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The openness of the Kazakh economy has declined and will not reach the peak levels of the 2000s in the next 20 years

Foreign trade reversal

The economy of Kazakhstan is becoming less open amid changing foreign trade dynamics. A new trend emerged in 2014–2015 after rapid growth of the volume of Kazakhstan's foreign trade, which began at the start of the 2000s and outstripped GDP growth rates. Weaker growth of foreign trade compared to the overall level of economic activity led to a decline in the openness of the country's economy, which is an important part of sovereign risk assessment. A shift in economic openness reflects changes in composition and strength of internal and external factors contributing to economic growth or decline. Furthermore, these changes must be viewed in the context of the nature of external shocks faced by the economy.

The reasons for the "closure" of the Kazakh economy are different in terms of exports and imports. From the point of view of exports, the key factor is changes in oil prices and production volume (mineral resources account for approximately two-thirds of exported goods), while in terms of imports the situation depends on the dynamics of imports of machine building and instrument manufacturing products (from 38% to 45% of total imports).

ACRA links its expectations for the volume of Kazakhstan's foreign trade from 2021 to 2050 to oil market trends; the oil price is subject to diverse factors. On the one hand, the recovery of the global economy following the crisis of 2020 will lead to a recovery in demand for oil, but on the other hand, decarbonization of major economies allows us to assume that the oil price recovery will be limited and possibly relatively short. A short-term increase in oil prices even given the current levels of production and increasing imports at the rate of growth of GDP may mean that the economic openness of Kazakhstan will not return to its pre-crisis level.

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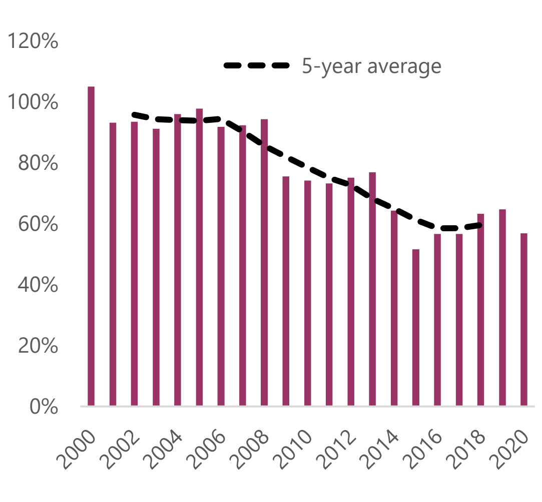
The Kazakh economy is "shutting its doors"

Over the past 20 years (from 2000 to 2020), the economic openness indicator of Kazakhstan measured as the ratio of the sum of exports/imports of goods and services to GDP has declined considerably, from 104% of GDP in 2000 to 57% in 2020 (*Fig. 1*, left graph). Since the start of the oil boom of the 2000s, the volume of the country's foreign trade rose steeply, with the dollar volume of foreign trade increasing by 8.2 times in 2000–2013[1]. However, in 2014–2015 the situation changed dramatically. The volume of foreign trade started declining and by 2020 it was unable to match the peak recorded in 2013, amounting to only 63% of that indicator.

In the analyzed two decades, two periods stand out — before and after 2015, when the indicator of the openness of the economy of Kazakhstan sharply changed direction. The most noticeable decline was observed starting from 2015 when the volume of foreign trade declined in terms of exports and imports (*Fig. 1*, right graph).

The openness of the economy is an important factor in assessing sovereign risk, which takes into account both the change in the composition and strength of external and internal factors leading to the growth or decline of the country's economy, and the nature of external shocks that the economy is facing. In 2020, the economic shock was caused by the suspension of cross-border communications, which led to serious losses in a number of sectors, such as tourism and transport, and caused the most tangible damage to the GDP of "open" economies, for which these sectors were the areas of economic specialization. Unlike these countries, Kazakhstan's losses from 2020 were less significant due to the weakened impact of external factors on GDP, taking into account the reduced volume of foreign trade. This, however, was unable to prevent the Kazakh economy from shrinking in 2020 due to the introduction of administrative limitations in a number of sectors amid the coronavirus pandemic, and also due to the global decline in demand for hydrocarbons, the country's main export.

Figure 1. Dynamics of economic openness (sum of exports/imports to GDP) and structure of foreign trade for the past 20 years



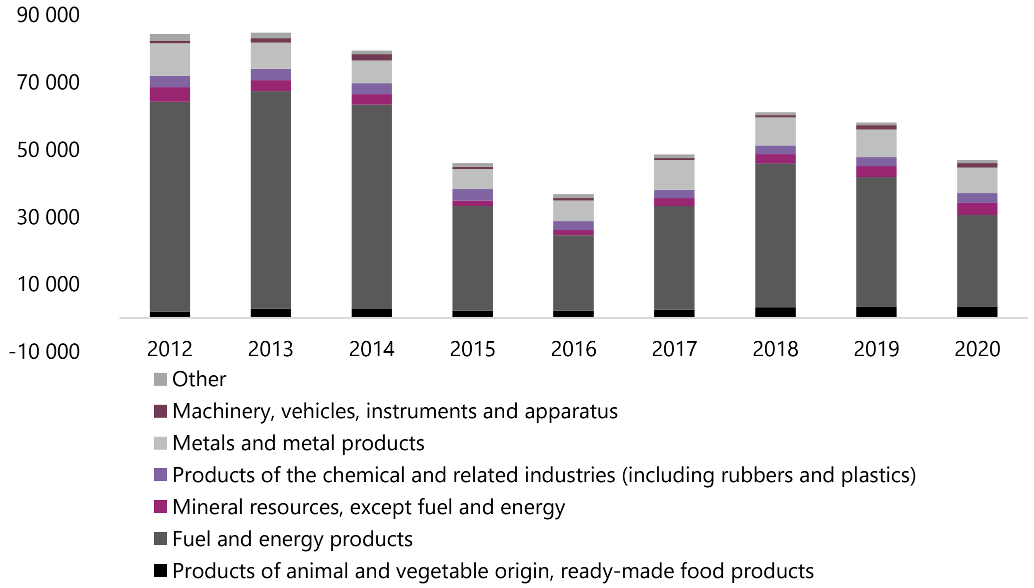
Sources: NB RK, ACRA

[1] The only exception was 2009, when the decline in external trade was due to a sharp fall in oil prices.

The drop in the volume of exports of goods was mainly due to the dynamics of the export of mineral resources, primarily oil (*Fig. 2*), which dominates in the structure of Kazakhstan's exports. The share of fuel and energy products in total exports has been in the range of 58–76% over the past eight years.

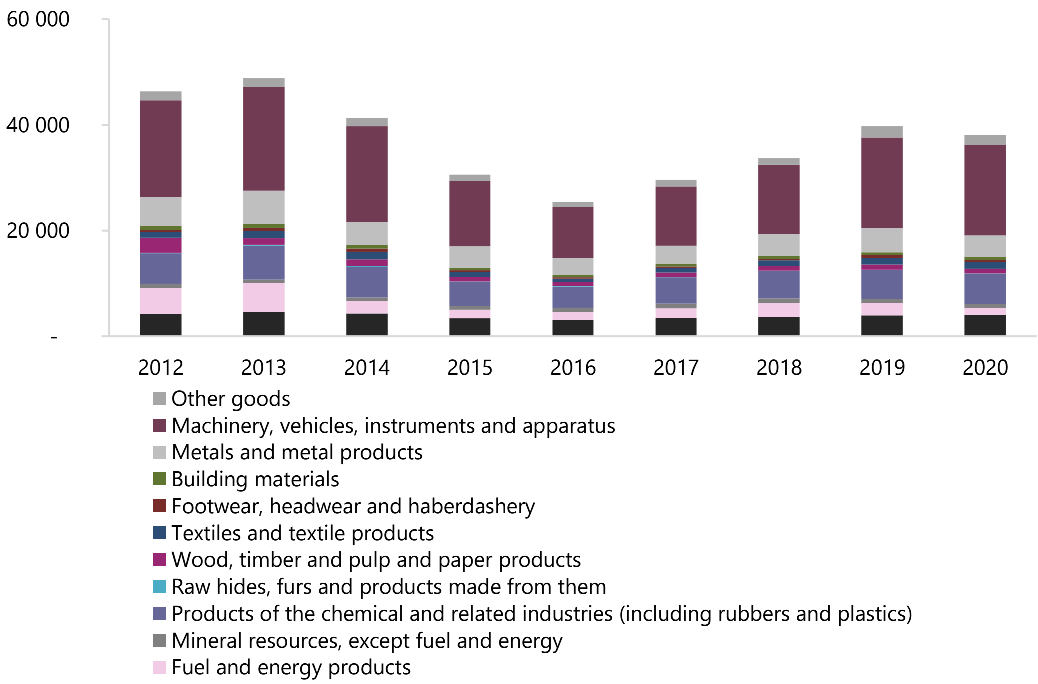
As for imports, their decline in 2015–2020 compared to 2000–2014 was due to two components decreasing: imports of machinery and equipment and imports of fuel and energy products (*Fig. 3*). The structure of imports in Kazakhstan is less concentrated than that of exports. Over the past eight years, the share of the main imported goods — machinery and equipment — accounted for 38%–45% in the total volume of imports, while imports of fuel and energy products declined sharply from 11% to 4% from 2013 to 2020.

Figure 2. Structure of Kazakhstan's exports, USD bln



Sources: BNS ASPR RK, ACRA

Figure 3. Structure of Kazakhstan's imports, USD bln



Sources: BNS ASPR RK, ACRA

The reasons for lower openness of the Kazakh economy are related to both exports and imports

In ACRA's opinion, the sharp decline in the level of openness of the economy of Kazakhstan is caused by a number of reasons related to both exports and imports.

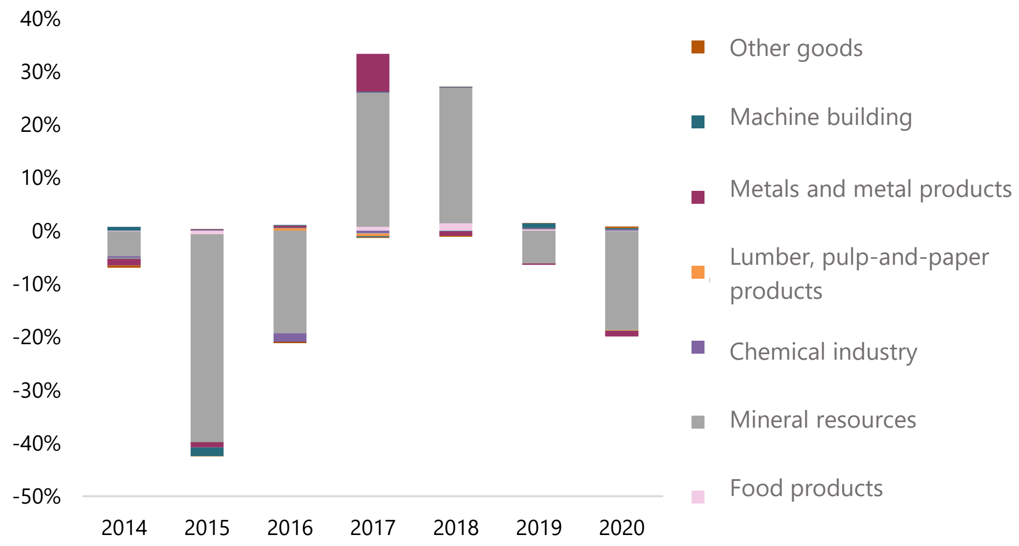
In terms of exports, the situation is affected by the dependence of the dominant export commodity of Kazakhstan (mineral resources, primarily oil) on the external market demand for energy commodities. As shown in *Fig. 3*, from 2014 to 2020, changes in the export of mineral resources were the main factor in the volatility of export volumes. Since 2014–2015, average oil prices and export volumes have ceased to show steady growth. From 2005 to 2014, the average oil price was USD 86/bbl[2] (about USD 102/bbl in 2010–2014), but from 2015 to 2020, the average annual price did not exceed USD 72/bbl.

ACRA attributes the decline in average oil prices over the past six years to structural changes in global demand. In particular, the United States, one of the main oil consumers in the world, has become self-sufficient in oil production thanks to shale oil, which has an overall downward pressure on oil prices.

As for the volume of oil exports, the main role in its decline was due to the redistribution of produced amount in favor of domestic consumption at the expense of exports. After the rapid growth of oil exports in 2000–2009 and the comparative stabilization in 2009–2014, this indicator has stagnated since 2015: on average, the volume of oil exports in 2009–2014 exceeded the level of 2015–2020 by a mere 2%. At the same time, over a twenty-year period (from 2000 to 2020), the volume of oil exports has more than doubled.

Taking into account the factors described above, one can conclude that the volatility of oil prices and export volumes may result in further shocks affecting the level of openness of the Kazakh economy.

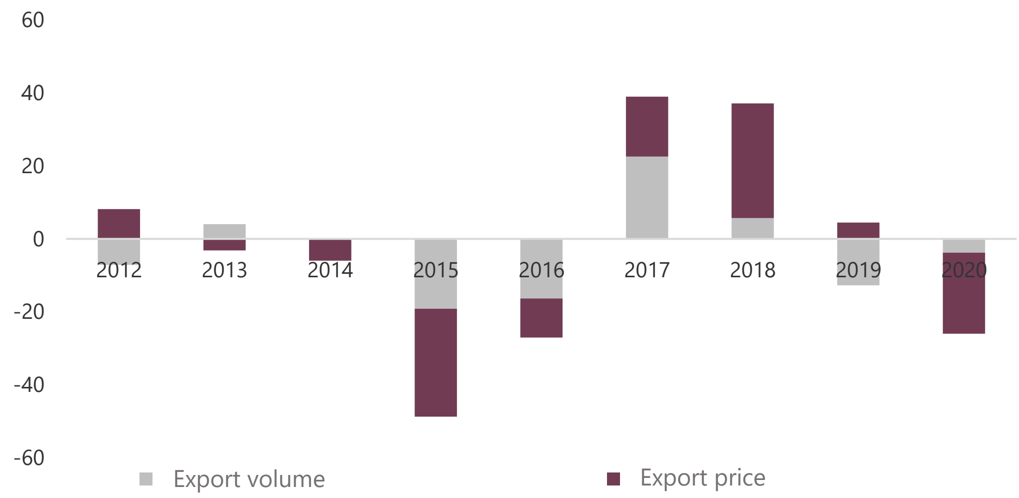
Figure 4. Export dynamics by product type, % y-o-y



Sources: BNS ASPR RK, ACRA

[2] Calculations are based on Europe Brent Spot price (FOB).

Figure 5. Dynamics of the export price and volume of mineral resources, % y-o-y



Sources: BNS ASPR RK, ACRA

In terms of imports, the level of openness of the economy of Kazakhstan is affected by the decline in the nominal volume of imported goods observed since 2014. This trend is associated with a decrease in imports of machinery and equipment against the background of exchange rate shocks and an increase in the cost of imports in tenge. The level of openness is also affected by a decrease in imports of fuel and energy products observed since 2014, which was caused not only by the effect of revaluation of the tenge exchange rate, but also by an increase in the country's own oil refining capacity and an associated decrease in the demand for imported oil products as well.

Expectations regarding the external trade volumes of Kazakhstan in 2021–2050

The trends described above show that various factors influence the dynamics of Kazakhstan's export and import volumes.

The volatility of Kazakhstan's exports largely depends on the situation in energy product markets, therefore forecasts for oil prices and production volumes are important for understanding the prospects of the level of openness of the national economy.

In its forecast until 2050 presented in January 2021, the U.S. Energy Information Administration expects a rapid recovery in oil prices and their progressive growth throughout the forecast period (for Brent oil in 2020 dollars per barrel). According to the forecast, in the ten-year periods from 2021 to 2030, from 2031 to 2040 and from 2041 to 2050, a barrel of Brent oil will average USD 61, 81 and 92 (2020 dollars), respectively.

In its forecast until 2030 published in October 2020, the World Bank also expects a steady rise in oil prices over the next ten years. The calculations of the World Bank show that by 2030, a barrel of oil will cost USD 59 (constant USD) and USD 70 (current USD).

In its base case forecast scenario for 2021–2025, ACRA expects a gradual recovery in Urals oil prices from USD 57/bbl in 2021 to USD 61.5/bbl in 2025. The scenario of oil price growth after 2030 is, in ACRA's opinion, subject to significant risks. The demand from the world's key oil consumers, the United States, Europe and China, could significantly decline if the governments of these countries succeed in implementing programs to decarbonize their economies. Such a decline would inevitably push oil prices down, not temporarily, but permanently.

The base case scenario of ACRA's forecast for the volume of imports of goods and services assumes that the dynamics of this indicator should generally correspond to the forecasted growth rate of the economy of Kazakhstan (by about 4–5% per year). The Agency notes that in some years, the volume of imports may go above or below the long-term trend, but does not expect such fluctuations to be systematic. Taking into account forecasts for oil prices, export volume (using the current ratio of export and production), imports and potential GDP growth rates of Kazakhstan for the period up to 2030 and up to 2040 (*Table 1*), ACRA predicts the level of openness of the Kazakhstan economy to increase to 61% of the expected GDP in 2030 and decline to 56–57% in 2038–2040.

In a more conservative approach to forecasting in relation to the above indicators, the level of openness of the economy of Kazakhstan should peak in 2025 (60%) and gradually decrease to 52% by 2040 (*Table 1*).

Table 1. Key forecast indicators

	Base case scenario		**Conservative scenario**	
	2030	**2040**	**2030**	**2040**
Oil production, mln t	120	133	92	87
Oil exports, mln t	92	102	70	67
Level of openness of the economy	61%	56%	57%	52%
Inflation rate in the U.S.	1.5			
Potential GDP growth rate, real	4.5			

Sources: BNS ASPR RK, ACRA

We can conclude that in the next five to ten years, a slight increase in the level of openness of the Kazakh economy is possible in comparison with 2020, which may be facilitated by the projected dynamics of exports. In the future, by 2040, the indicator of economic openness should return to 56% in the base case scenario and to 52% in the conservative scenario due to the stabilization in the export dynamics of Kazakhstan's main commodity. This forecast does not take into account the potential for accelerated development of other export-related industries, such as agriculture, manufacturing, and services.

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