



## Kazakhstan's 8M17 GDP growth stood at 4.3%, reinforcing positive growth dynamics & outlook for 2017

### Review of 8M17 GDP growth

Preliminary estimates indicated that Kazakhstan's economy expanded by 4.3% YoY in 8M17, reinforcing positive growth dynamics observed from the beginning of the year. Mining, manufacturing and transportation represented the largest growth contributors, while overall industrial production rose by 8.5%, compared to 7.7% growth in 7M17. Meanwhile, the short-term economic indicator, serving as a gauge for change in production indices of basic industries, increased by 5.8% YoY over the same period, growing slightly from 5.5% reading in 7M17.

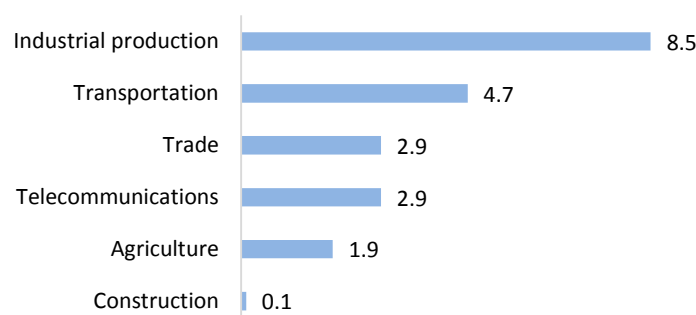
In particular, the mining sector grew by 11.3% YoY, accelerating from 9.5% output increase in 7M17. The growth is primarily attributable to the rise in coal and lignite (13.2%), oil (12.2%) and non-ferrous metal ores (11.4%), while iron ore and other mining output demonstrated 8.6% and 6.9% growth respectively.

Meanwhile, the manufacturing sector showed a growth rate of 6.1% YoY in 8M17, with pharmaceuticals (33.7%), light industry (11.5%) and metallurgy (7.6%) being the major contributors to this output increase. Production petroleum products and finished metal products rose by 6.4% and 7% respectively. Machinery output growth stood at 6.3% in 8M17, compared to 5.3% in 7M17, driven by increase in other vehicle manufacturing (59.8%), car manufacturing (36.8%) and electronics (31%). However, manufacturing sector growth was undermined by decreased production of tobacco products (-16.5%) and resins (-0.9%).

Over 8M17, agriculture output amounted to KZT1,614.9bln, growing by 1.9% YoY. Crops production decreased slightly by 1.1% YoY while livestock output grew 3.2% YoY, with agriculture-related services sub-sector remaining relatively unchanged.

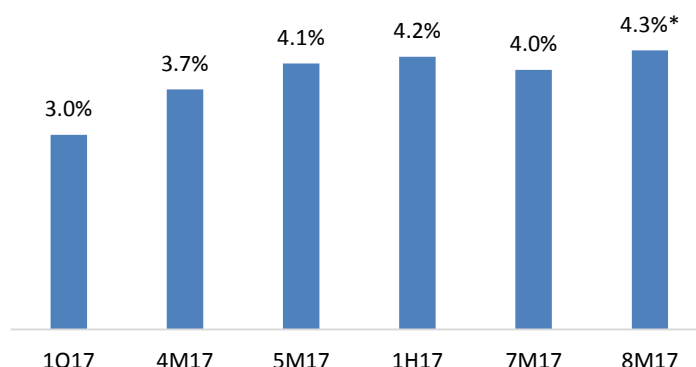
The services sector returned to a positive growth momentum, with transportation and telecom growing by 4.7% YoY and 2.9% YoY respectively. Retail trade rose by 6.3% YoY, while the growth of wholesale trade amounted to 1.3% YoY over the same period. Consequently, trade expanded by 2.9% YoY in 8M17. Growth of the construction sector stood at 0.1% YoY in 8M17 vs. 0.7% in 7M17.

**Growth by sectors, % YoY (8M17)**



Source: Ministry of National Economy, Samruk-Kazyna

### 2017 GDP growth, % YoY



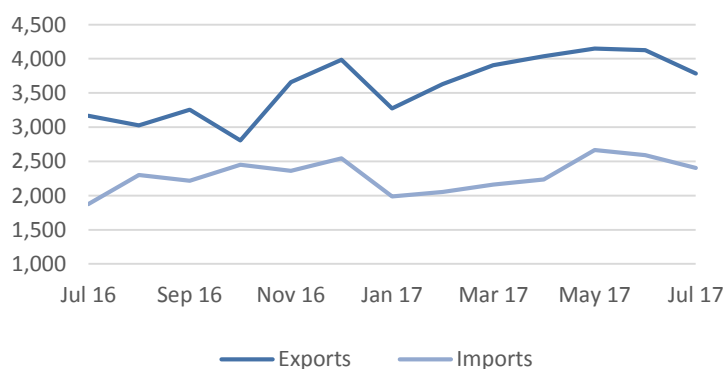
Source: Ministry of National Economy, Samruk-Kazyna

\*Based on preliminary estimates

Economic growth has accelerated in 8M17, supported primarily by industrial production, namely mining and manufacturing, which has shown the strongest YoY growth in the last six years. Meanwhile, domestic demand was supported by the growth of investments in fixed assets, which have expanded by 3.4% and exceeded KZT4.8trn. However, consumer demand curtails economic growth, as real household incomes continue to stagnate (-3.4% YoY in 8M17). As inflationary pressures ease, the NBK might proceed with lowering the base rate to stimulate domestic demand.

External environment remains favorable, as global prices for key exported commodities improved slightly. Kazakhstan's external trade turnover reached USD42.9bln, increasing by 29.2% YoY in 7M16, driven by exports, which have expanded by 35.3% YoY. Meanwhile, imports have grown by 20.1%. Consequently, external trade surplus improved further to USD10.9bln vs. USD6.6bln, supporting economic growth. Current account deficit has also shown an improvement, decreasing by 30.5% to USD2.6bln in 1H17. This reflects the economy's successful adaptation to the new external environment.

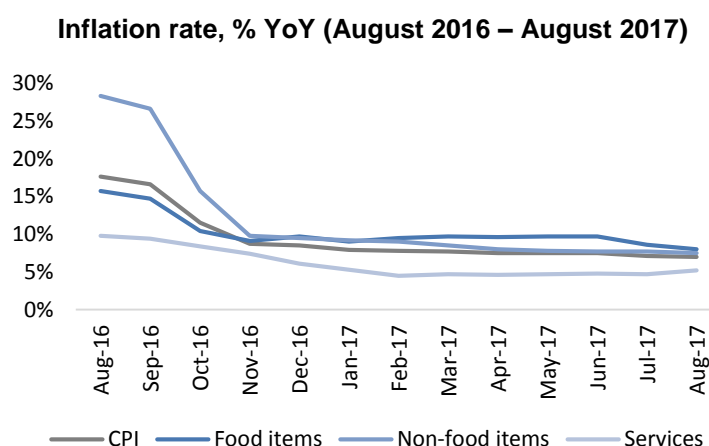
### Exports and imports, USD mln (July 2016 - July 2017)



Source: Ministry of National Economy, Samruk-Kazyna

### Inflation environment

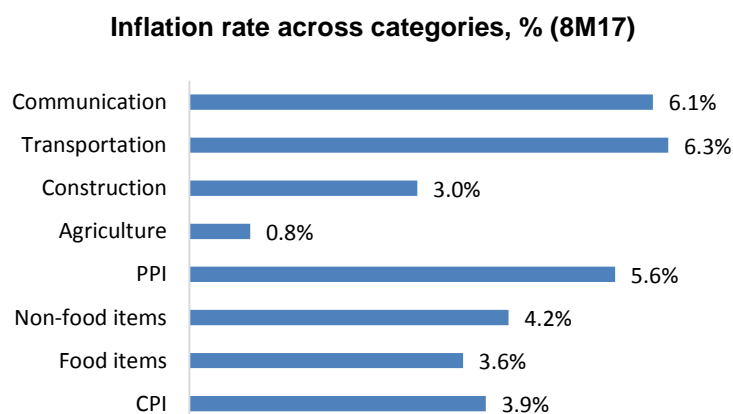
CPI rose by 3.9% in 8M17, compared to 5.4% increase year earlier. On an annual basis, YoY inflation moderated to 7 % in August from 7.1% recorded in July, within the official target range of 6.0%-8.0%. Price growth was primarily driven by food items (8% YoY) and non-food items (7.5% YoY), while services expanded by 5.2%. The largest individual contributors were prices for alcoholic beverages and tobacco products, which have risen by 9.8% YoY and prices for transportation services, which have grown by 8.8% YoY. On the other hand, prices for communication services have constrained the inflation, expanding by 0.6% YoY.



Source: Ministry of National Economy, Samruk-Kazyna

Increases in prices of gasoline (+12.1% YoY) and diesel fuel (+30.4% YoY) have put additional pressure on CPI, since they affect transportation costs for the majority of consumer goods. Consequently, transportation costs have risen by 7% YoY for automobiles and 24.5% YoY for air transport. Meanwhile, railroad transportation costs have decreased by 1.6% YoY in August 2017. Looking forward, transportation costs are expected to increase further, as prices for most types of fuel are seasonally higher in the beginning of September.

Producer prices in Kazakhstan increased 7.7% YoY in August of 2017, above a 4.8% rise in the preceding month, which was the lowest producer inflation since January of 2016. Prices went up faster for mining and quarrying (7.5% vs. 0.7% in July) but slowed for manufacturing (9.1% vs. 11.5%); electricity, gas, steam and air conditioning supply (4.1% vs. 5.7%) and water supply and sewerage (4.2% vs. 4.5%).

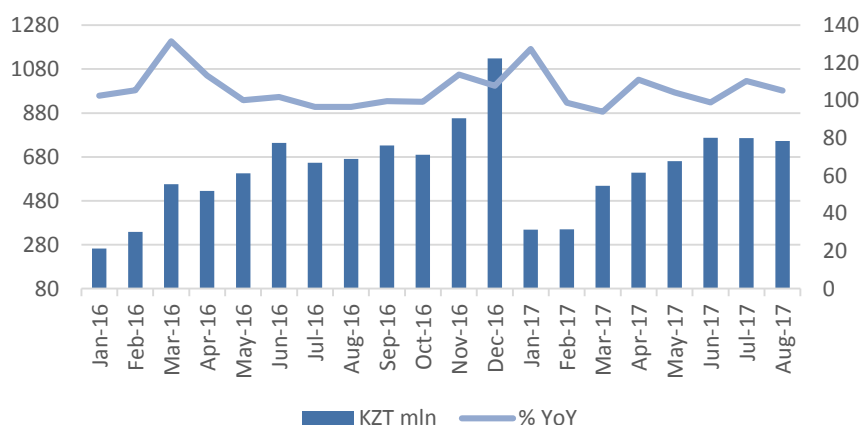


Source: Ministry of National Economy, Samruk-Kazyna

### Fixed asset investments

Over 8M17, fixed asset investments maintained a strong growth dynamics observed during the year, rising by 3.4% YoY to reach KZT4.8tln. Construction and repair constituted 52% of overall investment amount, while acquisition of equipment and other capital expenditures contributed 33.6% and 14.4% respectively. Investments in fixed assets have been consistently growing due to the implementation of Nurly Zhol and Nurly Zher programs.

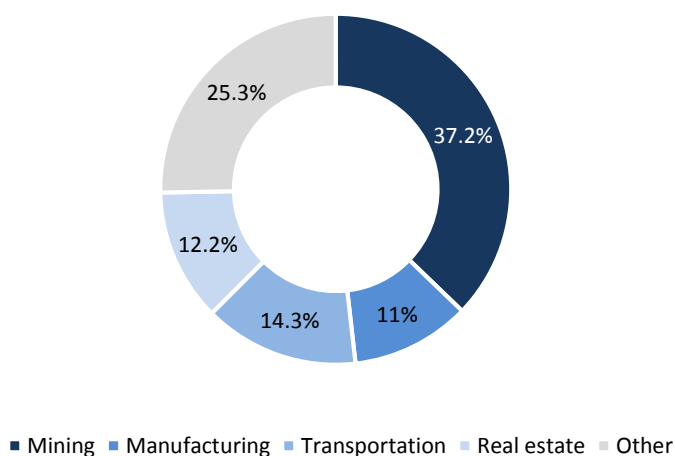
**Fixed asset investments growth, KZT mln and % YoY (8M17)**



Source: Ministry of National Economy, Samruk-Kazyna

Private sector's funds represented 68.2% of total fixed asset investments, providing approximately KZT3,273bln in financing. Meanwhile, commercial bank loans and state funding contributed another 8.1% and 15.4% respectively.

**Main recipients of fixed asset investments (8M17)**



Source: Ministry of National Economy, Samruk-Kazyna

Analysis of sectorial composition indicates that mining (37.2%), manufacturing (11%), transportation (14.3%) and real estate services (12.2%) have been the main investment recipients, while agriculture, trade and construction accounting for 3.4%, 2.2% and 0.8% respectively.

## Regional growth review

### Macroeconomic indicators of Kazakhstan's main partners

Indicator	Eurozone	Russia	China	Kazakhstan
GDP growth, 2Q17, % YoY	2.3%	2.5%	6.9%	4.2%
GDP growth 2017f	1.7%-1.9%	2.1%	6.7%	3.4%
Unemployment, %, July 17	9.1%	5.1%	3.95%	4.9%
Inflation, % YoY, August 17	1.5%	3.3%	1.8%	7.0%
Benchmark interest rate, %, Sept 17	0%	8.50%	4.35%	10.25%
Composite PMI, August 17	55.7	54.2	52.4	N.A.

Source: Bloomberg, Samruk-Kazyna

\* Data as at Q117

### Eurozone

The Eurozone economy grew 2.3% YoY in 2Q17, better than the previous estimate of 2.1% and following an upwardly revised 2% expansion in 1Q17. Investment spending rose strongly, while exports also helped growth despite the euro's recent strengthening against other major currencies. The surprising strength of the Eurozone's recovery this year has fueled speculation the ECB will start to reduce the stimulus it provides to the economy next year. However, core inflation remains under the ECB target. Unemployment remains at a historical low of 9.1%, indicating that the economy is close to full-potential.

### Russia

Russia's economy advanced 2.5% YoY in 2Q17, following a 0.5% growth in the previous period. It was the strongest pace of expansion since the 3Q12, as output grew firmly for wholesale and retail trade, mining, manufacturing and construction. In August, inflation totalled 3.3%, suppressed by stagnating real household incomes. Consequently, the Bank of Russia lowered its benchmark one-week repo rate by 50bps to 8.5% on September 15th, as widely expected. Policymakers also reported that there is still room for further rate cuts over the next two quarters. Looking forward, economic is unlikely to accelerate, constrained by limited production capacities. Further growth above 1.5%-2% a year is attainable if structural reforms are put in place.

### China

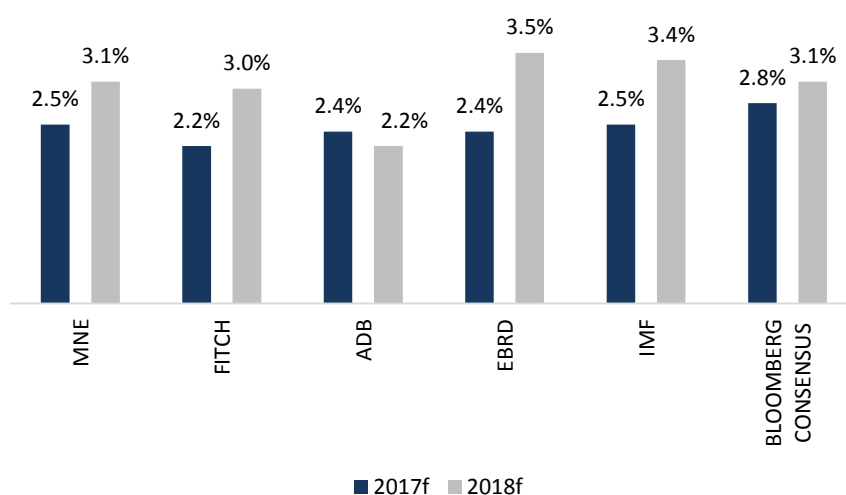
The pace of China's economic expansion slowed down in August, as factory output, investment and retail sales all slowed. Industrial output rose 6% YoY in August vs. 6.4% in July, with the output of key drivers such as electricity, steel and cement all slowing. However, services sectors showed stronger growth, offsetting the slowdown in industrial production. Fixed asset investment expanded at an annual rate of 8.3% during 8M17. The economy faces a moderate slowdown in the end of 2017 and beyond as the government continues its policy of industrial capacity cuts and increases regulation of the financial sector. With tighter monetary conditions still weighing on credit growth, we expect a further slowdown in economic activity in coming quarters.

### Foreign exchange and liquidity markets overview

The USD-KZT exchange rate averaged at 321.45 in 8M17, compared to 318.67 average exchange rate in 1H17. In August 2017, the average exchange rate stood at 332.69, stronger than 330.85 in January 2017, but 2.3% weaker than in July (325.31). According to NBK, the tenge's recent weakness is driven largely by speculative factors and depreciation of the ruble. Russian officials highlighted that the USD-RUB exchange rate has gradually normalized and is expected to remain stable at current levels, with median expectations of 60/USD in 3Q-4Q17. Consequently, USD-KZT exchange rate is forecasted at 330 as at end-3Q17 and as at end-4Q17.

As the inflationary pressures and expectations decreased to their lowest level in two years, NBK lowered its base rate by 25bps to 10.25% on 21 August 2017. Monetary easing is expected to support economic growth through improved domestic demand and credit growth. The amount of loans has increased by 0.7% in 7M17 and is expected to grow further towards the end of the year.

### GDP forecasts (2017f-2018f)



Source: Ministry of National Economy, Bloomberg, Samruk-Kazyna

### 2017 outlook

We expect the positive growth dynamics observed in 8M17 to continue for the rest of this year, with a slight moderation in 4Q17 due to diminishing low-base effect impact. Consequently, **GDP growth for 2017 has been revised upward to 3.4%**, supported by higher global oil prices, increase oil production, continued fiscal stimulus and improved economic performance in key trading partners. Further growth of investments, both public and private, is expected to drive capacity expansions. Meanwhile, domestic demand is expected to remain sustainable as inflationary pressure subdue.

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