



RECENT DEVELOPMENTS IN THE EXTERNAL DEBT OF THE ECONOMY OF KAZAKHSTAN

In recent years, the economy of Kazakhstan was affected by two major external factors, such as changes in the trade regime associated with the accession to the Eurasian Economic Union (EAEU) and decrease in oil prices. These factors have influenced many aspects of the economy of Kazakhstan. While evaluating the financial risks of a country, it is a common and accepted practice to consider the public debt generated by the government and the public institutions rather than private debt, which consists of loans and liabilities of private firms and private investors. Actually, the underlying reason of considering public debt rather than private debt in evaluations is that while private debt creates no direct burden on taxpayers, the public debt directly affects the income of taxpayers. Besides, in any country the most important indicator of the public sector borrowing requirement (PSBR) is the ratio of the government budget deficit to the GDP. The public debt of Kazakhstan mainly consists of various financial liabilities associated with budget deficits at local and government levels. In 2014, the government budget deficit to the GDP ratio was nearly 2.8%, which is slightly below the Maastricht criteria (3%). The gross government debt to the GDP ratio in the economy of Kazakhstan was 14.86% in 2014.

According to the official statistics of the National Bank of Kazakhstan, by the end of the second quarter of 2015 the total external debt of Kazakhstan was \$155.9 billion, \$146.9 billion of which is external private debt. It is worth mentioning that the total external debt of Kazakhstan

stayed relatively stable last year compared to the neighboring countries. The total external debt did not dramatically change since the second quarter of 2014. In the last decade, on average the total external debt steadily increased on average at 1% annually. Currently, the ratio of the total external debt to the GDP is about 70.4%. The ratio of the external public debt to the total external debt is about 5.3%.

On the other hand, the debt of the general government makes up about \$7 billion, which is 90% of the external public debt. The rest of the external public debt belongs to the National Bank of Kazakhstan. It is about \$779 million, which is only 10% of the external public debt. Regarding the share of private sector in total external debt (external private debt), private debts consist of debts of second tier banks, various inter-firm debts and debts related to private investments. The share of debts of second tier banks in external private debt is 6.5% (nearly \$9.6 billion) and this rate has been constantly decreasing since 2012. Another share of the external private debt is made of direct investments and make up about \$81.6 billion, which is nearly 55.6% of the external private debt. The remaining \$56.2 billion of the external private debt includes various inter-firm long-term and short-term debts. Thus, the major part of the total external debt refers to the private sector that consists of inter-firm liabilities and private investments. This make up about \$146.9 billion or 94.7% of the total external debt of Kazakhstan. It is noteworthy that 85% of the external public debt is

denominated in US dollars, which causes serious exchange rate risks. The ratio of the external public debt to the total external debt for the first half of 2015 (5.3%) shows that the state is rather secure in terms of its liabilities.

According to the statistics of the National Bank of Kazakhstan, the main creditors of the external public debt of Kazakhstan appear to be international organizations (63.1%), Great Britain (25.3%) and Japan (7.6%). The major creditors and investors for the external private debt are Netherlands (29.1%), Great Britain (16.3%), China (9.2%), the US (8.6%), France (7.4%) and international organizations (2.9%). The rest of the external private debt is spread among various countries that are trading partners of Kazakhstan. In these circumstances, many international rating agencies recently evaluated long-term sovereign bonds of Kazakhstan at BBB and BBB+, which can be interpreted as stable and substantially secure for investments.

According to the recent forecasts, the growth of the GDP in 2016 is going to be much lower than in the previous years due to the general slowdown in the world economy, which is closely related to low oil prices. Compared to economic situations of the other developing countries, in Kazakhstan economy, the performance of the public budget seems to help the government especially during the economic slowdown in the following years and this relatively low budget deficit can help the government to increase the economic growth rate.

Politics, Foreign Affairs and Security

- The Parliament of Kyrgyzstan formed a four-party coalition consisting of the Social Democratic Party of Kyrgyzstan, the Kyrgyzstan Party, the Onuquu Progress Party and the Ata-Meken Party. The coalition nominated Temir Sariyev for the position of the Prime Minister of Kyrgyzstan.
- During the meeting between the President of Azerbaijan, Ilham Aliyev, and the President of Georgia, Giorgi Margvelashvili, held in Tbilisi, the parties discussed prospects for cooperation in economic, infrastructure, energy and other spheres and signed a Joint Declaration between Azerbaijan and Georgia.
- Foreign Ministers of Ukraine, Russia, France and Germany met in Normandy format in Berlin to hold talks on Ukrainian crisis. The parties agreed on the harmonization of the order and timing of withdrawal of the weapons from the contact line and the procedure of mine clearance in Donbas.
- India and Russia started joint Indra-2015 military exercises in India's largest state Rajasthan. The exercises will focus on Counter Terrorism Operations in Desert Terrain under the United Nations Mandate.
- The Minister of Defense of Azerbaijan, Zakir Hasanov, and the Minister of Defense of Kazakhstan, Imangali Tasmagambetov, signed a Cooperation Plan for 2016 in Astana. It was announced that the parties would pay special attention to the establishment of practical ties between the naval forces of Azerbaijan and Kazakhstan strengthening security in the Caspian Sea.
- According to a draft 2016 federal budget discussed by the Russian State Duma Security and Anticorruption Committee, defense expenditures was set at about 3,145.090 billion rubles (\$49.5 billion) in 2016, which is 25.5 billion ruble (\$400 million) increase over 2015. However, the share of defense spending of the overall federal budget will diminish to 19.6% in 2016 compared to 20.2% in 2015.

Economy, Finance and Energy

- According to the State Oil Fund of Azerbaijan (SOFAZ), the reve-

nues from the project for developing the Shah Deniz gas and condensate field in the Azerbaijani sector of the Caspian Sea stood at \$279 million in January-October 2015 totaling to \$2.4 billion from 2007 to November 1, 2015.

- An international consortium of Uzbekneftegaz, Russian Lukoil and Chinese CNPC started drilling an exploratory well Meros-1Ex on the Meros structure in the Aral Sea. Preliminary estimated gas reserves of the new hydrocarbon field, namely, West Aral, is 11 billion cubic meters.
- According to the consolidated interim financial statements of the JSC KazMunaiGas Exploration Production in the first nine months of 2015, the company's production expenses increased to 160 billion tenge (\$817 million) or by 11% compared with the same period in 2014.
- During the official visit of the President of Kazakhstan, Nursultan Nazarbayev, to Great Britain, British and Kazakh companies signed deals and agreements worth \$5 billion including a Memorandum of Understanding (MoU) between the Kazakh state-owned company Kaztransgas and Britain's Independent Power Corporation on projects worth \$3.1 billion for building a 1,500-kilometre gas pipeline and four power plants in Kazakhstan.
- During the official visit of the President of Kazakhstan, Nursultan Nazarbayev, to France, Kazakh national company, Kazatomprom, and Électricité de France (EDF) signed a contract for the supply of natural uranium. According to the contract, Kazatomprom is going to supply 4,500 tU of natural uranium concentrates to the EDF in the period from 2021 to 2025.
- According to the Ministry of Transport of Tajikistan, railway companies of Tajikistan and Uzbekistan agreed to reduce tariffs for the transit of oil products, alumina, and aluminum in the railway sections Kudykli-Keles, Kudukli-Karakalpakstan and Boldir-Kudukli. Lowering tariffs for cargo transit will operate until December 31, 2015.
- Russia's International Uranium Enrichment Center affiliated with Rosatom and Ukraine's State

Concern Nuclear Fuel agreed upon preliminary terms of uranium feedstock supplies from Ukraine to Russia in 2016.

- According to the Minister of Finance of Russia, Anton Siluanov, the outflow of capital from Russia will be about \$70 billion in 2015 although it was previously projected \$85 billion.
- According to the Deputy Director of Kazakhstan's national railways company Kazakhstan Temir Zholy, Abdur-Rashid Sakenov, China announced its plans to invest around \$600 million in the logistics and industrial zone of the Khorgos-Eastern Gate special economic zone on the Kazakh-Chinese border.
- According to the Statistics Committee of the Ministry of National Economy of Kazakhstan, inflation rate, which has been 8.2% since the beginning of 2015 stood at 5.2% in October 2015.
- According to latest Regional Economic Prospects report of the European Bank for Reconstruction and Development, the GDP growth is expected to decline to 1.2% in 2015 from 4.3% in 2014 in Kazakhstan; to 5% in 2015 from 6.7% in 2014 in Tajikistan; to 8.5% in 2015 from 10.3% in 2014 in Turkmenistan; and to 7.5% in 2015 from 8.1% in 2014 in Uzbekistan.

Society and Culture

- The World Bank Group's Board of Executive Directors approved an allocation of \$38 million loan from the International Development Association to finance the first phase of the Climate Adaptation and Mitigation Program for Aral Sea Basin.
- According to the Head of the Federal Drug Control Service of Russia, Victor Ivanov, law enforcement bodies seized five tons of synthetic drugs worth around 150 billion rubles (\$2.4 billion) and eliminated around 1,500 criminal groups since the beginning of 2015.
- The Ukrainian Parliament ratified an Open Skies Agreement with the United States to expand passenger and cargo flights between the two countries.
- Russia sent 100,000 tons of wheat as a humanitarian aid to Syria.