

June 9, 2021

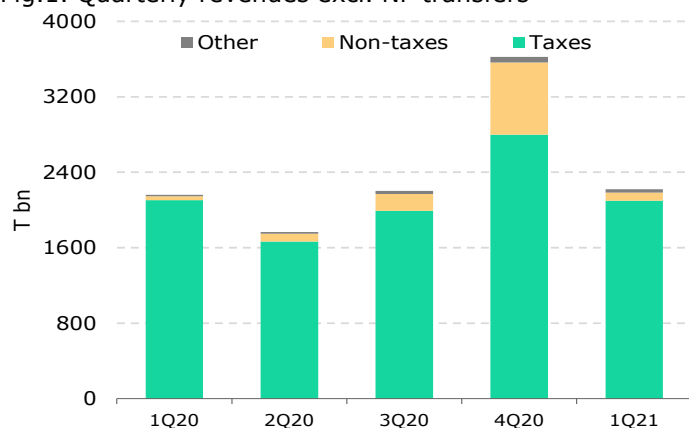
In the first quarter of 2021, state budget revenues excluding transfers from the National Fund (NF) increased by 2.6% yoy, which was mainly influenced by non-tax revenues. Tax revenues in annual terms slightly decreased, and the volume of transfers from the National Fund decreased by 8.6% yoy. At the same time, state budget expenditures in the first quarter increased by 18% yoy, mainly due to the growth of expenditures in the field of healthcare and servicing the public debt (more than 50% yoy growth). As a result, in 1Q2021, the state budget deficit sharply increased to T0.6 trillion (T35bn in 1Q2020), which led to an increase in borrowings by the Ministry of Finance, the volume of which increased 2.5 times in annual terms. In general, in 2021, the government plans to slightly increase budget expenditures to T17.8 trillion (17.5 trillion 2020), as a result of which the state budget deficit will remain at the level of the previous year (T2.8 trillion). Transfers of the National Fund to the budget are planned slightly lower than last year's figure at T4.6 trillion (T4.8 trillion in 2020). The amount of transfers will exceed receipts to the NF and will lead to a reduction in the assets of the National Fund. As a result, the assets of the National Fund will decrease to 33.4% of GDP (39.2% of GDP in 2020), while public debt will increase to 31% of GDP (29.1% of GDP in 2020).

State budget revenues rose marginally in 1Q2021

In the first 3 months of 2021, the situation in the economy began to gradually improve – the GDP contraction by 4.5% yoy recorded in January improved to 1.5% yoy in January-March. In the revenue part of the state budget, there was a decrease in tax revenues, which was offset by an increase in revenues from non-tax sources. Tax revenues in the first quarter decreased by KZT6.3bn to T2.1trn (-0.3% yoy). Non-tax revenues for the same period increased by T44bn to T85bn (x2.1 times yoy). Revenues from other items of the state budget doubled to T35bn. In general, in the 1st quarter of this year, state budget revenues (excluding transfers from the NF) showed a slight increase in revenues by T57bn (+2.6% yoy), while exceeding the planned value by 11%.

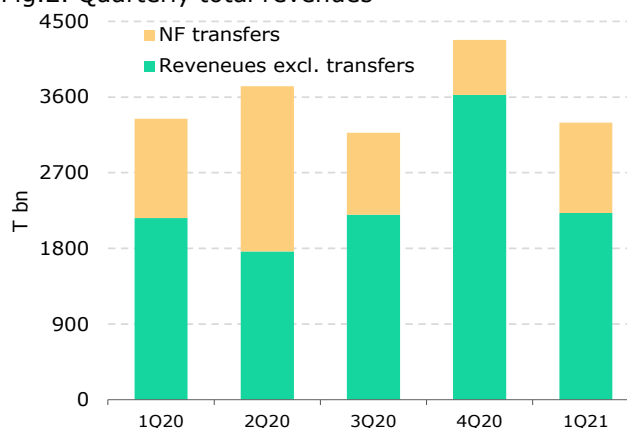
The size of the transfer from the National Fund decreased by 8.6% yoy to T1.1 trillion. In the first quarter of this year, the share of transfers in the structure of state budget revenues was 32%, which was slightly below the average value of 33% for 2020.

Fig.1. Quarterly revenues excl. NF transfers



Source: Minfin RK

Fig.2. Quarterly total revenues



Source: Minfin RK

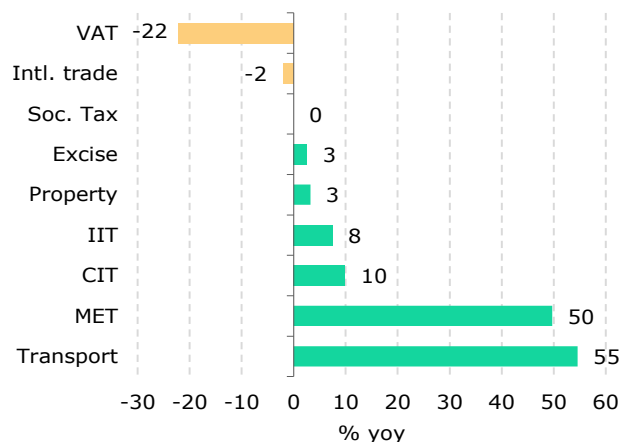
In the first quarter of this year, the decline in tax revenues was mainly due to a drop in VAT revenues by T131bn (-22.2% yoy) and taxes on international trade by T6bn (-2% yoy). The decrease in VAT revenues was associated with an increase in the amount of refunds for this tax, as well as with a decrease in turnover in the field of domestic trade. At the same time, due to an increase in imports of goods, fees from foreign trade operations increased.

Corporate income tax receipts increased by T49bn or 9.9% yoy, which was mainly influenced by the effect of the last year's low base. In addition, revenues from MET, IIT, and also from transport tax increased. The increase in

personal income tax collection was facilitated by the growth of nominal wages in the first quarter of this year by 15% yoy.

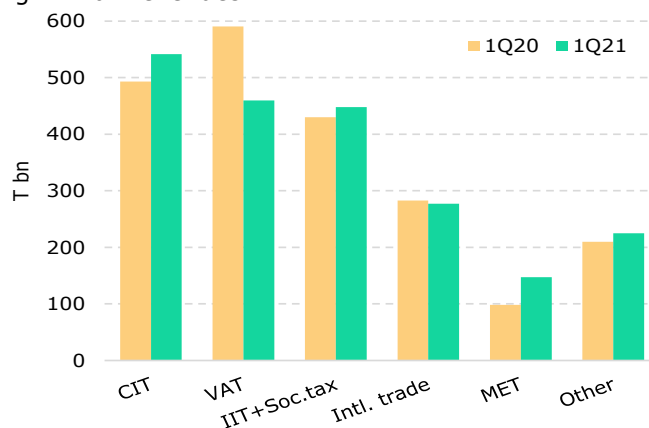
Tax revenues from international trade increased due to an increase in the export customs duty on oil from \$35 to \$50 per ton. The increase in the average price for Brent crude oil in the first quarter of 2021 by almost 15% yoy to \$60.6 per barrel had a positive effect on revenues from hydrocarbon exports.

Fig. 3. Change in tax revenues



Source: Minfin RK

Fig. 4. Tax revenues



Source: Minfin RK

Budget expenditure rose 18% yoy in 1Q2021

In the first quarter of this year, state budget expenditures increased by T0.6 trillion to T3.8 trillion (+18% yoy). At the same time, the increase in expenses, although it was significant, turned out to be below the average value of 23% yoy for 4 quarters of 2020.

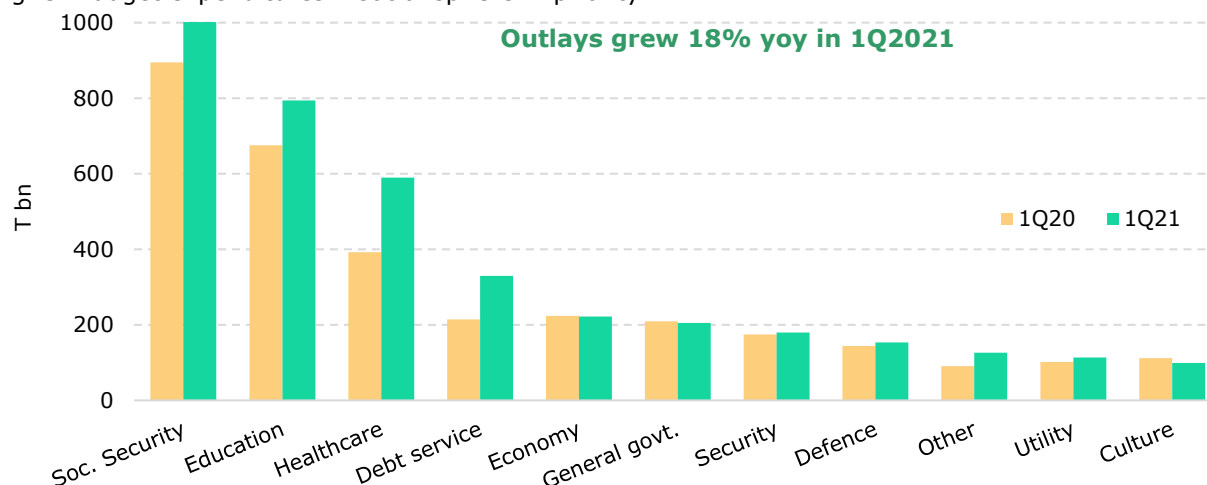
A noticeable increase was noted in almost all items of state budget expenditures. In terms of spending growth, the first place was taken by the budget for servicing public debt, which increased by 53.7% yoy to T329.4bn. As a result of significant rise in borrowing the outlays on debt service moved from fifth place in 1Q2020 to the fourth. At the same time, the share of debt service costs increased from 7% in the 1st quarter of 2020 to 9% over the same period of this year. About 81% of the total expenditures were used to pay remuneration for internal loans.

Due to the unfavorable epidemiological situation, health care expenditures continued to increase, the growth of which amounted to more than 50% yoy, and their share in the structure of total expenditures for the year increased from 11.7% to 15.5%.

Expenses on other budget items increased by 39.7% yoy. Among them, the largest costs were for business support and financing of the IFC "Astana".

Also, a significant increase in state budget expenditures was observed in education (+17.6% yoy), social security (+11.9% yoy) and housing and communal services (+11.6% yoy). Security spending increased by a modest 3.0% yoy and defense spending by 6.3% yoy.

In the first quarter of this year, budget expenditures on the economy and the sphere of culture slightly decreased.

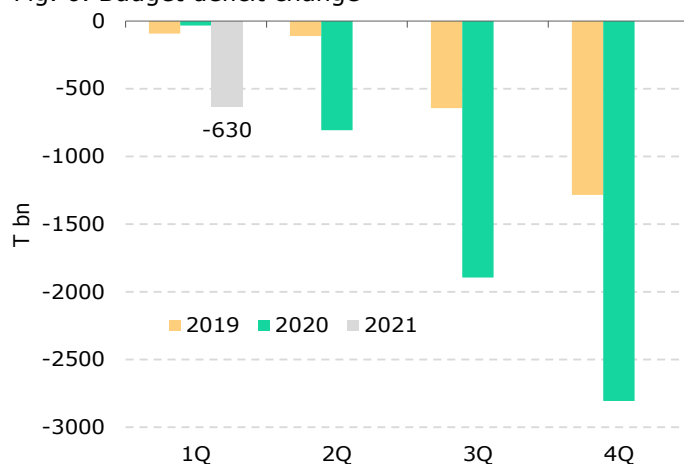
Fig. 5. Budget expenditures – social sphere in priority


Source: Minfin RK

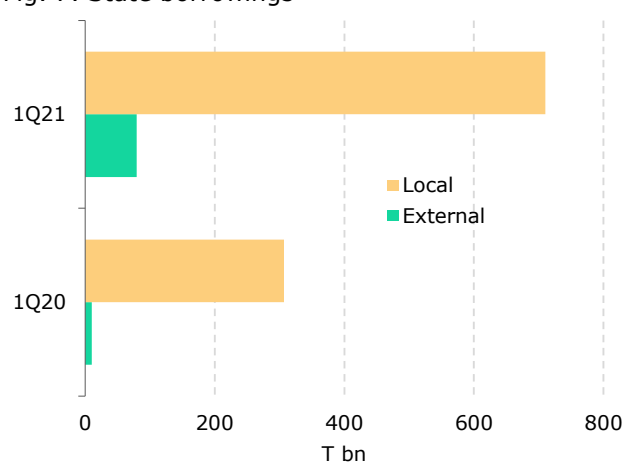
Sharp rise in deficit in 1Q2021

The outstripping growth of state budget expenditures relative to revenues led to the formation of a significant deficit already at the end of the first quarter of 2021. The state budget deficit for the first quarter expanded to T630.4 billion and in size corresponded to the accumulated budget deficit for 9 months in the pre-crisis 2019. As a result, the Ministry of Finance of the Republic of Kazakhstan has a need for its expanded financing from the very beginning of the year, whereas in previous years, the deficit increased noticeably, mainly by the end of the year. So, in the first quarter of this year, the Ministry of Finance of the Republic of Kazakhstan increased the amount of borrowings by KZT790 billion, which is 2.5 times higher than the indicator of the first quarter of last year. In the domestic market, the Ministry of Finance of the Republic of Kazakhstan attracted KZT710bn, and KZT79.5bn came from external sources.

The fight against the spread of the COVID-19 pandemic this year and the government's measures to combat the negative consequences of the epidemic on the economy are the main factors in expanding the expenditures of the state budget of the Republic of Kazakhstan. Measures aimed at countering these challenges ultimately led to a significant increase in the budget deficit.

Fig. 6. Budget deficit change


Source: Minfin RK

Fig. 7. State borrowings


Source: Minfin RK

NF assets will shrink this year while debt load will increase

In April, the Government of the Republic of Kazakhstan revised macroeconomic parameters for the current year. The forecasted oil price was increased from \$35 to \$50 per barrel, and the exchange rate from 420 to 425 tenge per US dollar. In turn, the forecast for GDP growth was improved from 2.8% to 3.1%.

According to the forecasts of the Ministry of National Economy of the Republic of Kazakhstan, in 2021, it is expected that state budget revenues and expenditures will increase by the same amount at T0.4 trillion compared to last year. At the same time, the size of the targeted transfer was increased by T850 billion from the previously planned one, and the total amount, taking into account the guaranteed transfer to the budget, will reach T4.6 trillion by the end of this year (T4.8 trillion in 2020).

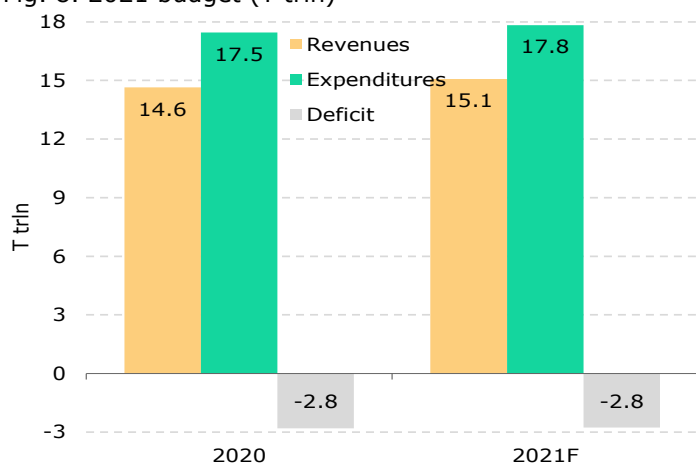
The priority items in the framework of the expansion of expenditures are public services, individual state programs, the construction sector and housing and communal services, anti-epidemiological measures and transfers to regional budgets.

In 2021, government spending in nominal terms will be higher than the previous year (T17.8 trillion versus T17.5 trillion), in relative terms, it will decrease from 24.7% in 2020 to 22.9% of GDP this year. As a result, the budgetary policy will remain stimulating in the face of the current quarantine restrictions.

In 2021, the state budget deficit will remain at a high level and amount to 3.5% of GDP (4% of GDP in 2020). In addition, other indicators characterizing the state of public finances of the Republic of Kazakhstan will significantly worsen. Thus, the aggregate transfer in the amount of T4.55 trillion will be T1.9 trillion higher than the planned receipts to the National Fund in the amount of T2.6 trillion. This will lead to a decrease in the assets of the National Fund to 33.4% of GDP (39.2% in 2020) and will bring its size closer to the previously established irreducible level of 30% of GDP. Thus, in the coming years, the funds of the National Fund available for use will be limited by the volume of its receipts.

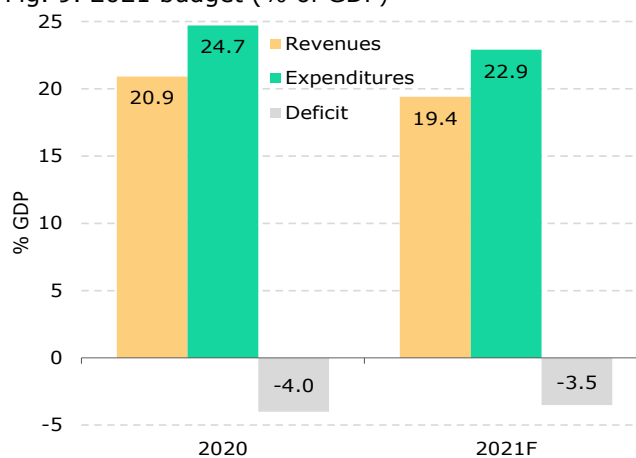
The size of public debt, according to the forecasts of the Ministry of Finance of the Republic of Kazakhstan, will also increase from T20.6 trillion to T24.2 trillion (31% of GDP) by the end of the current year, while its size was only 14% of GDP in 2014.

Fig. 8. 2021 budget (T trln)



Source: MNE RK

Fig. 9. 2021 budget (% of GDP)



Source: MNE RK

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