Analysis on the Impact of International Oil Price Changes on Kazakhstan's Economy

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Abstract. The oil resource is one of necessary resources for the economic development of a country. Whether for developed or developing countries, the oil reserve is an important issue for national economic development. Kazakhstan is one of countries with the country's economic development mostly driven by oil export, and the international oil price changes have a great impact on its economic lifeline.

Introduction

The oil industry is the pillar industry of Kazakhstan, and the benefits brought by the oil can drive the GDP development of the whole country.

At this stage, with the rapid economic development of all countries, the oil demand surges, and the major oil countries also increase the mining intensity. According to the International Energy Agency (IEA) statistics, and affected by the decline in capital expenditure, the world's newly discovered crude oil reserves in 2016 was nearly 2.4 billion barrels, which is the lowest record since 2000. Meanwhile, the political exchanges between countries caused the large fluctuation of international oil prices, thus the oil output-based Kazakhstan economy has been impaired.

Current Development Situation of Kazakhstan's Oil Industry

Kazakhstan is a big country in Central Asia and one of the countries with abundant oil and gas resources in Central Asia, and its proven crude oil reserve is now 4.14 billion tons, which is about 2.3% of the world's oil reserves. Its reserve is one-third of Russia - Central Asia region, which ranks the second in the former Soviet Union countries. After the disintegration of the Soviet Union, Kazakhstan has taken a series of measures to repair its own oil fields and rebuild the infrastructure. Due to a large number of USA investment and other foreign capital, Kazakhstan's oil industry began to recover and rapidly develop, and the oil production is increased by couple of times than ever before. Especially the oil production in the Caspian Sea, with its unique resource advantages, caused a great impact on the economy of Kazakhstan. According to the US State Department's report in 2012, Kazakhstan's crude oil reserve plus the condensate oil reserve in its Caspian Sea continental shelf are forecast to reach 13 billion tons, and Kazakhstan could become the world's second largest oil exporter after decades. According to the prediction by Kazakhstan's professionals, Kazakhstan’s proven crude oil reserve will reach 5.5% of the world’s reserves in 2025 after several years of development.
Kazakhstan was the ally of former Soviet Union. According to the data released by the country's geological sector, the total oil production was 2659×10^4 t during the disintegration of the Soviet Union in the early nineties of the 20th century, but in 2001, the proven and developed total amount was 4009×10^4 t, and, compared to 2001, the production capacity in 2011 was more than doubled. In 2015, it has reached 8400×10^4 t, and the oil production showed a rising trend year by year from 1991 to 2015, as shown below.

1991-2015 Kazakhstan Oil Production Charts

As one of the important energy sources in the world, the oil plays an important role in the international political arena. It has not only the same commodity attributes as the general items, but also has the strategic material properties. With the development of global economic globalization, the oil resource has become one of the major commodities in world trade. As a country with the oil export to promote the national economic development, the impact of international oil price changes on Kazakhstan's economy can not be underestimated.

Impact of International Oil Price Changes on Kazakhstan's Economy

Since July 2014, the international oil prices have continuously dropped down, and fell within the warning area of below 80 US dollars/barrel in mid-November 2014, which is 10 years from the last time of falling below 80 US dollars/barrel, the price began to rise at the end of 2014 and reached 100 US dollars/barrel, the average annual oil price was 102 US dollars/barrel, and in the following two years, the oil price was still in a downward trend, but the oil production of all countries kept increasing year by year, and the international oil market is oversupplied. On September 2016, the oil price was 40 US dollars/barrel, then on September 2017, the international oil price has risen, but in the slow pace, it roughly fluctuated within 50-60 US dollars/barrel range, in general, it still presented the downward trend. The main impact of international oil price changes on the economy development of Kazakhstan is in the following aspects.

Domestic Economic Downturn of Kazakhstan, with Slow Growth Rate

Kazakhstan has a large amount of oil resources, its domestic oil use is very limited, thus it is a veritable big oil exporter, its oil export is more than 50% of the country’s total trade amount; thus it is an important pillar industry to promote Kazakhstan's economic growth. Since the fall of oil prices in 2014, the domestic oil industry profitability of Kazakhstan has plummeted, and even in the loss status, some oil-mining enterprises were forced to shut down, the domestic economy has been seriously hit, Kazakhstan’s domestic GDP in 2014 was only increased by 1% over the previous year, then 2.5% increase in 2015 over the previous year, it showed the domestic economic downturn, with slow economic growth.

The Financial Crisis is Intensified, the Financial Situation is Serious

Half of Kazakhstan's fiscal comes from oil exports, the oil price drops in international market leads to a significant reduction in Kazakhstan's fiscal revenue. In 2014, Kazakhstan's oil production was 67.927 million tons, down 2.2% year-on-year. In the same year, Kazakhstan's oil export was 62 million tons, down 9% year-on-year. Oil export in 2015 was 60.95 million tons, down 2.3% year-on-year, and continued to decline in 2016. At the same time,
Kazakhstan’s currency KZT showed the serious depreciation, who was forced in August 2015 to cancel the exchange rate range restrictions, and, on September 28, 2017, 1 US dollar can get 340.55 KZT, thus Kazakhstan’s domestic financial crisis is intensified, and the financial situation is serious.

**The Enterprise Development is Restricted, and the International Competitiveness is Weakened**

As the international oil prices declines, the economic development of Kazakhstan's domestic oil industry is slow, which causes a serious impact on some traditional oil processing industry with smaller scale. Kazakhstan’s oil companies have low technological level, lack of innovation ability, low labor efficiency, and lack of advanced management experience, leading to high cost of crude oil extraction and low corporate profitability. In addition, due to the frequent fluctuations in international oil prices, Kazakhstan’s oil companies can not timely assess and adjust their own projects regarding international oil prices, and the market response time is too long, leading to the missing of opportunities, affecting the corporate profits, and their international competitiveness is weakened.

**Countermeasures and Suggestions for Kazakhstan to Deal with the Impact of International Oil Prices**

**Actively Promote the Transformation of Export Structure and Realize the Diversified Development**

At present, an important reason for Kazakhstan’s economic downturn is to rely too much on the energy industry, once the energy resources showed the slow-moving situation in the international market, its impact on Kazakhstan is immeasurable, the country's whole economic change will be in a passive position, thus, Kazakhstan shall actively optimize its export structure and increase the export effort of other commodities, to promote the transformation of import and export structure as soon as possible, and to achieve industrial diversification.

**Formulate Relevant Policy Measures and Mitigate the Inflation**

Facing the changing international environment, in addition to strengthening the construction among its own industries, Kazakhstan shall also pay attention to national economic policy, monetary policy and people's livelihood policy, wherein the financial policy is more important. The continuous KZT depreciation in 2015 showed this point, thus Kazakhstan government should raise the attention degree, develop the financial policy measures relevant to the current political situation and adaptive to their economic development, and slow down the pressure brought about by domestic inflation.

**Strengthen International Cooperation Effort and Seek New Opportunities**

For the impact of international oil price changes on the economy of Kazakhstan, the Kazakhstan government should recognize that, under the international situation of world economic globalization and regional economic integration, any country needs the interrelation and mutual promotion with other countries and absorbing the advanced technology or rich experience of other countries to improve the respective competitiveness of its industries. Therefore, to strengthen the international cooperation effort and to seek new opportunities
are one of the important initiatives for Kazakhstan's economic development.

**Conclusion**

Changes in international oil prices have a serious impact on Kazakhstan's economy, but it also makes Kazakhstan to recognize some shortcomings in its own economic development. Through analyzing these problems, taking the appropriate reform measures, and learning from the advanced experience of other countries, the rapid economic development of Kazakhstan is just around the corner.

**References**


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