

March 4, 2021

In 2020, against the background of an unfavorable economic situation, tax revenues of the state budget decreased by T0.7 trillion (-7%), primarily due to a decrease in revenues from the oil sector. Due to the one-time receipt of funds within the framework of the settlement of the dispute over the Karachaganak project at the end of the year in (\$1.3 billion), revenues (excluding transfers from the National Fund) increased slightly by 0.6%. Despite an increase in the amount of non-tax revenues by T0.7 trillion to T1.1 trillion and an increase in the transfer from the National Fund by T1.7 trillion, the state budget deficit more than doubled in 2020 to T2.8 trillion or 4% of GDP – the highest level from the late 90s. Against the background of the increased imbalance, the country's national debt approached 30% of GDP. In 2021, budget expenditures will remain high at T16.5 trillion (-1.1% yoy), and the deficit will be T2.6 trillion, or 3.4% of GDP.

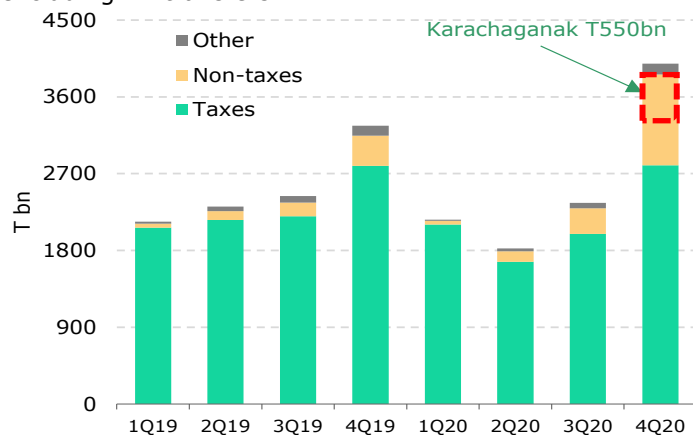
State budget revenues increased slightly in 2020 due to one-time receipts

In the fourth quarter, there were positive changes in certain sectors of the country's economy, which had a positive impact on the budget. As a result, tax revenues in the fourth quarter increased by T0.8 trillion, or 40% qoq. Non-tax revenues for the same period increased by T0.6 trillion, demonstrating a threefold increase. The share of transfers from the National Fund in the state budget revenues in the last quarter was at the lowest level for the whole year at 15%. For comparison, in the second quarter, transfers provided more than half of all state budget revenues.

As is known, in connection with the state of emergency and sanitary restrictions, government provided deferrals for paying taxes and other benefits, which were postponed to the last quarter, which led to a sharp increase in their revenues in the final quarter of the year.

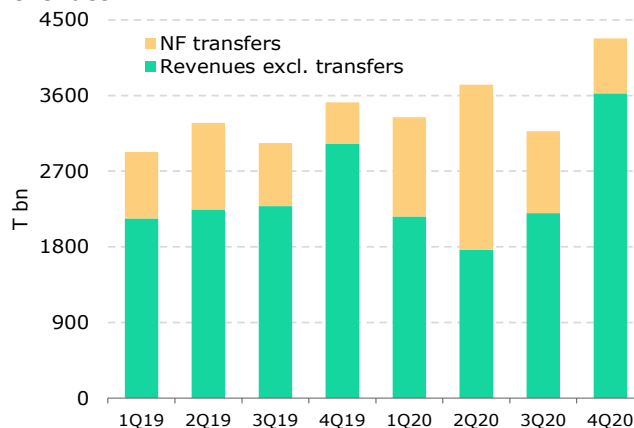
Non-tax revenues in December 2020 increased immediately by T590 billion, and in the same month it was reported that an agreement was reached on the settlement of the dispute over Karachaganak, according to which the consortium was to pay \$1.3 billion (~T550 billion) in favor of Kazakhstan. We believe that the sharp increase in non-tax revenues in the last month of 2020 was due to the agreement reached. At the same time, as far as we know, usually funds from the oil and gas sector go directly to the National Fund, but in this case it was apparently decided to send them to the state budget in order to reduce its deficit. In addition, in 2020, KZT120bn was received by the budget in the form of dividends from the national holding Samruk-Kazyna, and the total amount of dividend receipts reached KZT138bn. For comparison as a dividends on shares in state ownership there was T68 bn received in 2019.

Fig.1. Quarterly dynamics of State budget revenues excluding NF transfers



Source: Minfin RK

Fig.2. Quarterly dynamics of total State budget revenues



Source: Minfin RK

In general, for 2020, state budget revenues (excluding transfers from the NF) showed, albeit insignificantly, an increase in revenues by T63 billion (+0.6%), while in 2015, when oil prices fell by 47%, state budget revenues decreased by 3.5%, and in 2009 their decline reached 19%, when the rate of decline in oil prices was at the level of the previous year at 34%. Excluding revenues from Karachaganak, which settlement was planned back in 2019, state budget revenues decreased by 5% in 2020.

In 2020, tax revenues fell by T0.7 trillion, or 7%, mainly as a result of a 41% fall in tax revenues on international trade due to a decrease in oil export duties to T0.6 trillion from T1.2 trillion in 2019 year. As you know, in 2020 the average oil price fell by 34% yoy to \$42 per barrel, oil production decreased by 5%, the exchange rate was 413 tenge per \$1 on average per year. At the same time, the budget included the cost of oil at \$40 / barrel, and the tenge exchange rate was assumed at T415 / dollar.

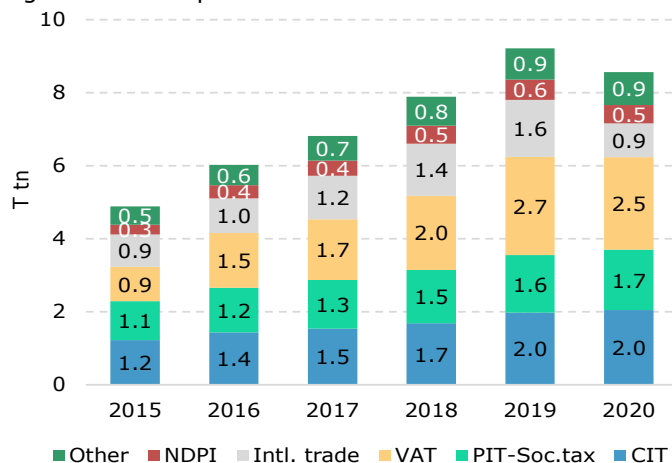
VAT receipts in 2020 decreased by KZT160bn, or 6% yoy, taking the second place in terms of tax fall. The decrease in VAT revenues was associated with a 7% reduction in trade turnover, while external trade fell by more than 15%.

Corporate income tax receipts in 2020 increased by KZT69bn, or 3%, mainly due to the growth in the last quarter, when more than 40% of the annual volume were received. Against the background of a significant increase in wages in the public sector, there was a fairly moderate increase in personal income tax and social tax revenues by T53 billion (+6%) and T31 billion (+4%), respectively. The modest increase in revenues from these taxes was caused by an increase in the number of temporarily unemployed persons and an increase in the unemployment rate in the second quarter of 2020 from 4.8% to 5%. In addition, as part of business support measures last year, the SME sector was exempted from paying personal income tax and social tax for six months.

Income from excise taxes last year increased by KZT89bn, or 26%, which turned out to be higher than the 10% growth in the pre-crisis 2019. This was mainly due to the increase in excise taxes on domestically produced goods.

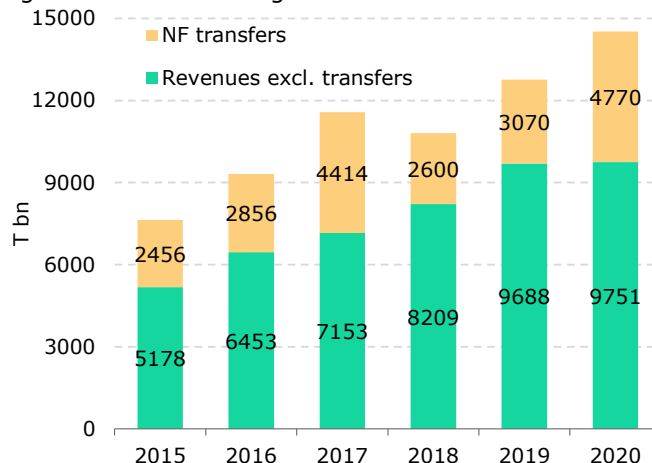
In 2020, the size of transfers in 2020 reached a record amount of T4.8 trillion, an increase of T1.7 trillion compared to 2019. The share of transfers from the National Fund in total receipts in 2020 increased from 24% in the previous 2 years to 33%, but turned out to be below 38% in 2017, when the state provided support to the banking system.

Fig. 3. Tax receipts



Source: Minfin RK

Fig. 4. Total State budget revenues



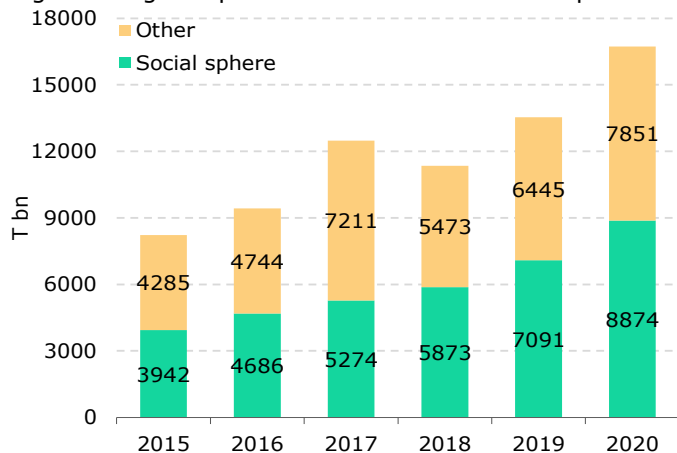
Source: Minfin RK

Increased budget spending mainly on social sphere

In 2020, against the backdrop of an economic downturn, state budget expenditures increased by 24%. In nominal terms, in 2020, state budget expenditures increased by T3.2 trillion to T16.7 trillion. At the same time, if in the first quarter the outlays' growth amounted to a modest 12% yoy, in the second quarter their increase reached 37% yoy, in the third quarter the state budget expenditures increased by almost 19% yoy and by 25% yoy in the last quarter.

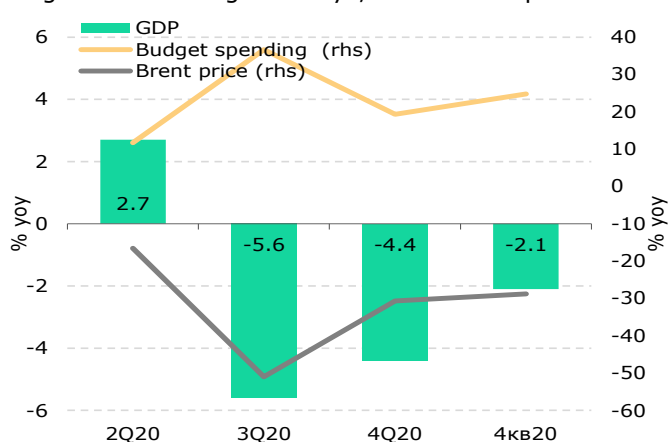
Basic social services within the framework of state budget expenditures continued to expand in 2020. Expenditures on education, health care and social security increased over the year by T1.8 trillion, or 25%. In turn, their share in total expenses exceeded 53%, and their continuous growth continued for the third year in a row. Other expenses in the cost structure showed a slightly more modest growth of T1.4 trillion or 22%.

Fig. 5. Budget expenditures – focus on social sphere



Source: Minfin RK

Fig. 6. State budget outlays, GDP and oil prices



Source: Minfin RK, BNS, Bloomberg

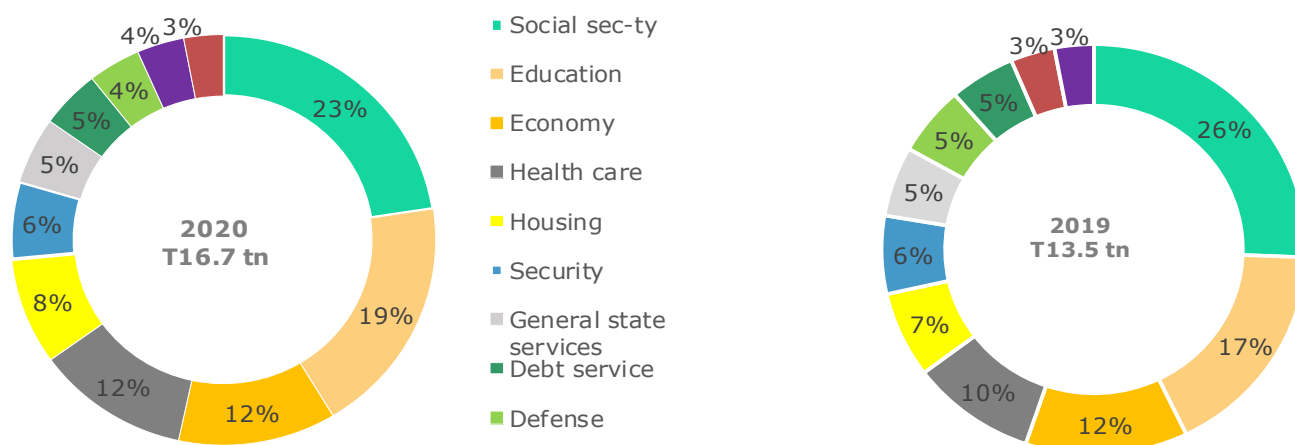
In terms of budget expenditures in 2020, the focus was on healthcare, with an increase of 51%, or almost T0.7 trillion. As a result, the share of health care costs in total spending increased from 10% to 12%. By T0.5 trillion, or 54% rose expenditures on housing and communal services, which, among other things, was associated with the expansion of housing construction. Other expenses increased by almost half, which was due to transfers to local budgets to compensate for losses incurred due to a decrease in tax revenues from small and medium-sized businesses.

As a result of an increase by T0.8 trillion, the share of budgetary spending on education increased from 17% to 19%. Expenditures on the economy increased by T0.3 trillion over the year. The share of expenditures on social security in the total expenditures of the state budget decreased from 26% to 23%, although in nominal terms expenditures increased by T0.3 trillion.

The only area where spending has been cut has been defense – a 9% cut, although after a significant 36% rise in 2019.

Separately, we can note an increase in state budget expenditures on wages by KZT540 billion or 30%, due to which nominal wages in the economy as a whole increased by 15% last year.

Fig. 7. State budget spending structure

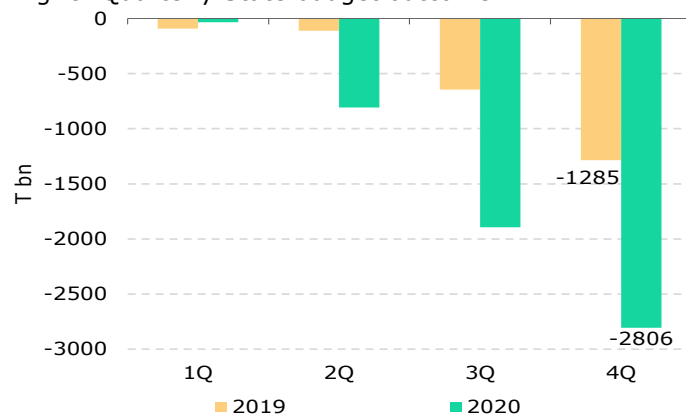


Source: Minfin RK

State budget deficit widened significantly

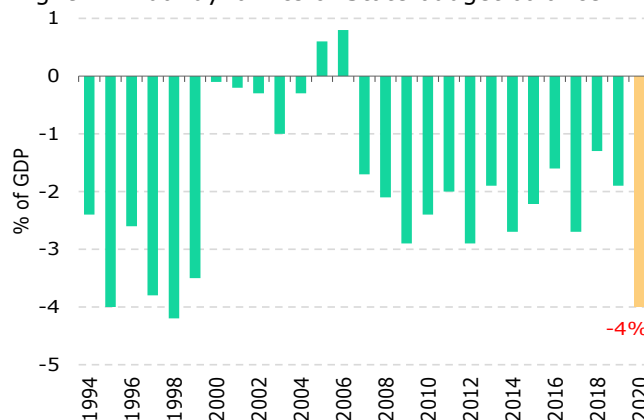
A sharp increase in expenditures since the second quarter of 2020 led to an expansion of the state budget deficit, and the size of these deficits by quarters was several times higher than last year's indicators. As a result, at the end of 2020, the size of the state budget deficit exceeded the initial estimates by 10% (T2.5 trillion) and reached T2.8 trillion, which corresponded to 4% of GDP. The size of the state budget deficit in 2020 was twice the average value for the period since 2010. At the same time, thanks to transfers from the National Fund, which provided a third of the state budget revenues, the size of the deficit remained at a moderate level. However, excluding transfers, the deficit amounted to about 11% of GDP.

Fig. 8. Quarterly State budget outcome



Source: Minfin RK

Fig. 9. Annual dynamics of State budget balance



Source: Minfin RK, BNS

This year minfin will have to rely on the external borrowing

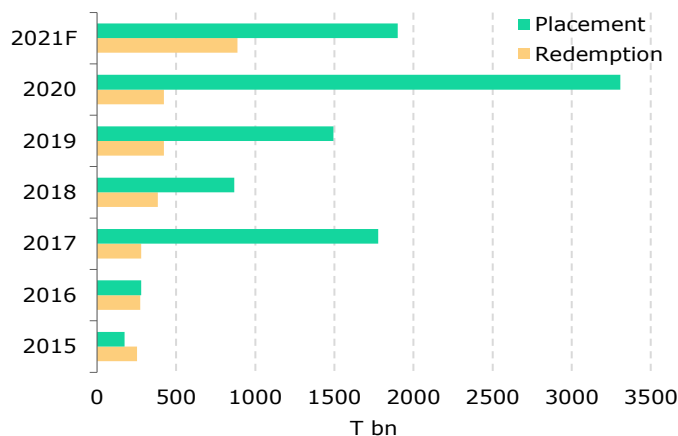
Even taking into account the planned insignificant reduction in government spending, a decrease in the volume of transfers from the National Fund will lead to the preservation of a high budget deficit above 3% of GDP, financing of which will require a further increase in the size of the public debt. The level of public debt, according to our estimates, in 2021 will be close to 30% of GDP, while in 2019 its size was 24% of GDP.

To finance the budget deficit in 2020, the Ministry of Finance attracted T3.6 trillion with repayments of approximately T0.8 trillion (T2.8 trillion net). T3.3 trillion was attracted from the domestic debt market of Kazakhstan, of which T2.8 trillion in the form of bonds of the Ministry of Finance with redemption of T0.4 trillion in the domestic market – net attraction was equal to T2.9 trillion. T0.3 trillion was attracted in the external market, of which T225 bn – in the debt market of the Russian Federation. For comparison, in 2019, the attraction in the local market amounted to T1.5 trillion and T0.6 trillion in the external market with the repayment of obligations for T0.8 trillion (T1.3 trillion net).

The budget expenditures on servicing the government's debt will increase from T0.8 trillion to T0.9 trillion in 2021, accounting for 5.5% of total expenditures. According to the budget for next year, the pressure on the assets of the National Fund will be reduced. The total transfer from the National Fund to the budget will decrease from a record T4.8 trillion to T3.7 trillion in 2021

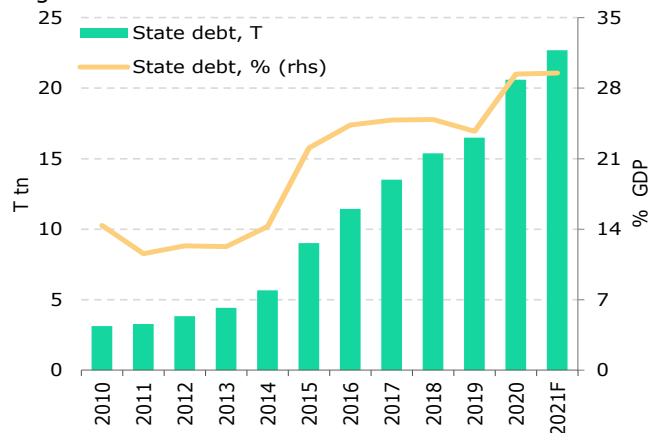
In 2021, the Ministry of Finance plans to borrow T1.9 trillion in the local debt market, while the repayment will be approximately T0.9 trillion (T1 trillion net). Net attraction of the Ministry of Finance in 2021 in the domestic market looks low even in comparison with the pre-crisis period. This year, the Ministry of Finance agreed to attract a loan from ADB and AIIB in euros for an amount equivalent to T0.8 trillion. In addition, it is planned to issue international bonds for about T0.2 trillion. There is no information yet on the rest of the financing of the state budget deficit of about T0.5 trillion, but the Ministry of Finance is likely to tap the external market.

Fig. 10. Minfin's financing from local market



Source: Minfin RK

Fig. 11. State debt came close to 30% of GDP



Source: Minfin RK, BNS, Halyk Finance

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