

# CONSEQUENCES OF THE IMPACT OF THE COVID-19 PANDEMIC ON THE ECONOMY OF THE REPUBLIC OF KAZAKHSTAN

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## **Abstract**

*Considering the consequences of coronavirus, it is necessary to note the key points: the epidemic itself is not as dangerous as the consequences of fighting it, primarily for economic development. Following the impact on the economy are two other, less obvious, but more profound aspects – the consequences for China’s emergency response system and, more broadly, the country’s governance, as well as the impact on China’s international positioning.*

**Keyword:** Covid-19, economy, recovery

The rapid spread of the COVID-19 coronavirus raises serious public health concerns. The infection leads not only to humanitarian but also significant commercial consequences at the global level. Viruses don’t know and their impact will spread. Disappearance of the epidemic.

We surveyed more than 60 directors of SME and big business, a number of banks, development institutions, and business associations in Kazakhstan.

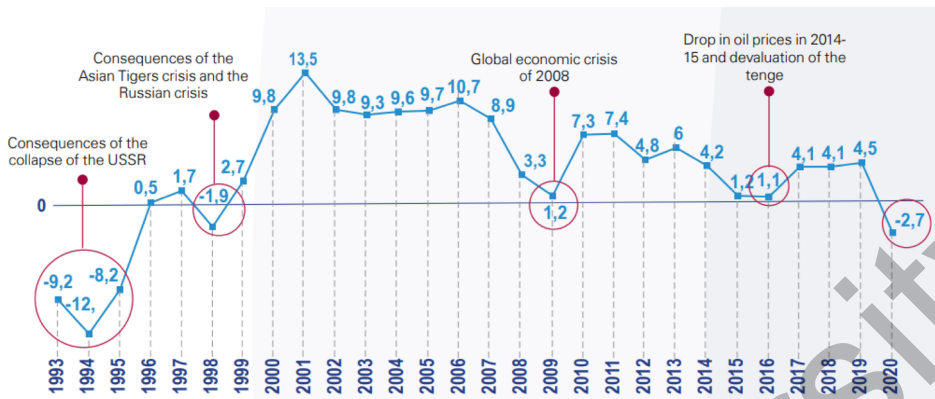
The main goal of our analysis was to try to understand whether the measures of state support related to COVID-19 were sufficient, how effective they were (from a business standpoint), and whether business had any constructive proposals to improve this system? The state of emergency and COVID-19 quarantine measures have had a negative effect on Kazakhstan business:

- About 300 thousand entities have suspended operations;
- 1 million business entities have suffered directly from the pandemic, mainly in the services and trade sectors;
- More than 1.6 million people were sent on leave without pay;
- About 14-15 thousand SME with bank loans have requested a deferral;
- 4.5 million people have received a social benefit of KZT 42,500.

The business found itself in a situation when it was impossible to plan its operational activities. In such case, support can only be targeted from the state. Overall, respondents rated the quality of state support for business as «below average».

Executive Summary:

- The IMF forecast on the real reduction in GDP in 2020 was revised downward, from 2.5% to 2.7%.
- The drop in oil income and consolidation in the tax and budget sector has led to a worsening fiscal position. Economic diversification (lower dependence on oil) is essential.
- Government spending in 2020 will be almost double budgetary revenues (not including transfers from the National Fund).
- Only 30% of small and medium enterprises affected by the coronavirus pandemic can obtain state support. For the remainder, assistance was not accessible.
- Among the measures announced by the government, there are none aimed at supporting big business, even though big business accounts for 80% of the country's tax revenues and more than 60% of its jobs.
- The majority of respondents consider the lack of a unified information portal for government support and a single operator for each program to be one of the key barriers to participating in government support programs.
- About 90% of respondents believe that it is essential to expand industry criteria and to re-engineer state support programs for business.
- The upcoming “second wave” of infections and the likely continuation of the already-announced second quarantine will have an adverse effect on Kazakhstan's GDP, solvent demand, and how long it will take businesses to come out of the recession.
- Enhancing the performance of existing and newly announced government support measures would make it possible to improve the business situation even given the current level of funding (nonetheless, additional support will also be necessary).
- The government and business need a single platform for constructive and transparent dialogue: only direct discussion by experts, and prompt, sufficient support for business will help the country to recover from the crisis and lay the groundwork for sustainable long-term growth.



**Figure 1. Dynamics of Kazakhstan's real GDP**

Decrease in GDP of Kazakhstan. According to the EBRD forecast, the decline in Kazakhstan's GDP in 2020 will be (-3%), which is higher than the initial forecast of the IMF (-2.5%). In accordance with the new forecast of the IMF, the decrease in Kazakhstan's GDP in 2020 will be (-2.7%) It is also expected that in the absence of the second wave of COVID-19, in 2021 the national economy will grow by 4.1%

High volatility in oil prices. In April 2020, the price of Brent crude oil fell to its lowest level in 18 years and reached \$ 19 per barrel. However, in June the oil price almost doubled in comparison with the April figures. The growth in oil prices is due to the decision of OPEC + to cut production from May to 9.7 million barrels per day. From August 1, 2020, the overall decline in oil production by OPEC + countries will amount to 7.7 million barrels per day Due to rising oil prices, the tenge strengthened its position against the US dollar and returned to the March level of 405.7 tenge per US dollar as of as of 6 July 2020

Increase in the state budget deficit. As a result of the resulting budget deficit of 8.2 trillion tenge (excluding transfers from the National Fund) or 3.4 trillion tenge (including transfers from the National Fund), the state. debt may increase by 3 trillion tenge, or from 25% to 29% of GDP, and will reach a historical maximum since the independence of Kazakhstan. At the same time, the debt to GDP ratio of Kazakhstan is one of the lowest in the world.

The current situation with COVID-19 is likely to cause one of the deepest crises in Kazakhstan since the collapse of the USSR, since COVID 19 caused a global economic crisis, the scale of which is still difficult to fully assess.

Based on a comparative analysis with other countries, the quarantine period in Kazakhstan may be 2-2.5 months.

The most vulnerable in the current market environment feel the participants in such segments and sectors of the economy of Kazakhstan as SMEs, non-food retail trade, the aviation industry, oil and gas, mining, transport, electricity, and services.

Measures to reduce administrative costs were taken by 74% of the responding companies. About half of the respondents are actively working on optimizing purchases (restructuring accounts payable, optimizing the supply chain, revising the order book and transferring part of the volume of purchases to a later date). Optimization of labor costs was mainly carried out by companies in the aviation, financial sectors and retail trade.

Companies in all sectors of the economy (except for the telecom sector) have put on pause the implementation of capital-intensive investment projects or are in the process of revising towards more “budgetary” solutions for the implementation of these projects.

Most market players develop and implement an anti-crisis action plan, plan to revise the development strategy. 58% of companies surveyed are revising their strategic development plan for the coming years in connection with the situation caused by the coronavirus. One of the directions of changing development strategies, the companies noted the focus on accelerated digitalization of business and sales channels in the near future.

Representatives of large Kazakhstani business consider the announced measures of state support insufficient and expect support in terms of tax breaks (including VAT refunds for export-oriented enterprises and companies in the aviation sector), reimbursement of part of the costs, as well as the provision of concessional lending.

About 86% of respondents believe that a gradual return to pre-crisis positions will take place no earlier than 3-4 quarters (or later), which suggests that the consequences of the crisis may be felt in 2021 as well.

The crisis will cause a significant change in the behavioral reactions of people and the need to rethink the government’s approaches to ensuring health security. In addition, the crisis will also significantly change the business landscape and adjust the strategic goal-setting both on the part of the state and business. The global economic crisis and declining consumer power are the main concerns among the responding companies.

The devaluation of the tenge, caused by a fall in oil prices and a decrease in demand and prices for base metals, negatively affects the effective demand

of the population, while strengthening the competitive positions of enterprises in export-oriented industries in Kazakhstan.

Some respondents noted a significant improvement in the environmental situation, the beneficial effect of the self-isolation regime on the growth of productivity, as well as the “outside view”: rethinking the balance of personal, family and business components of their lives.

In conclusion, I would like to say that in the context of sluggish demand and low oil prices, sustainable economic recovery can be facilitated by improving the efficiency of public administration and services, including the use of electronic platforms for the provision of basic public services, mobilization of resources through improved tax administration and the use of a review and redistribution mechanism, budgetary resources in favor of effective government programs. A renewed focus on reforms in logistics, digital communications and the financial sector could support the private sector in seeking new opportunities.

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