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1Q2019 State budget

Abstract

The recovery in oil prices, the tenge exchange rate and relatively good economic growth at about 4% contributed to maintaining a relatively stable state of the budget. The deficit of the consolidated budget in Q1 2019 was insignificant at -0.3% of GDP.

In the reporting quarter, state budget revenues increased by 10%, almost all taxes showed a double-digit growth rate. The exception were personal income tax revenues, which showed a decline despite strong wage growth according to statistics. The expenditures of the state budget increased by 16% yoy, where there was a strong increase of 10-20% for the main articles.

Incomes of the the National Fund in the first quarter of 2019 were only by 9% lower than exemptions from it, but in general, the assets of the National Fund for the year, according to our forecast, should increase moderately, although in relative terms they will be below 40% of GDP.

Measures to support the banking system and the economy contributed to maintaining the non-oil budget deficit at a level of -1.7% of GDP in the first quarter of 2019 (-1.5% of GDP in 1Q2018), which indicates continued dependence on the oil sector. The size of the non-oil deficit, we believe, could be close to -10% of GDP in the current year.

The increase in debt obligations in the current year will lead to an increase in government debt to almost 20% of GDP, which will more than double from the pre-crisis level. Nevertheless, the size of government debt in Kazakhstan in comparison with developing countries is still at a low level, in addition, there is a substantial reserves of the National Fund.

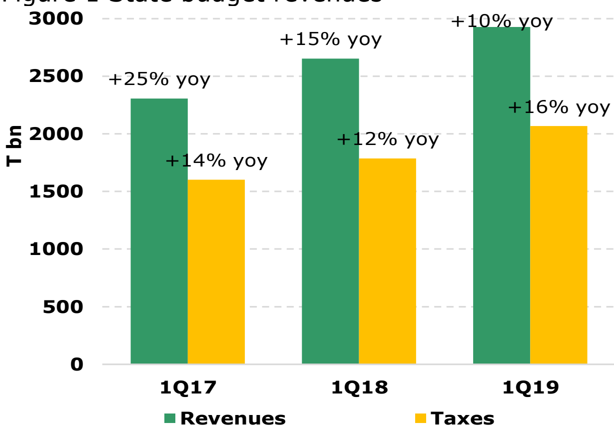
State budget

State budget revenues[1]

State budget revenues in the first quarter of 2019 increased by 10% yoy to T2.9 trillion (Fig. 1), excluding transfers from the National Fund, the increase was 15% yoy, which is associated with a slight reduction in the use of transfers at the beginning of the current year. Tax revenues increased by about 16%, which was higher than growth by 12% in 1Q18. Transfers from the National Fund amounted to T790 billion (Fig. 2) and decreased by about 1% compared to the same period of 2018. The breakdown by tax revenues show growth in CIT +19% yoy, Individual income tax (IIT) -3% yoy, social tax +7% yoy, VAT +27% yoy. At the same time, VAT revenues for goods and services produced in Kazakhstan increased by 46% yoy due to a low reading in the same period last year and an increase in oil refining, an increase of 13% was observed in imports.

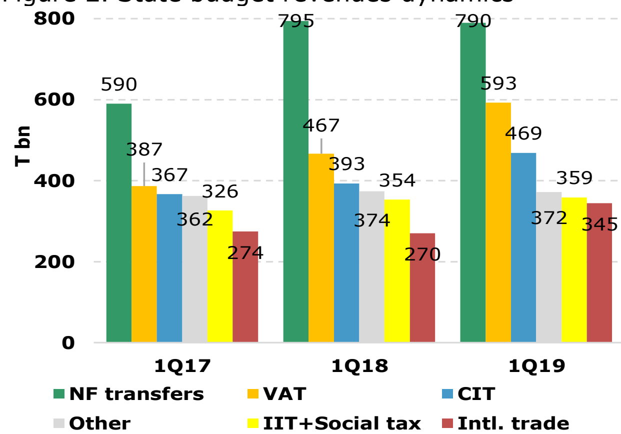
As we already noted in the macroeconomic review for the first quarter of 2019, the decline in revenues for personal income tax by 3% yoy contradicts data on the growth of nominal wages by 10% in the first quarter of 2019, which raises doubts in the growth of wages based on official statistics. The growth rate of VAT revenues (+27% yoy) is ahead of the rate of increase in nominal trade turnover (19% yoy). Significant growth in corporate income tax revenues by 19% yoy partly reflects their weak growth by 7% in 2018, caused by a decrease in revenues from banks and mining companies, while the economy showed a good growth of 3.8% yoy in the first quarter 2019.

Figure 1 State budget revenues



Source: MinFin RK

Figure 2. State budget revenues dynamics



Source: MinFin RK

State budget expenditures

The expenditures of the state budget in the first quarter of 2019 increased by 16% to T4.3 trillion, slightly ahead in growth over the same period last year with an indicator of +14% yoy. The increase in government spending was due to an increase in social spending and wages, indicated among the measures to improve the welfare of the population.

Expenditures on education, health care and culture increased by 12% compared with the previous year. In turn, social security expenditures increased by almost 20% yoy, as a result the share of these expenditures in total state budget expenditures increased to 28% from 27% in 2018. (Fig.3,4). The outpacing growth of social expenditures of the budget helped to smooth out the negative impact of the depreciation of the national currency and inflation in 2015-2017, when real wages fell by 5% cumulatively, while pensions increased by 7% in real terms.

Financing of public services, including defense, public order and others, grew by almost 20% yoy. The growth is mainly caused by a sharp increase in defense spending by 25% yoy. However, for the whole year a more modest increase of 18% yoy is planned for 2019.

[1] Republican plus local

Spending on the economy grew by 15% yoy, include such items as: agriculture, infrastructure, industry, housing and utilities, etc. The highest increase in costs at a level above 40% was on infrastructure, which is due to the implementation of the "Nurly Zhol" state programs as well as the fuel and energy complex and subsoil use. Outlays on agriculture fell by 9% yoy in the first quarter, but according to the plan for the whole year the growth will be 17%. After the transport industry, the agricultural budget is the largest among the rest of the economy and reaches half a trillion tenge in the current year.

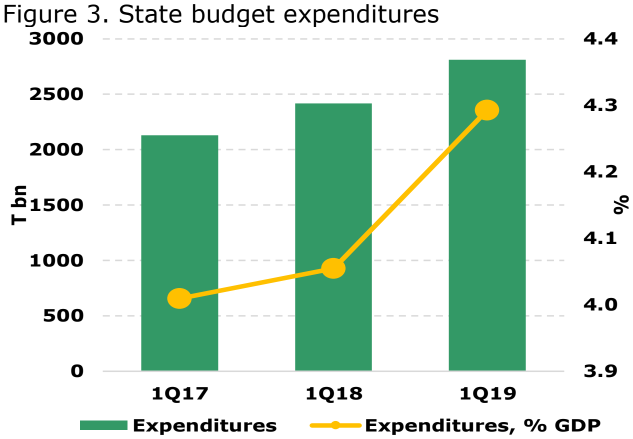
Under the article "Debt servicing," costs increased by about 18% yoy. This was affected by the weakening of the tenge in annual terms, given that more than a third of the public debt accounted for foreign loans. Note that the share of debt servicing costs reaches 5% of the budget and has more than doubled since 2013 due to an increase in government loans and high interest rates in the domestic debt market.

In the budget category "Budget Loans", the costs amounted to T104 billion. The main items are loans to the Agrarian Credit Corporation to support agribusinesses (T60 billion) and loans to the HSCB in the amount of T28 billion to implement housing programs. Funds were also allocated for the development of entrepreneurship, employment, etc.

In the budget category "Acquisition of financial assets", the costs reached T105 billion (T27 billion in 1Q2018). An increase was made in the capital of state-owned companies in the space, infrastructure and agro-industrial sectors.

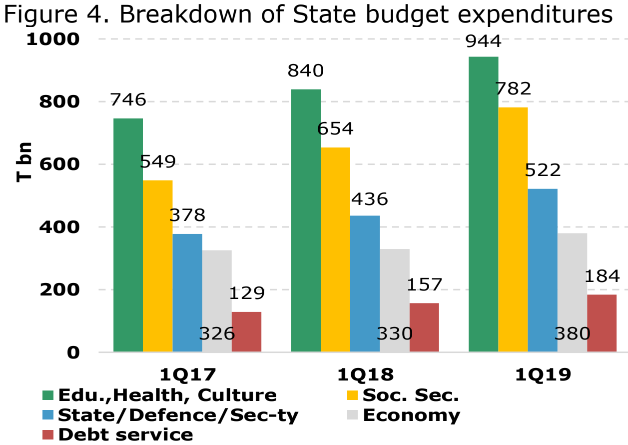
The state budget deficit (excluding the National Fund) in the first quarter of 2019 amounted to T94 billion against a surplus of T88 billion in 1Q2018. Note that the data for the first quarter are volatile and not sufficiently representative. In general, for the year the state budget deficit is planned at the level of T1.4 trillion or 2.1% of GDP, with an increase from 1.4% of GDP in 2018 due to the upward revision of government spending.

Figure 3. State budget expenditures



Source: MinFin RK

Figure 4. Breakdown of State budget expenditures



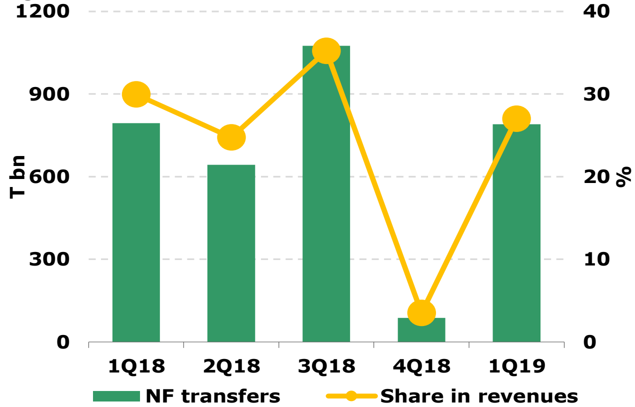
Source: MinFin RK

National Fund

Tax revenues to the National Fund in the first quarter of 2019 increased by 55% yoy to T1 trillion, which was affected by the increase in the oil price in tenge by 10% yoy due to the weakening of the national currency by 14% yoy, which more than compensated for the reduction of oil price to $64 per barrel from $67 in the same period last year. In addition, revenues from CIT increased 74% yoy, revenues from the share of the Republic of Kazakhstan in production-sharing agreements increased by 53%, revenues from the rent tax on exports and bonuses increased by 10%, a decrease was observed in excess profit tax by 1%.

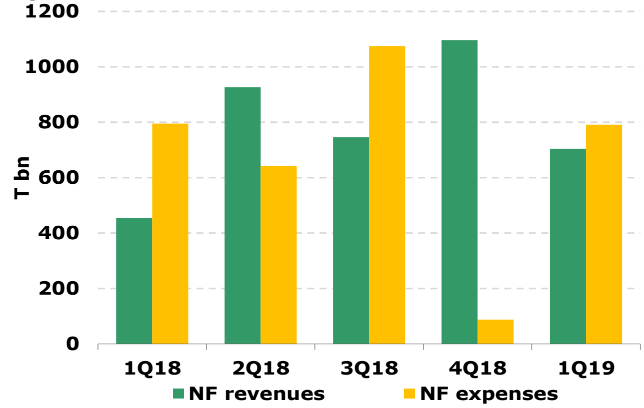
The use of funds of the National Fund in the first quarter of 2019 amounted to T0.8 trillion, with an inflow of T0.7 trillion. As part of the increase in government spending this year, the target transfer was introduced at T370 billion, and the guaranteed transfer has increased by T250 billion in the amount of T3.1 trillion against T2.6 trillion in 2018. Due to the increased use of National Fund funds, its assets in the current the year is likely to increase only slightly, and its share in GDP will be below 40% (43% of GDP in 2018).

Figure 5. National Fund transfers



Source: MinFin RK

Figure 6. National Fund flows

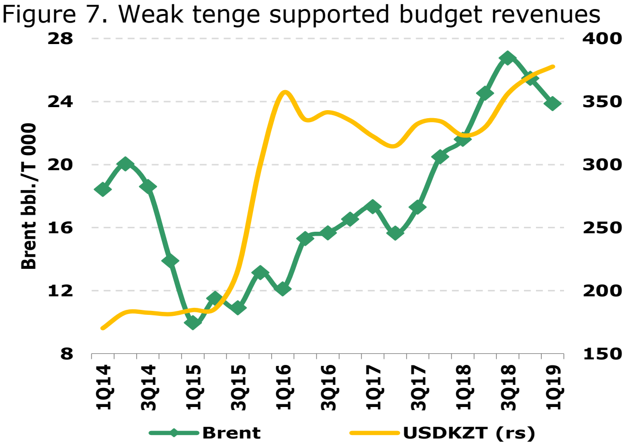


Source: MinFin RK, NBRK

Consolidated budget

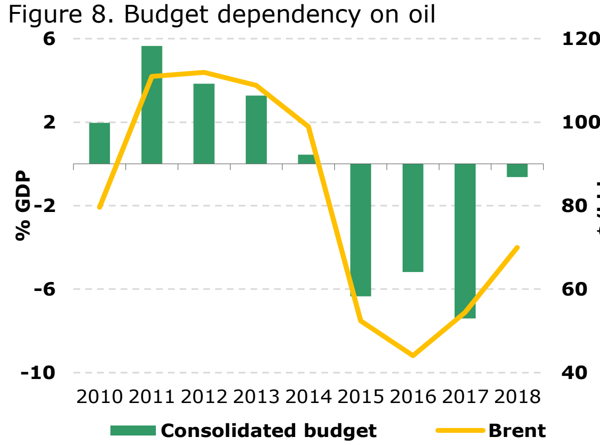
The estimated cost of oil budgeted for the current year is $55 per barrel, and the exchange rate is T370 per dollar. Taking into account the weaker exchange rate at about T380 per dollar, the cost of a barrel of oil in tenge in the first quarter of this year reached T24 thousand (Fig. 7), which is higher than T22 thousand in 1Q2019. Thus, the current exchange rate with oil prices above $70 per barrel provides a comfortable level for the revenue side of the state budget, even taking into account the expected reduction in oil production at Tengiz due to the planned shutdown this fall. Thanks to the exchange rate, the state budget parameters are moving for normalization, for example, following last year's results, the consolidated budget deficit has decreased to a minimum of 0.6% of GDP over the past four years, and if state support provided to banks was not undertaken, it could have been in substantial surplus.

Figure 7. Weak tenge supported budget revenues



Source: MinFin RK, NBRK, Bloomberg

Figure 8. Budget dependency on oil



Source: MinFin RK, Bloomberg

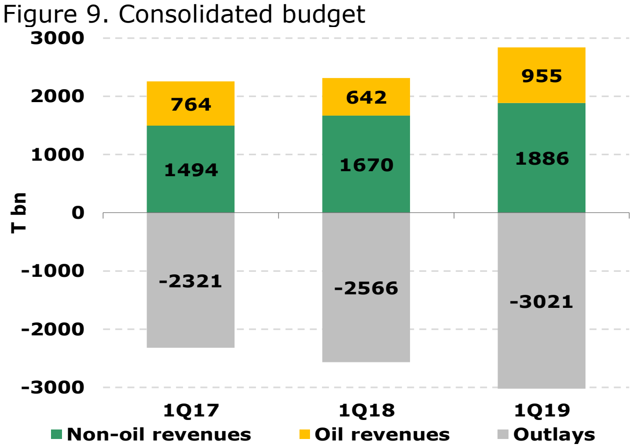
Oil revenues of the consolidated[2] budget in the first quarter of 2019 increased by 49% yoy to almost T1 trillion from T642 billion in the previous year (Fig. 9). At the same time, the share of oil revenues in consolidated budget revenues increased to 34% from 28% in 2018. Non-oil revenues increased by 13% yoy (12% in 1Q2019) to T1.9 trillion.

The expenditures of the consolidated budget increased by 18% yoy compared to 2018 to T3 trillion. Among the expenses can be noted T0.6 trillion allocated for the acquisition of a portfolio of bad agricultural loans, as well as the planned allocation of half a trillion tenge to improve the liquidity of the financial sector.

[2] State budget, including current flows in National Fund

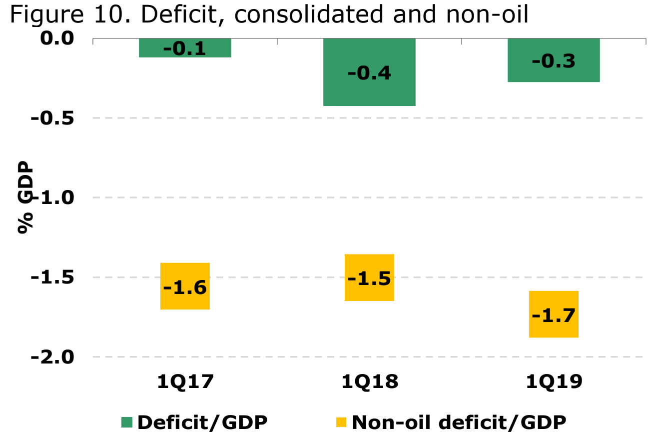
Consolidated budget deficit slightly decreased to -0.3% of GDP in Q1 2019 from -0.4% of GDP in 1Q2018. At the same time, the non-oil deficit of the consolidated budget for the first quarter of 2019, according to our estimates, on the contrary increased to -1.7% of GDP on the back of increased spending. We believe that the size of the non-oil deficit may approach to -10% of GDP in the current year and expand as compared to -7.8% of GDP in 2018. Due to the expansion of state budget expenditures at the beginning of this year the ceiling of the non-oil deficit of the republican budget in the Concept of Formation and Use of the National Fund has increased to 7-8.5% of GDP from 7.2% previously established.

Figure 9. Consolidated budget



Source: MinFin RK

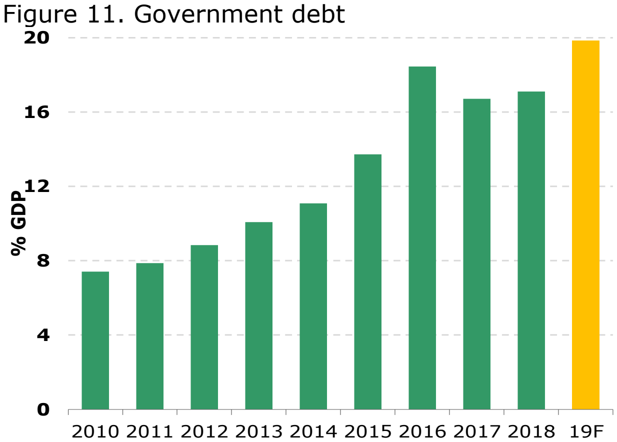
Figure 10. Deficit, consolidated and non-oil



Source: MinFin RK

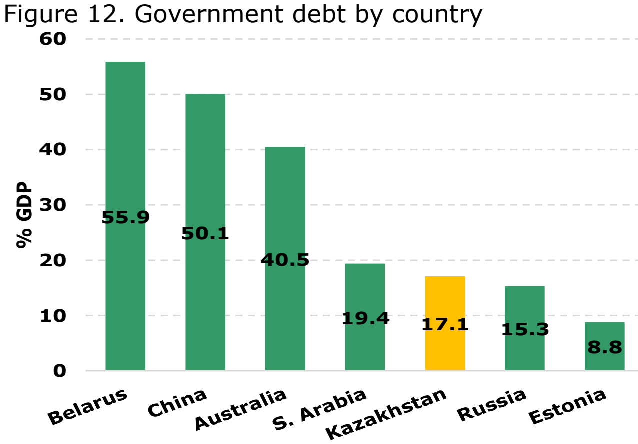
Driven by anti-crisis support for the economy, the size of government debt in Kazakhstan has almost doubled since 2011, reaching 17% of GDP (Fig. 11, 12), which clearly characterizes Kazakhstan's high dependence on oil, which is currently less than a third below the pre-crisis price levels. As a result, our country was among the oil-producing countries with the highest increase in government debt in the indicated period: according to the IMF, in Azerbaijan and Algeria it increased 2.5 times, 4 times in Kuwait, 5 times in Saudi Arabia. A moderate increase in government debt over the past 6 years has shown Norway by 20%, Mexico by 26%, Russia by 30%. This year, an increase in liabilities will lead to an increase in government debt to almost 20% of GDP, which will more than double the pre-crisis figures. Nevertheless, the size of government debt is at a low level in Kazakhstan in comparison with countries with developing economies, where its size averages 50% of GDP. In addition, there is a cushion in the form of reserves of the National Fund.

Figure 11. Government debt



Source: MinFin RK, Halyk Finance

Figure 12. Government debt by country



Source: MinFin RK, IMF

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