



ECONOMIC GROWTH IN KAZAKHSTAN: UPDATE FOR THE FIRST HALF OF 2019

The current economic situation in Kazakhstan was discussed at the enlarged meeting of the country's government held on July 15, 2019 under the chairmanship of President Kassym-Jomart Tokayev. The meeting's primary goal was to discuss Kazakhstan's economic performance in the first half of 2019 and specify main priority targets until the end of 2019 and beyond. According to the latest available preliminary data from the Committee on Statistics of the Ministry of National Economy of Kazakhstan, the growth rate of the national economy accelerated from 2.9% in January 2019 to 4.1% in June 2019 on year to year calculations. In particular, such sectors as construction (11.1%), trade (7.5%), transportation (5.3%), agriculture (3.8%) and industry (2.6%) became the main drivers of the GDP growth. The figures for the rest of the sectors were not disclosed. The growth in manufacturing, which is the top priority sector for the economic development of the country, was achieved mainly due to pharmaceuticals, engineering, oil refining, non-ferrous metallurgy, light industry, and beverage production. At the same time, the growth of the industrial sector was registered in 14 out of 17 regions of the country. As stated by Prime Minister Askar Mamin, the labor market demonstrates a stable performance as the level of unemployment decreased to 4.8% in the first half of 2019, with 186,000 new jobs created, including 126,000 permanent ones.

Increasing the inflow of investments was mentioned at the meeting as one of the top priority targets for the country's current and future economic development. In particular, to increase the volume of investment in fixed assets annually by an average of 20% and bring it to 30% of GDP by 2025 was specified as an important objective. Thus, in order to achieve the target parameters, it is necessary to attract investments amounting to 30 trillion tenge during the next five years. In this regard, the government pursues a proactive policy

aimed at attracting investments with the use of all state support measures and creating a favorable investment climate, which is one of the key prerequisites for future sustainable economic growth. Apart from that, the government specified efforts to solve urgent social issues and improve the welfare of socially vulnerable groups of the population as its important priority. In this light, the relevant ministries have actively started to implement measures directed at involving unemployed and self-employed people in productive employment.

Analyzing the economic growth data made public at the government meeting, we can compare them to the previous data and note some irregularities that make 2019 very different from the past years. Firstly, in case if these preliminary figures are confirmed in posterior statistics, the 11.1% of real growth in construction during the first half of 2019 would be the highest growth rate registered in this sector since the first half of 2008. It is rather difficult to understand the source of this tremendous growth in the construction sector since even the years that preceded the EXPO-2017, which was indeed a large-scale construction project, were not marked by a double-digit growth in construction.

Secondly, it is rather alarming to note that the industrial growth during the second half of 2019 is a mere 2.6%, which is the minimum growth rate since 2016. Thus, we can observe a continuation of the gradual decline of the industrial sector since 2017. What is even more alarming is that it is highly probable to expect the growth in the manufacturing industry, which makes about 40% of the industrial sector, to be below 2.6%. These expectations are based on the previous data from the last two-three years when the manufacturing sector's performance was below the growth rates of the entire industrial sector. Moreover, there are also reasons for negative expectations in the extractive

sector due to the fact that in May 2019 Kazakhstan experienced a 13.2% decline in oil extraction, which accounts for nearly half of the entire industrial sector. This would produce an additional downward pressure on industrial statistics in general. On the other hand, the 7.5% growth in trade and the 5.3% growth in transportation create rather good expectations from the service sector since these two industries together account for more than 40% of the service sector.

Recently, the Ministry of National Economy of Kazakhstan also updated its economic growth forecast from the previous 3.8% or above to 4.0% or above. The update was probably based on the above-mentioned preliminary data for the first half of 2019. Based on the past experience, we can also expect that the GDP growth in 2019 will be within the range of 3.6-4.1%. The GDP growth statistics since 2010 demonstrate that periodic rates of the GDP growth are highly interrelated and that indicators of the first quarter and the first half of a year pre-determine to a large extent the overall GDP growth by the end of each year. Hence, we can expect the GDP growth to be very close to the indicators of the first quarter and the first half of 2019.

In Kazakhstan, the oil sector is still the primary factor that has the greatest influence on the overall GDP, and any significant fluctuation in this industry would be replicated in the whole economy. Therefore, we assume that it is very likely for the GDP growth by the end of 2019 to be very close to 4%, but still with a high probability to be slightly below 4%. These expectations are based on the uncertainty and neutral bias of oil prices in the market, as well as on the forecast that the total annual crude oil output in Kazakhstan in 2019 will be slightly less than in the previous year.

Politics, Foreign Affairs, and Security

- Speaking on the sidelines of the 52nd meeting of ASEAN foreign ministers in Bangkok, Turkish Foreign Minister Mevlut Çavusoglu stated that Turkey would send a delegation to observe the situation in China's Xinjiang province. The visit to be organized upon Beijing's invitation is intended to alleviate Ankara's concerns over human rights violations against the local Uyghur and other Turkic speaking Muslim communities.
- During the visit of Commander of the Iranian Navy Hossein Khanzadi to Russia, the Russian Ministry of Defense and the General Staff of the Iranian Armed Forces signed a memorandum of understanding to expand bilateral ties. According to Khanzadi, Iran and Russia plan to strengthen defense cooperation in the Caspian Sea and conduct joint naval exercises in the Strait of Hormuz.
- Following the 13th round of the international high level meeting on Syria in Nur-Sultan, the guarantor states of the Astana process, Iran, Russia and Turkey, issued a joint statement pledging to step up efforts to prevent civilian casualties in the Idlib province. The delegations of Iraq and Lebanon participated in the talks as observers for the first time.
- The delegation of the Turkmen Ministry of Foreign Affairs held political consultations with the diplomatic agencies of the United Arab Emirates and Saudi Arabia. During the talks in Abu Dhabi and Riyadh, the parties discussed ways to promote mutual cooperation in political, trade-economic and cultural-humanitarian spheres, as well as in the framework of international organizations.
- A two-day seminar on strengthening criminal justice responses to terrorism that are compliant with the rule of law was held in Ashgabat. Over 30 Turkmen practitioners from relevant government agencies and the bar association attended the event organized by the OSCE to review good practices in applying effective terrorism prevention and prosecution measures.
- Georgia hosted the Agile Spirit 2019 multinational exercise, involving more than 3,000 soldiers from 14 NATO members and allies. This is the ninth time Georgia hosted the exercise with the goal of strengthening interoperability and improving operational capabilities of participants during the planning and execution of operations in real time.
- During his first official visit to Georgia, Armenian Foreign Minister Zohrab Mnatsakanyan met with his Georgian counterpart David Zalkaliana and Georgian Prime Minister Mamuka Bakhtadze. The parties discussed a number of issues of bilateral cooperation and highlighted the importance of utilizing the unused potential of political and economic relations between the two countries.

Economy, Finance, and Energy

- The Entrepreneurship Development Fund under the Ministry of Economy of Azerbaijan and the Small and Medium Enterprises Development Organization of Turkey signed a memorandum on cooperation and exchange of experience in the field of entrepreneurship, with a focus on small and medium-sized businesses. The document was signed as part of the conference "Preferential financial support of the state in the development of innovative entrepreneurship" held in Baku.
- During the trilateral meeting in Ankara, the representatives of the ministries of agriculture of Azerbaijan, Georgia and Turkey reviewed potential implementation of joint agricultural projects. The parties discussed the current state and future prospects of cooperation in various fields of agriculture, including sharing experience in further developing small and medium-sized farms.
- The Azerbaijani Railways announced its readiness to start passenger transportation via the Baku-Tbilisi-Kars (BTK) railway as the new passenger trains are already stationed in Baku. However, according to company chairman Javid Gurbanov, the launch of passenger traffic on the BTK depends on the readiness of Georgia and Turkey and on resolving customs issues.
- During his visit to Belarus, President of Uzbekistan Shavkat Mirziyoyev held talks with his Belarusian counterpart Alexander Lukashenko to discuss bilateral trade, economic and investment cooperation, among other issues. The leaders of the two countries considered prospects for implementing joint projects in mechanical engineering, light industry, agriculture, pharmaceuticals, transport and the IT sector.
- President Mirziyoyev signed a decree adopting measures to further improve the geological study of the subsoil in Uzbekistan and implement the state program for the development and reproduction of the country's mineral resource base for 2020–2021. According to the document, Uzbekistan will spend over \$275 million on geological exploration and advanced equipment.
- The Syr-Darya interstate division point, which will serve as a border crossing station for railway transport, was opened in the Syr-Darya region of Uzbekistan near the Uzbek-Kazakh border. The new facility is expected to increase the turnover of cargo trains between the two countries, as well as transit transportation of goods to the CIS countries.
- The EBRD specified the key areas of cooperation with Kazakhstan in the coming years, which are the banking sector, capital markets, renewable energy, state and municipal infrastructure, and the development of small and medium-sized enterprises. During 2018–2019, the EBRD signed 42 projects worth nearly \$1 billion to be realized in Kazakhstan, and its total portfolio of projects in the country amounts to €2.65 billion.

Society and Culture

- The second meeting of the regional working groups on the development of the fourth action program for assisting the Aral Sea Basin countries and on improving the institutional and legal mechanisms of the International Fund for Saving the Aral Sea was held in Ashgabat. The participants discussed relevant project proposals and agreed steps for further interaction.
- Representatives from relevant ministries and organizations of Turkmenistan took part in the roundtable meeting organized by the OSCE in Ashgabat on developing effective methods of providing assistance and rehabilitation support to victims of human trafficking. The participants were also familiarized with measures necessary for preventing and combating human trafficking in Turkmenistan.
- The State Commission for Religious Affairs of Kyrgyzstan held a regional conference in Bishkek on the rehabilitation and reintegration of returnees with the participation of government and law enforcement officials from the Central Asian countries. The purpose of the conference was to develop a set of recommendations for key decision makers, civil society leaders, and the expert community on the most appropriate approaches to the problem.
- During a meeting in Moscow, Minister of Education and Science of Kyrgyzstan Gulmira Kudaiberdiyeva and Rector of the Lomonosov Moscow State University (MSU) Viktor Sadovnichiy discussed the opening of the university's branch in Kyrgyzstan planned for 2020, which is declared the Year of Kyrgyz-Russian Cooperation. Currently, the MSU is the highest-ranking university in the former Soviet Union.
- The OSCE organized a week-long simulation exercise on countering drug trafficking and trade related money laundering, including with the use of online tools, in the village of Kosshy near Nur-Sultan. Police officers, prosecutors, personnel of the State Revenue and Financial Monitoring committees, along with representatives of private entities, took part in the training event.
- The Kazakh city of Shymkent signed a memorandum of understanding with the EBRD to be included in the Green Cities international program. Shymkent became the first city in Kazakhstan and the 31st city in the world to access the substantial financial support from the EBRD for implementing projects aimed at improving the city's environmental attractiveness, including through the construction of a new sewage treatment facility.
- The World Intellectual Property Organization ranked Kazakhstan 70th among 129 nations in its latest Global Innovation Index that provides detailed metrics about the innovation performance around the world based on 80 indicators. Only two other Central Asian nations were put on the list, with Kyrgyzstan ranked 90th and Tajikistan ranked 100th.