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Socio-economic consequences of external shocks for Kazakhstan in 2022-2023.

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Introduction

The impact of external shocks on the socio-economic situation of Kazakhstan is due to:

1. Geopolitical situation: conflict in the region, Western sanctions, close integration processes, deficit of goods in Russia, high share of Russian imports in the Kazakhstani basket, fluctuations in the ruble exchange rate. As the result - high inflation in Kazakhstan.
2. Disruption in the supply chain via traditional Russian routes, which negatively affected exports of goods and made imports more expensive.
3. Increased pressure on foreign markets due to dumping of Russian exports.
4. The conflict in Ukraine contributed to the relocation of Russian citizens and businesses, and to the growing interest of foreign investors in the Kazakhstan market.

Channels of influence considered

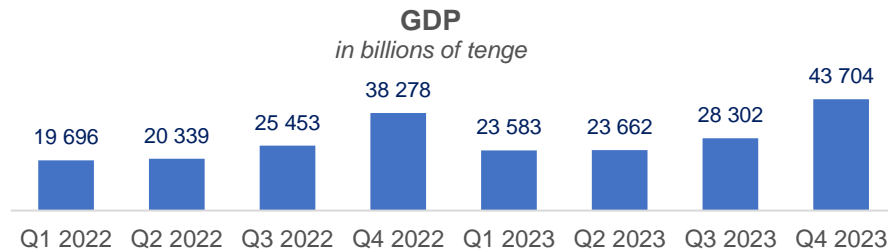
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Economic growth



Impact on the economy. Growth Trends.

- ✓ In 2022-2023, Kazakhstan experienced GDP fluctuations due to internal and external pressures (conflict between Russia and Ukraine, conflict in the Middle East).
 - ✓ Impact of changing geopolitical and market conditions on Kazakhstan's economic growth forecasts.
 - ✓ High global commodity prices have been favourable to Kazakhstan's economy.
 - ✓ Diversification of oil export routes and search for alternative routes due to Russia's temporary suspension of the Caspian pipeline*.
 - ✓ Increase in inflation due to external pressure and fluctuation of the tenge exchange rate.
 - ✓ Risk of secondary sanctions due to economic and trade sanctions
- Kazakhstan's ties with Russia.
- ✓ Risk of limiting the inflow of foreign direct investments and a slowing economy.



*Exports via Baku-Tbilisi-Ceyhan oil pipeline increased from 250,000 tons in 2022 to 1,392,000 tons in 2023

Source: Bureau of National Statistics of the Republic of Kazakhstan

Sectoral development



Analysis of economic sectors

- **Reaction of Kazakhstan industry**

Energy, mining and manufacturing, as key sectors of the economy, have faced both challenges and opportunities.

At the end of 2023, Kazakhstan's industrial production index maintained growth and reached 104.3%.

- **Impact of sanctions on Kazakhstani enterprises**

Eurasian Resource Group (Kazakhstan) suffered from sanctions against Magnitogorsk Iron and Steel Works (Russia). Annual shipments were over 9 millions tons of iron ore concentrate and pellets (65% of production).

- **Growth in the manufacturing sector**

Growth indicators in manufacturing: production of electrical machinery and equipment (up 123.8% in 2022 and 134.3% in 2023) and production of motor vehicles and trailers (121.9% in 2022 and 136.8% in 2023). Reason: increase in exports to Russian and Chinese markets.

- **Challenge for Kazakhstan's agricultural market**

The main problem: illegal import of Russian grain into Kazakhstan and its re-export to other countries. Kazakhstan is losing its traditional export markets: Central Asia, Afghanistan. The annual volume of "grey" grain imports is estimated at 1.5-2 millions tons.

To protect the domestic market and grain exporters, the government imposed a ban on imports of Russian grain.

Monetary policy. Inflation.

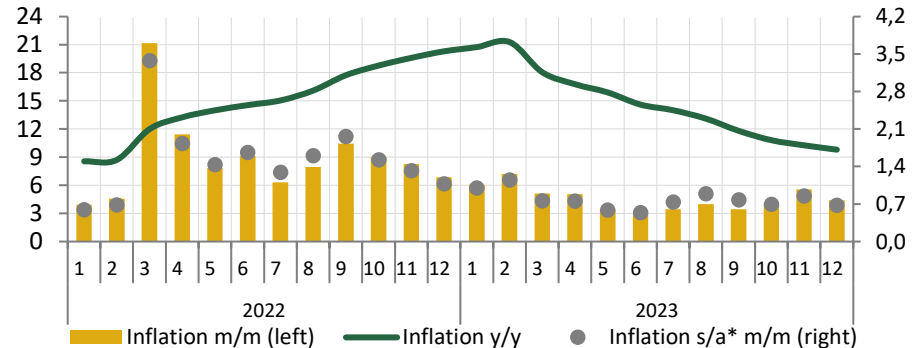
Monetary policy and discount rate

Discount rate

- After the tragic events in January 2022, the National Bank of Kazakhstan tightened monetary policy by raising the base rate from 9.75% to 10.75%.
- Since the beginning of the conflict in Ukraine, the base rate has been raised several times and reached 16.75% (December 2022). The main objective is to seek to maintain price stability against the backdrop of growing geopolitical risks and implementation of the government's anti-crisis plans.
- Reducing the discount rate in the second half of 2023 to 15.75%, based on updated lower inflation forecasts and revised economic growth projections.

Inflation

Inflation in Kazakhstan reached a record high of 21.3% in February 2023. The main reasons for the pressure: rising import costs and supply chain disruptions. By the end of 2023, inflation had fallen to 9.8%, but was still higher than before the conflict (February 2022 - 8.7%).



Source: National Bank of the Republic of Kazakhstan

Remittances

Cash transfers

Changes in the total volume of remittances. The total volume of remittances in 2023 showed a 25.5% decline from 2022 to 1.3 trillions tenge (\$2,777 millions). Inbound remittances from Russia to Kazakhstan peaked in October 2022 (57.5% of the total), while outbound remittances peaked in December 2023 (32.4%).

Main recipient countries of remittances from Kazakhstan (2023):

1. Uzbekistan - 27.5%
2. Russia - 25.1%
3. Turkey - 23.1%
4. Georgia - 9.6%
5. Kyrgyzstan - 3.4%.

In 2023, there was a **2.5 times decrease in cash inflows to Kazakhstan from abroad** compared to 2022.

Main remittance sending countries to Kazakhstan (2023):

1. Russia - 35.3%
2. USA - 11%
3. Uzbekistan - 11%,
4. South Korea - 10.7%
5. Turkey - 6.4%.

Wages, employment and welfare

Wages and employment

- External shocks insignificantly affected the indicator of average wages in Kazakhstan (index growth of 6-10% p.a.). The index in 2022 - 309,697 tenge (\$673), in 2023 - 393,605 tenge (\$850).
- According to Halyk Finance's analysis, real wage growth was 2 times lower than real economic growth in 2023.
- The unemployment rate in Kazakhstan in 2022-2023 remains at 4.7%.
- It was noted that specialists with technical qualifications moved to Kazakhstan, but this factor did not have a significant impact on the labour market.

Wealth level

- Main factors affecting income and well-being in 2022-2023: rising inflation and slowing economic growth.
- The government has taken measures to maintain household incomes, stabilise food basket prices, increase civil servants' salaries by 20-30% and adopted a bankruptcy law.
- Consumer credit has become a common source of funds. According to the National Bank, as of 1 November 2023 the volume of consumer lending amounted to 9.6 trillions tenge. According to the First Credit Bureau, the growth in consumer lending to the population was 30% when comparing data for the first 9 months of 2022 and 2023.



Foreign trade turnover

According to The Bureau of National statistics of Kazakhstan, Kazakhstan's foreign trade turnover in 2023 totalled \$139,833.4 millions (+3.2% to 2022). Exports reached \$78,674.5 millions (-7%), imports - \$61,158.9 millions (+20.1%).

Key trends

- Problems in Kazakhstan's foreign trade due to geopolitical shifts and the effects of sanctions.
- Disruptions to traditional export and import routes have affected trade volumes and economic returns.
- Change in the share of trading partners (increase in the share of China, decrease in the share of Russia), development of new markets (including European markets).
- Increasing the share of processed products in the export basket.



Exports

According to The Bureau of National statistics of Kazakhstan for 2023, the main partner countries of Kazakhstan in exports were: Italy (18.9%), China (18.7%), Russia (12.4%), the Netherlands (5.2%), Turkey (5%), the Republic of Korea (4.8%).

The main export groups are mining products (oil and petroleum products, copper, ores and ferroalloys) and manufacturing, which shows growth, reflecting the government policy to increase exports of value-added goods.



Imports

Kazakhstan's main import partners for 2023 are China (27.4%), Russia (26.5%), Germany (5.2%), USA (4.2%), Republic of Korea (3.6%), Turkey (3.3%). The main import products are motor vehicles, equipment, chemical products and consumer goods.

Foreign direct investment

In Kazakhstan in 2022, **the record level** of foreign direct investment (FDI) for the last 10 years (\$28 billions) is reached. About \$20 billions was attracted in 2023.

Main invested sectors (2023):

1. mining and metallurgical complex (\$8.6 billions),
2. manufacturing (\$3.9 billions),
3. trade (\$3.8 billions),
4. transport (\$854.9 millions)
5. financial sector (\$725.3 millions).

Investor Countries (2023):

1. Netherlands (\$4.6 billions),
2. USA (\$3.1 billions),
3. Switzerland (\$1.9 billions),
4. Russia (\$1.8 billions)
5. China (\$1.4 billions).

The outflow of foreign investments in 2022 was mainly to the Netherlands (\$2.5 billions), and in Q3 2023 - to Russia (\$1.5 billions, a 42 time increase). According to experts, the growth of the latter indicator may be due to changes on payment of dividends to non-residents in the tax legislation of Kazakhstan from January 2024.

Migration. Business Relocation

Migration

In 2022, there was a high activity of Russian citizens entering Kazakhstan (almost 3 millions). The main flow was during the mobilisation period (837,000 in September).

Influence of migration inflow: sharp increase in prices for rental housing, for services related to registration of individuals and legal entities, opening bank cards, etc.

Changes in Kazakhstan's migration rules: reduction of the period of stay and registration of citizens of EAEU countries (up to 30 days without a visa, up to 90 days in total).

Stricter requirements for issuance of temporary residence permits in Kazakhstan (labour contract with a Kazakh employer is mandatory).

Business Relocation

According to government data, at the beginning of 2024, more than **40 foreign companies worth more than \$1.5 billions** were dislocated from Russia to Kazakhstan.

At the end of 2023, the share of Russian companies among companies with foreign participation was 41%.

Growth dynamics of registered Russian companies:

February 1, 2022 - 11,466,

January 1, 2023 - 18,906,

January 1, 2024 - 23,009.

Areas of activity:

Trade (9,839), IT segment (2,835), scientific and technical services (2,035), services (1,658), construction (1,274), administrative and support services (1,116) and transport (961), manufacturing (838).

99% of these companies belong to the **small business sector**, indicating low capital intensity.

Transport and connectivity

Transport and transit potential

Since 2022, Kazakhstan's transport sector has become **particularly important** due to the increasing complexity of transport conditions along traditional corridors through Russia and the growing interest in routes through Central Asia. The growth potential of China's One Belt, One Road initiative has increased, and export opportunities from Kazakhstan and Central Asia have opened up.

The government is implementing measures to remove bottlenecks, increase capacity and develop transport corridors, including the **Middle Corridor (TITR)**.

The main events of the period:

- opening of Kazakhstan terminal in Xi'an (China),
- construction by a Kazakh investor of a terminal in the port of Poti (Georgia) and a transport and logistics hub near Tashkent;
- The governments of China, Azerbaijan, Georgia and Turkey signed strategic documents on TITR development;
- infrastructure projects for the construction of railways and motorways,
- expansion of private business participation projects (terminal in Kuryk port).

In 2023, the Middle Corridor carried 2,750,000 tons of freight (64% increase to 2022).

Regional co-operation

Regional initiatives

- Regional initiatives for close co-operation with Central Asia, China and South-East Asia in trade and transport connectivity.
- Striving to become a full-fledged transport and logistics hub in Central Asia and the Caspian region. Creation of the Eurasia cross-border trade centre (Uralsk airport).
- Creation of a food hub for Kazakhstani and foreign producers in the FEZ "Khorgos" (border with China) for further export to the markets of China and South-East Asia.
- Signing of a Free Trade Agreement between the EAEU countries and Iran in December 2023 on duty-free trade in 90% of goods. Creation of prerequisites for the development of trade relations and the development of the North-South transport corridor.
- Expanding the potential for cooperation between Kazakhstan and Pakistan in trade and interaction in transport logistics.
- Participation as part of the EAEU in negotiations on the establishment of free trade zones with Egypt, Indonesia and the UAE.

Summary



Key findings

Summary of the impact of external shocks on Kazakhstan:

- **Inflation:** Rising prices of imported goods and supply chain disruptions have led to a record increase in inflation (to 21.3% in early 2023).
- **Sectoral development:** Government initiatives aimed at supporting sectoral development have played a crucial role in mitigating negative impacts.
- **Monetary policy:** The National Bank maintained a tight policy, raising the key rate from 9.75% to 16.75% to fight inflation. The rate was adjusted for economic growth and inflation.
- **Regional Connectivity:** Regional connectivity initiatives have become critical to maintaining trade flows in disrupted supply chains. Changes in trade partnerships and interest in alternative routes were noticeable during this period.
- **Trade:** Changes in world prices, supply chains and geopolitical factors have led to a reorientation of trade. Kazakhstan has reduced imports from Russia, increased imports from China and emphasised finding new markets for exports.

Short-Term Forecast:

Inflation is expected to decline and the discount rate will gradually decrease, which will reduce the burden of lending to businesses and accelerate economic growth. The development of alternative routes (TITR, North-South) will increase the transit and transport potential of the country and open new opportunities for Kazakhstan's exports. Regional connectivity and trade diversification will play a key role in future economic growth.

Thank you for your attention!



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