

Quarterly Macroeconomic Survey

Expert Survey Results
Q3 2020



Important note

This is our second quarterly macroeconomic expert survey among the leading reputable economists (including those having working experience with central banks) and Professors of Macroeconomics, representatives of international development institutions, commercial banks, brokerage companies aimed to obtain a balanced and coordinated view of the most significant factors for the economy of Kazakhstan.

The focus of the survey is on expert forecasts of macroeconomic indicators in the horizon of 1 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 their responses. This survey was conducted confidentially to maximize the objectivity of opinions. Names and positions were only disclosed if so formally permitted by the respondents.





Natalya Lim
Partner,
Advisory services
PwC Kazakhstan

Introduction

The cases of coronavirus infection (COVID 19) caused by SARS-CoV-2 were first registered in Kazakhstan on 13 March 2020. The authorities had been preparing for this infection in advance.

About 6 months have passed since then, many statements were made, reshuffles were carried out in the cabinet, we have suffered a rebound and are expecting a “growth” or a “second wave” this autumn.

Kazakhstan has introduced new statistics on the infected (which includes asymptomatic cases and additionally shows cases of pneumonia).

Are we ready for new realities? Have we realised that it may not be temporary, but will most like last forever?
How will people's habits, doing business change, and most importantly, how will all this impact our economy? What will happen to the Tenge exchange rate by the end of the year and in the medium term (3-5 years)? What inflation rate to expect?

There are more questions, you would say, and you will be right. So follow our publications. Now, please find the experts' expectations of macroeconomics in this second issue.

Sincerely yours,
Natalya Lim



A woman with a backpack is seen from behind, looking towards a modern cityscape with tall buildings and a distinctive white building with a honeycomb facade. The scene is set on a city street with a traffic light and some greenery.

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Overview and survey objectives

Most of the 17 experts involved in the survey provided detailed comments in response to the questions underlying the narrative of this report.

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.

The experts were asked to answer questions regarding the impact of exogenous factors such as COVID-19 on the economy of Kazakhstan. In addition, the respondents were interviewed regarding forecast expectations for BRENT crude price, 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. The horizon was selected for the purpose of the medium-term forecasts.

The survey results are forecasts of key macroeconomic indicators, which often underlie financial and economic models of companies (including commercial banks and investors). These forecasts are commonly 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 experienced situations when the calculation models, regardless of their level of detail and elaboration, failed to provide business with necessary insights to make decisions that could safeguard the company's capital.

We hope that this survey will provide users with a structured, systematic and regularly updated block of data on macroeconomic indicators, based on the best expert estimates in the market. The survey was conducted at the end of August 2020.



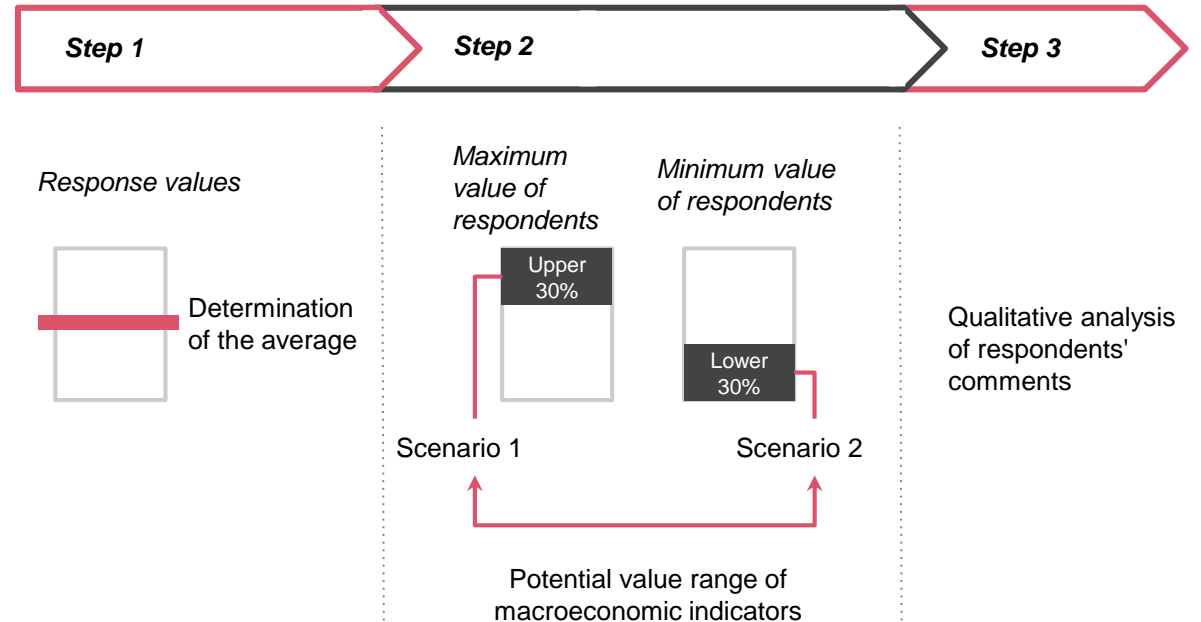
Approach to analysis of survey results

The analysis of respondents' answers to many questions revealed quite significant dissents, which is expected where studies involve experts of different areas (economists, traders, scientists, bankers) who have access to different sources of information.

Consolidation of the opinions covering the most of professional participants of the financial market, and scientific experts and leading economists of Kazakhstan allows predicting some scenarios of development of the economy of Kazakhstan.

For this purpose, PwC Kazakhstan asked respondents to provide where appropriate their vision in terms of minimum and maximum values (oil prices, currency rates, inflation) and applied several approaches to analyze the results.

In addition to the typical averaging of all answers, we have also used the upper 30% in the maximum and the lower 30% in the minimum range responses to determine the best case and the worst case scenarios.



Key findings

Post-COVID-19 economic recovery

59%

of respondents expect a U-shaped recovery scenario

Cf: 83% in Q2

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Oil prices

94%

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

Cf: 96% in Q2

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Exchange rates

41%

of respondents expect Tenge to reach the lowest point of Tenge 450-500 per US dollar during the year

Cf: 39% in Q2

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Inflation (CPI)

71%

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

Cf: 52% in Q2

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NBRK base rate

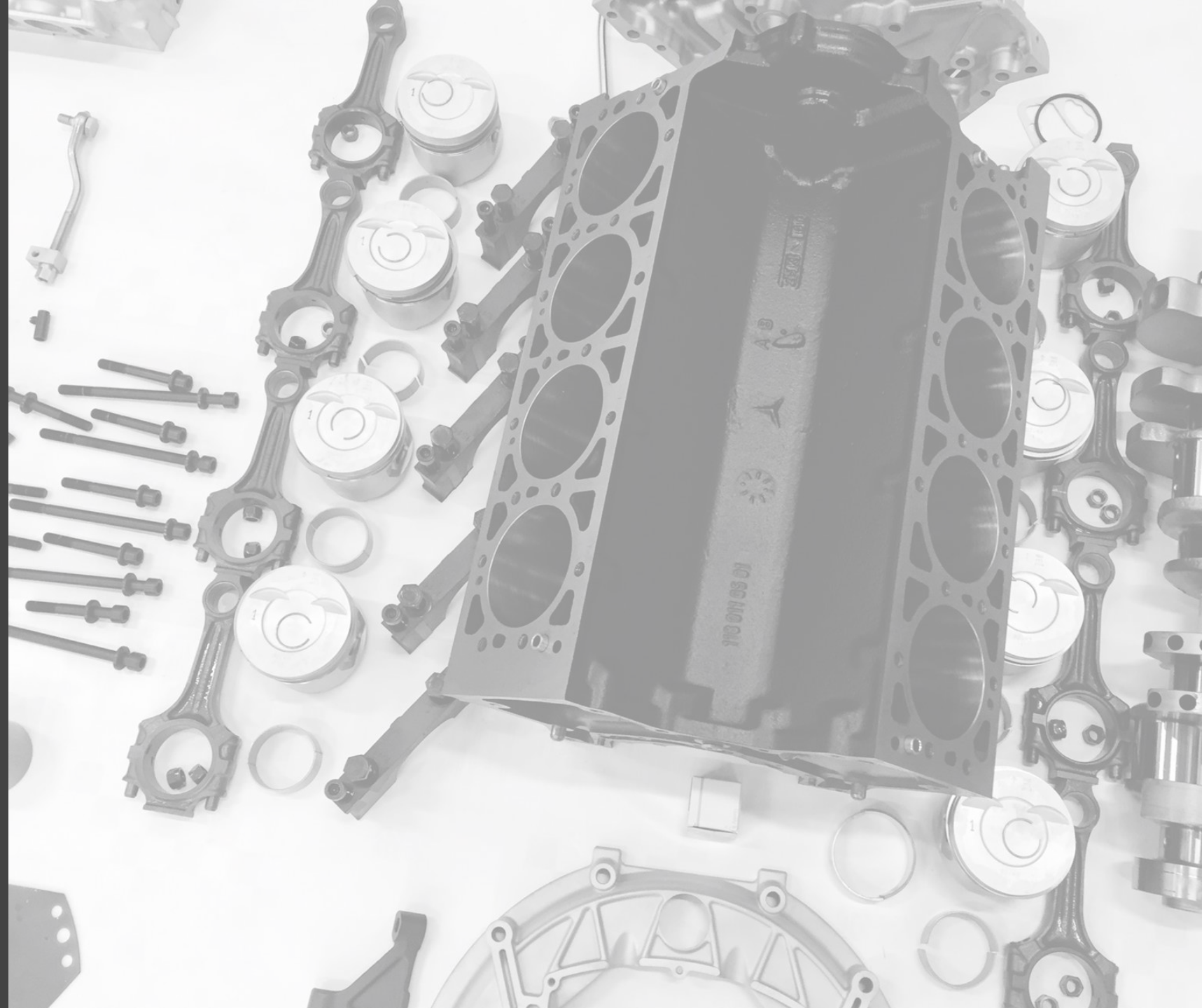
94%

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

Cf: 87% in Q2

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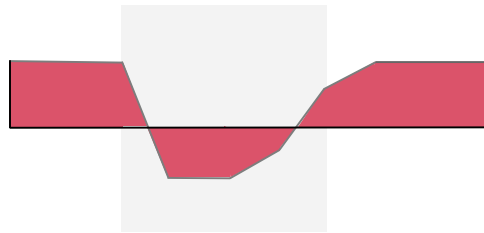
01 COVID-19: Kazakhstan Economy Recovery Scenarios



Economy recovery scenarios

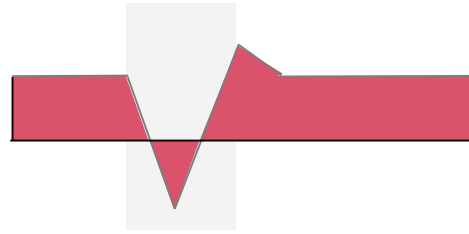
What trajectory, in your opinion, will Kazakhstan's economy follow in the next two years after COVID-19?

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



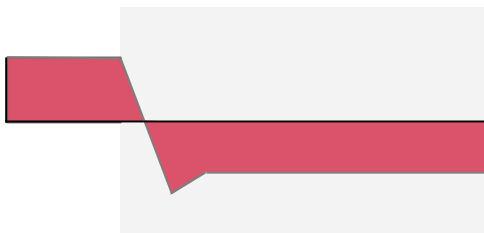
59%

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



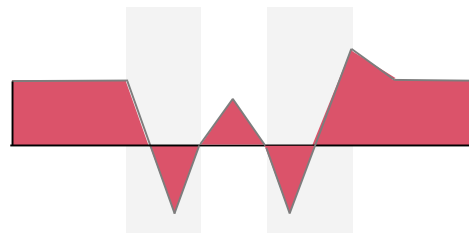
6%

V-scenario (rapid decline and equally rapid recovery)



24%

L-scenario (a steep drop and subsequent depression which will prevent the economy from recovering to the pre-crisis indicators)



12%

W-scenario (a steep recession, rapid recovery followed by a new recession, and further recovery)



A drop in income and demand will result in declining activity level in 2020 and 2021 as compared with 2019; the slowdown in growth will be caused by frictions during the period of structural relocation of resources in response to a shock in the sector structure of supply and demand

- Sabit Khakimzhanov



The current situation with COVID-19, the expected second wave of the pandemic in the autumn imply a longer period of low economic activity in Kazakhstan.

There are still restrictive measures in place that slow down the activity of SMEs. However, government measures to support the SME sector at the local level and the recovery of oil quotations at the global level can support and return the economy to pre-crisis level.

- Marzhan Melanich

Director of Analysis Department
Centras Securities JSC



We know that the US GDP fell by 33% in the second quarter. The relevant figure reported by the government is much lower. There is good reason not to trust it since Kazakhstan's economy is much weaker and measures to boost the economy are less effective

Kairat Mynbayev

ISE, Professor of Economics



In the Q1 2020, the world faced the spread of a new virus and the beginning of COVID-19 pandemic. As a result of the restrictive measures to combat the infection, many countries experienced a sharp decline in GDP and recession.

Baseline scenario for economic recovery

Since the pandemic outbreak, a high level of uncertainty has been observed worldwide, including Kazakhstan, regarding the future economic recovery. Following the expert survey, 59% of the respondents believe the economy of Kazakhstan to restore according to the U-shaped scenario, and the crisis recovery may take a long time due to many reasons. This crisis recovery will be mainly due to the fact that the shock had a serious impact on business activity; and businesses, especially SMEs, will take a long time to recover and adapt to new conditions and search for new opportunities.

59%

of the survey participants expect a U-shaped recovery path.

However, the participants of the Q3 survey have certain concerns that it is still unknown when the vaccine will be invented and medicines will be available in the world. And the trend of social distance and selected quarantine measures are expected to be preserved worldwide along with the regular tightening if the situation gets worse and morbidity increases, which will further impact the term of the economic depression and its subsequent recovery.

24%

of the respondents expect an L-shaped recovery.

Alternative scenario of recovery

As for expectations for the second most likely recovery scenario, 24% of respondents expect an L-shaped economic recovery in the coming 2 years. V-scenario is still mentioned by the respondents as the least probable, only 11% of the survey participants believe this scenario to develop.

“ Scenarios are not alphabetically restricted, and GDP growth is not a measure of health and economic sustainability, especially for Kazakhstan

- Sabit Khakimzhanov

02

BRENT Oil Price Forecasts

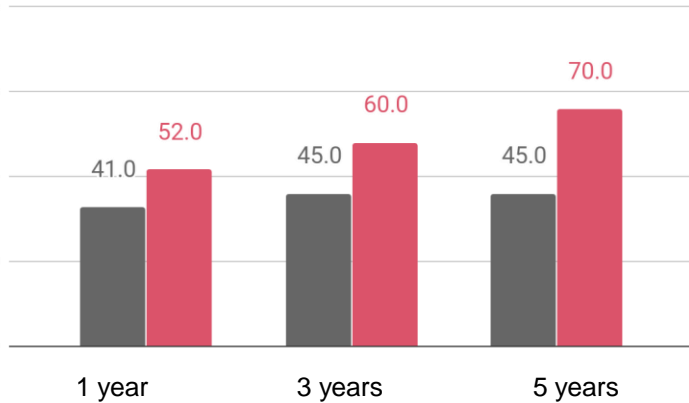


Oil price

What will be the price in USD of BRENT oil per barrel in the following periods?

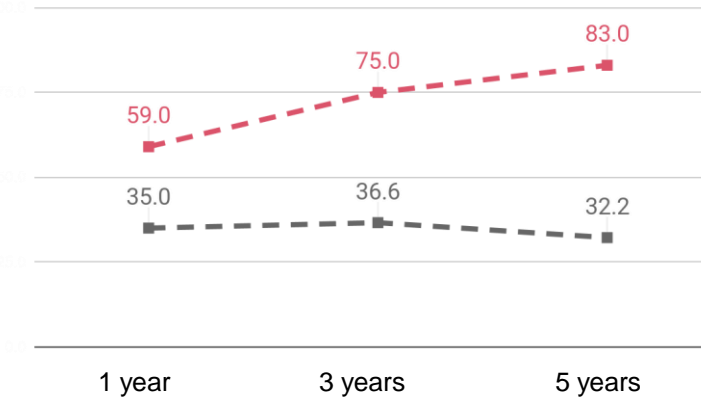
Oil price forecast

■ Median of minimum values ■ Median of maximum values



Upper and lower boundaries for oil price forecasts

■ Lower 30% of minimum values ■ Upper 30% of maximum values



Note: price is in US Dollars per barrel.
Source: PwC Kazakhstan Macroeconomic Survey, Q3 2020



The oil market is long-term efficient, with the clearing price of USD 40-60 per barrel, high volatility and weak mean reversion.

- Sabit Khakimzhanov



My choice is explained by the fact that, after the pandemic, the demand for energy sources will begin to recover since economic activities in the world will resume, this will be also facilitated by the restriction (control) of production by the main suppliers of raw materials. However, we should also keep in mind alternative energy sources as practice has shown that a dream born 20 years ago may turn into a performing project.

- **Dinmukhamed
Shaikakov**





The recovery of global demand for oil and reduction of investments in new fields will allow reaching the pre-crisis indicators in the medium term

- **Arman Bistibekov**

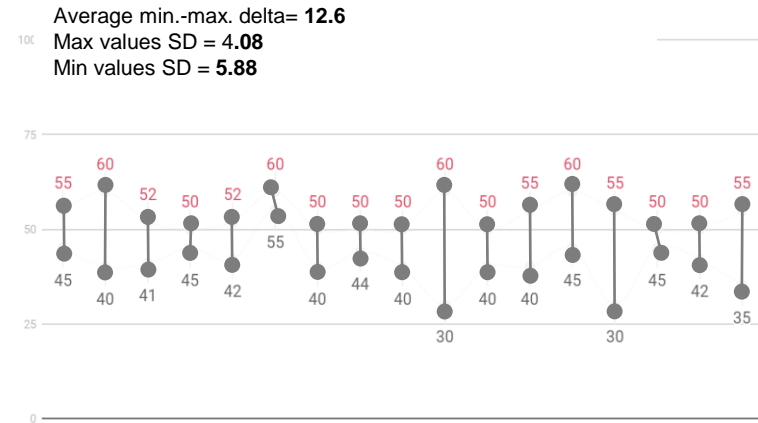
The vast majority of Q3 2020 survey participants forecasted quite wide ranges of oil prices between the expected minimum and maximum values: in the horizon of one year, the average delta = USD 12.6; in the 3-year horizon, the average delta = USD 18.2; and in the 5-year horizon, the average delta = USD 21.8. Global COVID-19 pandemic and, this time, particularly, the second wave expected in the autumn 2020 remain a source of high uncertainty in forecasting both supply and demand on the hydrocarbon market.

Some economists are more optimistic expecting the demand for energy sources to restore as a result of the resumed economic activity in the world, which will be also facilitated by the restriction (control) of production by the main suppliers of raw materials (OPEC+). It is however recommended to keep in mind renewable energy sources that could potentially influence oil prices in the future.

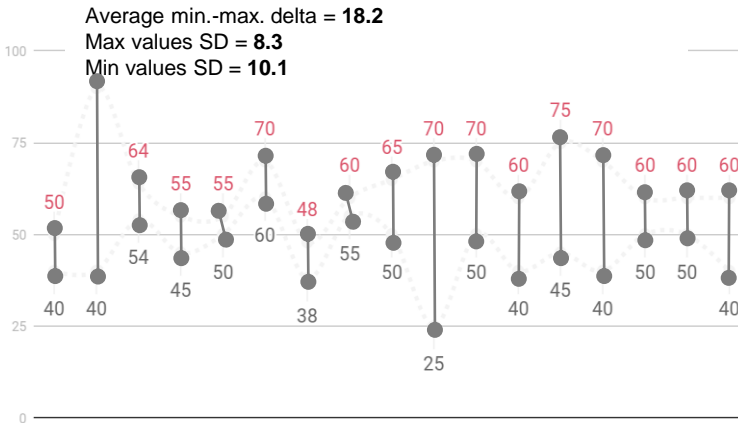
Generally, as compared with the previous quarter, the respondents forecast higher values of BRENT crude price. On average, in the Q2 the respondents expected maximum prices at the level of USD 50 per barrel in the one-year horizon, and in the Q3 their expectations increased up to USD 60 per barrel. The similar trend is observed within three and five years.

However, the OPEC+ report dated 12 August this year shows a more concerned position, saying that the coronavirus pandemic will impact the global oil demand more than expected. In addition, the experts involved assume that production will increase by 7 mln. bpd in 2021.

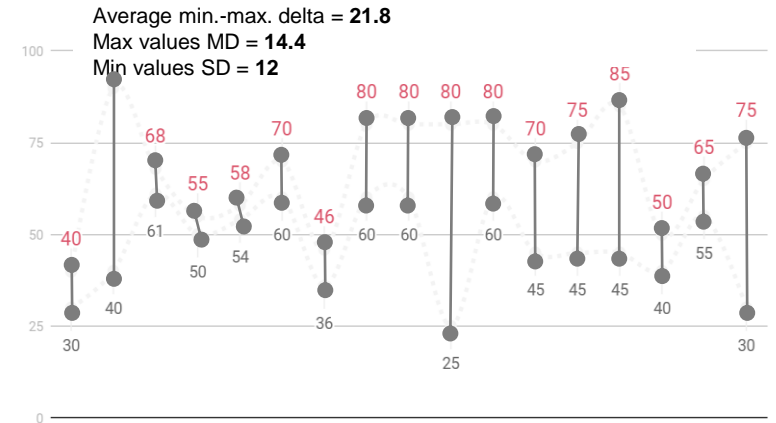
Spread of answers re min/max oil price (1 year)



Spread of answers re min/max oil price (3 years)



Spread of answers re min/max oil price (5 years)



Note: price is in US Dollars per barrel.
 Source: PwC Kazakhstan Macroeconomic Survey, Q3 2020



The recovery of demand for raw material in Asia and potential further incentives in the USA may support the commodity markets. Market players are still focused on the news related to COVID-19 spread since the continually growing morbidity worldwide raise concerns that the growth rate of global oil production may exceed the demand, given the second phase of the OPEC+ deal (effective from 1 August), which assumes a partial recovery of oil production – by 2 mln. bpd.

Marzhan Melanich

Director of Analysis Department
Centras Securities JSC

03

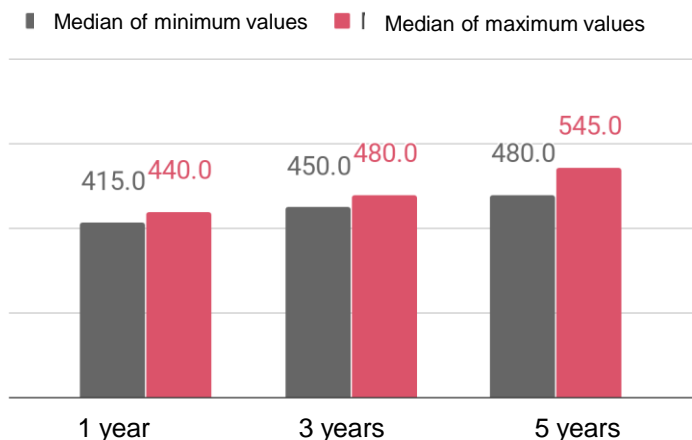
Exchange Rate Forecasts



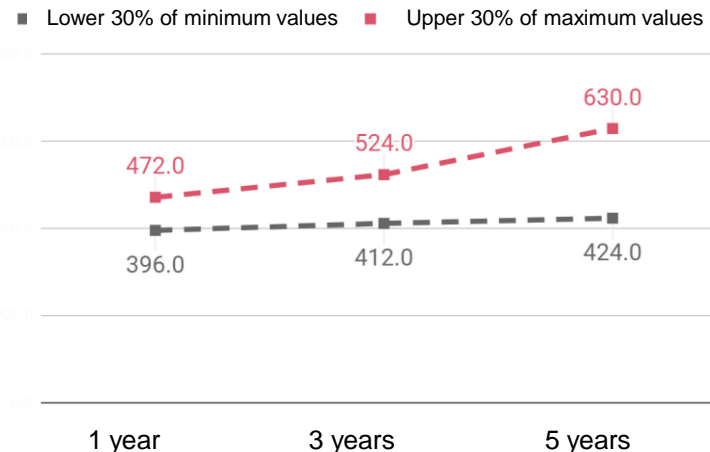
US Dollar to Kazakhstani Tenge rate

What are your expectations of the USD/Tenge dynamics for the next periods?

USD/KZT forecast rate



USD/KZT forecast upper and lower boundaries



Source: PwC Kazakhstan Macroeconomic Survey, Q3 2020

The majority of survey respondents are inclined to believe that Tenge will continue to weaken against US Dollar in the forecast period. At the same time, according to the Q3 survey results, given new data, the respondents predict a slightly greater weakening of the Tenge/USD exchange rate than in the Q2 2020. In the one-year horizon, experts anticipate the rate of USD/KZT to vary within 415-440 Tenge (Q2: KZT 400-440 per USD). In the 3-year horizon, the exchange rate is expected to reach Tenge 450-480 per USD (last quarter: Tenge 420-470 per USD). And, finally, in the 5 year horizon, the exchange rate is expected to range from 480 Tenge to 545 Tenge per USD (last quarter: Tenge 450-500 per USD).

Reasons driving respondents in their estimates of maximum values (Tenge weakening) include pressure on the rate of hidden (latent) and deferred inflation, budget deficit, and import dependence of the economy.

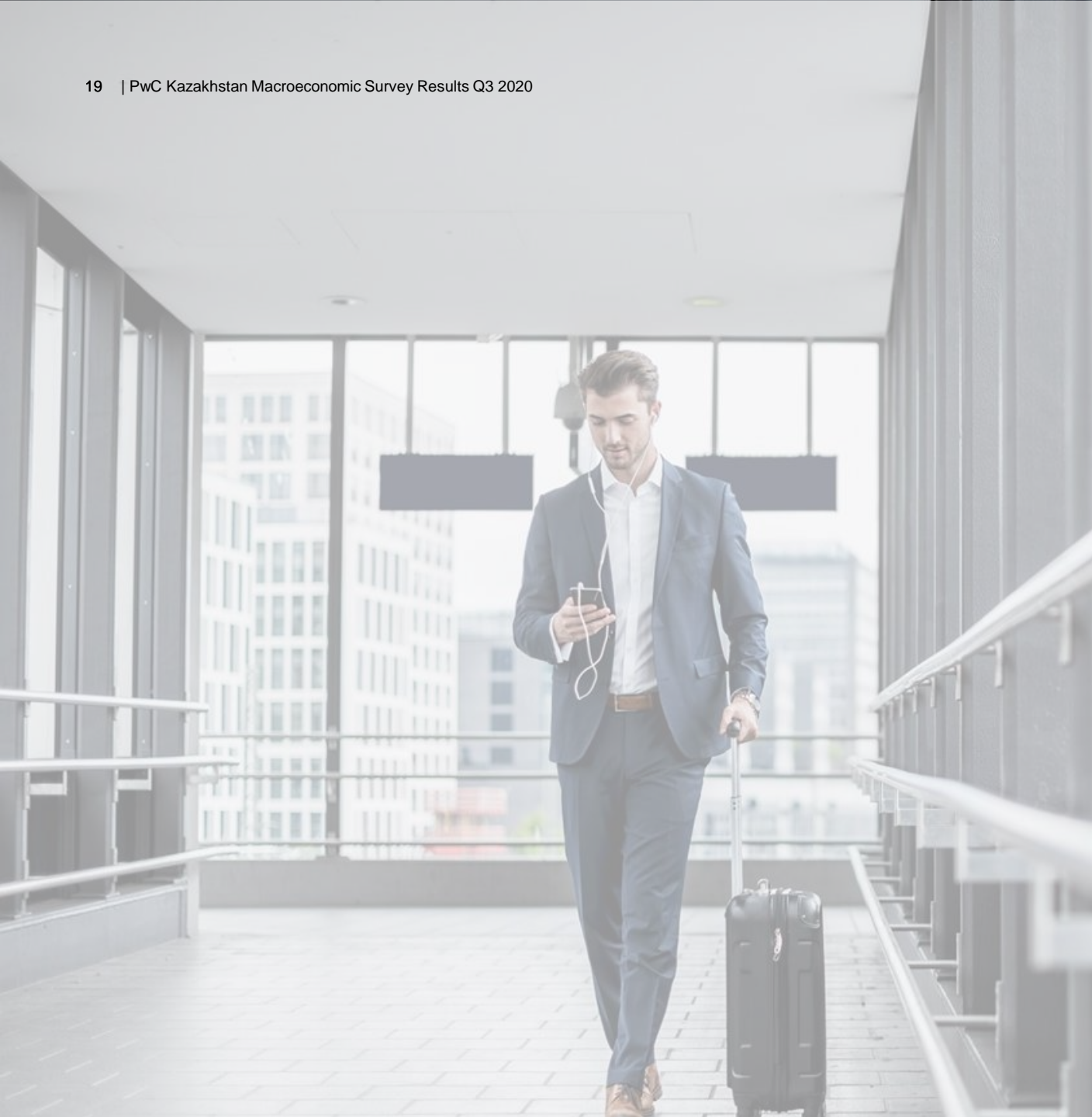
Making estimates of minimum values (Tenge strengthening), respondents were mainly guided by considerations of social stability, which requires a smooth fiscal policy (that can be financed by means of the National Fund).



Formally, similar figures can be obtained by extrapolating the past dynamics of Tenge. Informally, there are ongoing economic problems behind it: the one-sided economy and the lack of an effective industrial policy

Kairat Mynbayev

ISE, Professor of Economics



Growing money supply, accelerating inflation, import dependence of the economy, etc., - all these factors have an adverse impact on the dynamics of Tenge exchange rate. NBRK is currently applying measures to constrain the USD strengthening such as: operating limitations of exchange offices/ stock exchanges, tightening of the currency legislation, pseudo-flexible exchange rate regime, “burning” money of the National Fund, implementation of a special bidding regime. It remains to be seen how long these measures will have an effect, still we have to keep in mind the more you compress the spring, the harder it pushes back

- **Dinmukhamed
Shaikakov**



The lack of further potential for lowering of the CBR Key Rate, and risks of sanctions may encourage foreign investors to exit the Ruble state debt, which, in turn, may adversely affect the Ruble exchange rate

- **Arman Bistibekov**



Accumulated inflation differential, 1.0 – 2.0% per annum

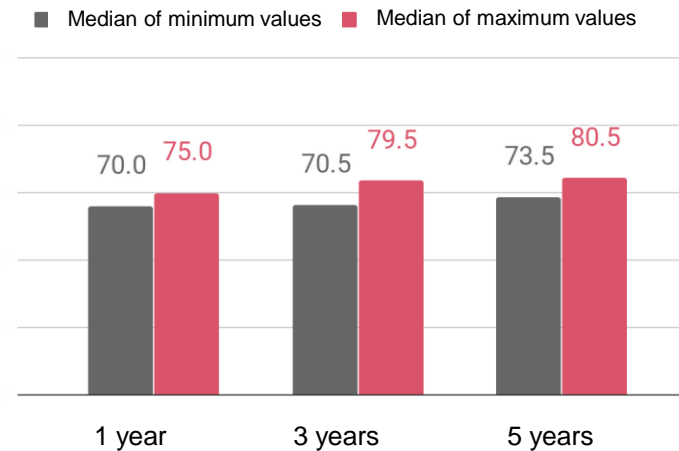
[Note of PwC: the Ruble will probably weaken by the size of the differential]

- **Sabit Khakimzhanov**

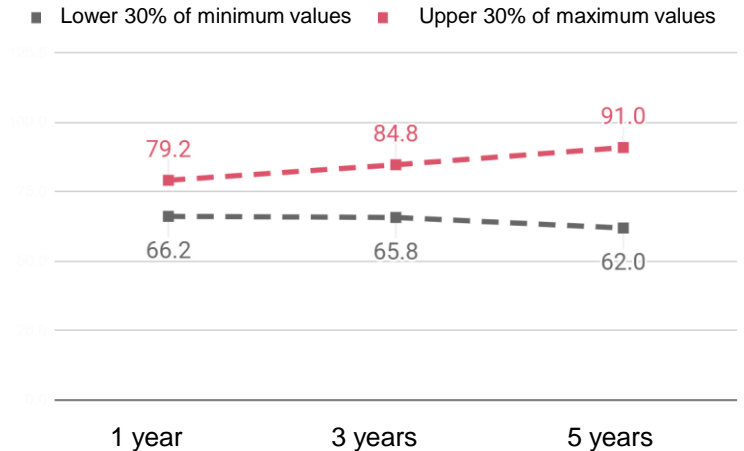
Russian Ruble to Kazakhstani Tenge exchange rate

What are your expectations of the USD/Russian Ruble dynamics for the next periods?

USD/RUB forecast rate



USD/RUB forecast upper and lower boundaries



Source: PwC Kazakhstan Macroeconomic Survey, Q3 2020

Just like the USD/KZT exchange rate, the USD/RUB rate is forecasted to show higher devaluation of the Russian currency in the future. The last survey's expectations were at the level of RR 65-75 per USD; this quarter the expected range of the exchange rate is RR 70-75 per USD. The respondents expect the RUB/USD exchange rate to be at the level of 68-75 in three years, the current-year survey's expectations vary within 70.5-79.5. And, finally, last quarter the experts predicted the rate to reach 70-79 RR per USD, whereas in this quarter it ranges within 73.5-80.5.

The Ruble's strongest position is predicted at the level of RR 66 per USD in the one-year horizon, and the weakest one approximates RR 91 per USD. As for driving factors, the opinions are divided. Some respondents proposed a likely recovery of oil quotations and external incentives as a factor to influence the Ruble strengthening at the end of this year, others noted the accumulated inflation differential and geopolitical risk as adverse factors driving the Ruble exchange rate.

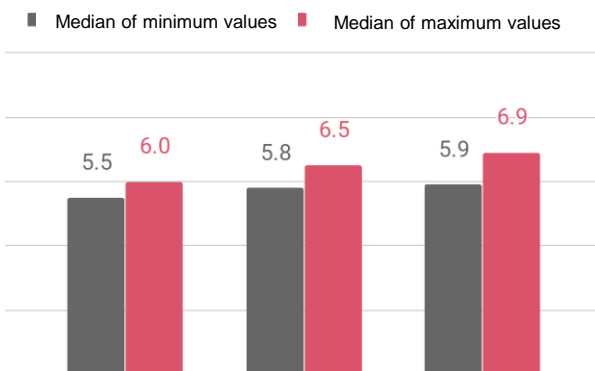
US Dollar to Russian Ruble exchange rate

What are your expectations of the USD/Russian Ruble dynamics for the next periods?

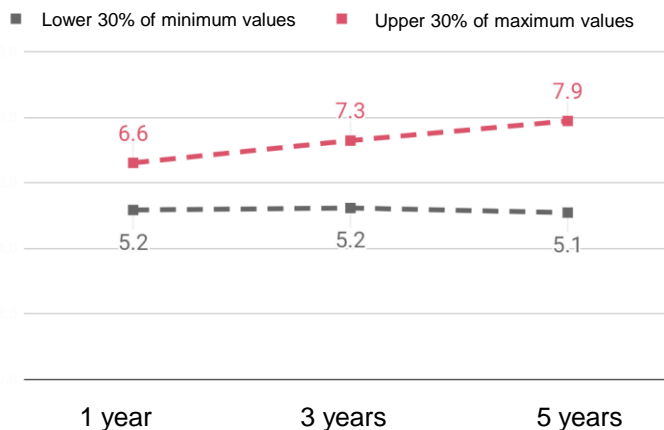
5 KZT/RR

Tenge's strongest position towards Russian Ruble in the 1-year horizon forecasted by the respondents is Tenge 5 per Ruble, in addition, the maximum devaluation of Tenge is expected at the level of Tenge 7 per Ruble

RUB/KZT forecast rate



USD/RUB forecast upper and lower boundaries



Source: PwC Kazakhstan Macroeconomic Survey, Q3 2020

The respondents' forecasts for the RR/KZT exchange remain almost unchanged. This quarter as compared with the last survey, the difference is no more than 0.1-0.2 Tenge. Thus, the respondents do not expect great shock in the behaviour of this currency pair.



The span I mentioned is relatively stable as I see the improvement in the economic situation in Russia, despite distortions in the Russian policy and Western sanctions

Kairat Mynbayev

ISE, Professor of Economics

04 NBRK Inflation and Base Rate Forecasts

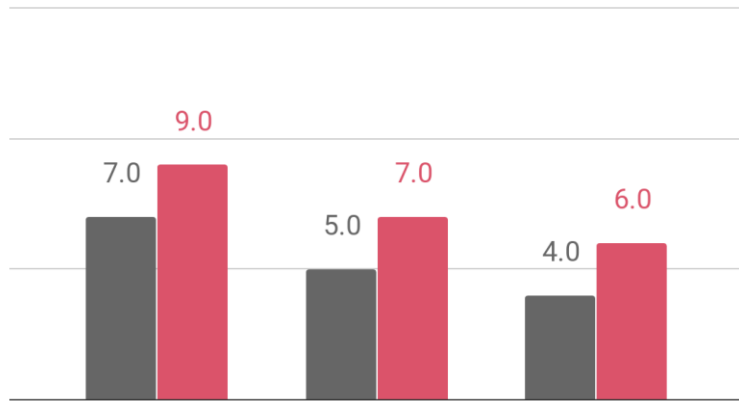


Consumer price index

What expectations of inflation (in particular, by the consumer price index - CPI) in Kazakhstan are the most likely for the future period?

CPI forecast level

■ Median of minimum values ■ Median of maximum values



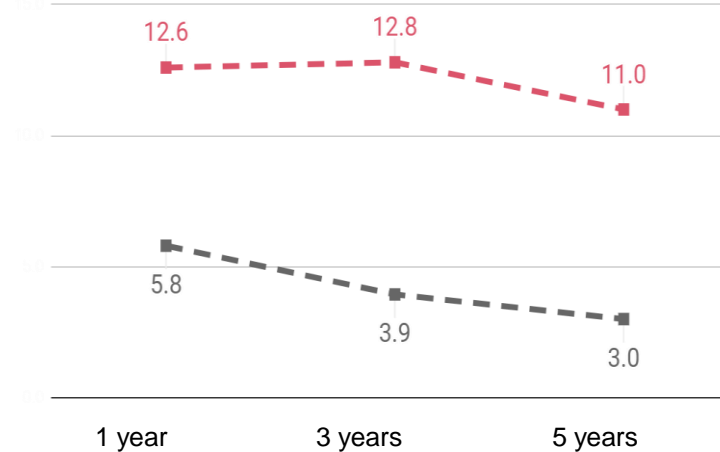
Source: PwC Kazakhstan Macroeconomic Survey, Q3 2020

More than **70%**

of the respondents expect the inflation rate to increase within one year

Upper and lower forecast boundaries of CPI

■ Lower 30% of minimum values ■ Upper 30% of maximum values



More than **85%**

of the respondents expect a gradual decrease in the inflation rate in the long run, up to 5 years



The cumulative latent inflation in regulated goods and services will have a deferred effect, either on prices or, worse, on the quality of infrastructure services and performance.

- Sabit Khakimzhanov



The financial position of Kazakhstan will deteriorate. For the first half of this year, the transfer from the National Fund has reached 3.5 billion; and it had been large even before the government announced the support package. Low oil revenues, declining economic activity and these transfers are likely to result in devaluation in the next three years. It will cause inflation to rise.

Kairat Mynbayev

ISE, Professor of Economics

Since March this year to date, a downward trend in economic activity and increasing inflation have been observed in Kazakhstan. The situation is primarily due to the two-fold drop in oil prices and COVID-19 pandemic. Based on the seven months of 2020, the inflation in Kazakhstan was 7.1%. The overall annual inflation is mainly impacted by the dynamics of prices for food products, which increased by 11.3% over 12 months.*

In the course of the study, the survey showed that more than 70% of the respondents expect the inflation rate to increase within one-year horizon. This forecast is due to the decreasing revenues of the oil sector, as a result of quarantine measures and reduced demand for petroleum products worldwide. Further, the inflation rate is influenced by the continued closure of borders of Kazakhstan's trading partners, which entails an increase in the cost of imports and a slowdown in the business activity of companies engaged in the supply and sale of goods from the countries of near and far abroad.

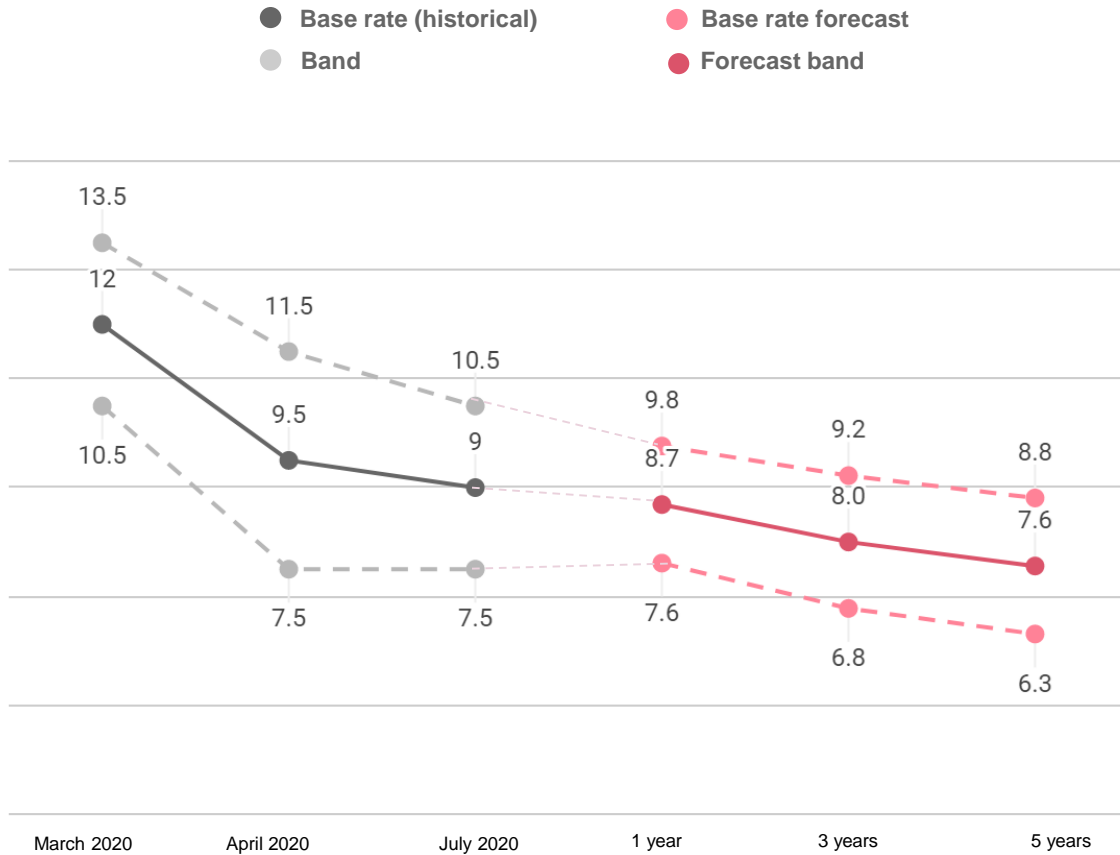
Although the inflation is expected to rise over a one-year horizon, the long-term forecasts are, on the contrary, more optimistic and more than 85% of the respondents expect a gradual decrease in the inflation rate in 3-5 years. In the three-year forecast period, the experts predict the inflation to decrease by 1.3% on average. In its turn, over the 5-year horizon, 70% of experts expect a gradual decrease in the inflation and other 30% forecast the inflation to remain unchanged.

Based on the comments provided within the study, it can be noted that the experts mainly associate short-term inflationary risks with wide-scale tax incentives and the latent inflation accumulated for prior periods. It should be also noted that those risks will reduce in the long run, which will result in stabilisation of the inflation in future.

* JSFC data, August 2020

NBRK Base Rate

What do you think are the most probable expectations for the NBRK Base Rate for the next periods?



Source: PwC Kazakhstan Macroeconomic Survey, Q3 2020 (forecast values)
NBRK (historical value)



Inflationary risks do not allow the National Bank to be “bolder” to decrease the base rate at the moment

- Arman Bistibekov



I believe the regulator should take supporting measures, such as decreasing base rates, to facilitate the economic recovery..

Marzhan Melanich

Director of Analysis Department
Centras Securities JSC



After a rather unexpected decrease in the base rate in July this year, we can expect a reduction in the rate down to 8.5% and a narrowing of the band to +/- 1.0% over the 12-month horizon.

Murat Koshenov

Deputy Chairman of the Management
Board
Halyk Bank



At the regular meeting in July this year, the National Bank of the Republic of Kazakhstan decided to lower the base rate to 9.0% and narrow the interest rate band to +/- 1.5 p.p. Following the raise in the base rate up to 12.0% in March of this year, the actions of the National Bank showed the trend of a gradual decline of the base rate by 0.5 p.p. once a quarter. This measure is intended to ensure financial stability, limit risks to the economy and adjust it to the external and internal conditions caused by the COVID-19 pandemic. In turn, it is also due to the weakening of pro-inflationary risks and a stronger contraction in economic activity in the first half of 2020.

Based on the survey results, most experts predict the downward trend of the key rate to continue over the next year, with an average decrease by 0.3 – 0.5 p.p. These expert forecasts of the minimum change in the base rate may be reasonable and supported by their expectations of an increase in inflationary risks in the short run.

"After a rather unexpected decrease in the base rate in July this year, we can expect a reduction in the rate down to 8.5% and a narrowing of the band to +/- 1.0% over the 12-month horizon", Murat Koshenov added.

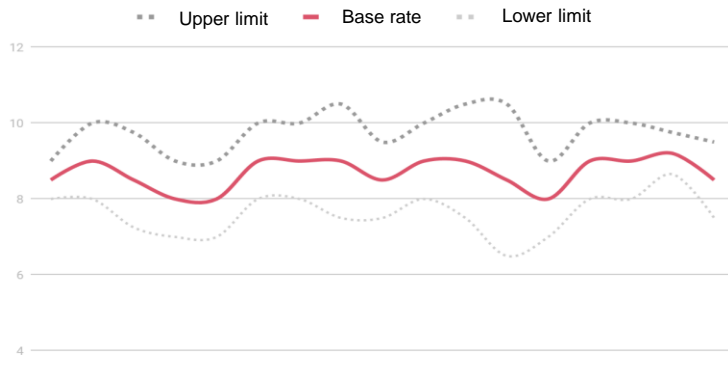
Over the 3-year horizon, given the reduction in inflationary risks, the experts expect the base rate to decrease down to 8% with the collar of +/- 1 p.p. and minimum reduction of the rate in future periods.



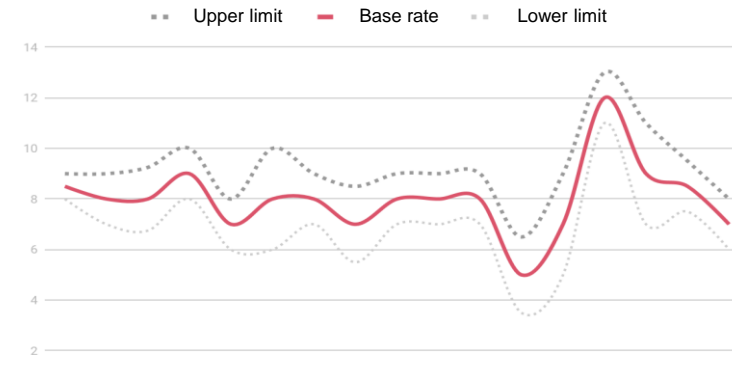
Given that the economy will move according to the L-shaped scenario in the next 5 years, within the framework of the monetary policy, the NBRK will take any measures to prevent inflation and will raise the Base Rate.

- **Dinmukhamed Shaikakov**

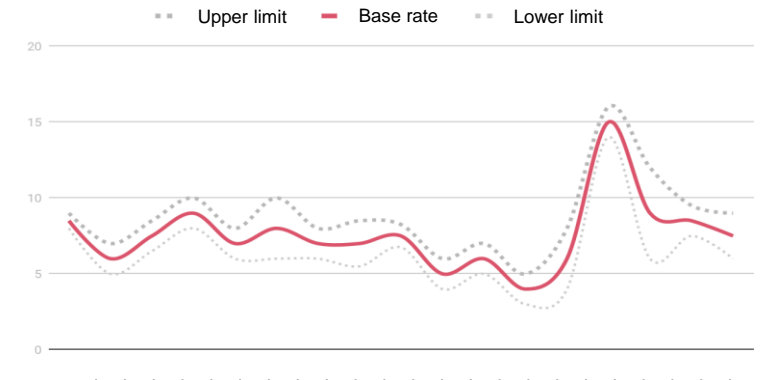
Base rate spread forecast (1 year)



Base rate spread forecast (3 years)



Base rate spread forecast (5 years)



Source: PwC Kazakhstan Macroeconomic Survey, Q3 2020

Acknowledgements

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

We would like to thank each participant for their time spent for our online survey and their detailed comments. We hope that our joint efforts will contribute to a deeper understanding of the current processes and events in the economy of Kazakhstan.

Special thanks are due to **Sabit Khakimzhanov, Murat Koshenov (Deputy Chairman of the Management Board, Halyk Bank), Talgat Ayupov (Chairman of the Management Board, Halyk Finance), Timur Gabassov (Director of the Treasury Department, Bank CenterCredit), Marzhan Melanich (Director of the Analysis Department, Centras Securities), Kairat Mynbayev (ISE, Professor of Economics), Bauyrzhan Tulepov (Director of the Analytical Studies Department, First Heartland Securities), Olzhas Tuleuov (Vice President, WDC), Dinmukhamed Shaikakov (Chief Dealer of the commercial bank), Arman Bistibekov, VTB Bank, World Bank, ADB, EDB, and other respondents who prefer to preserve their confidentiality.**



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