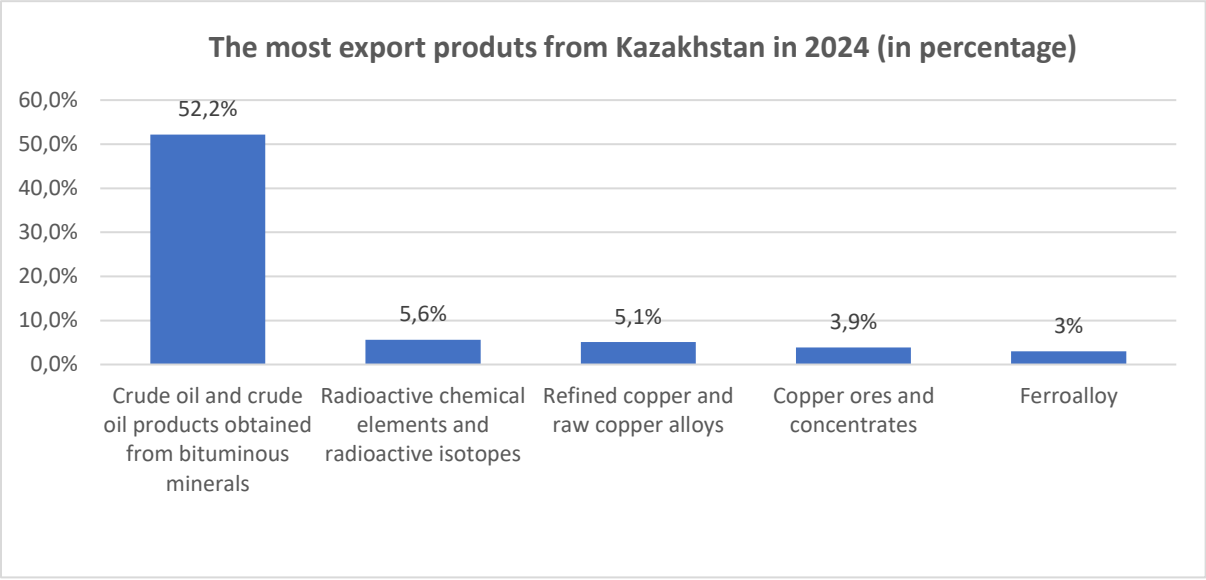
Source: own compilation based on the IMF, World Bank, Asian Development Bank and EBRD data

From January to December of 2024, Kazakhstan's foreign trade turnover (FTT) amounted to

141405.7 million US dollars. This number indicates a 1.3 percent increase compared to the same period in 2023 when calculated in nominal terms. This encompasses exports amounting to 81618.4 million US dollars, exhibiting a 3.1 percent rise in nominal terms, and imports of 59787.3 million US dollars, indicating a 1 percent decline in nominal terms.

Additionally, Kazakhstan's trade with the Eurasian Economic Union (EAEU) countries during the aforementioned period amounted to 30447.5 million US dollars, marking a nominal increase of 2.2 percent compared to the same period in the previous year. The export of goods during the period under consideration totaled 10,977.7 million US dollars, marking a 5.1 percent decrease, while the import figure stood at 19,469.8 million US dollars, reflecting an increase of 6.9 percent. Kazakhstan's external trade turnover with the countries of the EAEU is dominated by trade with the Russia, accounting for 91.3% of the total.

The Kazakh exports from January to December 2024 are predominantly comprised of the following goods: crude oil and crude oil products derived from bituminous minerals (52.5 percent), radioactive chemical elements and radioactive isotopes (5.6 percent), refined copper and raw copper alloys (5.1 percent), copper ores and concentrates (3.9 percent), and ferroalloy (3 percent). With respect to imports, the following goods constituted the largest share: automobiles (3.8 percent), aircraft (3 percent), medicinal products (2.8 percent), telephone sets (2.7 percent), and body for motor vehicles (2.3 percent).



Source: Qazstat

The following countries are the primary export partners of the Republic of Kazakhstan: Italy (22.9 percent), China (18.3 percent), Russia (11.7 percent), the Netherlands (6.5 percent), France (4.5 percent), and Türkiye (4.1 percent). The Republic of Kazakhstan's primary import partners are Russia (30.5 percent), China (25.3 percent), Germany (4.7 percent), the USA (3.8 percent), the Republic of Korea (3.2 percent), and France (3.1 percent).

Kazakhstan's most important import partners in 2024 (in percentage)	Kazakhstan's most important export partners in 2024 (in percentage)

Russia	30.5%	**Italy**	22.9%
China	25.3%	**China**	18.3%
Germany	4.7%	**Russia**	11.7%
USA	3.8%	**Netherlands**	6.5%
South Korea	3.2%	**France**	4.5%
France	3.1%	**Türkiye**	4.1%

Source: QazStat

Budget deficit

President Tokayev has pledged the government's commitment to maintaining GDP growth below 6 percent in the ensuing year, with strategies encompassing the diversification of oil exports and the liberalization of the economy.

In May 2024, President Tokayev signed a decree on the liberalization of the economy, entrusting the National Agency under the Agency for Competition and Development with the responsibility of preparing assets for privatization. The agency convened its inaugural meeting in June 2024, during which it declared the privatization of several research institutes, bus fleets, and utilities. The Kazakh executive has set an ambitious target of increasing the country's GDP to USD 450 billion by 2029, and the government has identified the liberalization of the economy as a key measure to achieve this objective. While some experts fully endorse this initiative, others advocate for a more gradual and transparent approach to the privatization of state assets. Additionally, the Kazakh government aims to bolster the role of small and medium-sized enterprises in the national economy through targeted state support, allocating revenues from this sector to reduce the republic's budget deficit.

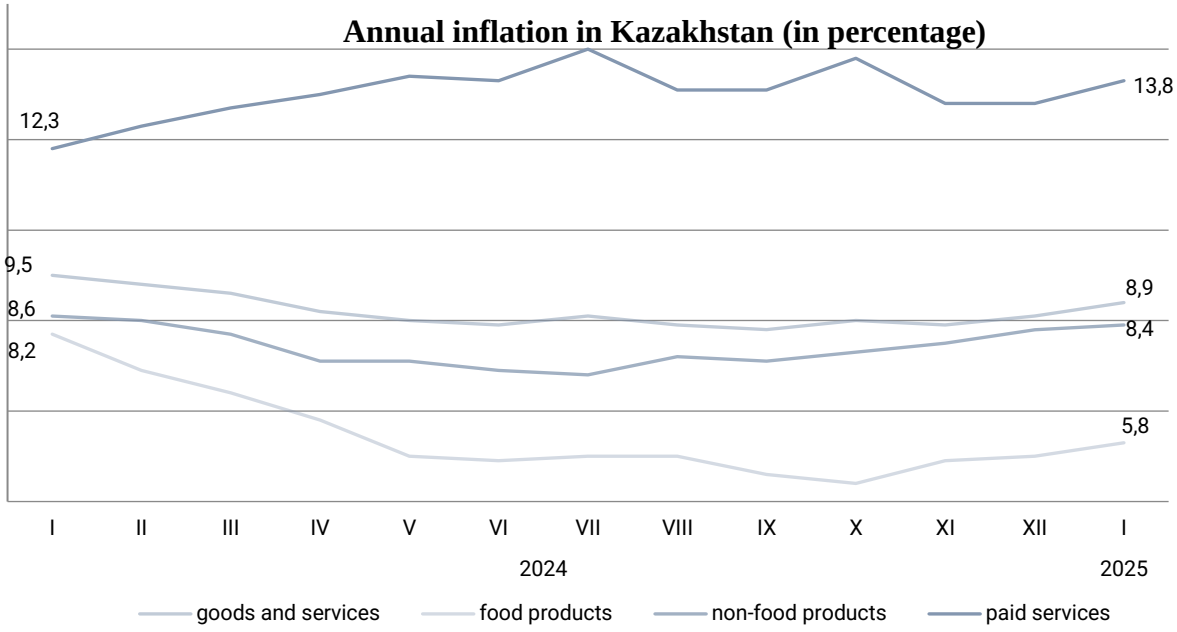
The government explains the increase in public spending with inflation and leads the increase in social payments to the same cause. The budget for the following year already forecasts a deficit of 4.1 trillion tenge (the tenge the Kazakh national currency), and given the trend of deficit growth over the last two years, next year the government may again withdraw from the Kazakh National Fund an amount exceeding the planned transfer. To reduce the deficit and stabilize the budget, the government plans to increase oil production. The target for 2024 is to increase production to 100 million tons, up from 90 million tons in 2023. Alongside these measures and the tax reform, Astana aims to reach a GDP of USD 450 billion by 2029.

Inflation

Inflation in Kazakhstan accelerated in January 2025, reaching 8.9 percent for the year (8.6 percent in December 2024), an increase of 1.1 percent for the month (0.9 percent in the previous month). Service prices increased by 13.8 percent (13.3 percent in December 2024), non-food products by 8.4 percent (8.3 percent in December 2024), and food by 5.8 percent (5.5 percent in December 2024).

A comparison with January of the previous year reveals that the price of water increased by

43.2 percent, that of water drainage by 26.1 percent, that of central heating by 23.1 percent, that of hot water by 21.3 percent, that of electricity by 18.9 percent, that of gas supplied through the distribution network by 12 percent, and that of waste disposal by 10.3 percent.[1]



Source: Qazstat

Inflation in Kazakhstan in 2025 is predicted to exceed the levels forecast by international organizations and the National Bank of Kazakhstan (NBK). While international organizations predict inflation of around 7 percent, this figure is two percentage points above the NBK's target. In November 2024, the rising cost of utility services, already reflected in bills, exacerbated the financial situation of Kazakh citizens, exacerbated by rising fuel prices and increased spending on services. These factors are expected to contribute to an escalation in the prices of basic consumer goods and services, which could lead to an acceleration of Kazakh inflation in 2025 beyond the projected estimates.

Tenge faces challenges

End of February 2025, the exchange rate of the tenge, the national currency of Kazakhstan, demonstrated notable sensitivity to economic factors, as we can see in its fluctuations against the US dollar and other international currencies. The tenge exchange rate is influenced by a complex interplay of domestic and international economic factors. The exchange rate of the

[1] Furthermore, substantial price escalations were observed for the following services: comprehensive recreation (26 percent), contact services (16.8 percent), health services (12 percent), hairdressing and personal services (11.9 percent), maintenance and repair of motor vehicles (11.4 percent), hotels and restaurants (10.9 percent), and recreation and sporting activities (9.3 percent). Conversely, the cost of rail passenger transport escalated by 18.6 percent, urban bus services by 10.5 percent, and air passenger transport by 7.2 percent. The cost of renting a dwelling increased by 15.3 percent.

tenge was significantly impacted by oil price dynamics, the policies of the Kazakh National Bank, and the unexpected strengthening of the Russian ruble. Specifically, as of February 21, 2025, the Russian ruble had reached 88.67 rubles per dollar, marking a 6 percent increase over a five-day period and directly impacting the tenge exchange rate.[2]

While the current price of Brent crude oil fluctuates between 70 and 75 US dollars[3] per barrel, providing a temporary source of stability for the tenge, the broader economic landscape continues to exert significant influence on its exchange rate dynamics. However, the implications of rising oil production indicate that price expectations suggest a decline to 60 dollars per barrel by 2026, pointing to the potential vulnerability of the tenge going forward.

Analysts have expressed the view that oil prices will decline, influenced primarily by political events. However, a decline in oil prices to the range of USD 40 to USD 50 per barrel could present significant challenges for Kazakhstan, as the nation would begin to experience the repercussions of such a shift within a period of 6 to 12 months, coinciding with the expiration of long-term contracts at current pricing terms.

Analysts anticipate the dollar to fluctuate within the range of 545 and 650 tenge by the conclusion of 2025. The exchange rate will be contingent on a multitude of factors, including the global strengthening of the dollar against major currencies, the price of Brent oil, and the ruble.

The anticipated decline in the export sector, driven by lower oil and other commodity prices, is expected to result in a reduction of national revenues, thereby exerting pressure on the tenge exchange rate. The implementation of production cuts by OPEC+ is predicted to have a negative impact on exports, further exacerbating the exchange rate dynamics. The projected slowdown in economic growth in Europe and China, major consumers of Kazakhstan's raw materials, is likely to lead to a decline in demand for exports. Additionally, an anticipated surge in imports and a deterioration in the geopolitical landscape are forecast to have a detrimental effect on the

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[2] The exchange rate of the tenge often exhibits a mirrored movement in relation to the rouble when measured against the dollar. This relationship between the Kazakh and Russian national currencies has been observed for over two decades. The fundamental rationale for this phenomenon is rooted in the inherent structural parallels between the Kazakh and Russian economies. Both nations possess substantial mining sectors, with each accounting for approximately 9-10 percent of its respective country's GDP. Additionally, both countries are highly reliant on oil for their exports, which renders both currencies susceptible to global oil price fluctuations. The currencies of Kazakhstan and Russia are predominantly influenced by exports and imports, and as they are contingent on analogous factors, particularly oil prices, the tenge frequently strengthens or weakens in tandem with the ruble. Another salient factor is inflation. It is noteworthy that Kazakhstan and Russia exhibit comparable inflation rates, a circumstance that contributes to the maintenance of a relative parity between their respective currencies.

[3] In early January, benchmark crude oil prices surged due to escalating US sanctions on Iran and Russia and the spread of freezing temperatures across vast regions of the Northern Hemisphere. By mid-January, Brent crude futures had reached a four-month high of 81 US dollars per barrels, marking an increase of 8 US dollars per barrels compared to the previous month.

exchange rate.

The weakening of the tenge could be influenced by rising public debt, the cost of servicing it, the build-up of domestic inflation, and imports, for example from Russia (one of Kazakhstan's main trading partners). Among the positive factors, one can highlight the growth of Kazakh gold and foreign exchange reserves and the absence of negative dynamics in the growth of the National Fund. It is estimated that reserves have grown by 20 percent over the past three years, reaching USD 60 billion.

Summary

Kazakhstan – in terms of area – is the largest country in Central Asia, and has demonstrated robust economic growth, primarily driven by gas and oil revenues from, which have contributed significantly to the nation's GDP and exports. The agricultural sector, previously in decline, has undergone a substantial recovery, with a focus on wheat production and livestock. The industrial sector, particularly in oil and gas production, mining, metallurgy, and machinery, plays a pivotal role in Kazakhstan's economy.

Kazakhstan has experienced significant economic growth, largely driven by substantial gas and oil revenues, which constitute a substantial portion of the nation's GDP and exports. In 2024, the country's GDP growth reached 4.6 percent, driven by both the oil and non-oil sectors, with minimal impact from the ongoing Ukraine conflict. Projections indicate that non-oil GDP growth is likely to stabilize at around 3.5 percent, though this figure is subject to risks, including the potential for a decline in oil prices and disruptions in export activities.[4]

Notably, inflation in Kazakhstan has been accelerating, influenced by rising service prices. The exchange rate of the Kazakh tenge is influenced by economic factors, including oil prices, the Russian ruble, and global economic conditions. Analysts predict a decline in oil prices, which

[4] The country's economic profile is further bolstered by its substantial natural resources, which encompass oil, gas, coal, and various minerals, with agriculture playing a pivotal role in the post-Soviet era economic recovery. The agricultural sector in Kazakhstan is notably robust, with the nation demonstrating proficiency in wheat production and livestock, thereby fostering food self-sufficiency. The industrial sector, which encompasses oil extraction, mining, metallurgy, chemicals, and machinery, contributes substantially to GDP. Concurrently, the services sector, led by finance, transport, technology, and emerging tourism, is a major driver of economic growth. Despite the presence of economic indicators and forecasts indicating growth potential, Kazakhstan engages in substantial foreign trade, particularly with member countries of the Eurasian Economic Union. However, budget deficits, inflationary pressures, and exchange rate dynamics pose considerable challenges, prompting initiatives such as economic liberalization and oil production boosts to counterbalance factors affecting the fiscal balance and national economic stability. Inflation projections and potential tenge devaluation underscore the economy's adaptability to fluctuating global conditions, where lower oil prices and geopolitical shifts may impact export revenues and currency values. To successfully navigate these economic complexities, Kazakhstan has implemented a series of strategies, including privatization, support for small and medium-sized enterprises, and targeted growth initiatives. These measures are intended to propel GDP targets and foster sustainable development in the years ahead.

could pose challenges to the Kazakh economy. While positive factors, such as growth in reserves, are noted, challenges persist due to rising debt and inflation, affecting the tenge's value.