

September 7, 2021

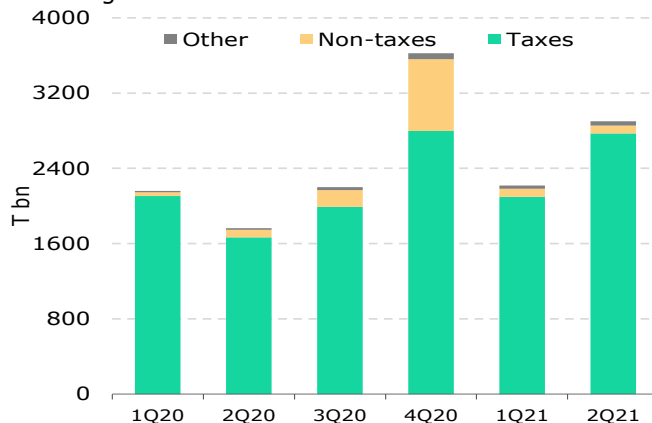
Despite the growth of budget revenues (excluding NF transfers) by 64.4% yoy to T2.9 trln in the second quarter of 2021, maintaining expenditures at a high level (T4.3 trln, +3.9% yoy) combined with a reduction in transfers from the National Fund (-T1 trln yoy) led to an expansion of the state budget deficit to T1.1 trln (T807 bn in 2Q2020). In its turn, there was a significant increase in the borrowings of Ministry of Finance, its volume expanded by almost 60% yoy to T2 trln in 1H2021. At the same time, the Government has revised the planned parameters of the budget for 2022. Budget expenditures have been increased by T1 trln, and the revenues has been enlarged by T0.7 trln. As a result, instead of the planned reduction of the budget deficit next year, it is expected to further expand to historically record levels – 33% higher than the deficit of the crisis 2020.

### A significant increase in State budget revenues – mainly due to the recovery of VAT receipts

In the 2nd quarter of 2021, the budget tax revenues increased by 66.4% yoy after a decrease of 0.3% yoy in the first quarter. In general, for the first half of the year, tax revenues were higher by 29.2% yoy. Non-tax receipts decreased by 0.4% yoy for the second quarter but have grown by 35.2% yoy for 6M2021. Revenues from other items of the state budget was up by 187.6% yoy (2Q2021) and by 153.7% yoy in 1H2021. In the 2nd quarter of this year, state budget revenues (excluding transfers from the NF) showed an increase of T1.1 trln to T2.9 trln (+64.4% yoy).

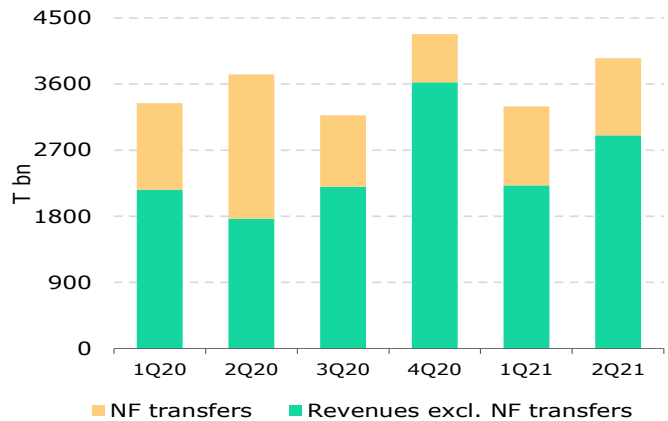
The size of the transfer from the National Fund in the 2nd quarter decreased by 46.5% yoy to T1.1 trln, as a result, the share of transfers in the structure of state budget revenues amounted to 27% (33% in 1Q2021) and corresponded to pre-pandemic readings. For six months of this year, the total amount of transfers dropped significantly to T2.1 trln against T3.1 trln for 6M2020, which reflected an improvement in the revenue part of the state budget – state budget revenues (excluding transfers from the NF) in 1H2021 were almost 17% (+T740 bn) higher than the pre-crisis period (1H2019). At the same time, the size of approved transfers for the current year is only 4.6% lower than last year – T4.55 trln against T4.77 trln.

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



Source: Ministry of Finance of RK

Fig. 2. Quarterly dynamics of total state budget revenues



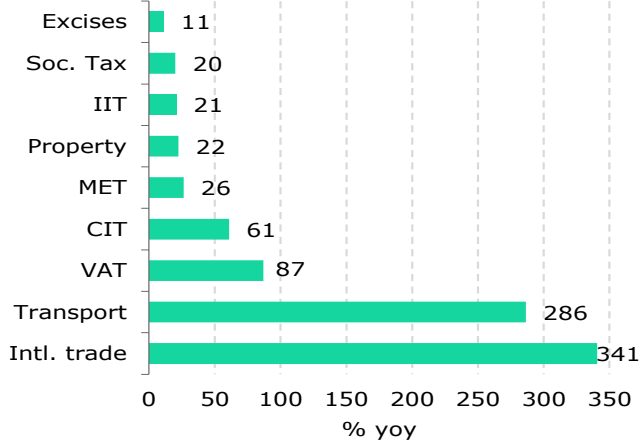
Source: Ministry of Finance of RK

As noted above, tax revenues increased significantly in the second quarter of this year, and revenue growth was recorded across all budget articles, but this increase was largely a consequence of the low base of the second quarter of 2020. Thus, in the second quarter of 2020, the strictest lockdown regime was observed, and at the same time tax relief and deferral of payments to the budget were introduced, export revenues fell significantly (-26% yoy), as a result, tax revenues decreased by 23% yoy.

As the turnover of foreign and domestic trade recovered in the second quarter of 2021, VAT revenues have grown significantly (+86.8% yoy), while the share of VAT revenues amounted to 30% in the structure of total tax revenues.

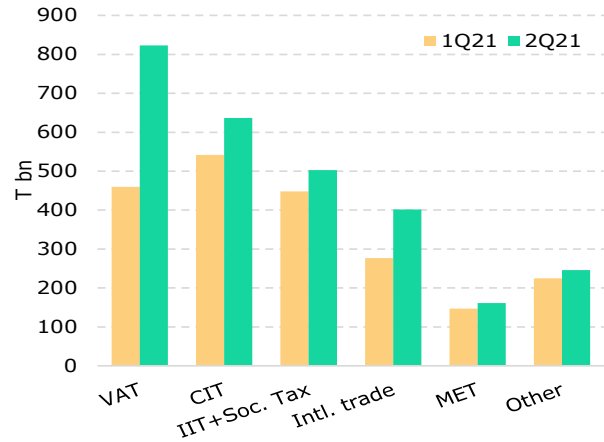
Corporate income tax receipts increased by 60.8% yoy, and their share in total tax revenues amounted to 23%. Due to the increase in world oil prices and a rise in the export customs duty on "black gold", receipts for taxes on international trade expanded 3.4 times yoy. In addition, the volume of income from MET expanded by 26.3% yoy. Amidst the growth of nominal wages by 18.6% yoy in the second quarter of this year, receipts from personal income tax grew by 20.7% yoy, and from social tax – by 20.1% yoy.

Fig. 3. Growth of tax revenues in 2Q21



Source: Ministry of Finance of RK

Fig. 4. Tax revenues of the state budget

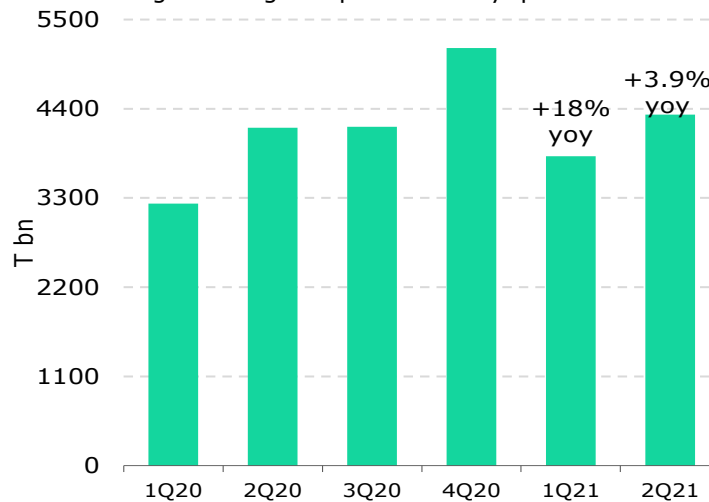


Source: Ministry of Finance of RK

**Budget expenditures increased by 3.9% yoy in 2Q2021**

In the second quarter of this year, state budget expenditures increased by T0.2 trln yoy to T4.3 trln, while their growth rate slowed to 3.9% yoy compared to 18% yoy in the first quarter. The total amount of state budget expenditures for the first half of 2021 amounted to T8.3 trln, an increase of 10.1% yoy. Such dynamics of budget expenditures indicate the preservation of a stimulating budgetary policy in the conditions of widespread anti-covid restrictions in the country.

Fig. 5. Budget expenditures by quarter



Source: Ministry of Finance of RK

Based on the results of the first half of 2021, a noticeable increase was noted for the most expenditures of the state budget, with the exception of expenditures on the economy, which decreased by 5.6% yoy, outlays on utilities shrank by 14.2% yoy, and costs on culture sector were also down by 2.6% yoy. In total, expenditures under these budget items were lower by T113 bn compared to the same period last year.

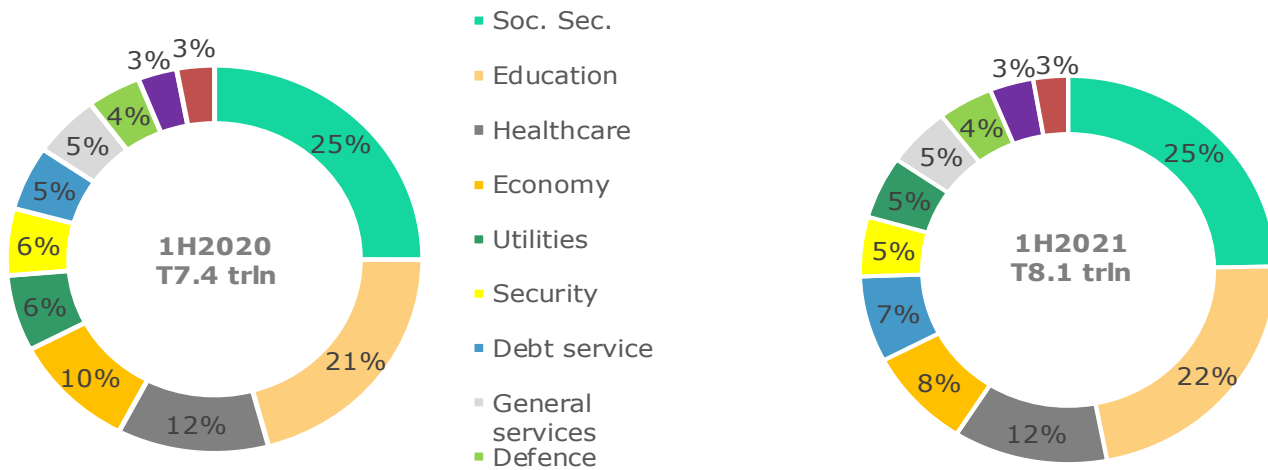
The first place in terms of the growth rate of budget spending was retained by expenditures on servicing the public debt, which increased by 47.2% yoy to T584 bn. As a result of the increase in the volume of borrowings, the share of debt servicing expenses in the total expenditures of the state budget grew in the 1st half of 2021 to 7% from 5% for the same period last year.

Expenditures on other budget items increased by 27.9% yoy. Among them, the largest were expenses for business support, regional development and financing of the Astana IFC.

State budget expenditures on education went up by 18.1% yoy, therefore, the share of this item in the structure of total expenditures increased from 21% to 22% in 1H2021. Due to the unfavorable epidemiological situation, healthcare expenditures continued to rise, with an increase of 11.9% yoy.

Expenditures on social security also expanded significantly (+8.6% yoy). Spending on security was higher by 2.7% yoy, while defense outlays increased by – 12.4% yoy.

Fig. 6. Structure of budget expenditures, %

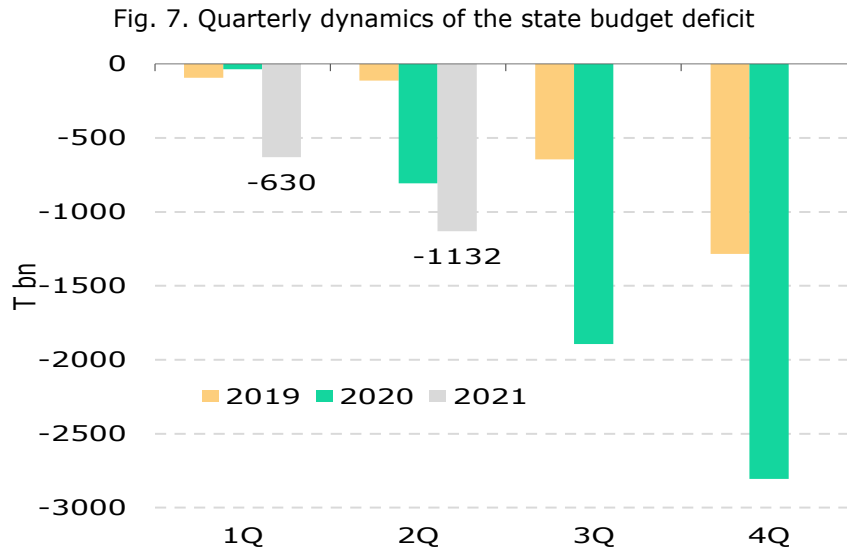


Source: Ministry of Finance of RK

**The state budget deficit widened in 2Q2021**

Despite the outstripping growth of revenues in the second quarter by 64.4% yoy to T2.9 trln excluding NF transfers (T1.8 trln 2Q2020) in comparison with state budget expenditures, which increased by 3.9% yoy to T4.3 trln (T4.2 trln 2Q2020) amidst a decrease in transfer receipts to the budget by T1.1 trln, the deficit continued to expand rapidly and reached T1.1 trln in the second quarter of 2021 (+40.3% yoy). At the same time, the state budget deficit for the whole of 2019 amounted to T1.3 trln.

The total size of the state budget deficit this year is projected by state agencies at the level of T2.8 trln, which is comparable to the one in 2020. Given the positive dynamics of oil prices, fixed at about \$70 per barrel, which is higher than the \$60 budgeted, it cannot be excluded that the state budget revenues will be higher than planned, which in turn will have a positive impact on the budget deficit, which may be lower than planned.



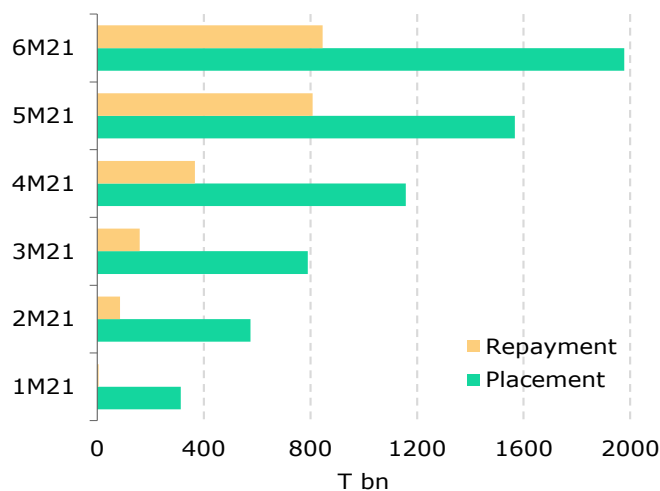
Source: Ministry of Finance of RK

**Expansion of borrowings of the Ministry of Finance of RK**

The volume of borrowings of the Ministry of Finance of the Republic of Kazakhstan in the first half of 2021 increased significantly, approaching T2 trln (+58% yoy), while only T1.2 trln was attracted in the same period last year. At the same time, the number of repayments also rose and amounted to T846 bn, which is almost 2 times higher than in the first half of last year. Respectively, the net volume of borrowings also expanded and came at the level of T1.1 trln (T807 bn in 1H2020).

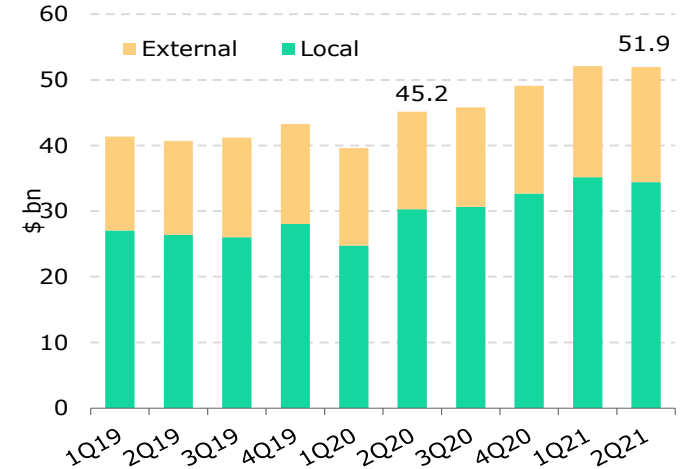
The amount of public debt according to the Ministry of Finance of the Republic of Kazakhstan increased from T20.6 trln at the end of 2020 to T22.2 trln (\$51.9 bn) at the end of 1H2021. External liabilities expanded by 8.6% since the beginning of the year, internal – by 7.2%. The growth of external loans was due to the receipt of a loan from the Asian Infrastructure Investment Bank in the amount of T337 bn and the placement of sovereign ruble bonds of the Republic of Kazakhstan in the total amount of 40 bn rubles (~T232 bn).

Fig. 8. Attraction and repayment of the MF of RK in 1H2021



Source: Ministry of Finance of RK

Fig. 9. Dynamics of the state debt of the Republic of Kazakhstan, \$ bn



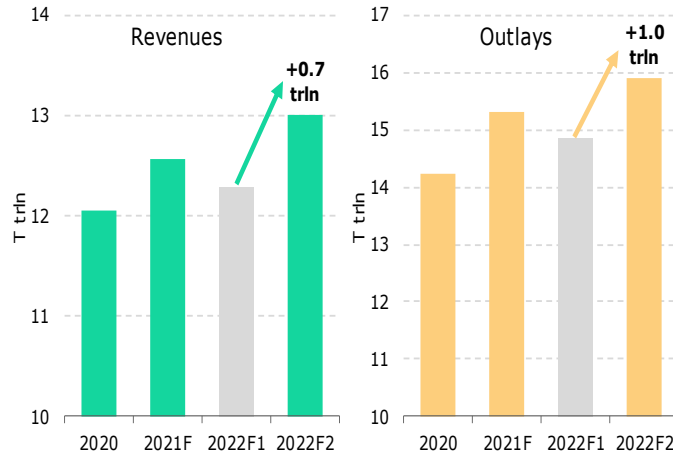
Source: Ministry of Finance of RK

**Growth of budget expenditures in 2022 will strengthen procyclical nature of the state economic policy**

On August 24 of this year, the updated forecasts of socio-economic development and new budget parameters were considered at a Government meeting. The average annual cost of oil, budgeted for the current and next year, was increased from \$50 per barrel to \$60 per barrel. As part of the clarification of the forecast parameters of the republican budget for the current year, revenues and expenditures went up slightly, by less than 0.1%, while the budget deficit forecast remained unchanged. The forecast of revenues to the republican budget for 2022 was higher by T0.7 trln relative to the previous forecast (T12.3 trln), which assumed that revenues in 2022 would decrease by T0.3 trln compared to 2021. The planned transfers from the National Fund to the budget next year did not change – T2.95 trln, the decrease compared to the current year will be significant T1.6 trln.

The planned expenditures of the republican budget for the next year have undergone a more significant adjustment, having increased by T1 trln compared to the previous forecast, which assumed their reduction by T0.5 trln relative to 2021. As a result of a more noticeable rise in planned budget expenditures in comparison with revenues, the projected size of the budget deficit have grown by T0.3 trln to the forecast value for 2022 of T2.9 trln. If the previous forecast assumed a reduction in the budget deficit relative to 2021, then according to the new forecast, it is planned to expand it.

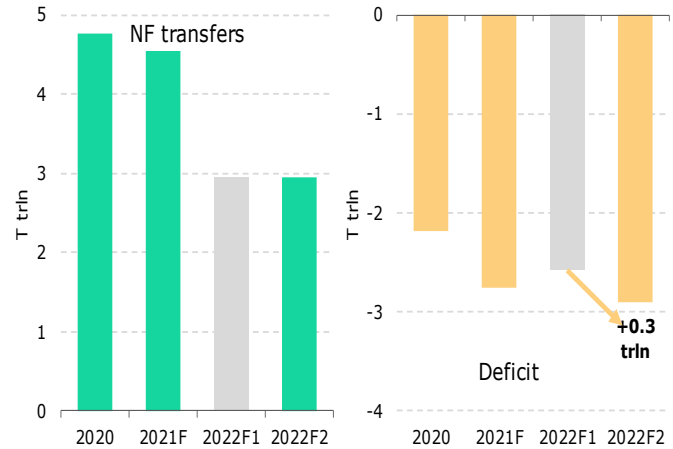
Fig. 10. Updated forecast of budget revenues and expenditures in 2022



F1 - previous forecast; F2 - updated forecast

Source: Ministry of Finance of RK

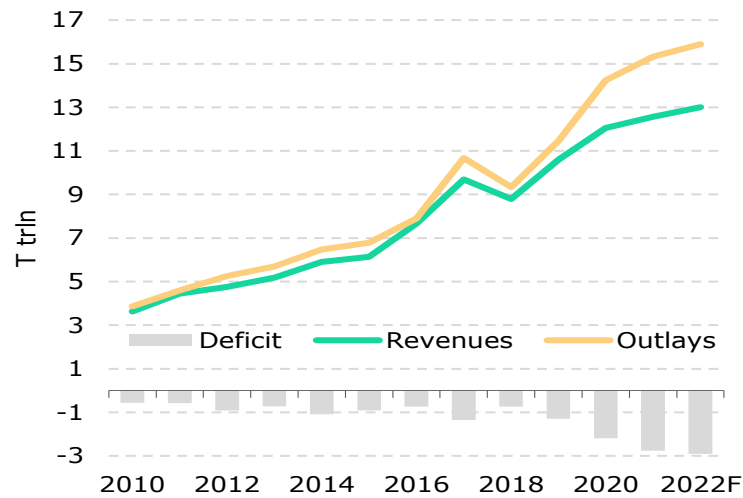
Fig. 11. Updated forecast of NF transfers and budget deficit in 2022



F1 - previous forecast; F2 - updated forecast

Source: Ministry of Finance of RK

We emphasize that until 2019, the Government was guided by a more balanced approach in managing public finances, as a result the size of the budget deficit did not show a significant increase and did not exceed T1.1 trln or 3% of GDP. However, in the last few years, expenditures have been growing at a faster pace, causing a significant expansion of the republican budget deficit: by the end of 2020, it grew by almost T0.9 trln to T2.2 trln, this year the deficit according to Government forecasts will amount to T2.8 trln (+26% to the 2020 deficit), with an increase to T2.9 trln in 2022 (+33% to the deficit in 2020).

**Fig. 12. Acceleration of spending growth and expansion of the budget deficit**


*Source: Ministry of Finance of RK*

The planned increase in budget expenditures instead of reduction amid a decrease in the size of transfers from the National Fund will lead to the need of expanding the volume of borrowings of the Ministry of Finance of the Republic of Kazakhstan to finance the budget deficit (more than 3% of GDP in 2021-2022), which will lead to a further rise in the public debt of the Republic of Kazakhstan. The state debt of the Republic of Kazakhstan has increased from 14% in 2010 to about 30% of GDP at present. In turn, the continued fiscal stimulus of the economy will be accompanied by the sustenance of inflationary pressures in the economy, which will restrain the decline in market interest rates and may lead to the growth in the cost of servicing new borrowings of the Ministry of Finance of the Republic of Kazakhstan.

Thus, the prolonged pro-cyclical stimulation of the economy will increase the overall level of the state's debt burden and surge in the cost of debt servicing. At the same time, if the risks of a sharp and prolonged drop in oil prices are realized, this may lead to a decrease in the country's sovereign credit rating.

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