

June 7, 2022

As a result of the outstripping growth of state budget revenues (+45% yoy) over its expenditures (+15% yoy), the state budget balance for the first time in four years developed a surplus in 1Q2022, amounting to KZT0.2 trillion. A significant increase in income was provided mainly by an increase in tax revenues from large mining companies in the country. In turn, a significant rise in budget revenues led to a decrease in the use of transfers from the National Fund by 4% yoy. At the same time, against the background of the continuing increase in budget expenditures, there is a further growth in the government debt, which at the end of the 1st quarter amounted to KZT19.2 trillion (+8.7% yoy).

In the context of heightened geopolitical tensions and accelerating inflation, in April of current year the government decided to additionally increase government spending in 2022 to 18% yoy (the previous plan provided for an expansion in spending by 3% yoy). As a result, the state budget deficit in 2022 will widen from KZT2.9 trillion to KZT3 trillion (T2.5 trillion in 2021).

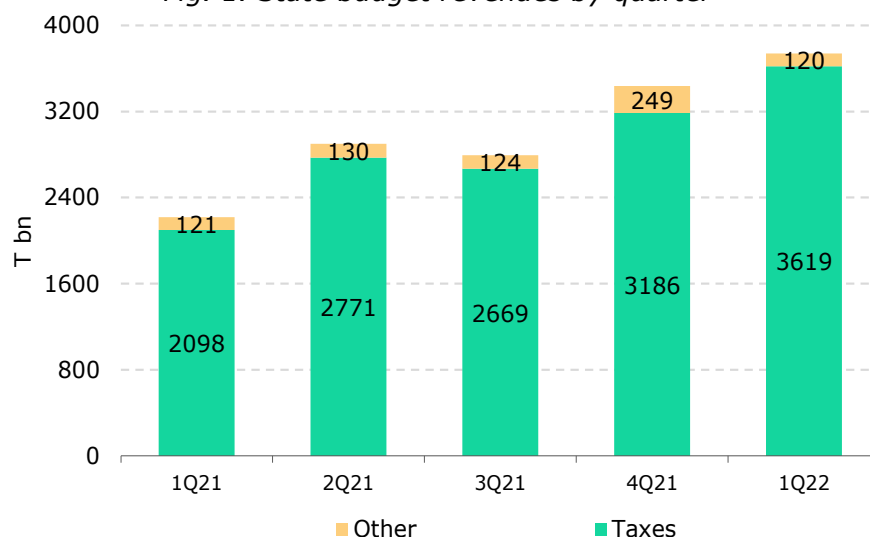
Growth of state budget revenues in 1Q2022

In the 1st quarter of this year, state budget revenues excluding transfers from the National Fund (NF) increased by 8.8% qoq to KZT3.7 trillion (+68.5% yoy). The main drivers of this rise in the volume of budget revenues were tax revenues from the resource sector against the backdrop of a favorable situation in the external markets for raw materials. Also, the growth of budget revenues was facilitated by the growth of the economy of Kazakhstan in the 1st quarter of 2022 by 4.4% yoy in real terms and by 18% yoy in nominal terms, including as a result of the implementation of government incentives.

Tax revenues in the 1st quarter of 2022 budget increased by 13.6% qoq and by 72.5% yoy. In absolute terms, their amount reached KZT3.6 trillion (KZT3.2 trillion in 4Q2021).

Other income for 1Q2022 decreased by 52% qoq to KZT120 billion, but in annual terms they have shrank by only 0.7% yoy.

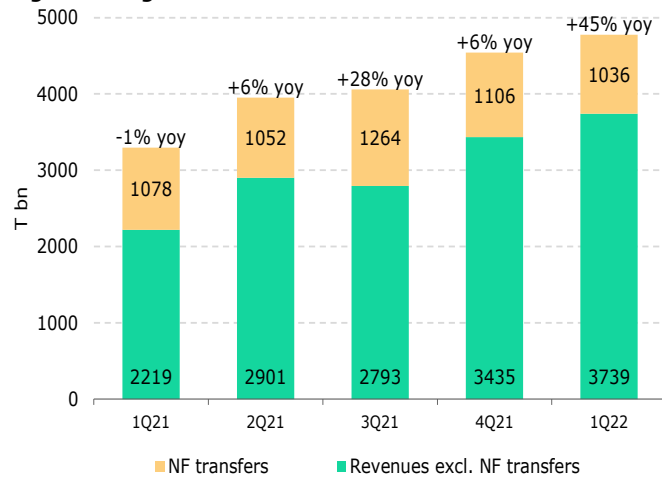
Fig. 1. State budget revenues by quarter



Source: Finmin RK

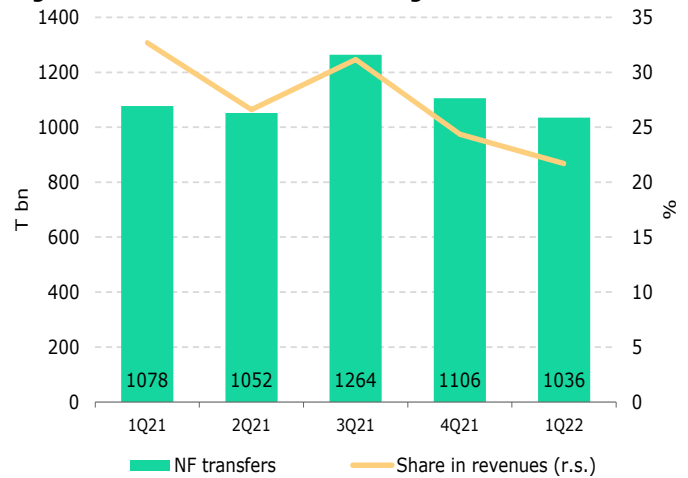
Against the backdrop of growth in budget revenues, the size of the guaranteed transfer from the NF to the budget in Q1 decreased by 6.4% qoq to KZT1 trillion (-3.9% yoy). Along with this, there is a decrease in the share of transfers in total income to 22% from 33% in 1Q2021, which is also below the average for the period 2018-2019, when their share in the income structure averaged 24%. Aggregate state budget revenues, including NF transfers, amounted to KZT4.8 trillion, up 5% qoq and 45% yoy.

Fig. 2. Budget revenues and NF transfers



Source: Finmin RK

Fig. 3. NF transfers' share in budget



Source: Finmin RK

In the 1st quarter, CIT revenues increased by 2% qoq, and in annual terms more than doubled to KZT1.1 trillion, reaching a share of 31% in the structure of tax revenues to the budget (26% in 1Q2021). The increase in income from CIT was facilitated by the growth of tax payments by large mining companies to the budget against the backdrop of rising prices for raw materials.

After a 16% qoq decrease in VAT revenues in 4Q2021, they increased by 42.5% qoq in 1Q2022 and more than doubled compared to 1Q2021. In nominal terms, the amount of revenues was almost KZT1 trillion, and the share of VAT receipts was at the level of 27% in the structure of all tax revenues (22% in 1Q2021). The amount of VAT receipts on domestically produced goods amounted to KZT542 billion (KZT115 billion in 1Q2021), while VAT receipts on imported goods amounted to KZT449 billion (KZT345 billion in 1Q2021). The increase in VAT revenues for domestically produced goods was affected by a decrease in VAT refunds. In turn, VAT receipts on imported goods increased due to the growth of imports of goods in the 1st quarter by 16.5%. Along with this, the government carried out work to eliminate violations in the clearance of goods flows at the border with China, which increased revenues under this budget item.

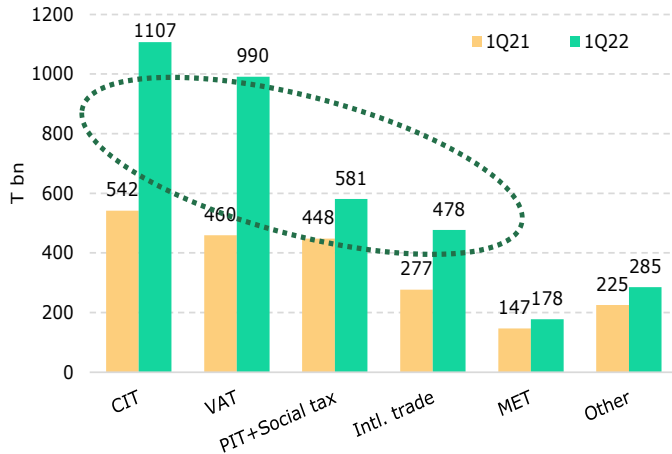
Revenues from taxes on international trade in 1Q2022 increased by 12.3% qoq and by 72.4% yoy to KZT478 billion. The average rate of export customs duty on crude oil increased by 33.3% qoq per 1 ton and amounted to \$80. The volume of oil exports for 3 months of this year doubled in nominal terms compared to the same period last year, while oil quotations increased by 63% yoy to an average quarterly value of \$99 per barrel. In addition, the weakening of the national currency in the first quarter by almost 6% to 455 tenge per 1 US dollar helped the increase in revenues.

In 1Q2022, PIT and social tax receipts increased by 6% qoq and 29.7% yoy to almost KZT581 billion. This year, the increase in nominal wages (+23.7% yoy) was supported by the growth in the minimum wage (+41% yoy), as well as the increase in wages of state employees (+25% yoy). At the same time, PIT collections increased by 37% yoy, and social tax – by 20% yoy.

The volume of revenues to the budget from the MET in 1Q2022 increased by 4.5% qoq and by 21% yoy to KZT178 billion. The increase in receipts from this income item was observed due to the increase in the cost of the main export metals in the international commodity markets – zinc (+36% yoy), aluminum (+56% yoy) and copper (+18% yoy).

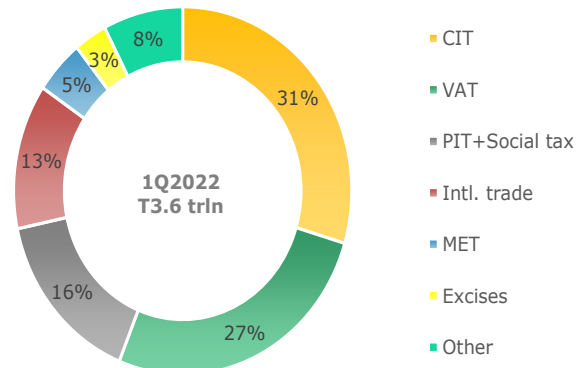
Thus, in 1Q2022, a significant increase in tax revenues was mainly due to an increase in VAT revenues – KZT295 billion out of KZT432 billion.

Fig. 4. Tax revenues by quarter



Source: Finmin RK

Fig. 5. Tax revenues (structure)



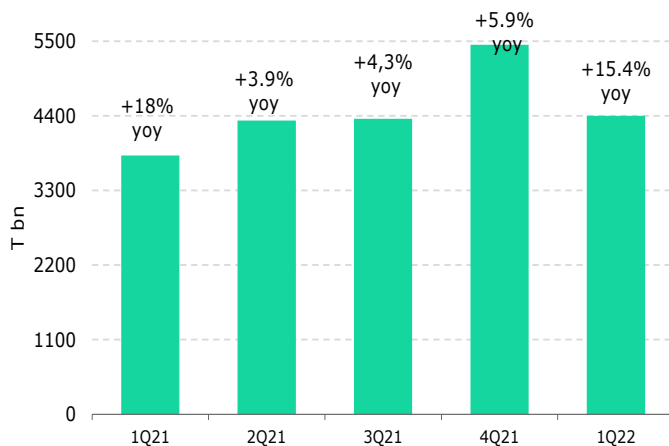
Source: Finmin RK

Double-digit growth in government spending in 1Q2022

After a modest growth of budget expenditures from the 2nd quarter until the end of last year at the level of 4-6% yoy, in the first quarter of the current year, allocations increased again: state budget expenditures increased by KZT0.6 trillion, or 15.4% yoy to KZT4.4 trillion

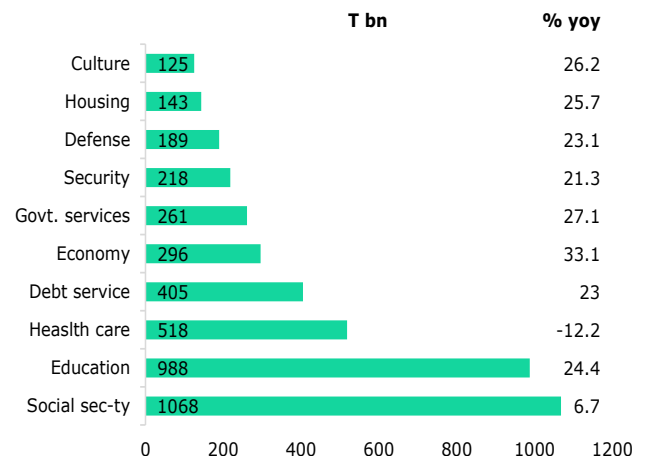
Against the backdrop of external shocks, already in the first quarter of this year, there was a significant increase in spending on most expenditure items, except for healthcare costs. Thus, spending on the economy in the 1st quarter increased by 33% yoy to KZT296 billion, of which more than half of the funds were directed to infrastructure development (+41% yoy). The share of expenditures on the economy in the total budget expenditures amounted to 7%.

Fig. 6. Quarterly budget expenditures



Source: Finmin RK

Fig. 7. Budget expenditures (structure)



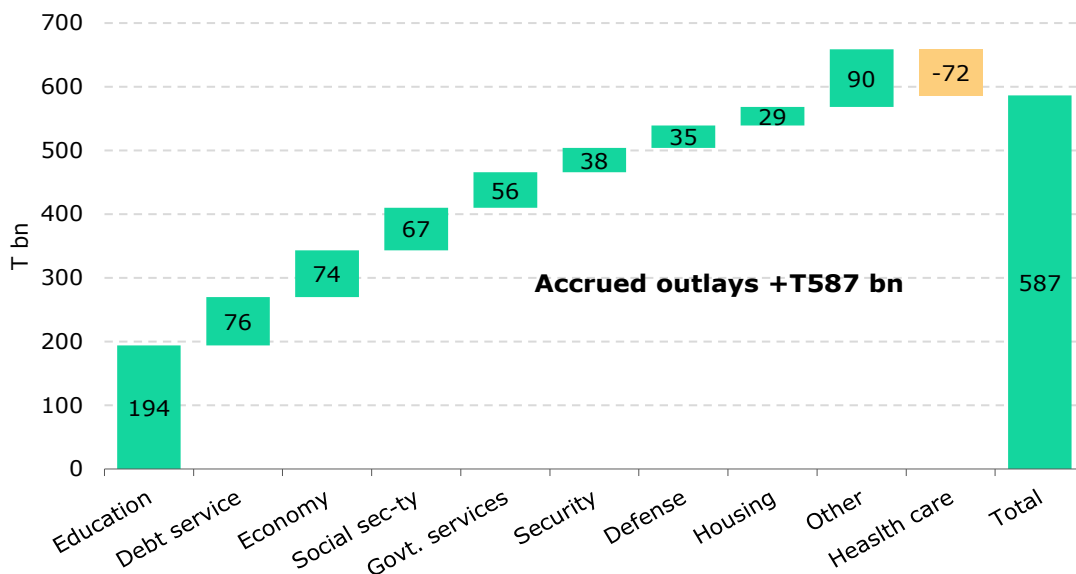
Source: Finmin RK

It should be noted that the development of transport infrastructure is a priority for Kazakhstan.

Housing and utility services expenses grew by 26% yoy, while last year these expenses decreased by 12% yoy. In the field of education, state budget expenditures increased by 24% yoy (+17% yoy 2021) to KZT1 trillion, and the share of this article in the structure of total budget expenditures reached 22% against 20.5% in 2021.

After growing by 34% yoy in 2021, public debt servicing costs in 1Q2022 increased by 23% yoy to KZT405 billion. As a result, the share of public debt servicing in the structure of total budget expenditures increased in 1Q2022. to 9.2% from 8.6% in 1Q2021. Higher interest rates in the debt market, coupled with an increase in public debt (by almost 40% over the past three years) and a weakening of the national currency, became triggers that contributed to an increase in spending on servicing the country's public debt.

Fig. 8. Accrued growth of budget expenditures in 1Q2022



Source: Finmin RK

Social security spending in 1Q2022 increased by only 6.7% qoq to KZT1.1 trillion. However, the share of this item in the total budget expenditures is the largest (24%) and it provides for additional indexation of pensions and benefits (+4%), which together will ensure the growth of all social payments by 9% this year.

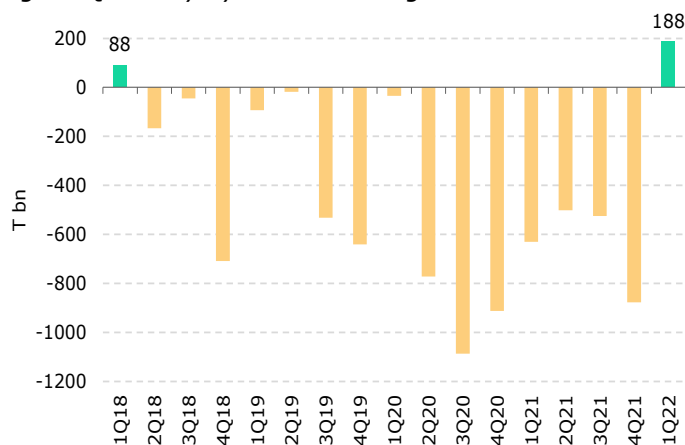
Due to the normalization of the epidemiological situation, health care spending decreased by 12% yoy, while in 2020-2021 they increased by 16% yoy and 51% yoy, respectively.

Among other articles, defense spending increased notably by 23% yoy, while security spending increased by 21% yoy. Spending on other budget items increased, with general government services up 27% yoy.

State budget surplus in 1Q2022

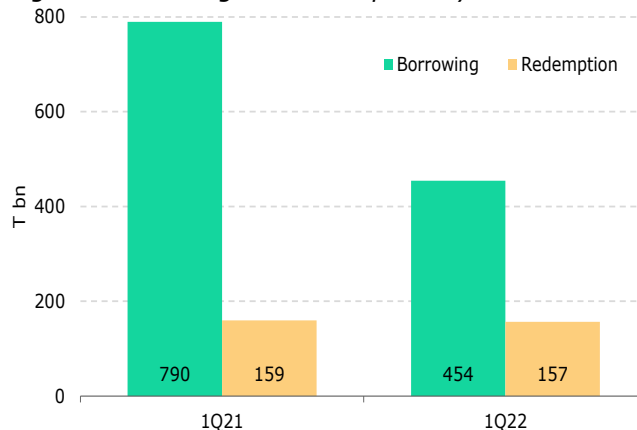
In 1Q2022, for the first time since the beginning of 2018, the state budget surplus amounted to KZT188 billion. The positive balance of the state budget was formed due to the outstripping growth of budget revenues (+45% yoy) over its expenditures (+15% yoy). At the same time, in the 1st quarter, the budget set the cost of oil at \$60 per barrel, and the exchange rate of the national currency was 425 tenge per US dollar, while in fact oil cost \$99 per barrel, and the national currency exchange rate was 455 tenge per dollar, which also contributed to the formation of a positive balance of state budget.

Fig. 9. Quarterly dynamics of budget deficit



Source: Finmin RK

Fig. 10. Borrowing and redemption by Finmin RK



Source: Finmin RK, KASE

It should be noted that the budget surplus in 1Q2022 is not indicative due to the traditionally minimal level of spending at the beginning of the year. At the same time, state budget expenditures will increase significantly during the current year - the planned budget expenditures for 2022 were increased to 18% yoy (the previous plan provided for an increase in expenditures by 3% yoy).

Against the backdrop of an improvement in the state budget, borrowings of the Ministry of Finance of the Republic of Kazakhstan in 1Q2022 decreased by 44% yoy to KZT454 billion. In turn, the volume of repayment of obligations in the 1st quarter also decreased by 2% yoy to KZT157 billion.

Government debt at the end of 1Q2022 increased by KZT449 billion qoq to KZT19.2 trillion.

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