Kazakhstan: Prudent preparations should ease transition risks

Despite the president's resignation, we believe the announcement should reduce transition risk which was considered the largest risk. From a market perspective, fiscal and monetary policy remain in focus amid signs of easing ahead of the 2020 elections

Source: Shutterstock

Although president Nursultan Nazarbayev's sudden announcement to step down after almost 30 years comes as a slight surprise, there were some signs of change. In hindsight, constitutional reforms in 2017 which strengthened parliament's power and senate speaker Kassym-Jomar Tokayev's comments in June 2018 that he doesn't believe the president would stand for re-election in 2020 were hints of what was to come. Also, only earlier this year, the president had asked the constitutional court about the conditions for leaving office voluntarily.

In line with the constitution, senate speaker Tokayev will become the interim president until the 2020 elections, although this also increases the probability of an earlier date already in 2019. Meanwhile, Nazarbayev will retain meaningful power as the 'lifelong' head of the Security Council, which is responsible for domestic political stability and national security, allowing Nazarbayev to make decisions or block those taken by a future president.

Other signs that Nazarbayev will remain an important voice in policymaking include the recently announced increases in social benefits, partially provided by funds of the National Fund, and clashes with the previous cabinet that led in its dismissal on 21 February.

For now, we expect a muted market reaction as the preparations point to ongoing political stability. Most importantly, while there is some uncertainty, this could somewhat smooth the transition risk which is seen by many investors as the largest risk. However, by the same token, policymaking is likely to remain centralised with Nazarbayev retaining significant influence. We expect more details on potential successors in the coming months which could shed light on how much the old guard will allow for reform. However, this bears some risk due to vested interests by local groups and external stakeholders.

Amid the political transition, both fiscal and monetary policy will be in focus. The recently announced social package adds 2% GDP to annual consolidated spending and will contribute to a fiscal deficit and state debt increase. This hasn't triggered any negative reaction from the rating agencies, which don't expect longer-term implications of the move. However, investors should look out for signs of fiscal easing as the 2020 elections approach. The question for monetary policy is whether it remains cautious, as premature easing - a cut in the key rate before 3Q19 - may add to the risks to the Kazakhstani tenge (KZT) which is already facing headwinds due to key oilfields maintenance and potential negative spill-over effects from Russia and China.

Author

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de