

Quarterly Macroeconomic Survey

Expert Survey Results
Q2 2020



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Introduction

Stability and predictability of macroeconomic environment in which the business operates is fundamental to its success. Against the backdrop of the COVID-19 pandemic outbreak being a qualitatively new factor that humanity has encountered, increases the need for quality expert assessments, which can reflect the effects of constantly changing phenomena in the markets, thereby making it possible to make decisions when accurate calculations are not available.

In this regard, PwC Kazakhstan conducts quarterly survey on macroeconomic indicators among leading reputable economists (including economists with work experience in central banks) and professors of macroeconomics, representatives of international development institutions, commercial banks, brokerage companies to obtain balanced and comprehensive view of the most significant for Kazakhstan economy factors.

This survey is focused on the forecast of macroeconomic indicators in horizons from 1 year to 5 years, including:

- BRENT oil price
- USD/KZT, USD/RUB, RUB/KZT exchange rates
- Inflation in Kazakhstan
- National Bank of Kazakhstan base rate

We understand that disclosing the identity of experts can affect the quality of responses. This survey was conducted confidentially to maximize objectivity of opinions. The names and positions of the respondents were disclosed only upon formal permission of the respondent.





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Overview and survey objectives

The survey received responses from over 20 experts, about half of the respondents provided detailed comments when answering questions that formed the basis of the qualitative analysis of this survey.

We involved experts from various fields to obtain the most complete and balanced picture. Our respondents include leading reputable economists, professors of macroeconomics, representatives of international financial institutions, commercial banks, and brokerage companies.

Experts were asked to answer questions regarding the influence of exogenous factors, including COVID-19, on the economy of Kazakhstan. In addition, respondents were interviewed regarding the forecasted expectations for the cost of BRENT crude oil, USD/KZT, USD/RUB, RUB/KZT exchange rates, inflation in Kazakhstan and base rate of the National Bank of Kazakhstan for horizons from 1 year to 5 years. This horizon was selected to obtain forecasts for the medium term.

The survey results are forecasts for key macroeconomic indicators, which often form the basis of financial and economic models of companies (including commercial banks and investors). These forecasts are often used by economic departments to compare and calibrate the initial values included in their calculations.

Such regular comparisons can improve quality of the models used and contribute to a more flexible response to dynamic changes in the economic environment. In our practice, we have encountered situations when the calculation models, despite the level of detail and elaboration, did not provide business with necessary insights to make decisions that could preserve the company's capital.

With this survey, we hope to provide readers with a structured, systematic and regularly updated data block on macroeconomic indicators, based on the best expert assessments in the market. The survey was conducted at the end of June 2020.



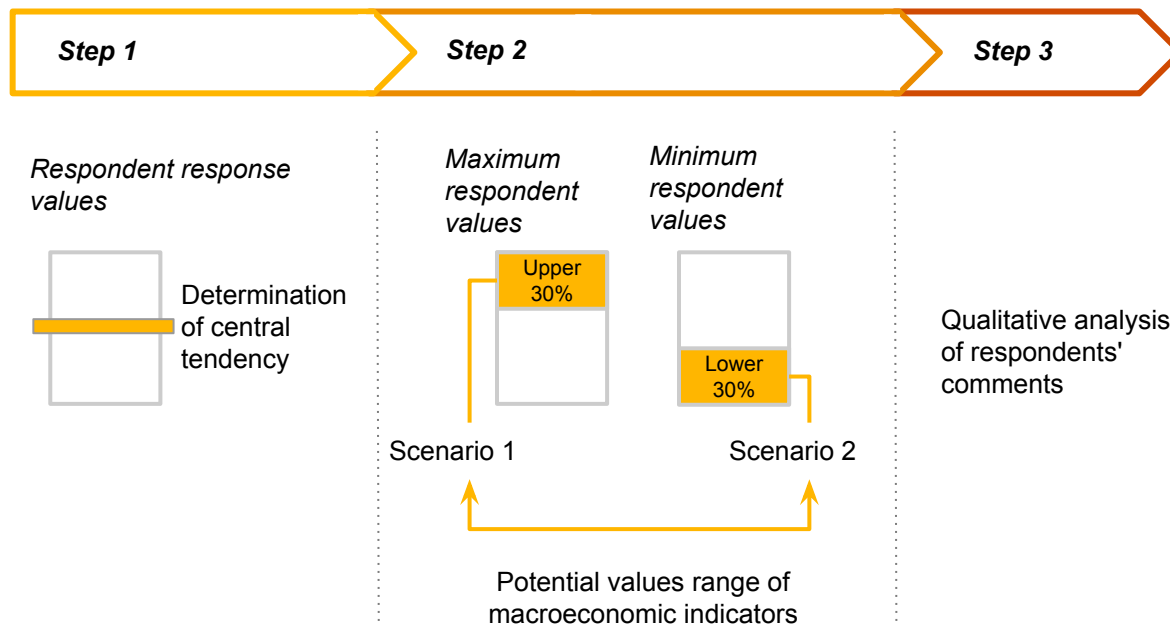
Approach to analysis of survey results

An analysis of respondents' answers to many questions revealed rather significant differences of opinion, which is expected in studies where experts represent various fields (economists, traders, scientists, bankers) and, accordingly, have access to different sources of information.

Consolidation of opinions covering large part of professional participants in the financial market, as well as scientific experts and leading economists of Kazakhstan, gives us the opportunity to predict several scenarios for the development of Kazakhstan's economy.

For these purposes, PwC Kazakhstan asked respondents to provide their opinions in minimum and maximum ranges for questions where it was appropriate (oil prices, exchange rates, inflation) and used several approaches to results analysis.

In addition to using standard statistics of central tendency for all answers, we also took the top 30% in the answers within the maximum range responses and the bottom 30% within the minimum range of responses to identify the most optimistic and most pessimistic scenarios.



Key findings

Post-COVID-19
economic recovery

83%

*of respondents expect
U-shaped recovery
scenario*

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Oil prices

96%

*of respondents do not
expect oil prices above \$50
per barrel during the year*

Page 12

Exchange rates

39%

*of respondents expect the
lowest point of tenge in the
range of 450-500 tenge per
US dollar during the year*

Page 16

Inflation (CPI)

52%

*of respondents on
average expect inflation
above 7% during the year*

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NBRK base rate

87%

*of respondents expect the
NBRK base rate to be
less than or equal to 9%*

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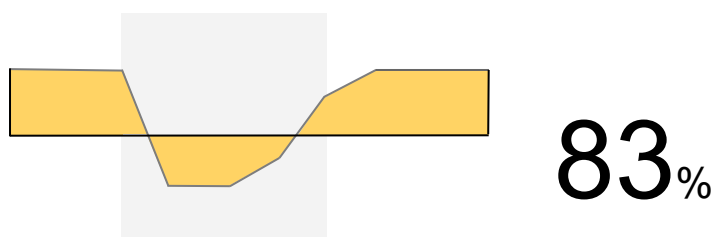
COVID-19: Kazakhstan economy recovery scenarios



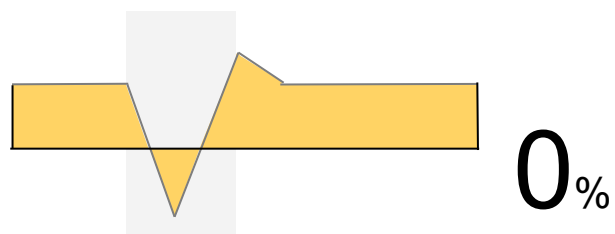
Economic recovery scenarios

What trajectory do you think will follow the economy of Kazakhstan in the next two years after COVID-19?

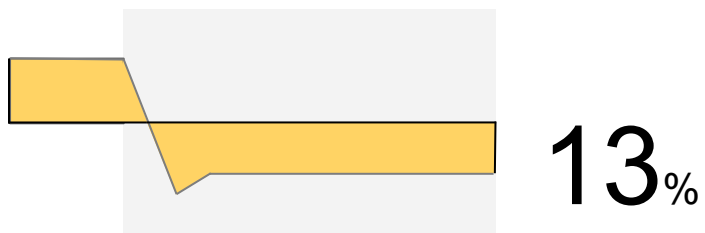
Percentage of respondents expecting scenario development U, V, L, W  Economic recession



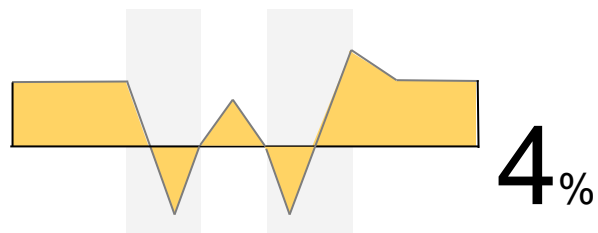
U-scenario (slightly longer period of low economic activity, but with subsequent recovery)



V-scenario (fast drop and equally fast recovery)



L-scenario (sharp collapse and subsequent depression, which will prevent the economy from recovering to pre-crisis levels)



W-scenario (sharp collapse, rapid recovery, followed by a new recession, and recovery again)

“

Given the nature of the shock (risk of other pandemics, revaluation of values), I expect permanently slower, and better quality, growth, globally in Kazakhstan. I picked "U" as the closest to my view

Sabit Khakimzhanov

Director, Financial Stability and Risks
Department, NBRK



“

Economic growth is entirely based on the behavior of households and firms. Even in the case of an efficient vaccine or cure for coronavirus, some people with low risk tolerance will need time to adapt to new conditions.

- *Baurzhan Tulepov*

“

While there is no vaccine, the COVID impact on the economy cannot be suspended. This means that the recession will continue until at least 2021. The economy will fall steadily. During this time, structural problems will accumulate that will deepen the crisis after the creation of vaccine.

Kairat Mynbayev

ISE, Professor of Economics

The worldwide spread of COVID-19 pandemic and the restrictive measures taken to combat it, along with decrease in business activity in services and manufacturing industries and reduction in new orders in foreign and domestic markets, have a significant negative impact on economic activity worldwide.

Basic scenario of economic recovery

According to experts responding to survey, a high degree of uncertainty is observed in global economy. In 2020, many exogenous unpredictable factors, including pandemic, closure of borders, collapse in oil prices, overlapped each other in a way that it is difficult to determine pandemic trajectory and its impact on the economy of Kazakhstan.

83%

of respondents expect U-shaped recovery path of the Kazakhstan's economy.

83% of respondents surveyed suggest that the recovery of Kazakhstan's economy will have U-shaped recovery path, and the process of overcoming the crisis may take protracted nature for many reasons. First of all, due to the fact that the shock seriously impacted business activity and business, especially SMEs, it will take a long time to restore and adapt to new conditions and search for new opportunities. The consensus is that until the creation of vaccine and advent of medicines, the world will continue to trend towards social distance and introduction of selective lockdown measures, with regular tightening upon deterioration of the situation and increase in incidence, which in turn will affect the timing of economic recovery.

Alternative scenario for economic recovery

According to survey, regarding the expectations on the second, most probable, scenario of economic recovery within the next 2 years, experts' opinions were equally divided between the U, W, L scenarios. V-scenario, as before, remains the least likely option, as only 13% percent of respondents see probability for this scenario development.

“

Given that before the creation of an efficient vaccine and its commercial production, the pandemic will not be limited to two or even three waves, the economic crisis will have a protracted and time-distributed nature. At the same time, along with subsequent adaptation of the healthcare system, public administration, and corporate sector to new conditions of the post-pandemic period, economic activity will begin its smooth recovery.

- **Olzhas Tuleuov**



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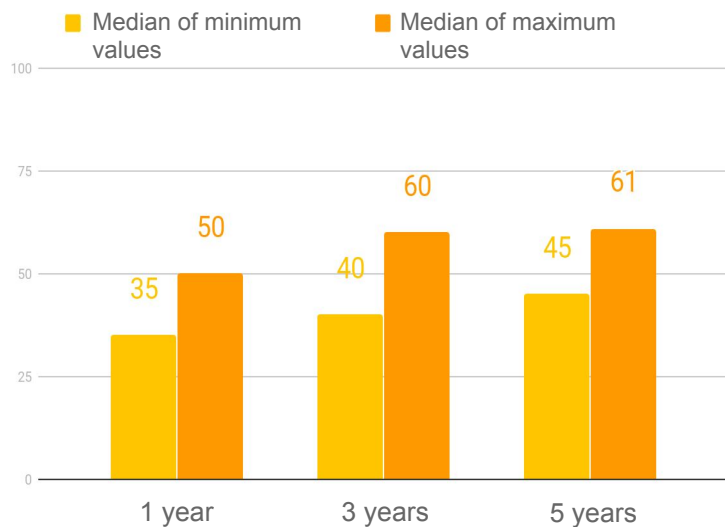
BRENT oil price forecasts



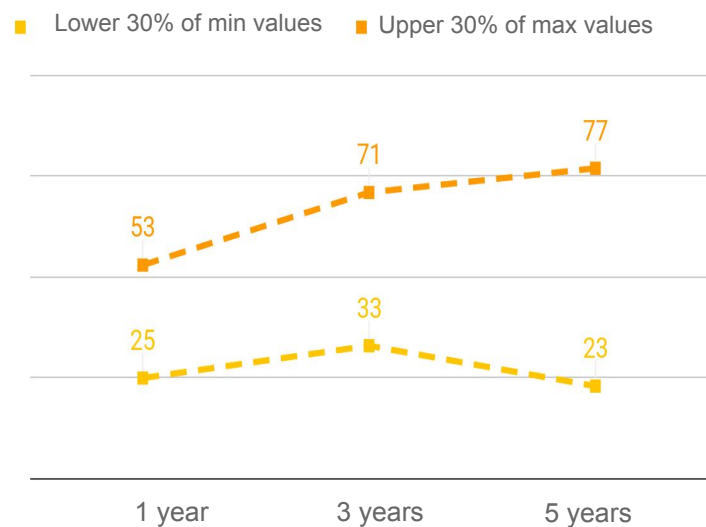
Oil price

What price in US dollars per barrel of BRENT oil can be formed in the following periods?

Oil price forecasts



Upper and lower boundaries for oil price forecasts



Note: price is in US dollars per barrel

Source: PwC Kazakhstan Macroeconomic Survey, Q2 2020

“

given future prices, 30% historic volatility, I picked 1st and 9th deciles

Sabit Khakimzhanov

Director, Financial Stability and Risks
Department, NBK



“

COVID means uncertainty, therefore I indicate a broad framework for one year. Three years later, the effects of the virus will begin to affect in the form of economic shifts towards lower consumption, demand and increased use of renewable energy sources. Tesla's success will also be impacted.

- **Kairat Mynbayev**
ISE, Professor of Economics



Gradual recovery of global economy and oil production control under the OPEC+ agreement will contribute to an increase in oil prices to the levels of 2018-2019 in the medium term.

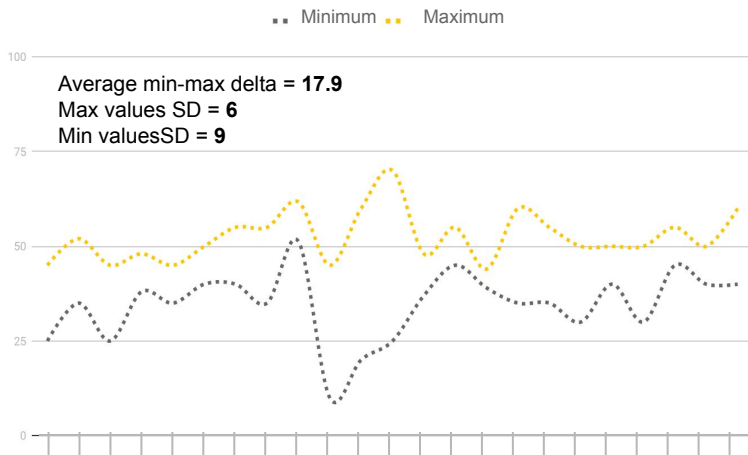
Murat Koshenov
Deputy CEO, Halyk Bank

The vast majority of respondents showed in their forecasts wide ranges between the expected minimum and maximum forecast values for BRENT oil in the horizon of one year (average delta = \$17.9), for three years (average delta = \$17.5) and five years (average delta = \$19.4). This trend was commented by some respondents who referred to the global COVID-19 pandemic as a source of high uncertainty, especially in the perspective of the next two years, i.e. before the alleged creation and release of mass vaccines against the virus.

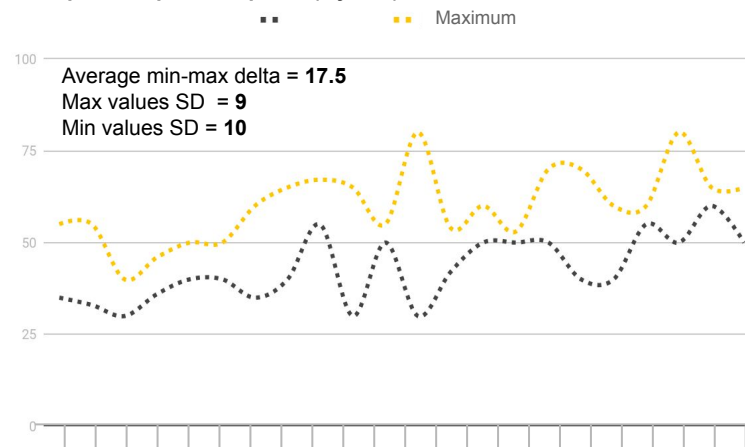
The economists argued that the consequences of pandemic in the form of shifts in the economy towards lower consumption and demand for goods could adversely affect oil prices. In addition, according to respondents, potential subsequent waves of infections can interrupt the recovery of global economy, and, as a result, the demand for energy. Increasing the use of renewable energy sources was also noted as a factor that could potentially influence oil prices in the medium term.

As a result of OPEC+ negotiations in April this year, a decrease in raw materials production in Kazakhstan is expected, according to the Minister of Energy of the country N. Nogaev, production is expected to decrease to 84.5 million tons (6.7% compared to 2019). In the long run, respondents expect that oil prices will tend to reach the level of 50-55 US dollars, which suits both oil producing and consuming countries.

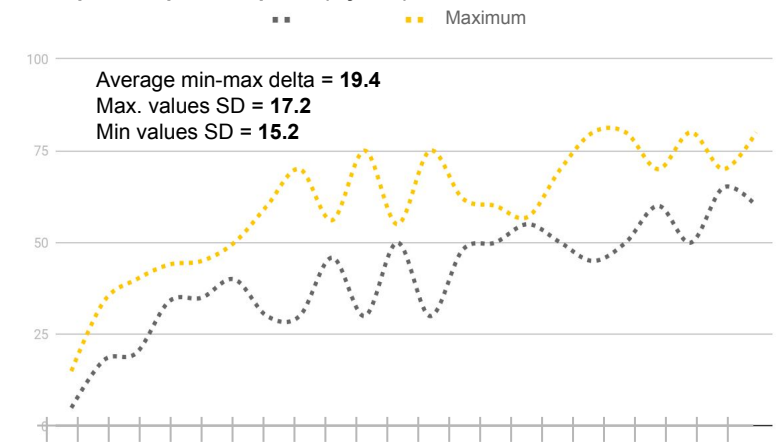
Oil price responses spread (1 year)



Oil price responses spread (3 years)



Oil price responses spread (5 years)



Note: price is in US dollars per barrel

Source: PwC Kazakhstan Macroeconomic Survey, Q2 2020

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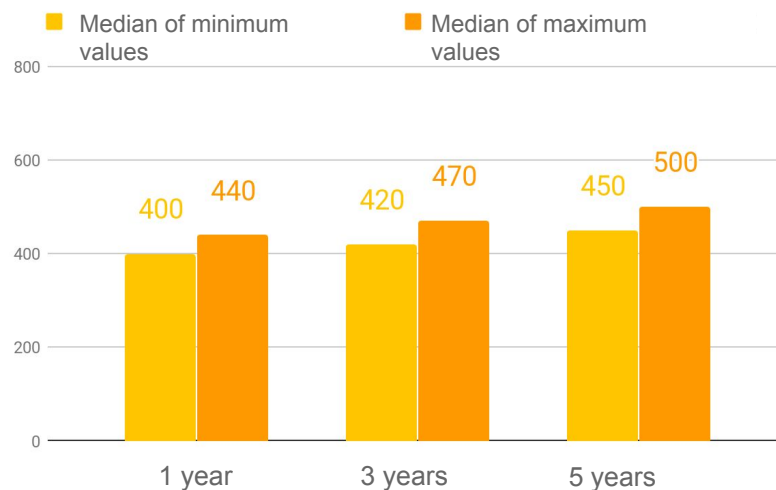
Exchange rate forecasts



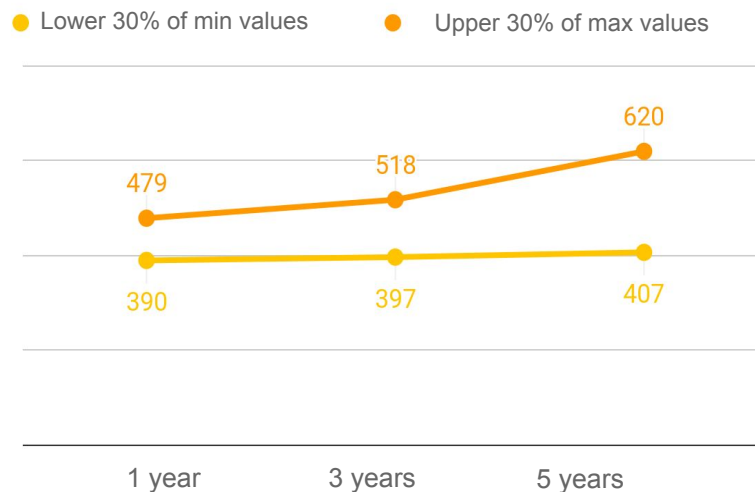
US Dollar to Kazakhstani tenge rate

What are your expectations regarding the exchange rate of the US dollar to the Kazakhstan tenge for the next periods, in tenge?

USD/KZT forecast rate



USD/KZT forecast upper and lower boundaries



Source: PwC Kazakhstan Macroeconomic Survey, Q2 2020

Most of the survey respondents tend towards weaken tenge against the US dollar in the analyzed periods. Respondents identified several main reasons, among them the reduction in oil production in Kazakhstan, uncertainty in terms of inflation and cessation of measures to support national currency by the state.

The maximum tenge weakening against the US dollar for 5 years (end of the year) is expected to be around 29.4%, while the minimum tenge weakening for the same period is expected in the range of 4.4%.

The internal spread in maximum forecast values ranged from 400 to 700 tenge per US dollar (standard deviation = 64), which is significantly higher than the internal spread in the maximum forecast values, which is in the range from 390 to 410.5 tenge per US dollar (standard deviation = 32.8).

“

At present, NBK artificially constrains tenge, introducing all kinds of restrictions on the purchase of foreign currency. Conditionally, the course will be within the given limits.

Dinmukhamed Shaikakov

Chief dealer of commercial bank

“

[my forecast is] based on usdrub volatility, current exchange rate, nominal and real, historic inflation differential

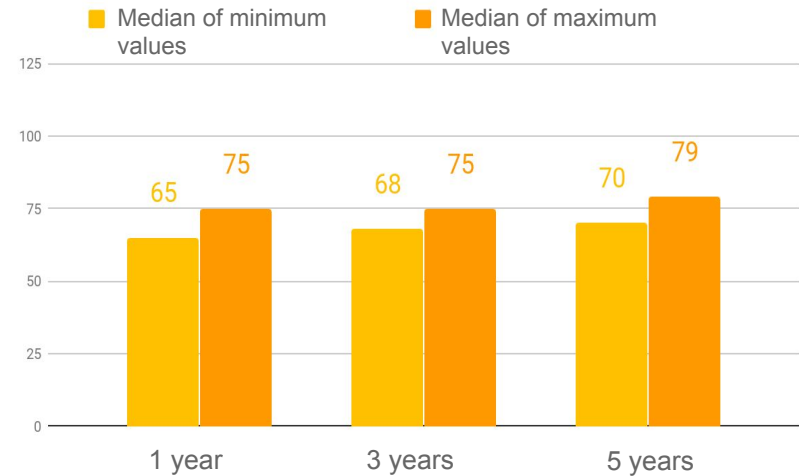
Sabit Khakimzhanov

Director, Financial Stability and Risks Department, NBRK

US Dollar to Russian ruble exchange rate

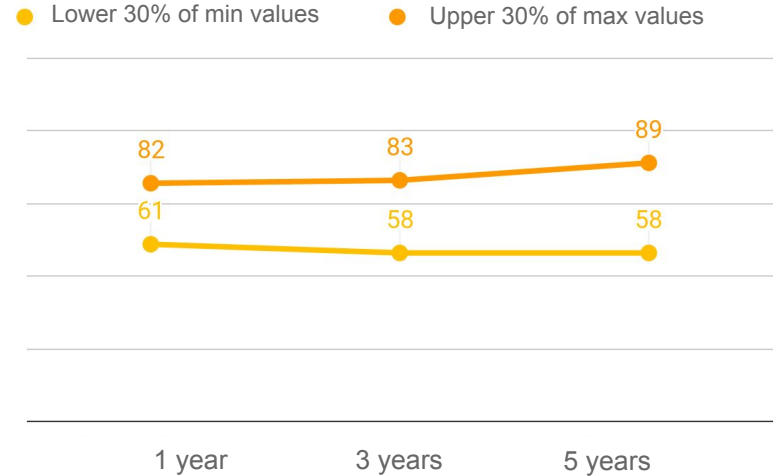
What are your expectations regarding the exchange rate of the US dollar to the Russian ruble for the following periods, in rubles?

USD/RUB forecast rate



Source: PwC Kazakhstan Macroeconomic Survey, Q2 2020

USD/RUB forecast upper and lower boundaries



Coronavirus pandemic and OPEC+ transaction collapse had a strong impact on currency volatility in 2020. Survey respondents are optimistic about this currency pair and expect slight weakening of the ruble exchange rate of 6% over the next 5 years.

As the reasons for stability of Russian ruble, respondents define sufficient level of diversification of Russian economy and the Fiscal rule effect (note: Fiscal rule is the obligation of the Ministry of Finance of Russia to buy or sell US dollars at certain oil prices). The Fiscal rule is designed to reduce the dependence of macroeconomic indicators of Russian Federation on prices for the main products of Russian exports. The Fiscal rule also has stabilizing effect on the ruble exchange rate.

Respondents on average expect the US dollar to Russian ruble exchange rate by the end of the year in the range of 65-75 rubles per US dollar, the upper limit of forecasts (represented by the average value of 30% of respondents) - expects the exchange rate to weaken to 82 rubles during the year, the lower limit implies strengthening to 58 rubles.

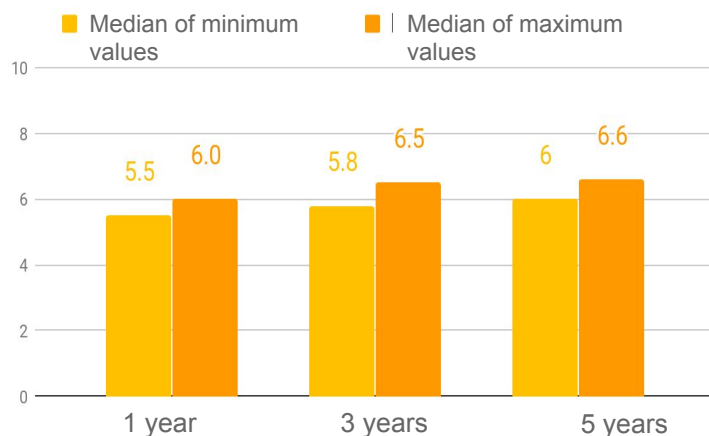
Russian ruble to Kazakhstani tenge exchange rate

What are your expectations regarding the exchange rate of the Russian ruble to the Kazakhstan tenge for the following periods, in tenge?

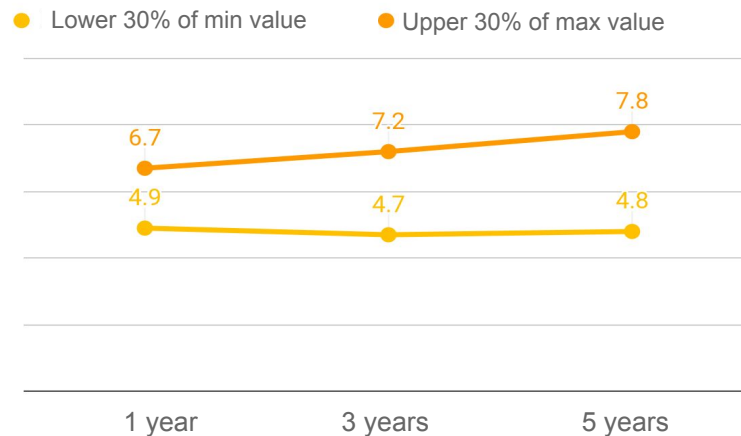
about **65%**

of respondents expect tenge to weaken over 5 years against the ruble by less than 15%, which implies weakening of less than 3% per year.

RUB/KZT forecast rate



RUB/KZT forecast upper and lower boundaries



Source: PwC Kazakhstan Macroeconomic Survey, Q2 2020

Respondents expect ruble to tenge exchange rate to continue over the next 5 years on average in the range of 5.8-6.3 tenge per ruble, with 14% weakening of the national currency over 5 years. The main reason for this trend in the forecast period is, according to respondents, a positive difference in inflation in favor of Russian currency. Inflation in Kazakhstan in April 2020 was 6.8%, in Russia - 3.1%.

“

We still have a great trade exchange with Russia, and this is the main factor holding tenge in the wake of the ruble.

Kairat Mynbayev

ISE, Professor of Economics

“

In the event of steep and shock depreciation of ruble against the US dollar, RUB KZT quotes under conditions of lower medium-term USD KZT elasticity will tend to strengthen to 4.5-5 if external conditions change. At the same time, due to the positive difference in inflation in favor of Russia, other things being equal, RUB KZT will tend to increase to 6-6.5.

- Olzhas Tuleuov



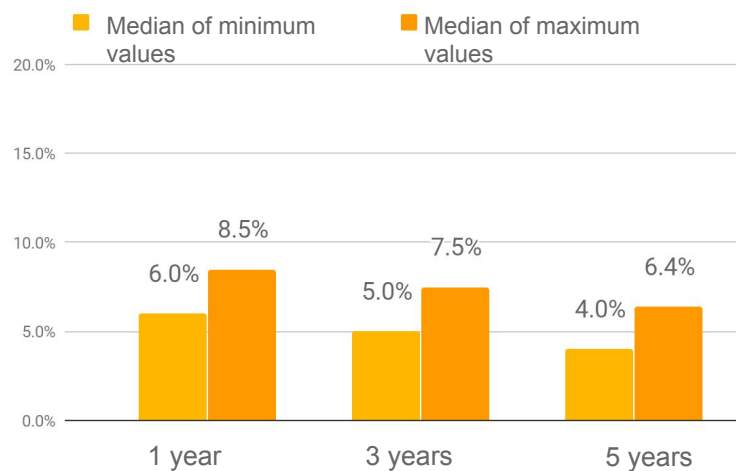
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NBRK inflation and base rate forecasts

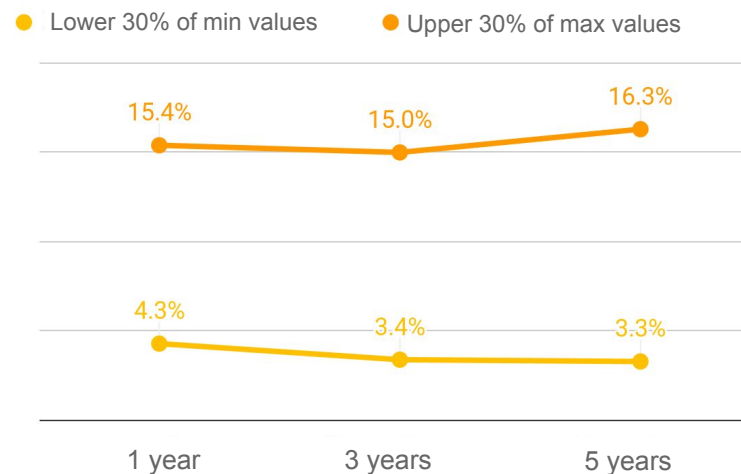


Consumer price index

What inflation rate (in particular, by the consumer price index - CPI) in Kazakhstan do you consider most likely for the following periods?



Source: PwC Kazakhstan Macroeconomic Survey, Q2 2020



more than **60%**

In the horizon of one year respondents expect inflation rate increase.

more than **70%**

In the long run, up to 5 years respondents expect gradual decrease in inflation.

“

Short term inflation risks stem from massive fiscal stimulus, potential pass through, and cumulated, hidden and suppressed inflation. Over the longer term these risks to become less prominent.

Sabit Khakimzhanov

Director, Financial Stability and Risks Department, NBRK



“

Historical average shows the conditionally neutral and equilibrium inflation rate was 6-8% during the independence of Kazakhstan. All things being equal, including neutrality of monetary policy, as well as systematic onset of supply and demand shocks, the inflation rate in Kazakhstan in the medium term will tend toward this range of 6-8%.

- *Olzhas Tuleuov*

“

In my opinion, official CPI statistics do not reflect the reality in the country. As I believe that the economy, in the absence of proper reforms by the state, will develop according to L-scenario, inflation will only gain momentum.

Dinmukhamed Shaikakov

Chief dealer of commercial bank

Since the beginning of March this year economic activity of Kazakhstan continues to be negatively affected against the background of double drop in oil prices, uncertainty on the OPEC+ agreement and COVID-19 pandemic. According to the results of five months in 2020, inflation in Kazakhstan amounted to 6.7% (6.8% in April 2020)*.

Survey results showed that in the horizon of one year, more than 60% of the respondents expect an inflation increase. This forecast is explained by the prevailing effect of lockdown measures in Kazakhstan and in the countries - trade partners, which in turn entails a rise in the cost of imports and slowdown in business activity of companies engaged in supply and sale of goods from near and far-abroad countries. Along with the above factors, the growth in prices for food products, which in May increased by 10.7% in annual terms*, continues to contribute to dynamics of inflationary processes.

In the long-term forecasts of experts regarding the inflation level, there is a large degree of confidence in its reduction. In the horizon of three years, 90% of experts forecast inflation decrease, an average of 1.7%. In the horizon of 5 years, more than 70% of experts expect further gradual decrease in inflation.

The comments of surveyed experts describe several reasons for increasing estimates of inflation in the horizon of one year, with gradual decrease in the long term. Firstly, inflation fluctuation data is related to current monetary policy supported by the National Bank of Kazakhstan. Secondly, experts associate short-term inflation risks with massive tax incentives and hidden inflation over the past periods, noting that in the long run these risks will be less noticeable.

* Inflation Overview. June 2020. NBK.



“

I believe that due to higher import costs and slowdown in business activity, the inflation rate in a year can be very high. As there is already an increase in prices for consumer goods.

- **Marzhan Melanich**

Director of Analytical Department
Centras Securities JSC

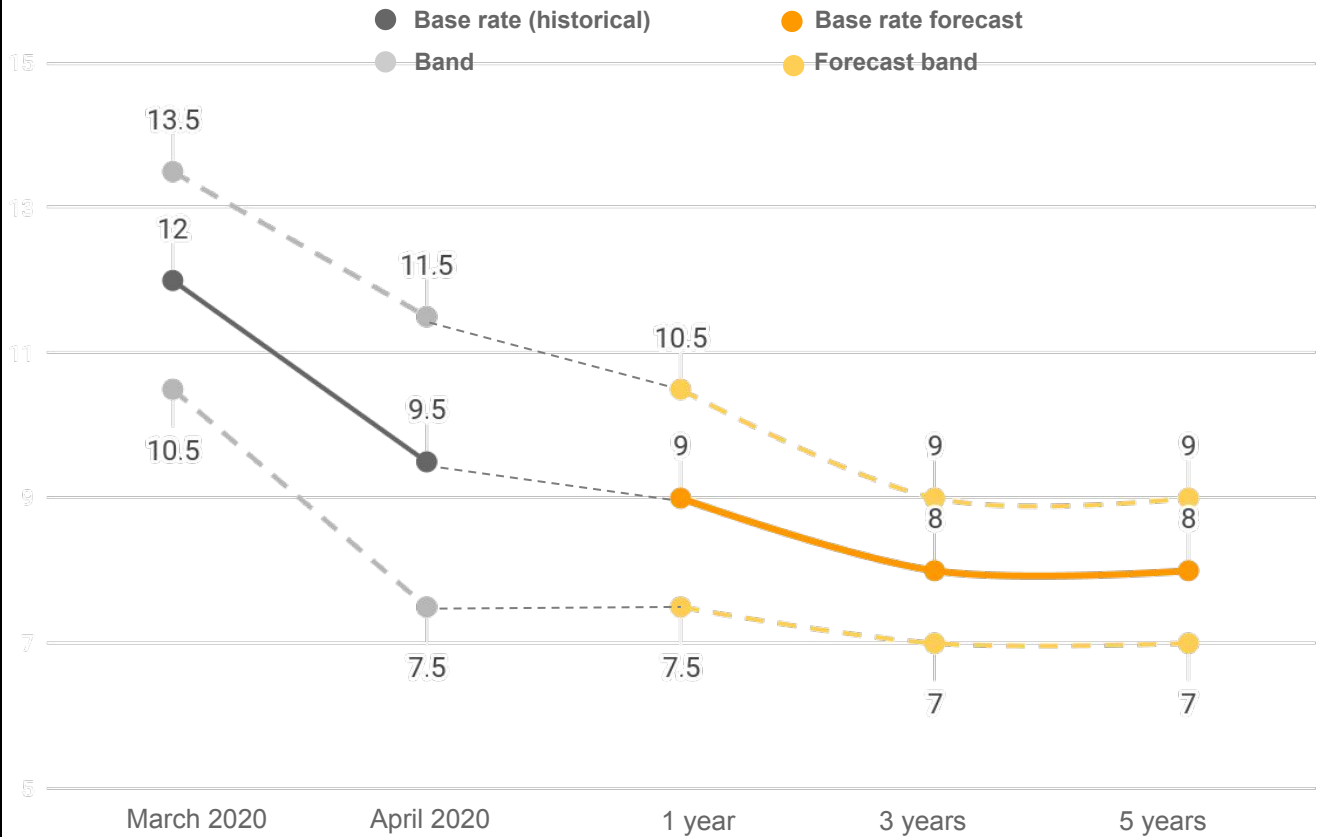
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Taking into account that the real neutral rate in Kazakhstan is estimated at 3%, and in the medium term inflation may tend to the range of 6-8%, the base rate of the National Bank can fluctuate in the range of 9-11%.

Olzhas Tuleuov

NBRK base rate

In your opinion, in what direction will the base rate (%) in Kazakhstan change in the future?



Source: PwC Kazakhstan Macroeconomic Survey, Q2 2020 (forecast values)
NBRK (historical values)

In March of this year, against the backdrop of the events, the National Bank of Kazakhstan decided to raise the base rate to 12.0% in order to stabilize inflation expectations and limit the spread of external shock influence on the financial market. However, in April, the NBK made an extraordinary decision to reduce the base rate to 9.5% per annum and expand the interest rate band to ± 2 pp. This measure was aimed at ensuring financial stability, limiting risks for the economy and its adaptation to the conditions of external and internal environment caused by the COVID-19 pandemic.

According to survey results, in the perspective of one year, most experts predict decrease in the key rate by 0.5 percentage points. These experts' expectations regarding the minimum change in the base rate can be justified and supported by their expectations of inflation growth in the short term. Provided the NBK maintains current policies to contain rising inflation expectations.

“Taking into account that the real neutral rate in Kazakhstan is estimated at 3%, and in the medium term inflation can tend towards the range of 6-8%, the base rate of the National Bank can fluctuate between 9-11%”, Olzhas Tulepov notes.

In the horizon of three years, considering the decrease in inflation expectations, experts expect decrease in the base rate to 8% with a collar of plus or minus 1 percentage points and the rate to remain at the same level for up to 5 years.

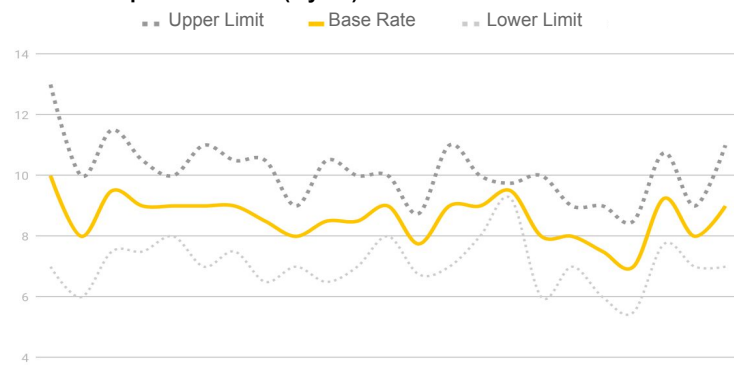
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Sustained economy requires support from the National Bank in the form of softening monetary policy.

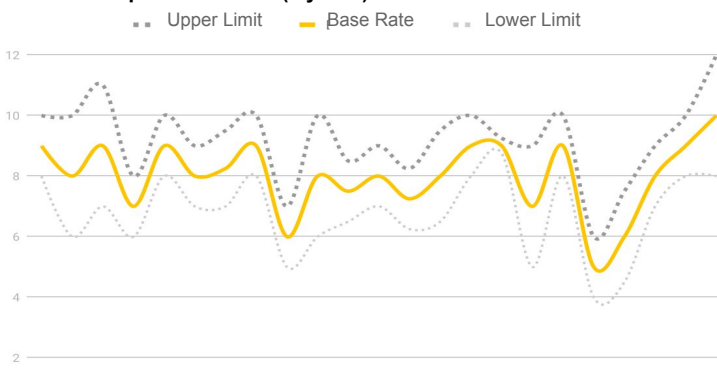
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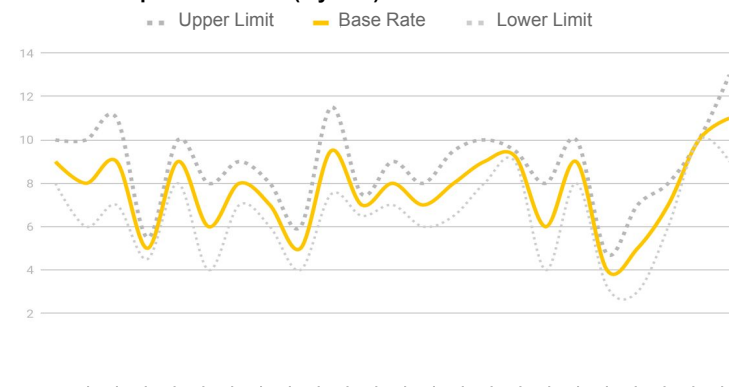
Base rate spread forecast (1 year)



Base rate spread forecast (3 years)



Base rate spread forecast (5 years)



Acknowledgements

The world and economic situation are changing faster than we could have expected. Post-COVID-19 pandemic recovery process will take a long time, and will require in-depth study and innovative solutions to overcome the crisis and stabilize the economy.

We are grateful to each participant in our study for the time taken to complete the online survey and writing the detailed comments. We hope that the result of our joint efforts will contribute to a deeper understanding of the current processes and events taking place in the economy of Kazakhstan.

Special thanks to **Sabit Khakimzhanov, Sjamsu Rahardja (World Bank), Murat Koshenov (Halyk Bank), Talgat Ayupov, Timur Gabasov (Bank CenterCredit), Marzhan Melanich (Centras Securities), Kairat Mynbaev (KBTU), Bauyrzhan Tulepov, Olzhas Tuleuov, Dinmukhamed Shaikakov, EDB, Tsesna Garant, as well as other respondents who wish to remain anonymous.**



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