



---

## THE COVID-19 CRISIS IN KAZAKHSTAN

---

20 April 2020

---

### COVID-19 update

---

- *Cases:* Kazakhstan announced its first case of Covid-19 at the beginning of March. As of 20 April, the country had reported 1775 confirmed cases and 19 deaths<sup>1</sup>.
- *Capacities of the health system:* Data from 2016 indicate an availability of 4.8 beds/1000 people, roughly in line with OECD average, and a healthcare workforce of about 252 000, including 74 600 doctors. However, coverage varies greatly across regions, to the detriment of rural areas (61 physicians per 10 000 population in urban areas compared to 15 physicians per 10 000 in remote areas). Many OECD countries with similar level of income (e.g. Hungary, Poland, Turkey) continue to outperform Kazakhstan in health outcomes.

---

### Economic impact

---

- *Containment:* Educational institutions, public places, and non-essential businesses are closed, the working hours of public transport are limited, and the cities of Nur-Sultan, Almaty, and Shymkent are quarantined. Business activity may gradually start to resume in Nur-Sultan and Almaty from 20 April. Box 1 provides an estimate of the order of magnitude of the potential impact of these confinement measures on activity and GDP.
- *Short-term indicators:* Experts estimate that 300,000 SMEs have stopped working nation-wide. In Almaty, the number of workers in factories decreased by 266 000 people and 80% of entrepreneurs have suspended their activities. At least 1.5 million citizens are estimated to be on unpaid leave or have lost their jobs due to the outbreak of Covid-19. According to official data, SMEs in the sectors most likely to be severely affected (trade, tourism, and catering) are estimated to employ over 1.6 million workers. In addition, the drop in global oil prices since the beginning of March has already imposed significant costs on the government's budget. The IMF projects a contraction of around 2.5% this year, assuming that the pandemic and the associated containment measures reach a peak in the second quarter and diminish in the second half of the year (IMF, 2020<sub>(1)</sub>).
- *Financial markets:* Sovereign interest rates on the 10-year bonds issued in tenge have increased by about 10% since the beginning of March; likewise, the value of the associated credit default swaps (CDS) has increased by about 40%. However, one-year default probability has remained stable (Box 2). Since beginning of March, the tenge has depreciated by about 14%, most notably against both the dollar and the euro.

---

### Policy reactions

---

- *Borders:* Kazakhstan declared a state of emergency on 15 March. Exports of some key food products have been banned,<sup>2</sup> while imports of food products and freight have been maintained, and a cap on food prices has been introduced. On 30 March, the Agriculture Ministry lifted an existing ban on flour exports, but introduced quotas for the export of wheat and flour for the time of quarantine. The government has closed all borders to entry of non-citizens, and put air and rail traffic on hold. However, according to the national railway company, freight traffic with China and Russia has not been affected, suggesting that some private companies continue operating.

### **Box 1. Order of magnitude of potential impact of confinement measures on activity and GDP in Kazakhstan**

This box presents preliminary estimates of the **cost of confinement measures** on GDP. The estimates presented below **do not represent a forecast** for growth in 2020, as they do not take into account external developments or the strength of the rebound in domestic activity as confinement measures are relaxed, which will depend in part on the success of government efforts to support households and firms through the period of confinement. Rather, it represents **a rough estimate of the upper bound of the costs of strict containment policies**.

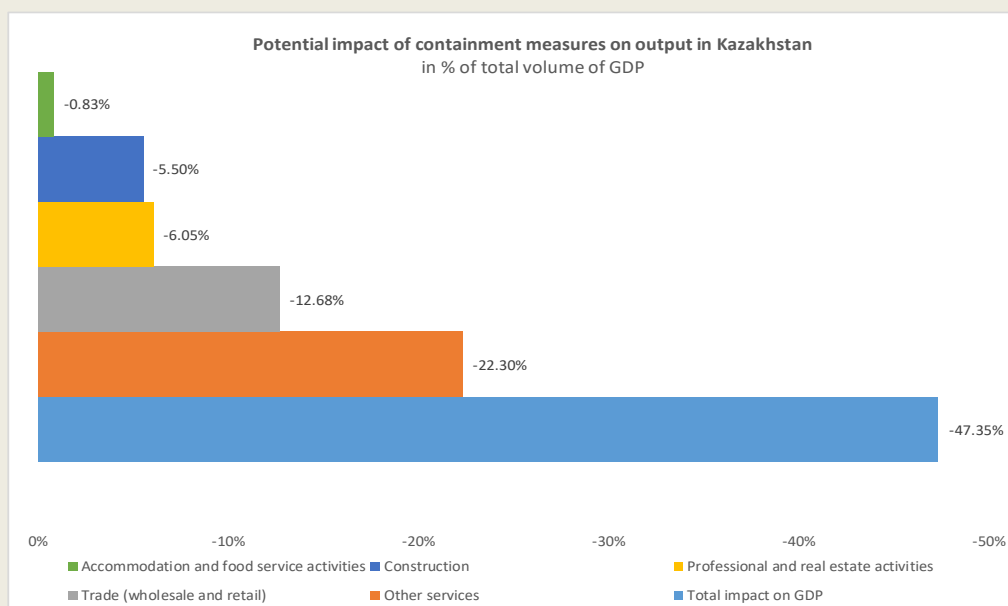
The method employed here, adapted from [OECD \(2020\)](#), looks at detailed categories of output to identify the sectors most directly affected by containment measures. For each of these activities, assumptions are made about the extent to which the activity is likely to be reduced, with output declines ranging from 50-100%. Thus, the greatest declines are anticipated for proximity services requiring face-to-face contact, and for sectors such as travel and tourism. Retail trade and catering are also hit hard, although takeaway sales and on-line sales may prevent a full cessation of activity for some businesses. Non-essential construction is also adversely affected by containment policies affecting labour availability. And so on. Taken together, the affected sectors covered in the estimates below account for 60 to 90% of Kazakhstan's economy.

The impact on annual GDP will also depend on how long these measures remain in place. The estimates assume that strict confinement measures last for roughly **two months**. They also **assume economy-wide measures**. This is a further reason for seeing them as an upper bound in Kazakhstan, where, to date, the strictest measures have been adopted in the three main cities, which together account for about 35% of GDP. However, these cities also concentrate above-average shares of activity in the most-affected sectors, so the impact will be proportionately greater. Moreover, some restrictions are nation-wide and confinement measures may need to be tightened if the virus spreads.

Full shutdowns are assumed in transport manufacturing and other personal services; declines of one-half are assumed for output in construction and professional service activities; and declines of three-quarters are assumed in all the other output categories directly affected by shutdowns. These are **assumptions only**, and the actual situation may be rather different, depending on the containment measures adopted.

An activity decline as in the baseline scenario (see below) for **a total duration of 8 weeks** would take approximately 7% off annual GDP. Following an activity decline as in the second scenario, the annual negative growth rate would amount to 9%. **Again, these are cost estimates, not growth projections**, as they do not reflect subsequent internal or external developments during the recovery phase. Nonetheless, they point to substantial, if less extreme, contraction in 2020.

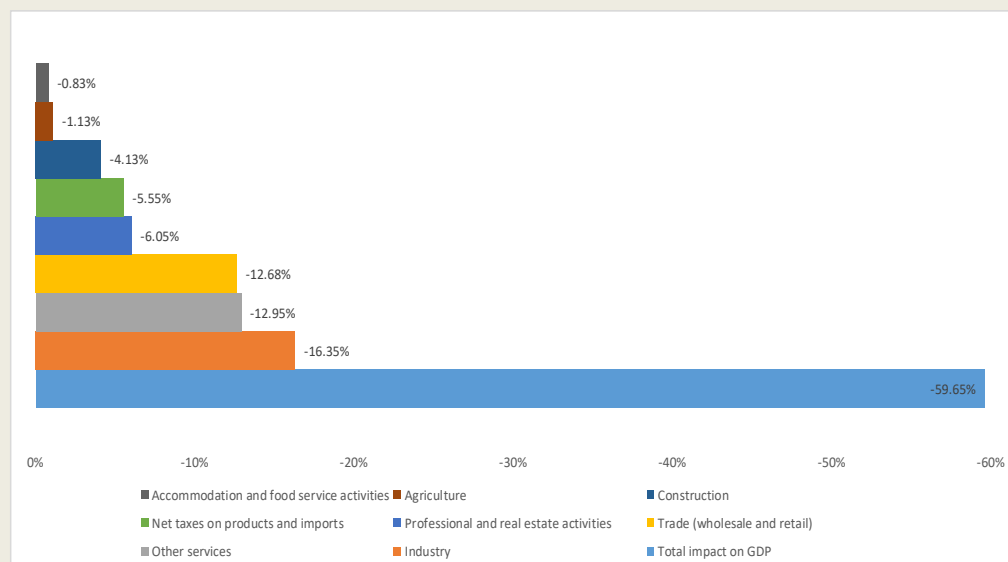
Figure 1. Baseline scenario



Note: Sectoral data is on an ISIC rev. 4 basis. The sectors included are construction, wholesale and retail trade, accommodation and food services, real estate services, professional service activities, arts, entertainment and recreation, and other service activities. The latter two are grouped together as other services in the figure. Full shutdowns are assumed in other services and construction; declines of one-half are assumed for output in professional service activities; and declines of three-quarters are assumed in all the other output categories directly affected by shutdowns. The calculations are based on an assumption of an economy-wide shutdown, rather than a shutdown confined to particular regions only.

Source: National Statistics Committee of Kazakhstan; and OECD calculations.

Figure 2. Extended sectors and assumptions



Note: Sectors included are the same as in figure one, plus agriculture and industry, and net taxes on products and imports. Full shutdown is assumed only for arts and entertainment; three-quarter declines for mining (industry), construction, trade, and accommodation; and half for all other sectors, except for education where shutdown is assumed to be one quarter.

Source: National Statistics Committee of Kazakhstan; and OECD calculations.

- *Monetary policy:* After increasing its policy rate in mid-March as the tenge came under pressure, the National Bank of Kazakhstan (NBK) cut it to 9.5% and expanded further the interest rate band to +/- 2%. In addition, the NBK also eased refinancing operations for commercial banks, and foreign exchange controls for SOEs have been introduced to support the tenge.
- *Fiscal policy:* The government announced a total anti-crisis package excluding tax breaks and local support will amount to KZT 4.4 trillion tenge (roughly USD 10bn or 6-7% of GDP) (Forbes, 2020<sup>[2]</sup>). Additional measures to support SMEs have also been introduced.
- *Support to workers and social assistance:* The National Social Security Fund grants wage subsidies, channelled through firms to employees of MSMEs on unpaid leave (KZT 42 000 tenge a month, or 95 USD), until the end of the emergency situation. Employees who lost jobs due to the confinement will be compensated at 40% of their former salaries for a duration of up to 6 months. The wage subsidies will cover at least 1.5 million citizens affected by the outbreak of the virus. In addition, children and adults from low-income families receiving Targeted Social Assistance (TSA), disabled people, and parents engaged in caring for a disabled child will receive food baskets (Sevostyanova, 2020<sup>[3]</sup>). The authorities have sent SMS messages to thousands of eligible citizens informing them of a benefit transfer or inviting them to provide their bank account details for receiving the benefit transfer. While such an approach can prove quicker and easier than sending cheques or leaving it to citizens to apply for assistance, it could have been more effective if the digital infrastructure tested and secured before the launch and government communications had been clearer.<sup>3</sup>
- *Support to firms:* Firms with a drop in turnover of more than 40% can get cash support to cover part of their fixed costs (up to 80%); full compensation of fixed costs will be provided to firms forced to close temporarily due to the lockdown. Payments of VAT and payroll taxes have been deferred and several loan guarantee schemes have been set up to provide additional liquidity to both SMEs and large firms. Banks will be required to allow businesses and entrepreneurs experiencing liquidity problems to defer repayment on loans until after June 15. Public budget rules have been relaxed to encourage frontloading of public consumption and payments to private firms.
- *Gender-specific measures:* Currently, there are no measures that address the socio-economic impact of COVID-19 on women in particular. Yet the employment impacts of social distancing measures are disproportionately large in sectors with higher female employment shares, like education and healthcare. In addition, closures of schools and day-care centres have significantly increased childcare needs, which increase the burden on working mothers. The effects of the crisis on women, particularly working mothers, are likely to be persistent, given high returns to experience in the labour market as well as their prevalence in the informal sector. There are also reasons for concern in Kazakhstan, as in many other countries, about the impact of confinement on levels of domestic violence. Some countries (e.g., France) have put in place specific measures to address lockdown-aggravated domestic violence.

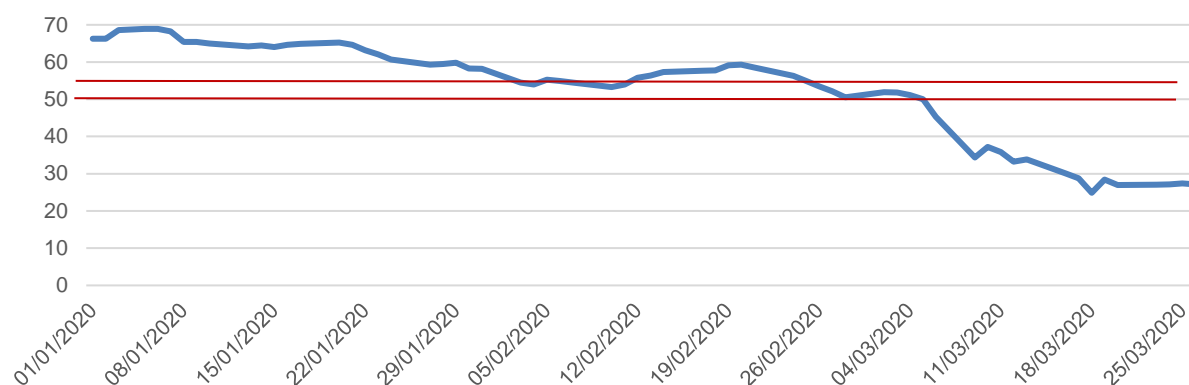
---

## Outlook

---

- *Desk Comments:* Kazakhstan was in a relatively favourable position prior to the COVID-19 pandemic, with low unemployment, higher GDP growth and lower public debt than in the OECD (Box 1). However, structural challenges may constrain the government's ability to respond to the crisis:
  - *Commodity dependence:* Kazakhstan's growth is highly dependent on exports of hydrocarbons, minerals, and metals (84% of total exports in 2017). The current drop in global demand for fuel and metals has already forced the government to revise the state budget for 2020<sup>4</sup> (Government of Kazakhstan, 2020<sup>[4]</sup>), envisaging a budget deficit of 3.0% of GDP (Figure 3).<sup>5</sup> In early March, the government indicated that it planned to cut 1.25bn USD in budget spending, but policy has since shifted to supporting demand.

Figure 3. Prices of Brent Crude



Note: The area between the red lines corresponds to the Brent Crude price range at which the state budget would balance.

Source: Reuters (26 March 2020).

- *Private-sector weakness.* The crisis is also a blow to private-sector development in Kazakhstan. SOEs represent a large share of the economy in Kazakhstan, while SMEs account for only 26.8% of value-added and 31% of employment, as compared to figures around 57% and 60-70% in most OECD economies. The vast majority of SMEs operate in low value-added sectors and only 5.2% are exporters, as compared to an average of 22.8% across Eastern Europe and Central Asia (OECD, 2018<sup>[5]</sup>). In this regard, large SOEs might be the first affected by the drop in global demand for commodities and exported goods. However, SMEs will also be hit hard by the slowdown, given their very small size and as local demand for services also vanishes due to lock-down and confinement measures.
- *An underdeveloped financial sector:* After the 2008 and 2014-15 crises, the Kazakh banking sector remains weak and local money markets underdeveloped, resulting in limited access to finance for businesses in the non-extractive sectors<sup>6</sup>. Borrowing has declined in recent years, with particular constraints on firms outside Almaty and Nur-Sultan due to complex procedures, high interest rates and stringent collateral requirements (EBRD, 2019<sup>[6]</sup>). The weaknesses of the financial system raise questions about its ability to mediate efficiently the liquidity-support measures put in place by the authorities.
- *A fragmented and underfunded healthcare delivery system:* Total healthcare expenditure remains relatively modest overall (3.1% of GDP in 2014, compared to the OECD average of 8.9%). Public health spending, at 1.8% of GDP in 2014 was around one-quarter of the OECD average. In addition, access to public health services is costly for Kazakh citizens, as out-of-pocket payments represent almost 40% of total expenditure<sup>7</sup>. As a consequence, health expenditure may represent more than 10% of non-food consumption for more than half the population. Finally, regional disparities in provision are substantial.
- *Underequipped technical infrastructures and regulatory environment.* On 10 April, the President highlighted technical infrastructures, the regulatory environment, and business processes of public agencies as the main impediments to effective provision of social services to citizens. In particular, the digital infrastructure has come under severe strain, affecting the delivery of e-government services and learning. Food security, mainly for isolated regions, will be an additional challenge.

*Comments:* As of today, the economy is mainly affected through the trade channel in general and the fall in commodity prices, in particular. The full economic impact of the pandemic is likely to hit Kazakhstan only in the coming weeks, as the number of cases increases and the impact of domestic restrictions and weak external demand becomes apparent. The measures announced by the

government offer substantial support to firms and households. However, the cost of these measures will further strain public finances, already severely hit by the fall in energy prices and the related uncertainty, and will challenge fiscal space if the pandemic and its disruptive effects were to last (Box 2). Given the structural challenges facing the economy, resilience throughout the slowdown will depend on the ability of the social safety net to sustain household consumption, the ability of the banking sector to provide liquidity, and the capacity of the digital infrastructure to respond to increased demand. Prospects for recovery will then depend not only on the success of government measures to prevent a major reduction in productive long-term investments but also in its ability to press ahead with reforms to support the diversification of economic activity and exports, refashion the role of the state in the economy and allow greater scope for private-sector development. The crisis has required rapid, large-scale state intervention, the longer-term objective remains the shift to an economic model that relies more on entrepreneurial dynamism and skills, and less on resource extraction, though the latter will certainly remain important to Kazakhstan's prosperity. External developments will also, of course, be critical, as they will be for many small, trade dependent economies. An earlier, stronger recovery in China and the developed world would be of great benefit to Kazakhstan.

### **Box.2. Public finances and macroeconomic indicators in Kazakhstan prior to Covid-19**

At the onset of the Covid-19 pandemic in Central Asia, macroeconomic indicators in Kazakhstan pointed to stable if unspectacular growth, with real GDP rising 4.1% in 2019, and a low level of unemployment (4.9%). Public finances were in relatively good shape, though the non-oil deficit rose substantially in 2019 as the government sought to tackle a range of social and regional challenges with new initiatives. Overall, gross public debt at the end of 2019 was nevertheless relatively low and sustainable, at roughly 21% of GDP. However, as the tenge has depreciated by about 14% against both the dollar and the euro since beginning of March, the cost of debt servicing might increase. In addition, the expected drop in state revenues and current relief measures due to the Covid-19 outbreak will reduce fiscal space, while the global slowdown will affect trade and economic activity over the medium-term, further requiring the government to intervene to support businesses and households.

<b>General overview</b>	
GDP, 2019 (bn USD)	170
Unemployment, 2019 (%)	4.85
GDP annual growth, 2019 (%)	4.1
GDP per capita, 2019 (USD)	9,139.11
<b>Public finances</b>	
Debt/GDP ratio (%)	21.1
Domestic credit from financial sector (% of GDP)	30.21
Government consumption/ private consumption (%)	15.97
Growth of gross government debt (% of GDP)	1.17
<b>Debt structure</b>	
Outstanding debt (as of March 2020) (bn USD)	24.7
<i>Issued in Euros (%)</i>	9.67
<i>Issued in Dollars (%)</i>	26.27
<i>Issued in tenge (%)</i>	64.06
Sovereign interest rates on the 10 years bonds issued in tenge (%)	10.63
One-year default probability	0.5
<b>Central bank reserves</b>	
Foreign exchange reserves (bn USD)	9.59
international reserves (including gold) (bn USD)	29.89

Source: IMF WEO (April 2020), Reuters (March 2020).

## Notes

---

<sup>1</sup> For regular update, see: <http://coronaviruswatch.ircai.org/?country=KAZ&dashboard=evolution-cases>.

<sup>2</sup> Flour, buckwheat, sugar, potatoes, carrots, onions, cabbages and sunflower oil.

<sup>3</sup> The effectiveness of the measure was initially blunted by confusion regarding conditions of eligibility, which critics suggested could have been more clearly communicated by the authorities. By 17 April, 3 million people had reportedly received assistance, but repeated changes to eligibility rules created some confusion. Moreover, citizens who were offered, and received, benefits but were then deemed ineligible are reportedly being asked to refund the money or face fraud charges (at the time of application, government didn't check if these people actually lost their salaries).

<sup>4</sup> The State budget is based on an average annual Brent oil price of 50-55USD per barrel, however as of March 2020, the price had collapsed to 27 USD.

<sup>5</sup> This forecast does not include the use of the National Fund. The government indicated it might use a transfer from the Fund only in case of prolonged economic slowdown.

<sup>6</sup> The share of credit- constrained MSMEs as a per cent of MSMEs needing a loan is one of the highest of all countries reviewed by the OECD, at around 67% in Kazakhstan, compared to 54.4% in the CIS excluding Kazakhstan, and to 35.7% in OECD countries (EBRD, 2019<sup>[6]</sup>).

<sup>7</sup> The WHO criterion for adequate financial protection indicates an upper-threshold of 20%.

---

This paper is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.