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Kazakhstan labor market – moderate growth

Abstract

Analyzing changes in the labor market since the publication of our [previous overview](#), judging by the data on real wage growth of 2.3% and employment growth of almost 1% in 2018, we can conclude that the labor market has finally got out of the crisis. However, the past crisis, when real wages continuously declined for three years in 2015-2017, did not give way to serious positive changes, the share of self-employed remains high and close to a quarter of all employed, the share of those employed in SMEs didn't change, the brain drain increased. The salaries of ordinary specialists are rather low by world standards, the growth of the economy has broken away from the growth of real wages, as a result of which they have to be raised, including at the expense of the National Fund and administrative measures to suppress inflation.

In the last 5 years since 2013, the working age population (15-64 years old) has stabilized at the level of 11.6 million people. Against this background, a small increase in the employed population by 1% to 8.7 million people in 2018 led to an increase in its share in the total working-age population to 75% from 74% in 2017. This change is due to a combination of increased demand for workers due to economic growth and a decrease in the number of young people entering the labor market for the first time due to the demographic decline in the 90s.

As we noted in the previous report, the official data on the self-employed are questionable, since they are calculated by statistical bodies on the basis of population polls. In this case, it is likely that their number is derived according to the residual principle in order to maintain an acceptable level of unemployment. For example, with the launch of medical insurance of the population, government agencies had serious difficulties in identifying and counting the exact number of all categories of the population.

With the gradual reduction of employment in agriculture, the number of self-employed decreased to 2.1 million in 2018, or 24% of the total employed population from 25% a year earlier. As a result, the share of hired employees increased to 76%, which can be characterized as a positive change in the direction of greater transparency in the employment market.

At the end of 2018, the statistics records a steady decline in the unemployed to the succeeding minimum of 440 thousand or 4.9%. Nevertheless, against the background of low unemployment and external appearance of stability of the labor market, 3.8 million people, according to our estimates, do not have permanent, official work.

The service sector is increasing its importance for employment in the economy: in 2018, the proportion of people employed in it reached 73%, an increase from 59% in 2008. In overall industry, employment slightly increased to 13% from 12%, while in agriculture it decreased from 30% to 14%. As a result, there is a movement of workers from backward agriculture to inefficient service industries, but the service sector is completely dependent on the redistribution of funds from the resource sector of the economy and the state budget and cannot be an independent driver of economic growth.

Employment in small and medium business since 2014, despite the growth in absolute terms, shows stagnation in relative terms – the share hasn't changed from the level of 37% of total employment. This indicates obstacles to the development of SMEs, although in developed and developing countries the share of employed in SMEs is about two times higher than in Kazakhstan.

After three years of recession, real wages eventually showed an increase of 2.3% in 2018. Over the same period, inflation slowed down by almost 2%, which is most likely determined such an increase. Real wages increased in almost all sectors, with the exception of only the health sector, the real estate transaction sector and other services. Comparison of wages in CIS countries in recent years speaks against Kazakhstan's advantage – the gap with most countries has narrowed, while the gap with Russia has increased.

The difference in the level of remuneration of managers and middle-level employees in Kazakhstan is at a rather high level. For example, in metallurgy, the difference between the salary of the head and the average differs 10 times, in the financial sphere – 8 times, in construction – 4 times. In the public sector, the gap is the smallest – about two times. At the same time, a comparison of the salaries of these workers in developed countries indicates a low salary for ordinary employees, that, for example, are 8 times lower than those in Germany, while the difference in pay for managers is about two-fold.

Following the prices of raw materials, labor productivity in both the primary and non-primary sectors showed growth in 2017 and 2018. At the same time, in the service sector, growth is still very weak, limited to the low-performing public sector – education, healthcare, public services. Taking into account agriculture, 40% of all workers are employed in these sectors, while labor productivity is three times lower than the average for the sectors.

Imbalances in the labor market, in our opinion, are due to the commodity structure of the economy, the low competitiveness of private sector, the huge shadow sector and the ineffective state intervention in the economy, which through state programs subsidizes low-quality employment. The problem of the labor market is aggravated by the lack of progress in urbanization – the proportion of the rural population has not changed since the collapse of the USSR.

Since 2012, Kazakhstan has also been experiencing an increasing outflow of population – the negative balance of migration is increasing. The Republic suffers large losses of qualified specialists, while people mostly with a lower level of education and in a smaller number come in.

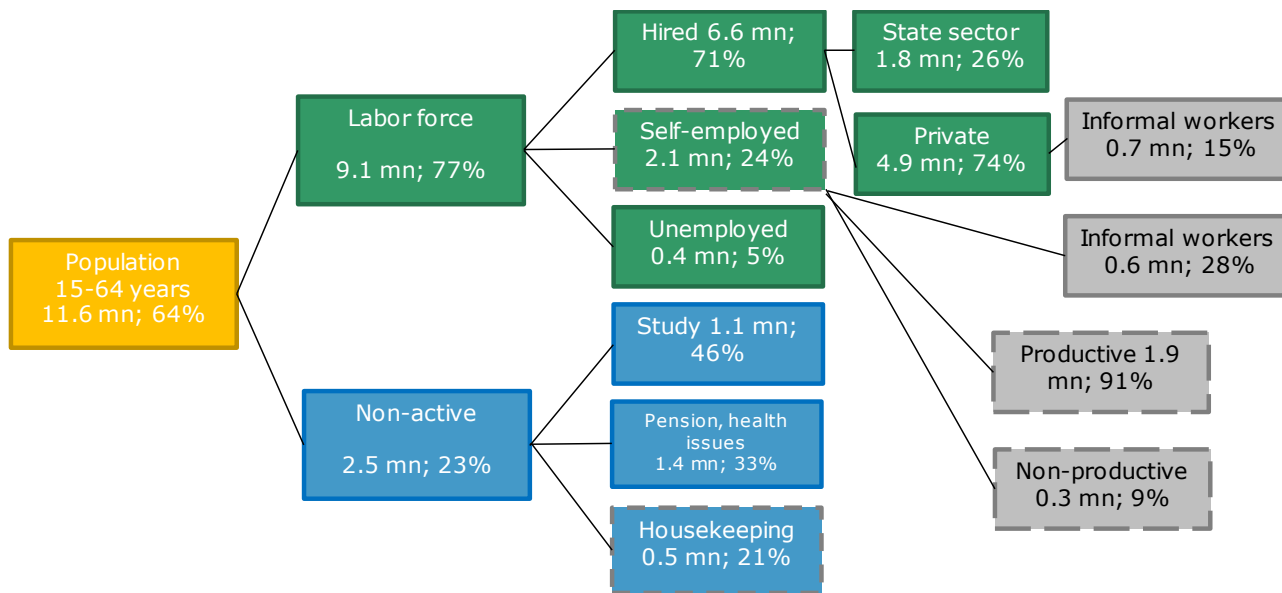
The economy showed a good growth rate of 4.1% in 2017 and 2018, with the decisive contribution of the commodity sector, helped by oil prices, which showed an increase of 30% annually. Statistics shows a faster growth in employment in the services sector compared to industry, where labor productivity is low, which is reflected in a weak growth in real wages. Against the background of a positive growth in the economy in the last two years, the state mainly spent money on saving the banking system, which exceeded 6% of GDP. However, lending to the economy did not restart, the share of loans to GDP decreased from 24% in 2017 to 21% in 2018. As a result, in the non-primary sector of the economy even with improved macroeconomic indicators, business activity remains limited.

As a result, we can conclude that a fairly good economic growth in Kazakhstan over the past 2 years has not transformed into real wage growth, as a result the government has to, among other things, use the means of the National Fund and use the mechanisms of non-market administrative measures to hold down inflation to improve the welfare of the population. New initiatives to increase the compensation of low-wage state employees, according to our estimates, will contribute to the growth of real wages by 3.5% in 2019 and 2020.

Labor market structure

As was noted, the working-age population of 15–64 (Fig. 1,2) in Kazakhstan virtually has not changed in recent years and has been fixed at about 12 million people. There is a decrease in the number of young people aged 16–24 due to the demographic decline in the 90s by 400 thousand since 2012 and by 90 thousand in 2018. In its turn, the ranks of workers are replenished by increasing number of active population that had not previously participated in the labor market by half a million since 2012 and by more than 100 thousand in 2018. The share of employed population in 2018 increased to 75% in the working-age population from 74% in 2017, reaching 8.7 million, which is the best indicator in recent years.

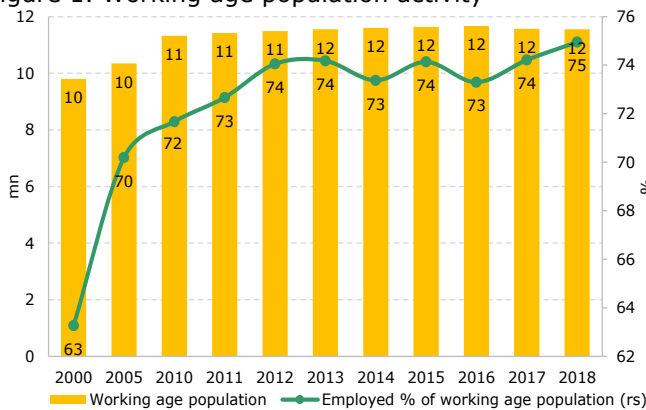
Labor resources breakdown (2018)



- do not have permanent socially secure jobs 3.8 mn people or 33% of total working age 15-64: 2.1 mn self-employed; 0.4 mn unemployed; 0.7 mn informal workers; 0.5 mn non-active

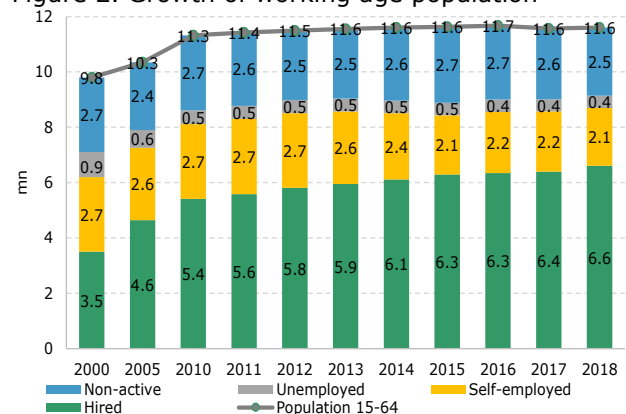
Breakdown by the components of working-age population (15-64 years) in 2018 was: 6.6 million employees with an increase of 0.2 million compared to 2017, self-employed 2.1 million a decrease of 0.1 million, unemployed 0.4 million unchanged, inactive, the number of which decreased by 0.2 million. Thus, there is a tendency to a reduction of self-employed and inactive individuals with a concomitant increase in hired workers.

Figure 1. Working age population activity



Source: CS MNE

Figure 2. Growth of working age population

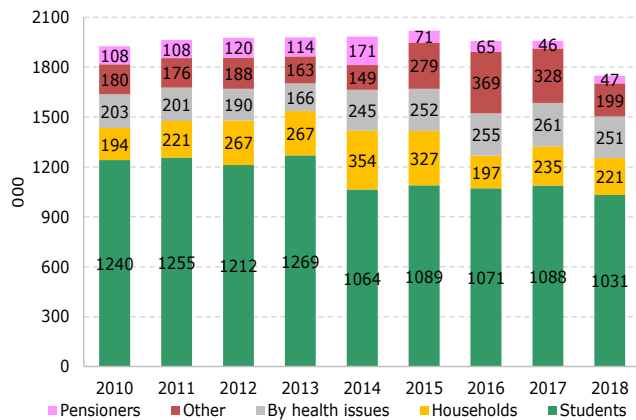


Source: CS MNE

Non-active population

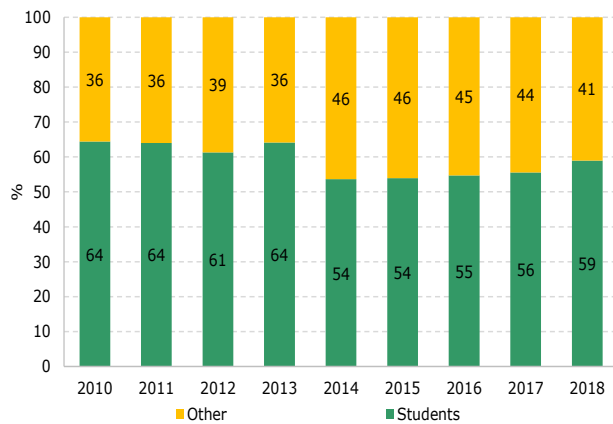
The number of inactive population aged 16–58/63 in 2018 fell to 1.7 million people (Fig. 3) from 2 million and higher earlier. The decrease in their number was due to all categories of persons belonging to the inactive population, except for pensioners, whose number has slightly increased. We do not know who is counted among the others category, therefore, it is unclear what caused the decrease in their number by 130 thousand. Recall that the number of persons not participating in the labor market includes full-time students, whose share exceeds 60% of their total number (Fig. 4), people of retirement age, housekeepers and people with health problems.

Figure 3. Non-active population (16-58/63)



Source: CS MNE

Figure 4. Non-active population breakdown

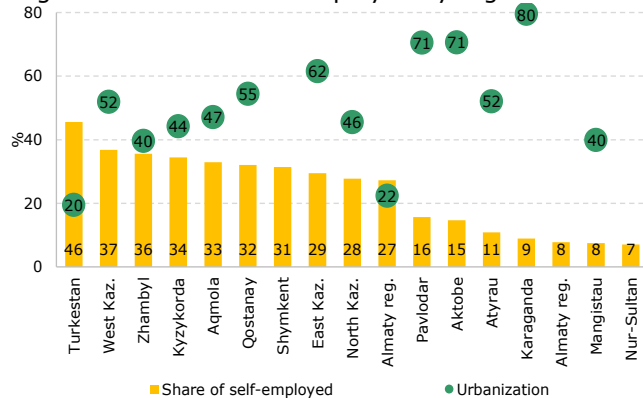


Source: CS MNE

Self-employed

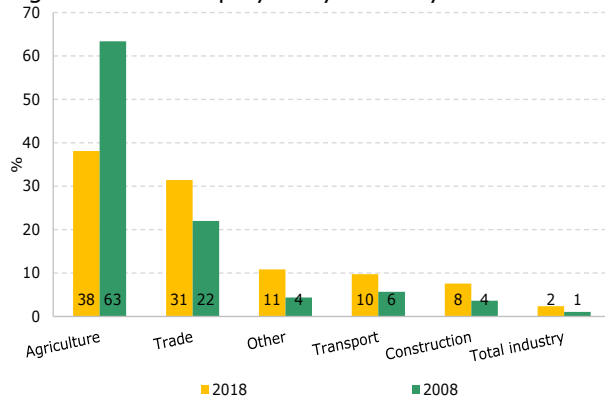
The main feature of self-employed is their dominant prevalence in rural areas, especially in the southern highly populated regions (Fig. 5). For example, in the Turkestan region, with 80% of the population living in rural areas, almost half of the employed are self-employed. This, in turn, determines the employment profile, with the result that the share of self-employed in agriculture is the highest and equal to 38%, although strong progress is recorded – in 10 years the share of self-employed has decreased from 63% (Fig. 6). In other industries, the share of self-employed is predominantly growing, but it should be noted that all this is the service sector, i.e. without appropriate education, qualifications, self-employed from rural areas can find a job mainly in low-productive niches in the role of sellers, drivers, handymen.

Figure 5. Share of self-employed by region



Source: CS MNE

Figure 6. Self-employed by industry



Source: CS MNE

The share of self-employed population after a small increase to 26% in 2016 again declined to 25% in 2017 and 24% in 2018 (Fig. 7). The main reason for the decline in the number of self-employed population is the reduction in the number of people employed in agriculture – as is known, almost half of the self-employed are listed as employed in agriculture. At the same time, as we noted in the previous report, the official data on the self-employed are questionable, since they are calculated by statistical agencies based on population surveys, and it is likely that their number is derived according to the residual principle for maintaining an acceptable unemployment rate. For example, in relation with the launch of medical insurance of the population, government agencies had serious difficulties in identifying and counting the exact number of all categories of the population and, as far as we know, there is still no complete clarity with this issue.

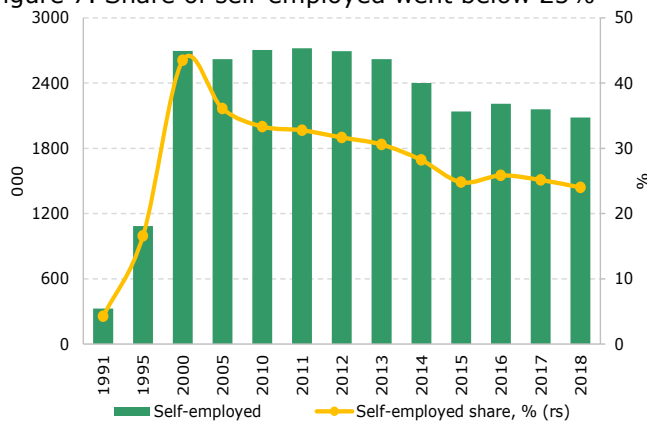
Since 2019, a single aggregate payment has been introduced for entrepreneurial people, which implies a self-employed population. At the same time, the size of this monthly payment is set at a very low level of 1 monthly calculable indicator for cities and 0.5 in rural areas. As conceived by government agencies, this measure will help self-employed population to get out of the shadows and provide them with social guarantees. In our opinion, this initiative will have a weak effect in the medium term, since there are no incentives for people with unstable incomes to declare their self-employment. For example, the coverage by the accumulative pension system is approximately 76% of the employed population.

For example, in China from the current year, the population with incomes of less than 5,000 yuan per month (T275 thousand) is generally exempted from income tax, despite the fact that the minimum wage varies within 1,150-2,420 yuan (T63-T133 thousand). This increases the disposable incomes of the low-income population and increases personal consumption, which stimulates economic growth, maintaining the competitiveness of the economy. On the contrary, in Kazakhstan, state support is often directed not at end-users, but at private and state-owned companies, which discourages them to increase their efficiency.

Over the past 10 years there are multidirectional trends in the share of self-employed population in the world. If in Italy, Norway and France there was a reduction in the share of self-employed, the opposite situation was observed in the developing countries, for example, in Brazil their share increased by 8pp to 29%, in Mexico +4pp to 27%, in Romania +6pp to 25%, in Turkey +8pp to 28% (Fig. 8). In Kazakhstan, over the same period, the number of self-employed decreased by 10pp to 24%. Thus, in Kazakhstan there is a decrease in the number of self-employed and growth of employees, which can be viewed as a positive process if it contributes to their exit from the shadows.

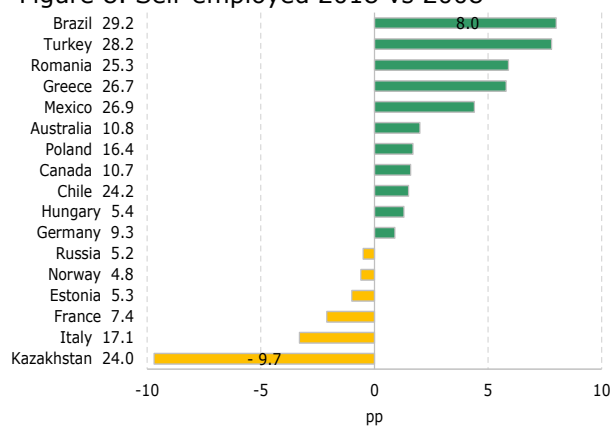
It should be noted that the share of self-employed is the highest in rural areas, where people, because of the inexistence of alternatives, lack of qualifications, or transport infrastructure, are blocked and forced to engage in non-commercial agricultural activities. The level of urbanization in Kazakhstan is currently at the 1990 level of 57%, which predetermines a high level of self-employed. For example, in Russia the urban population is 74% with a share of self-employed at 5%, in Poland 40% live in rural areas, while the share of self-employed is 16%.

Figure 7. Share of self-employed went below 25%



Source: CS MNE

Figure 8. Self-employed 2018 vs 2008



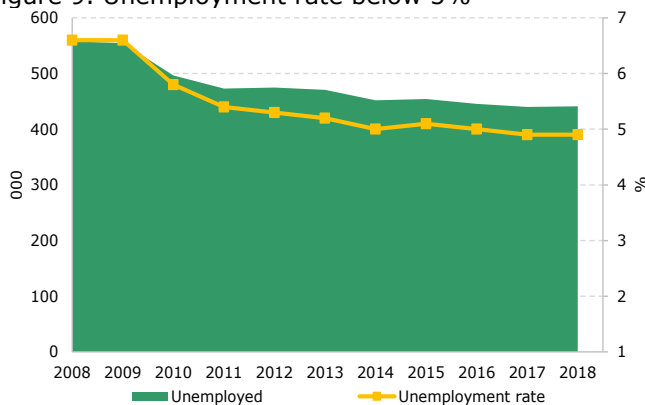
Source: CS MNE, OECD

Unemployed

The number of unemployed and the unemployment rate materially did not change in 2018, amounting to 440 thousand people or 4.9% (Fig. 9). As we noted earlier, unemployment benefit is very low and does not exceed 30% of previous earnings (in OECD countries, the replacement rate is 50%), so people prefer not to register as unemployed. In addition, the self-employed face the problem of the lack of social contributions and the ability to prove their lost employment. As a result, the unemployment rate in Kazakhstan is continuously falling and not only almost the lowest in the CIS, except Moldova, but also comparable to the unemployment rate in the developed countries of the West, in particular, in Australia (5%), Luxembourg (4.9%), Austria (4.8%).

The lack of any link between the unemployment rate and the change in the state of the economy, in our opinion, speaks of the low priority of the unemployment problem for government agencies, for whom it is easier to assign a certain category of persons to the category of self-employed and thereby obtain a low unemployment rate. No one argues that all self-employed are unemployed, however, it is clear that most of them have unstable employment, depend on occasional earnings, including seasonal work and had the chance to get adequate work, would prefer to work for hire, or engage in small businesses with more favorable economic conditions, as was the case before the crisis of 2008–2009.

Figure 9. Unemployment rate below 5%



Source: CS MNE

Figure 10. Unemployment and economy

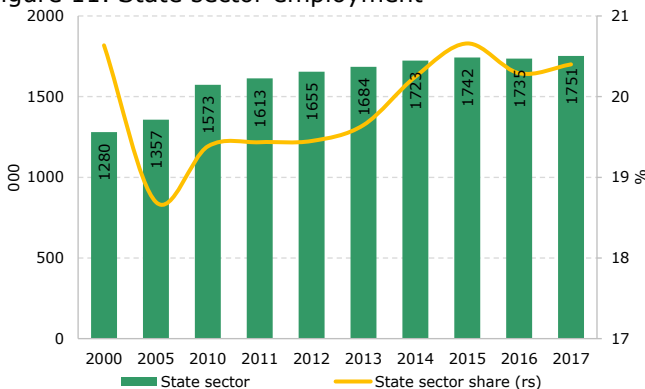


Source: CS MNE

State sector

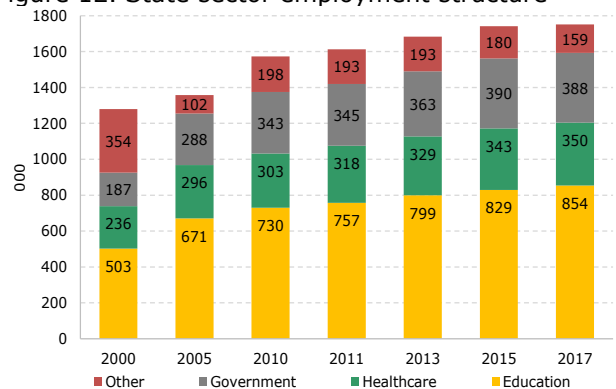
Employment in state structures plays a very important role in shaping the labor market in Kazakhstan. In government organizations about 1.8 million people were employed in 2017 (data for 2018 has not yet been published), which corresponded to more than 20% of the total number of employees, while at this level this high value has been maintained since 2014 (Fig. 11). The main share of people employed in the public sector is in the field of education and health care (Fig. 12). The growth of employment in the public administration and in the public sector in 2010-2017 amounted to 20% of the total employment growth of employees. When accounting for national holdings (350 thousand workers), the share of public sector in total employment is approaching 25%.

Figure 11. State sector employment



Source: CS MNE

Figure 12. State sector employment structure



Source: CS MNE

Employment by industry

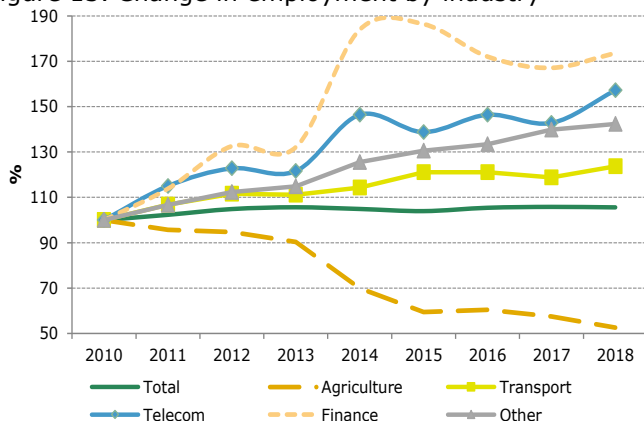
In 2018, employment in all sectors of the economy grew moderately by 75 thousand or almost 1%, to 8.7 million. In overall industry, employment last year remained almost unchanged, thereby almost all growth occurred in the service sector. Thus, employment in the telecommunications sector increased by 8.7%, in the field of art, entertainment and recreation by 7.4%, in the financial sector by 5.3%. In general, employment in the services sector increased by 162 thousand people, and decreased by 87 thousand in agriculture (Fig. 13). Observing a significant increase in employment in the financial sector, we can note an increase in the activity of microfinance organizations: whereas in large and medium-sized enterprises employment slightly decreased since 2010 from 70 thousand to around 60 thousand, in small enterprises employment became predominant and exceeded 120 thousand. This can be explained by problems in the banking system, the increase in organizations resolving banks' problem loans, the expansion of opportunities for financial services based on Internet platforms, and the weak regulation of microfinance organizations.

The trend for the prevalence of services in employment in the economy persists due to faster growth compared with other sectors. Thus, in 2018, the share of people employed in the service part of the economy reached 73%, having increased from 59% in 2008, slightly increased in industry to 13% from 12% 10 years earlier, and decreased in backward agriculture from 30% to 14%. Considering that in developed countries, the service sector produces 70%-80% of GDP, while in Kazakhstan only 54%, this trend is seen as long-term. Thus, the movement of workers from inefficient agriculture occurs in almost the same inefficient services sector, where, although there is no external competition, but the incomes is also low (not counting workers from the border countries, which are mainly engaged in construction).

The achievement of 2018 can be considered the fact that for the first time since 2005, the number of persons making social contributions exceeded 52% of the total employed population, whereas previously it did not exceed 47%. Nevertheless, it can once again be stated that the labor market remains non-transparent, almost half of the employed people do not make regular social contributions and are actually employed in the shadow economy. Against this background, regular reports of state bodies on the success in employment of citizens in the framework of various programs seem to be divorced from reality.

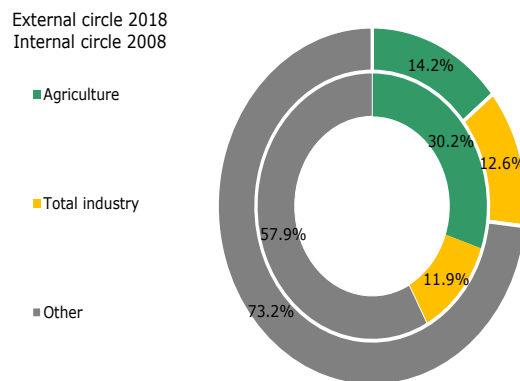
A comparison of employment figures for the economy demonstrates an obvious fact – the structure of the economy continues to be heavily tied to natural resources (Fig. 14). The share of people employed in agriculture declined from 30% in 2008 to 14% in 2018. In agriculture, employment has been declining constantly, decreased by 1 million since 2010, although there are doubts that all these people were actually employed there due to poor accounting. For comparison, in Russia, with a similar share of agriculture in GDP of about 4%, the share of workers employed in it is less than 7% of the total. In other sectors, employment increased by a similar amount, which decreased in agriculture and remained almost unchanged in industry. Such a substitution of agricultural workers employed in the service sector, with a low wage level in the latter, indicates the absence of serious qualitative changes in the structure of employment. Such a structure of employment with a bias toward the services sector with a very small productive mining sector is fraught with negative consequences in the long term, due to the finiteness of natural resources and active development of technologies in developed countries, leading to a decrease in dependence on raw materials. To this we must add that in Kazakhstan almost 3 million self-employed and informally employed in general are mainly engaged in the shadow economy and create competition for those who are officially employed.

Figure 13. Change in employment by industry



Source: CS MNE

Figure 14. Employment by industry



Source: CS MNE

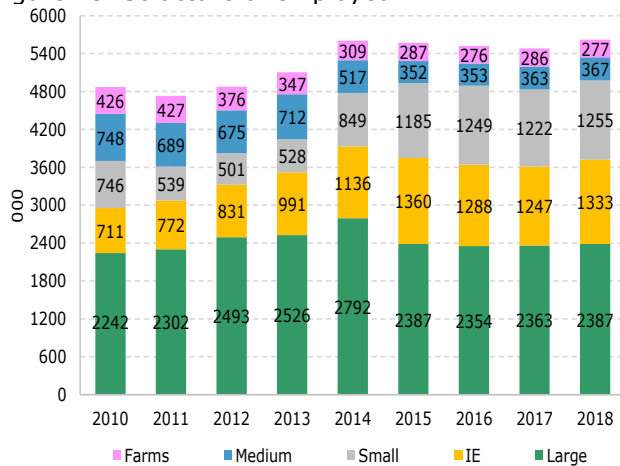
Employment by size of business

The share of employed in small and medium business in total employment in 2010-2013 was at the level of 32%. Since 2015, the share of people employed in small and medium-sized businesses increased to 37% (Fig. 16), which was also influenced by the reclassification of medium-sized enterprises, as a result of which a significant number of medium-sized enterprises became small. Since November 2014, the criterion for attributing to small business in terms of the number of employees has been increased from 50 people to 100, respectively, this affected the medium business, for which the boundaries narrowed from 50-250 to 100-250.

The corresponding changes in the number of people employed in SMEs were expressed in the growth of employment in small enterprises to 39% in the total number of people employed in SMEs from 28% in 2010. In medium-sized enterprises, employment fell from 28% to 11%, respectively, and at farms, the share of employed in the same period decreased from 16% to 9%. At the same time, the share of individual entrepreneurs increased to 41% from 27% in 2010.

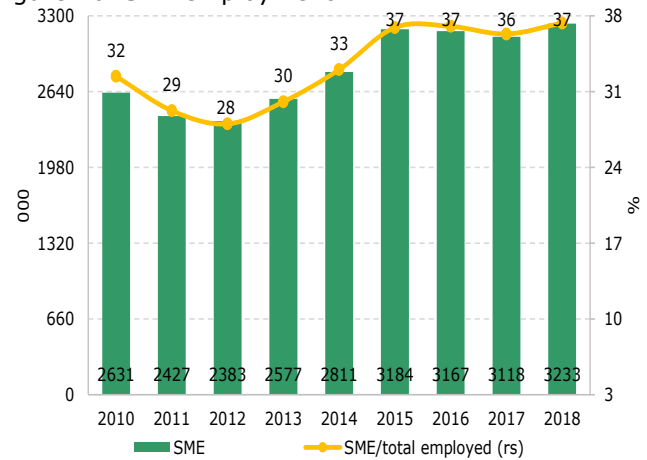
The data on employment in small and medium business for the last four years shows that despite the growth in absolute terms, their share at 37% of total employment has not changed. Thus, we can conclude that SMEs do not see opportunities to scale up their activities, although in developed and developing countries the share of SMEs is about two times higher than in Kazakhstan, for example, 67% in oil-producing Norway, 80% in Italy.

Figure 15. Structure of employed



Source: CS MNE

Figure 16. SME employment



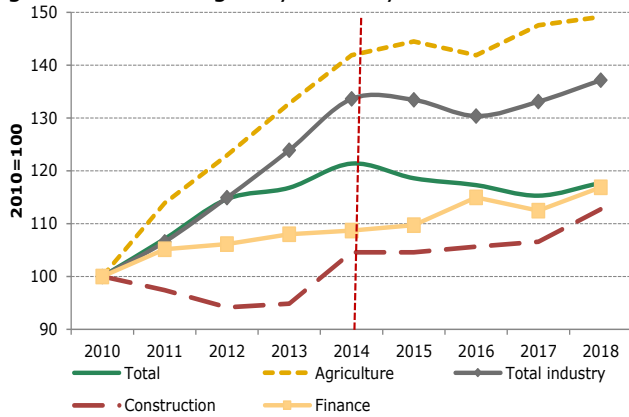
Source: CS MNE

Wages

Real wages showed an increase in almost all industries in 2018, with the exception being only the health sector (-2.6%), real estate operations sector (-1.7%) and other services (-8.5%). Note that the growth of real wages ceased in 2014. It is clear from statistics that only about half of the industries' real wages are currently above the 2014 level. Thus, in administrative and support services (rent, leasing, tourism, recruiting, office maintenance, etc.), real wages are 31% higher than in 2014, in real estate transactions by 10%, in construction and the financial sector by 8%. Outsiders are professional scientific and technical (law, accounting, consulting, advertising, research, etc.), where the drop to the 2014 level is almost 30%, 11% lower in healthcare, almost 8% in transport (Fig. 17). Growth in real wages in agriculture is due to the low base and relatively high yields in recent years. In industry, wages have always been more dynamic due to the extractive sector and after the recovery of commodity prices in 2017-2018 they grow again in real terms by about 2% per year.

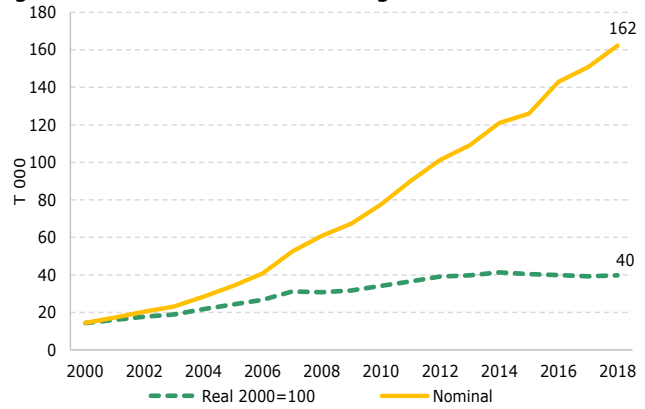
After three years of decline, real wages eventually reached a positive zone in 2018, with a 2.3% increase. At the same time, this growth is primarily due to a slowdown in inflation of 2% over the same period, and, given the low confidence in official inflation figures, there is no absolute confidence in the authenticity of real wage growth. The inflation factor makes significant adjustments to the real change in wages, for example, nominal wages have grown more than 10 times since 2000, but only four times adjusted for inflation (Fig. 18). As a result, at constant prices of 2000, the average salary of a citizen of the republic according to the last year results is only about T40 thousand. At the same time, since 2012, real wages remained stagnant, not keeping up with the rise in prices.

Figure 17. Real wages by industry



Source: CS MNE

Figure 18. Real and nominal wages



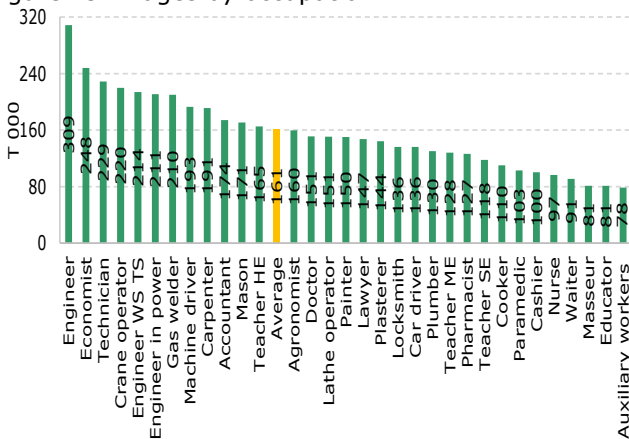
Source: CS MNE

Data on the size of wages by profession for September 2018 (Fig. 19) show that engineers (T308 thousand) and economists (T248 thousand) received the highest wages. It should be noted that engineers in the field of oil and gas production received about T800 thousand, while in food and agriculture, only T80-125 thousand, which reflects the huge gap in capital intensity and productivity between sectors of the economy. Close to the average (T161.6 thousand) wages were paid by masons (T171 thousand), university tutors (T165 thousand), agronomists (T160 thousand), doctors (T151 thousand). About two times lower than the average wage received livestock breeders (T81 thousand), educators (T81 thousand), auxiliary workers (T78 thousand).

In terms of industries, the highest wages of managers of organizations (Fig. 20) were observed in metallurgy (T1.8 million), in the financial sector (T1.5 million), lower wages were for managers in health care (T309 thousand), in education (T207 thousand). It is noteworthy that the higher the level of remuneration of managers, the greater the gap between them and middle-level employees' wages. For example, in metallurgy, the difference between the salary of the head and the average differs 10 times, in the financial sector 8 times, in construction 4 times, in the public sector the gap is the smallest – about two times.

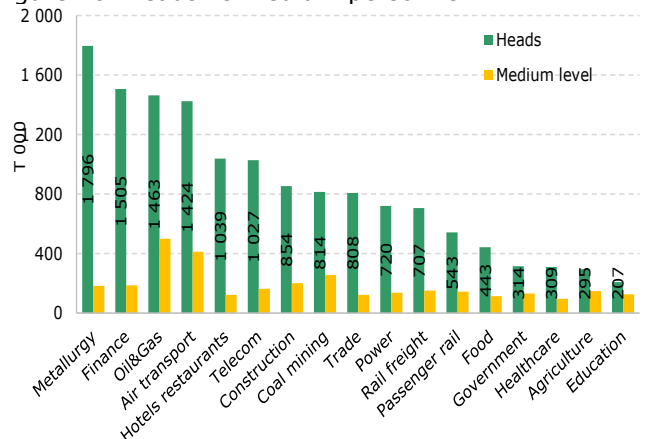
Based on data from the international consulting company Korn Ferry, the salaries of ordinary workers in Kazakhstan were 8 times lower than those in Germany, while the difference in pay for managers was only about two times. Based on these data, it follows that the high difference between the wages of workers and managers in Kazakhstan is made up of very low wages of ordinary workers, which is caused by their low productivity due to the non-diversified structure of the economy. Given the very large gaps in wage levels, it is obvious that only at the expense of the budget this problem is unresolvable and requires great efforts in the direction of the development of non-primary high-performance export-oriented enterprises.

Figure 19. Wages by occupation



Source: CS MNE

Figure 20. Heads vs medium personnel

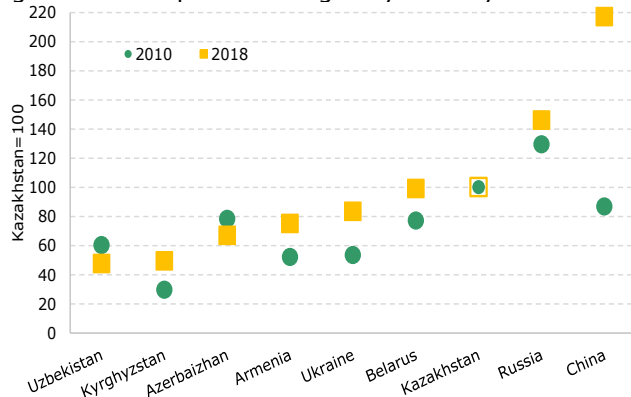


Source: CS MNE

In comparison with the partner countries, wages in Kazakhstan in USD began to lose ground. So, when in 2010 their level in Kyrgyzstan corresponded only to 30% of Kazakhstan's, by the end of 2018 it improved to 50%, in Armenia from 52% to 75%, in Ukraine from 54% to 83%, with Russia the gap in wages expanded from 129 to 146%. The worsening salary situation regarding Kazakhstani occurred only in Azerbaijan, where the peak oil production was passed, and Uzbekistan, where the transition to a market exchange rate occurred (Fig. 21).

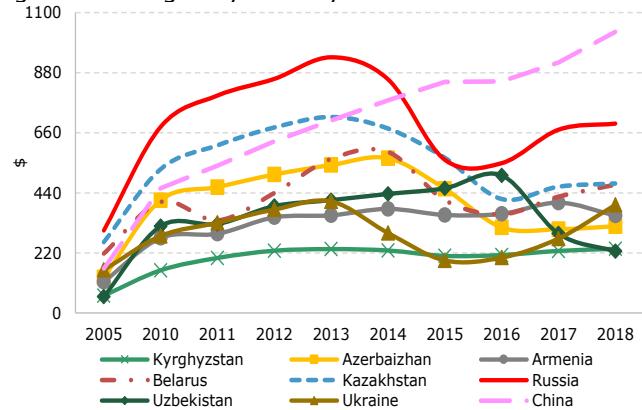
At the end of 2018, the average salary in Kazakhstan slightly increased in dollar terms to \$471 from \$463 in 2017, which is 34% lower than the peak at \$717 in 2013. For comparison, in Russia, wages from the peak were adjusted only by 26%, in Belarus by 20%, in Ukraine only by 3%, in Kyrgyzstan almost did not change (Fig. 22). It is obvious that the change in wages is due not only to labor productivity, which has shown weak dynamics in Kazakhstan in recent years. Significant impact also came from the weak tenge policy adopted by the National Bank after tightening Western sanctions against Russia at the end of March 2018, with the result that the tenge broke away from its fundamentally sound level and depreciated by 17% by the end of 2018.

Figure 21. Comparative wages by country



Source: CS MNE, EC, statistic agencies

Figure 22. Wages by country



Source: CS MNE, EC, statistic agencies

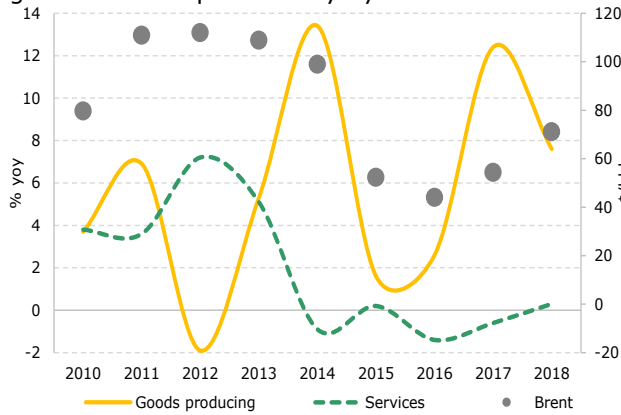
Labor productivity

Labor productivity, as well as the economy as a whole in Kazakhstan, strongly depends on the terms of trade. The failure of oil prices in 2015-2016 to less than \$50 per barrel led to a drop in productivity growth rates to 1.6%-2.6% from 5.5% earlier. Accordingly, the increase in oil prices in 2017 and 2018 annually by 30% was manifested in productivity growth of 12.4% and 7.4% (Fig. 23). The services due to government spending is less volatile, but in general it also follows oil prices, as it depends on household incomes, which in turn depend on the situation on the commodity market and the availability of bank lending.

As was noted above, wages in Kazakhstan by world standards are very low, according to this indicator, Kazakhstan holds the last place among the OECD countries, in whose ranks it seeks to enter. Considering that salaries are dependent on labor productivity, it can be noted that labor productivity lags behind the growth of the economy, showing an increase of 3.2% on average since 2010, with an average GDP growth of 5%. Rather eloquently about low labor productivity, speak corresponding indicators in the sectoral breakdown (Appendix 2). In agriculture, annual labor productivity was only \$5 thousand in 2018, the same in the public sector: in education, health care, and public utilities. In industry, labor productivity was \$43 thousand mainly due to the extractive industry with a figure of \$91 thousand. In most service industries, this figure was less than \$20 thousand. In addition, we note the low incomes of self-employed, which also testify to the low efficiency of their activities. Thus, the income of 82.4% or 1.7 million self-employed citizens was below T80 thousand, while more than 600 thousand people got income of less than T50 thousand per month in 2018. These figures explain the sharp contrast between the share of wages and GDP in Kazakhstan in comparison with other countries. In Kazakhstan, the share of wages to GDP is at a level of 30%, which by world standards is a very low figure, for example, in Russia it is 46%, in Belarus 47%, in developed economies above 50% (Fig. 24).

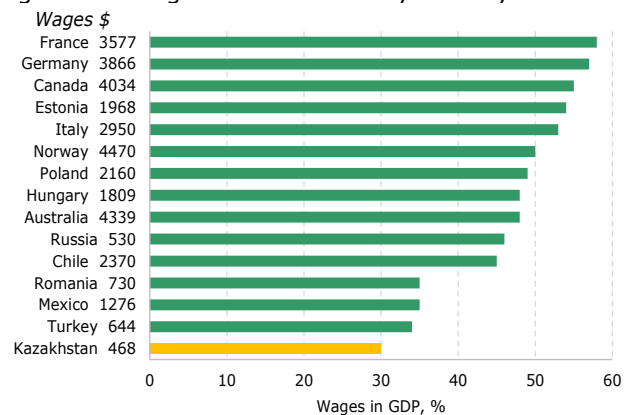
Based on the above, it becomes obvious that there are big problems with labor productivity in the non-primary sector, structural changes have stalled and serious investments are needed in the material base, human capital, innovations, infrastructure that most contribute to productivity growth in order to ensure an acceptable standard of living of the population. In Kazakhstan, there are savings of the Pension Fund and the National Fund, but for some reason the state prefers to direct their funds not for the creation of new plants and factories, but for the organization of international events, the salvation of private commercial banks and the growth of state-owned companies.

Figure 23. Labor productivity dynamics



Source: CS MNE, WB

Figure 24. Wages share in GDP by country



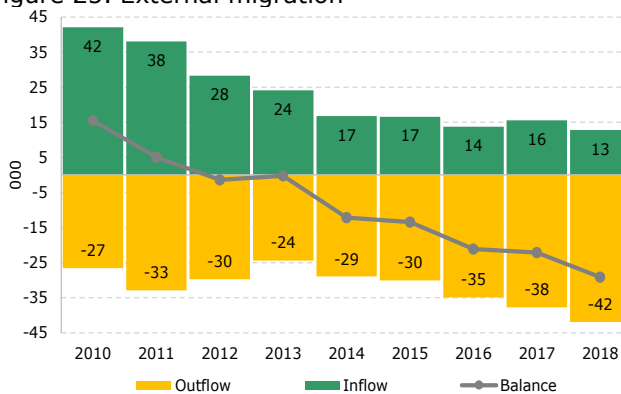
Source: CS MNE, OECD

External migration of human resources

Since 2012, Kazakhstan has been experiencing an increasing outflow of population from the country – the negative balance of migration is increasing, while the number of people wishing to move to the republic is shrinking. As noted above, comparative wages in Kazakhstan are losing their former positions, as a result, the outflow of human resources has increased. If in 2010-2015 an average of about 30 thousand people left the country annually (Fig. 25), then in 2016 their number increased to 35 thousand, in 2017 it reached 38 thousand, last year it increased to 42 thousand. The number of people arriving in the republic on the contrary decreased from 40 thousand in 2010-2011, to 16 thousand in 2017 and 13 thousand in 2018.

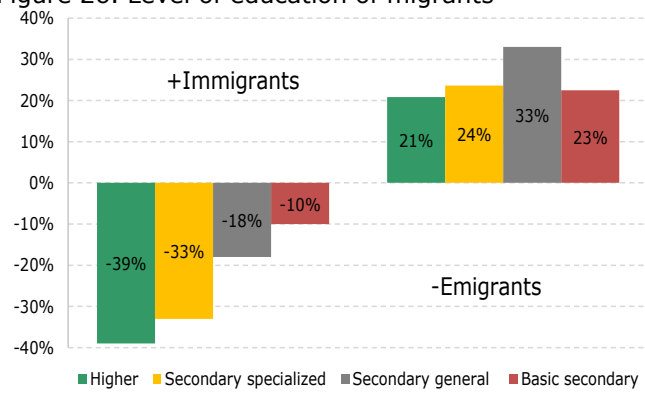
The data for 2018 on the level of education speaks of the prevalence of qualified specialists in the outflow, whereas among those who enter, the distribution by level of education is more in favor of those with only basic school education (Fig. 26). Given that the structure of the economy continues to be based on resource sector, the share of the manufacturing industry has been stagnating for several years and equals 11% of GDP. The share of employees in it remains at the level of 7% of total employment, the attractiveness of Kazakhstan for work dwindled, thereby stimulating the “brain drain”. It should be noted that in the field of education and health care, certified specialists prevail, but at the same time their wages are low, which forces people to seek a more remunerative application of their knowledge and experience in other countries.

Figure 25. External migration



Source: CS MNE

Figure 26. Level of education of migrants



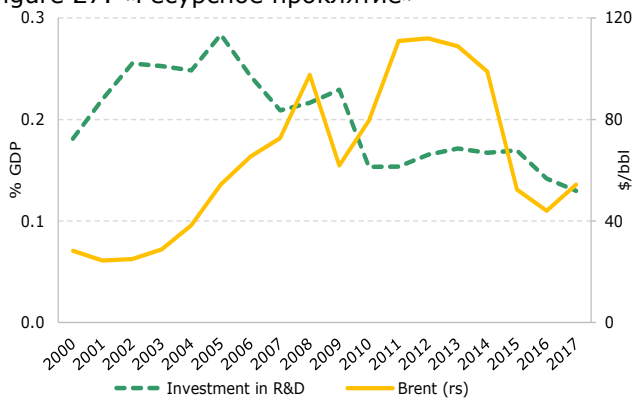
Source: CS MNE

In continuation of the “brain drain” theme, appear a pressing problem for the country the contraction of research and development (R&D) expenditure. Since 2010, research and development expenditures in Kazakhstan do not exceed 0.2% of GDP and are close to 0.1% of GDP by now (Fig. 27.28). Such low R&D spending look even more depressing when you consider that the share of enterprises in research and development is less than half of all funds – 41%. This again may indicate a progressive state of the “resource curse” when the non-primary sector has limited development opportunities and does not have the resources or does not want to invest in innovations. At the same time, the non-primary sector provides employment for the majority of the working-age population, but the quality of employment is getting worse.

The data on R&D expenditures and oil prices since 2000 quite well illustrate the current situation: the higher the oil prices rose, the lower went the spending for scientific research (Fig. 27). Compared to other countries, Kazakhstan is among outsiders by research and development expenditures and by the number of scientific personnel involved in research, lagging far behind Malaysia, Turkey, Russia and many other countries (Fig. 28).

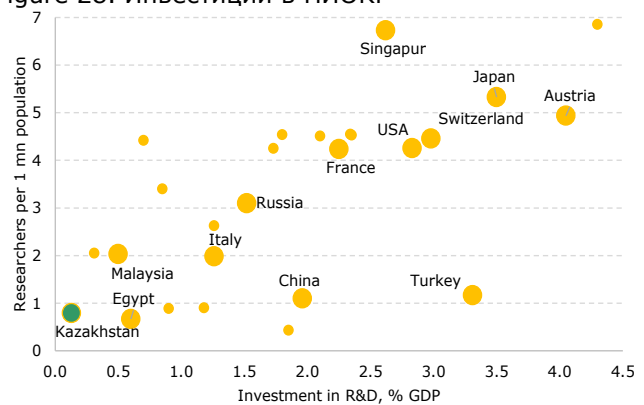
Based on such data, it can be stated that the economy does not generate demand for highly qualified specialists, investment in research and development is extremely small and does not lead to the production of marketable products with high added value. In addition, despite the success of the application of artificial intelligence, robotization, numerous developed and developing countries are making efforts to attract labor resources. As a result, under the influence of growing external demand and simplifying the structure of the economy of the republic, it can be expected that the quality of human resources will continue to deteriorate.

Figure 27. «Ресурсное проклятие»



Source: CS MNE, WB

Figure 28. Инвестиции в НИОКР



Source: CS MNE, UNESCO

State assistance of labor market

In December 2016, the Program for the Development of Productive Employment and Mass Entrepreneurship for 2017–2021 was approved, which replaced the “Employment Roadmap 2020”. Funding for the program involves the allocation of T87 billion in 2019, which is slightly higher than in previous years (Fig. 29). The main objectives of the program did not undergo significant changes, unemployment in the first target was at a level not higher than 5%, in the new program it was already at a level not higher than 4.8%. By the way, this level of official unemployment rate was actually achieved in the second half of 2018. As a novelty, the creation of a single digital employment platform (electronic labor exchange) can be noted, launched at the end of 2017. Currently, according to the data of the labor exchange website, more than 100 thousand employers, more than half a million applicants are registered on its platform, while it is indicated that the number of employed via the platform exceeded 100 thousand people.

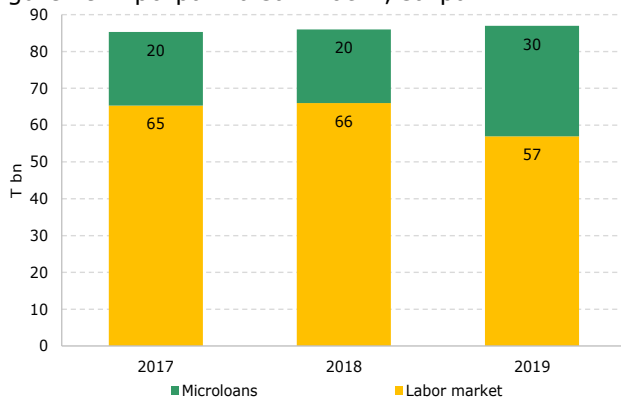
According to the employment programs, nearly 2 million people were employed from 2011 to 2018, while in 2012-2016 150 thousand people were employed per year on average, in 2018 this figure was close to 700 thousand people (Fig. 30). Such high rates of employment of citizens with practically unchanged total number of employed at 8.5-8.7 million in the specified period cause a lack of confidence in the data of state programs. For example, in 2018 the number of self-employed decreased by 94 thousand, and the number of hired employees increased by 217 thousand, which is more than three times lower than the figure given in the program for the number of employed at 677 thousand.

As a result, there are many questions about the credibility of the published figures of both statistics and these government agencies reporting on high achievements. High employment rates with a stable number of employed people may indicate the short-term and low-quality nature of the jobs created, the likelihood of the presence of manipulations, since the emphasis is on achieving quantitative indicators.

Imbalances in the labor market, in our opinion, are due to the commodity structure of the economy, the low competitiveness of the private sector, the huge shadow sector (from 20% of GDP according to government agencies to 40% according to IMF estimates) and ineffective state intervention in the economy that subsidizes substandard employment. As a result, of 8.7 million employees actually transparent in terms of paying taxes, social payments are only 3.8 million people and, by the way, the average monthly salary in the republic is calculated on the basis of their salaries. The rest is represented by people employed in small enterprises, informally employed and self-employed. Summarizing, we can say that without having reliable information about the labor market, the qualitative characteristics of supply and demand, it is difficult to expect effective solutions to existing problems.

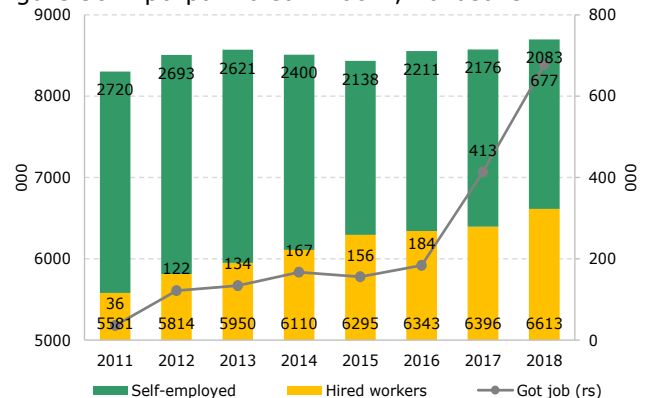
This state of affairs indicates a low potential for the use of labor resources, a degradation of the skills and qualifications of workers due to unstable casual work, mainly in the service sector. Problems of shortage of qualified personnel, transparency of the labor market, an established feedback channel, labor mobility, creation of quality employment and other problems within the framework of state programs are solved formally and often only finance existing problems, but do not eliminate them, besides are accompanied by corruption and various manipulations. For example, the prosecution authorities on the basis of inspections revealed such violations as: embezzlement of allocated funds, training of unnecessary specialties, inappropriate use of loans, fictitious employment involving the deceased and disabled.

Figure 29. Программа занятости, затраты



Source: CS MNE, Ministry of Labor

Figure 30. Программа занятости, показатели



Source: CS MNE, Ministry of Labor

Labor market outlook

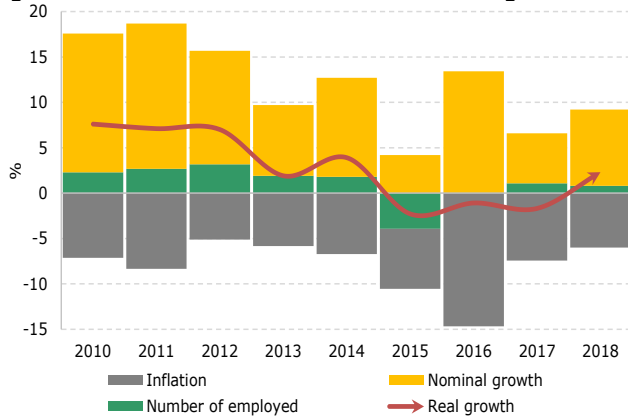
The economy showed a good growth rate of 4.1% in 2017 and 2018, with the decisive contribution of the commodity sector, helped by oil prices, which showed an increase of 30% annually in the specified period. Employment statistics show outstripping employment growth in the services sector compared to industry, where labor productivity is low, which is reflected in weak growth in real wages. Against the background of a positive growth in the economy in the last two years, the state mainly spent money on saving the banking system, which in relative terms exceeded 6% of GDP. However, lending to the economy did not restart, the share of bank loans to GDP decreased from 24% in 2017 to 21% in 2018. As a result, in the non-primary sector of the economy, even with improved macroeconomic indicators, activity remains limited.

At the last meeting of the “Nur Otan” party at the end of February, new initiatives to improve the well-being and quality of life of the population were announced, with T1 trillion provided for the raise of salaries.

We expect real wage growth to be at 3.5% in 2019 and 2020, and close to our forecast for a 3.6% GDP growth. The main increase will be due to the increase in wages of public sector employees, and at relatively unchanged oil prices in 2019-2020. at \$68 a barrel. Thus, there will be no noticeable changes in the non-primary sector of the economy, since the quality of economic growth will not change.

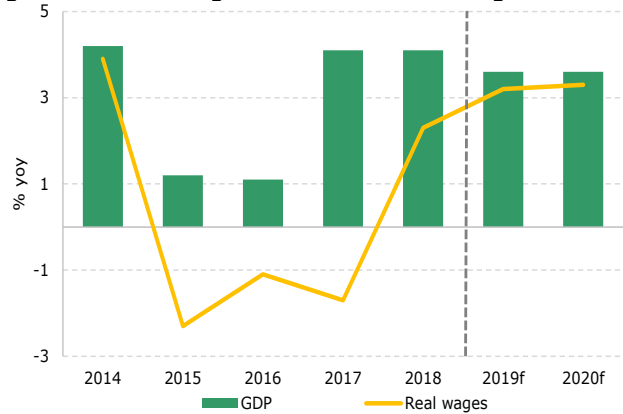
The situation with the slipping of reforms to modernize the economy is a growing concern because after 2020 a significant increase in the supply of labor is expected due to the entrance of numerous generation born in the 2000s. In addition, the risks are the ubiquitous automation and robotization, gaining momentum in the world. For example, the introduction of industrial robots at AvtoVAZ led to a reduction of more than 70 thousand workers in neighboring Russia, in China, Foxconn, where the iPhone is being assembled, has cut 60 thousand people. In Kazakhstan, of course, wages are low nevertheless, tens, and possibly hundreds of thousands of salespeople, accountants, drivers, and security guards may become victims of automation. At the same time, the real wages of workers will be uplifted from the current recession including by the use of savings of the National Fund, administrative measures to regulate inflation, which will be temporary in nature. In turn, small and medium businesses that could absorb labor resources are themselves in a difficult position and are not growing.

Figure 31. Contribution to income from wages



Source: CS MNE, Halyk Finance

Figure 32. Real wages will level with GDP growth



Source: CS MNE, Halyk Finance

Annex 1. International comparisons

	Hired workers, %	Employers, %	Self- employed, % of employed	Wages \$	Wages share in GDP, %	State sector employed, %	Wages in budget exp-s, %	Unemployment rate, %
Kazakhstan	76.0	1.5	22.5	468	30	20	13	5
Russia	93.4	1.3	5.2	530	46	20	27	5.2
Brazil	67.0	3.8	29.2	619	52	21	-	-
Turkey	67.3	4.5	28.2	644	34	12	24	11
Romania	73.7	1.0	25.3	730	35	15	-	5
China	66.7	-	36.3	1 030	52	-	-	4
Belarus	95.6	0.9	3.5	1 115	47	20	22	6
Mexico	68.6	4.6	26.9	1 276	35	14	38	3
Hungary	89.7	4.6	5.4	1 809	48	22	23	4
Latvia	87.4	4.7	8.0	1 866	54	20	28	9
Estonia	89.7	4.7	5.3	1 968	54	23	29	6
Czech republic	82.9	3.1	13.8	1 977	51	16	22	3
Greece	65.9	7.3	26.7	2 094	49	18	25	22
Poland	79.6	4.0	16.4	2 160	49	18	25	5
Chile	71.3	4.5	24.2	2 370	45	14	-	7
Italy	76.8	6.2	17.1	2 950	53	14	20	11
Spain	83.5	5.1	11.4	3 111	52	16	26	17
Finland	86.8	3.9	9.2	3 511	53	25	24	9
Sweden	90.1	3.6	6.3	3 568	53	29	25	7
Great Britain	84.5	2.4	13.2	3 570	55	16	22	4
France	88.4	4.2	7.4	3 577	58	21	23	9
Germany	89.8	4.4	5.9	3 866	57	11	17	4
Austria	87.6	4.6	7.8	4 025	54	16	21	6
Canada	84.8	4.5	10.7	4 034	55	18	31	6
Ireland	84.6	4.5	10.9	4 307	34	15	26	7
Australia	83.1	6.2	10.8	4 339	48	20	27	6
Denmark	91.8	3.1	5.1	4 382	56	29	30	6
Netherlands	83.3	4.0	12.7	4 403	57	13	20	5
Norway	93.5	1.8	4.8	4 470	50	30	30	4
USA	93.7	-	6.3	5 013	55	15	26	4

Annex 2. Employed by industry, labor productivity, wage level

	GDP structure, %	% of employed	Labor productivity 2010-2018, % year average	Labor productivity 1 worker T 000	Labor productivity 1 worker \$ 000	Wages, % of average
Agriculture	4.2	14.2	9.4	1 769	5	60
Industry	28.7	12.6	1.2	14 913	43	143
Mining	15.2	3.2	-1.2	31 306	91	228
Manufacturing	11.6	6.9	3.2	10 919	32	114
Power, etc.	1.6	1.7	2.4	6 525	19	96
Water supply, etc.	0.3	0.9	-5.1	2 113	6	69
Construction	5.4	7.2	3.4	5 145	15	133
Trade	15.9	16.0	5.8	6 607	19	97
Transport, warehouse	8.3	7.3	3.0	7 789	23	131
Hotels, restaurants	1.0	2.2	-1.7	3 066	9	94
Telecom	1.8	2.0	4.9	6 440	19	144
Finance	3.4	2.1	-3.1	13 832	40	202
Real estate	7.6	1.8	-1.3	3 398	10	94
Professional, etc.	4.3	2.9	-0.4	10 891	32	176
Administrative, etc.	2.3	3.4	0.5	4 450	13	117
State administration	1.5	5.6	-0.4	1 799	5	82
Education	2.7	12.6	-0.6	1 458	4	64
Healthcare	1.9	5.7	-1.0	2 206	6	69
Entertainment, etc.	0.7	1.7	7.8	3 132	9	79
Other	2.9	2.8	-0.3	6 637	19	125

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