

Kazakhstan and Central Asia Business Forecast Report Q1 2015

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Abstracts

Core Views

Kazakh economic activity will slow in 2015 and 2016 as production issues at the Kashagan oil field hurt export revenues and private consumption is constrained by rising inflation. However, the outlook over our 10-year forecast period has improved, with the government committing USD5.5bn to promoting economic diversification, a crucial step in weaning Kazakhstan off its hydrocarbon reliance.

The increasing frequency of ethnic violence in southern Kyrgyzstan will continue to damage the country's security profile. This will in turn discourage long-term foreign investment and threaten the longevity of the government in Bishkek.

Tajikistan faces two significant security threats in the years ahead; the return of insurgents following the ISAF withdrawal from Afghanistan, and the escalation of border tensions with Kyrgyzstan. These threats will lead to the government forging closer ties with Russia, which already has troops in Tajikistan, while also seeking further security support from rising power in the region, China. Rising natural gas export revenues will continue to support strong economic growth in Turkmenistan over the course of our 10-year forecast period. While an end to petrol subsidies will likely constrain private consumption growth, this will be more than offset by production from the vast Galkynysh gas field and rising fixed investment from China, the largest investor in Turkmenistan's hydrocarbons sector.

We do not see the recent limited transfer of powers to the Prime Minister in Uzbekistan as a sign that President Islam Karimov has outlined a clear succession strategy or is willing to de-centralise power from his office. While we expect Karimov to remain in

power following 2015 presidential elections, uncertainty regarding succession will continue to damage the country's investment profile.

Major Forecast Changes

Tajikistan's exposure to the Russian economy will dampen economic growth over the coming quarters. We have downgraded our forecasts for real GDP growth to 5.1% in 2015 and 2016, from 5.9% and 5.8% respectively, due to the likelihood of uncertainty in Russia weighing on remittance inflows into Tajikistan.

Kazakhstan's reliance on hydrocarbons is a key factor behind the downward revision of our real GDP growth forecast for 2015 to 5.0%, from 5.4% previously. Our Oil & Gas team projects the value of total net oil exports to fall from an estimated USD53.8bn in 2012 to USD48.2bn in 2015 due to slowly declining global oil prices, as well as ongoing production delays at the vast Kashagan oil field in the Caspian Sea.

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EU Agreement Does Not Signal Significant Policy Shift

Despite the Kazakh government's signing of a bilateral agreement with the EU in October 2014 we do not expect the country to shift its foreign policy outlook significantly towards Brussels. Kazakhstan remains on course to join the Eurasian Economic Union alongside Russia, and the EU still has lingering concerns regarding Kazakhstan's human rights record and its relationship with the Kremlin.

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Table: Economic Activity

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