

Kazakhstan and Central Asia Business Forecast Report Q2 2014

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Abstracts

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Core Views

Kazakhstan: Kazakhstan's economic outlook over the years ahead remains fairly robust by global standards, as the country continues to export vast quantities of oil. However, the devaluation of the tenge in February 2013 will suppress private consumption in the short term, and long-term risks remain regarding Kazakhstan's lack of productivity and cost competitiveness given the economy's reliance on hydrocarbons.

Kyrgyzstan: The Kyrgyz government will be hard pushed to contain nationalist sentiment and inter-ethnic tensions as economic challenges increase in 2014. We expect political opposition to use slower growth and likely currency depreciation as a source of criticism of President Almazbek Atambayev's leadership.

Tajikistan: Tajikistan faces a very precarious political future, with geopolitical and economic uncertainties set to increase over the next few years. The US troop withdrawal from Afghanistan, an overreliance on aluminium exports and persistent threat of armed conflict with neighbouring Kyrgyzstan will all limit the country's economic development and investment potential, in turn exacerbating domestic political tensions.

Turkmenistan: Turkmen real GDP growth will remain strong in 2014 and 2015, as increasing gas exports to China combine with rising fixed investment surrounding the Turkmenistan-Afghanistan-

Pakistan-India gas pipeline project. We highlight that the state's domination of industry and the closed nature of the economy will continue to hold back Turkmenistan's business environment from any notable improvement.

Uzbekistan: Uzbekistan will continue to see strong real GDP growth in the coming years relative to regional averages, driven by commodity exports, robust government investment expenditures and generous social transfers that support household purchasing power. However, with key commodity prices remaining well below previous years' levels and major export markets poised for a prolonged slowdown, Uzbekistan's regional outperformance will gradually narrow. We forecast real GDP growth to average 6.2% over 2014-2018, from an estimated 8.3% in 2007-2013.

Major Forecast Changes

On the back of increasing gas exports to China, we have revised our forecast for the headline rate of real GDP growth in Turkmenistan to climb to 10.7% in 2014, before falling to 9.8% in 2015. We previously forecast growth of 9.8% and 8.9% in 2014 and 2015 respectively. We forecast real GDP growth in Uzbekistan to average 6.2% over 2014-2018, from an estimated 8.3% in 2007-2013.

Key Risks To Outlook

The key risk facing the Turkmen economy in the years ahead, and over the long term, is that of Chinese demand for gas falling. We remain below-consensus on our outlook for the Chinese economy in the years ahead, and if we see a sharper-than-expected contraction in economic activity there, it would undoubtedly hurt Turkmen real GDP growth. Indeed, there is a mutual dependence between the two economies with regard to China providing export revenues in exchange for Turkmenistan's natural gas. With economic fortunes in the region tied so strongly to the production/ extraction and export of commodities, a fall in the price of oil, gold, cotton or aluminium could result in significant downward revisions to our real GDP growth forecasts over the course of 2014 and 2015.

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