INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/108

REPUBLIC OF KAZAKHSTAN

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

May 2017

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2017 Article IV consultation with the Republic of Kazakhstan, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 28, 2017 consideration of the staff report that concluded the Article IV consultation with the Republic of Kazakhstan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 28, 2017 following discussions that ended on February 8, 2017, with the officials of the Republic of Kazakhstan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 13, 2017.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 17/157
FOR IMMEDIATE RELEASE
May 9, 2017

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700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2017 Article IV Consultation with the Republic of Kazakhstan

On April 28, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the 2017 Article IV consultation[1] with the Republic of Kazakhstan.

After a slowdown in 2016, growth in Kazakhstan is expected to strengthen to 2.5 percent this year, reflecting higher oil production and the effect of substantial fiscal stimulus spending. The sharp exchange rate depreciation in late 2015-early 2016 triggered a surge in consumer prices, but inflation has come down to levels consistent with the National Bank of Kazakhstan's target range. The medium-term outlook has improved, with growth in the non-oil sector of the economy expected to gradually pick up to 4 percent, benefitting from structural reforms and a resumption of bank lending. Uncertainty, however, is high, as the economy remains vulnerable to commodity price swings and especially to a sustained decline in oil prices.

Fiscal policy in recent years has been supportive of economic activity, mainly through the authorities' flagship "Nurly Zhol" initiative, which has provided funding to infrastructure, SMEs, and housing. Such support will be reduced going forward, as the authorities move to consolidate. At the end of 2016, the authorities approved a new framework and rules for the National Fund that aim to sustain strong buffers and reduce the dependence of the budget on oil revenues. Also, in the context of transition to inflation targeting, the National Bank (NBK) has strengthened its policy toolkit and improved analytical capacity and communications. The decline in inflation, along with anchoring of expectations, has allowed for a steady reduction of the policy rate.

Notwithstanding progress made, important vulnerabilities remain to be addressed. In particular, problems in the banking sector have accumulated and need to be resolved promptly, as weak balance sheets generate uncertainty, affect credit and growth, and may create risks to public finances. Structural bottlenecks have hindered economic diversification, a prerequisite for achieving broad-based and inclusive growth.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors commended the authorities' policy response, which helped Kazakhstan weather the impact of lower oil prices and slower growth in key trading partners. However, Directors noted that growth prospects are constrained by vulnerabilities arising from swings in commodity prices and long-standing structural weaknesses. They emphasized that policy efforts ahead should focus on strengthening the macroeconomic frameworks, addressing financial sector issues, and implementing reforms to boost and diversify growth.

Directors agreed that while fiscal support helped during the slowdown, consolidation efforts are now needed to maintain strong buffers, reduce the non-oil deficit, protect intergenerational equity, and ensure long-term sustainability. They welcomed the new rules for the National Fund and underscored the importance of a strong fiscal framework to guide adjustment. Directors encouraged gradual unwinding of the fiscal stimulus to minimize its impact on growth. They agreed that the consolidation strategy should focus on increasing non-oil tax revenues to protect capital and social spending. Directors noted that the new tax code presents an opportunity to reduce distortions and raise revenues.

Directors supported the shift in monetary policy toward inflation targeting. They stressed that the National Bank of Kazakhstan (NBK) should continue to build credibility in the new regime, including maintaining exchange rate flexibility, which has been important in adjusting to the oil price shock. In addition, the NBK should further enhance its analytical capacity and communications. Directors advised the authorities to exercise caution against adopting a dual mandate for the NBK that explicitly targets growth. They noted that achieving low and stable inflation would be beneficial for growth through higher savings and investment.

Directors emphasized that addressing banking sector weaknesses, particularly high non-performing loans, should be a top priority. While recognizing that state support is needed, they noted that the use of public funds should be subject to strict conditions to limit costs and moral hazard. A forward-looking, independent asset quality review is essential for assessing the conditions in the sector and estimating potential recapitalization needs. Directors encouraged steps to further strengthen bank supervision and regulation frameworks to ensure that problems do not reoccur. Implementing the FSAP recommendations will be helpful in this regard.

Directors welcomed the authorities' ambitious structural reforms agenda and underscored that implementation is key. They noted that to diversify the economy away from oil and promote private sector development, it is important to improve the business environment, successfully

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

complete the privatization program, and enhance the efficiency and accountability of public administration. Directors encouraged further improvements of the AML/CFT framework to ensure the integrity of the financial sector.

Kazakhstan: Selected Economic Indicators, 2013-18

Population (2016): 17.9 million
Quota: SDR 1,158.40 million
Main export: crude oil

Per capita GDP (2016, US$): 7,559
Literacy rate: 99.7% (2010)
Poverty rate: 2.9% (2013)

Key export markets: EU, China, Russia

	2013	2014	2015	2016	2017 (proj.)	2018 (proj.)
Output						
Real GDP growth (%)	6.0	4.3	1.2	1.1	2.5	3.4
Real oil	3.2	-1.3	-2.6	-1.2	3.9	6.3
Real non-oil	7.0	6.3	2.5	1.8	2.0	2.5
Crude oil and gas condensate production (million tons)	82	81	79	78	81	86
Employment						
Unemployment (%)	5.2	5.0	5.0	5.0	5.0	5.0
Prices						
Inflation (%)	4.8	7.4	13.6	8.5	7.3	6.8
General government finances 1/						
Revenue (% GDP)	23.3	23.7	16.6	18.0	19.6	19.8
Of which: oil revenue	11.5	11.3	6.6	4.2	6.4	6.6
Expenditures (% GDP)	19.9	21.3	22.9	22.1	25.9	21.8
Fiscal balance (% GDP)	4.9	2.4	-6.3	-4.1	-6.3	-2.1
Non-oil fiscal balance (% GDP)	-6.6	-8.9	-12.9	-8.3	-12.7	-8.7
Gross public debt (% GDP)	12.6	14.5	21.9	21.1	21.8	22.0
Money and credit						
Broad money (% change)	10.2	10.5	34.3	15.7	9.4	10.1
Credit to the private sector (% GDP)	39.6	37.9	45.8	41.1	37.5	36.8
NBK policy rate (%, eop)	5.5	5.5	16.0	12.0	…	…
Balance of payments						
Current account (% GDP)	0.5	2.8	-2.8	-6.4	-4.3	-3.1
Net foreign direct investments (% GDP)	-3.4	-2.1	-1.7	-10.8	-5.8	-5.3
NBK reserves (in months of next year's imports of G&S)	5.2	7.7	8.6	7.8	8.5	9.2
NFRK assets (in months of next year's imports of G&S)	14.9	19.3	19.6	15.9	15.2	15.3
External debt (% GDP)	63.4	71.2	83.2	122.5	106.9	98.9
Exchange rate						
Exchange rate (y-o-y percent chage; Tenge per U.S. dollar; eop)	2.2	18.7	86.2	-1.8	…	…

1/ The fiscal accounts in 2017 include an estimated state support to the banking sector of 4 percent of GDP.

Sources: Kazakhstani authorities and Fund staff estimates and projections.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

April 13, 2017

KEY ISSUES

Context: Kazakhstan continues to withstand challenges from lower oil prices and slower growth in Russia, China, and Europe. While buffers are strong, the shocks exposed vulnerabilities, including dependence on oil and other commodities; gaps in public administration, the business environment, and competitiveness; and long-standing banking weaknesses. The authorities' response—targeted fiscal support, exchange rate (ER) adjustment, enhanced monetary policy management, and structural reforms focusing on the business climate and the public sector—has stabilized conditions. Growth in 2016 was positive, and a pickup is expected in 2017. Medium-term prospects are subdued, due to continued lower oil prices and conditions in key trading partners. Growth is projected to reach 2.5 percent in 2017 and non-oil growth should reach 4 percent by 2021. This will reflect the implementation of announced reforms, unlocking of bank lending, and a further increase in oil production. Uncertainty is high, given exposure to commodity price developments.

Focus of the consultation and key recommendations: Policies should continue to address the long-lasting challenges of lower oil prices and weaker trading-partner growth. To ensure fiscal sustainability and strong buffers, the non-oil deficit should be reduced gradually over the medium term, with higher non-oil revenues to support sufficient social and capital spending. Monetary policy efforts should further strengthen the inflation-targeting framework, including instruments, ER flexibility, analytics, and communications. Financial sector weaknesses should be addressed promptly, with an independent AQR and any state support subject to strict conditions to limit costs and risks, and actions taken to strengthen the supervisory, regulatory, and resolution frameworks. Implementation of the authorities' ambitious structural reform agenda should be accelerated and well communicated.

Previous consultation: During the 2015 Article IV consultation, Directors noted that slower growth, tighter financing, and imbalances called for policies to balance alleviating the impact of shocks with maintaining sustainability by: (i) formulating a credible medium-term fiscal consolidation plan, within a more transparent fiscal framework; (ii) greater ER flexibility in tandem with new monetary instruments; and (iii) actions on NPLs, supervision, and regulation to bolster financial stability and resilience. Since then, the authorities have provided large, targeted fiscal support to activity and have outlined ambitious targets for medium-term fiscal consolidation in a new framework for the National Fund (NFRK). They have also made substantial progress in monetary and ER policies and operations and in some elements of the structural reform agenda. Challenges remain, including in fleshing out the medium-term fiscal adjustment strategy, addressing financial sector issues, and advancing structural reforms.

Approved By:
Juha Kähkönen (MCD) and Zeine Zeidane (SPR)

Discussions took place in Astana and Almaty during January 25-February 8, 2017. The staff team comprised Mark A. Horton (head), Rossen Rozenov, Matteo Ghilardi, and Jonah Rosenthal (all MCD), and Lucyna Gornicka (MCM). Randa Elnagar (COM) joined the mission during February 6-8. The mission met with Prime Minister Sagintayev, National Bank Governor Akishev, Minister of Finance Sultanov, and Minister of National Economy Suleimenov, other officials, and the representatives from the private sector, civil society, the diplomatic community, university students, and the mass media. Ms. Bissekeyeva (local IMF office manager) supported the mission, and Mr. Saudabayev (OED) attended the meetings. The authorities agreed to publication of the mission's concluding statement.

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ANNEXES

CONTEXT

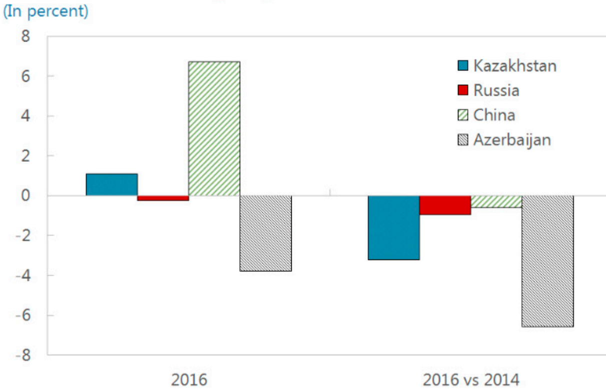
1. **Kazakhstan's economy is continuing to recover from negative shocks experienced since late 2014.** Lower oil prices and weaker demand in Russia, China, and the EU, along with significant exchange rate (ER) depreciation and heightened market volatility in late 2015 and early 2016, have affected performance. The shocks exposed underlying vulnerabilities, including in the business environment and competitiveness, the banking system, and public administration. The authorities' response—fiscal support, notably under the flagship "Nurly Zhol" initiative, which has targeted infrastructure, utilities, housing, and SMEs, an overhaul of the monetary and ER policy framework, and structural reforms focusing on the business climate and the public sector (transparency, accountability, and efficiency)—has helped mitigate the impact of the shocks and stabilize conditions. Fiscal and external buffers, accumulated during the period of strong growth and high oil prices, have been instrumental in implementing anti-crisis policies. Recovery is underway, supported by increases in oil prices. However, to sustain the positive momentum, key challenges need to be addressed, notably the fragile situation in the financial sector and the economy's high dependence on oil.

2. **Constitutional reforms that would redefine powers among the president, the government, parliament, and the judiciary are moving ahead.** These involve presidential responsibilities focused on national security and foreign policy, delegation of responsibilities for social and economic programs to the government, and a greater role for parliament in the formation and oversight of the cabinet. The reforms are in line with the authorities' objectives of modernizing the state and placing Kazakhstan among the world's 30 most advanced countries. Presidential and parliamentary elections were held in 2015 and 2016, respectively.

RECENT DEVELOPMENTS

3. **Growth decelerated in 2016, but has remained positive.** Growth slowed to 1.1 percent in 2016, from 1.2 percent in 2015 and 4.3 percent in 2014. The deceleration was driven by the decline in oil prices and weaker demand in key trading partners, and it was particularly marked in mining and manufacturing. Growth was weaker in the first half of 2016, but picked up, especially in construction, transport, and agriculture. The official unemployment rate remained at 5 percent.

Growth Rates, 2016 y–o–y and 2016 relative to 2014
(In percent)



Sources: World Economic Outlook; and IMF staff calculations.

4. **While fiscal policy has aimed to support activity and advance medium-term objectives, the headline overall and non-oil deficits declined in 2016.** The authorities provided

targeted near-term support via Nurly Zhol in areas that will also promote diversification and medium-term growth. In 2016, Nurly Zhol spending amounted to 3 percent of GDP, partly off budget (Annex I). Budgetary current spending increased, as wages were increased to compensate for higher inflation. However, the authorities also recognized that the external shocks could be long-lasting and restrained spending in other areas. Budgetary capital spending remained at 2015 nominal levels. The tenge depreciation and strengthened revenue administration supported higher non-oil revenues, especially VAT and interest income from the National Fund (NFRK). On balance, while the authorities aimed to provide fiscal support, the non-oil deficit declined from 12.9 percent of GDP in 2015 to 8.3 percent in 2016, and the overall deficit was reduced from 6.3 percent of GDP in 2015 to 4.1 percent in 2016. As noted, however, part of the fiscal support was provided off-budget, and NFRK assets decreased from $63.5 billion to $60.0 billion last year, continuing to constitute a strong buffer (45 percent of GDP). [1]

Fiscal Indicators 2014-17
(In percent of GDP)

	2014	2015	2016	2017
Total Revenues	23.7	16.6	18.0	19.6
Oil Revenues	11.3	6.6	4.2	6.4
Non Oil Revenues	12.4	10.0	13.8	13.2
of which : VAT	3.0	2.3	3.3	3.2
Total Expenditures and Net Lending	21.3	21.1	22.1	21.9
Current Expenditures	16.9	17.5	18.5	18.7
of which : Wages	2.8	2.8	3.0	3.0
Capital Expenditures	4.2	3.2	2.9	2.9
Fiscal Deficit (without sectoral support)	2.4	-4.5	-4.1	-2.3
Sectoral support 1/		1.8		4.0
Fiscal Deficit (with on-budget fiscal initiatives)	2.4	-6.3	-4.1	-6.3
Off-budget fiscal spending			1.3	
Fiscal Deficit (augmented, excluding sectoral support)	2.4	-4.5	-5.3	-2.3
Memorandum items:				
Fiscal Initiatives (without sectoral support)	1.5	2.6	3.7	2.9

1/ Includes a transfer to KazMunaiGas of 1.8 percent of GDP in 2015 and support to the financial sector of 4 percent of GDP in 2017.

5. **While the 2017 budget does not introduce major new initiatives and Nurly Zhol is winding down, the authorities expect to provide substantial support to the banking sector.** In 2017, current and capital expenditures are expected to remain broadly at 2016 levels, while higher oil prices are expected to boost revenues. Accordingly, the underlying fiscal deficit will be cut to 2.3 percent of GDP. However, support to the banking sector (KZT 2.1 trillion–$6.4 billion or 4 percent of GDP) means that the headline deficit will reach 6.3 percent of GDP. Financing will come from NFRK transfers and domestic debt.

6. **In December 2016, the authorities approved a new framework for the NFRK that aims to reduce fiscal dependence on oil, set explicit anchors, and sustain strong buffers and savings**. The new framework sets non-oil deficit targets of 7 percent of GDP by 2020 and 6 percent by 2025 (Box 1)—2-3 percentage points below the current level. The deficit path is consistent with staff's estimates of a long-term sustainable non-oil deficit level, which allows for sizeable accumulation of savings in the NFRK (see Selected Issues Papers).

7. **The external position has deteriorated with lower exports and is moderately weaker than implied by fundamentals.** The current account deficit deteriorated from 3 percent to 6 percent of GDP in 2016. The ER depreciation compressed imports, especially of consumer durables and investment goods, but exports also declined sharply. FDI increased significantly—from $3 billion in 2015 to $14 billion in 2016—mostly in oil and gas. The current account worsening has weakened Kazakhstan's external position. The depreciation has largely corrected ER misalignment; however, its

[1] In addition to higher non-oil revenues, the decline in the deficit in 2016 reflected a one-off transfer to the state oil and gas company, KazMunaiGas, in 2015. Excluding this transaction, and including off-budget stimulus, fiscal policy was expansionary in 2016.

full effect on competitiveness and the current account will come with a lag. Thus, the gap between the actual current account and its norm, as derived from the IMF's CA model, translates into some overvaluation of the real ER, although the IMF ES and REER methodologies suggest undervaluation (Annex II). Foreign reserves, at around $30 billion or 9 months of imports of goods and services, remain adequate for a country with a floating ER. Gross external debt is high—over 120 percent of GDP. However, intercompany lending—concentrated in commodities—comprises over 50 percent of total debt.

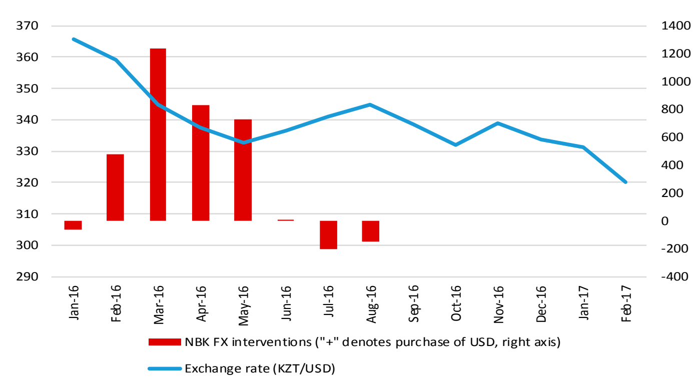
Box 1. The New Concept of the National Fund of the Republic of Kazakhstan (NFRK)

The NFRK is used to manage Kazakhstan's oil revenues and to minimize the impact of volatile oil prices on public finances, support targeted capital spending, and save for future generations. The current NFRK concept (2010) sets an annual guaranteed transfer at $8 billion± $1.2 billion, depending on the cycle and financing needs. Additional "targeted" transfers financed recent stimulus packages. The NFRK should maintain a minimum balance of 20 percent of GDP and may acquire domestic securities.

A new NFRK concept, agreed in 2016 introduces changes. The guaranteed transfer will be in tenge and decline to KZT 2 trillion ($6 billion) by 2020 to reduce oil revenue dependence and hedge against ER changes. The minimum balance should be 30 percent of GDP, and the budget should target a non-oil deficit of 7 percent of GDP by 2020 and 6 percent by 2025. Acquisition of domestic securities is no longer permitted, although targeted transfers may take place.

8. **Inflation has declined as ER pressures have subsided.** After floating the tenge and a period of sharp exchange and interest rate volatility in late 2015 and early 2016, the NBK undertook measures to stabilize markets and improve liquidity. It restored regular monetary operations and the base rate, setting it initially at 17 percent in February 2016. The NBK also eased reserve requirements, raised the recommended interest rates on tenge deposits, and improved communications. With greater stability and a pickup of oil prices, the tenge strengthened, and there was a reflow of deposits back from dollars. The NBK purchased foreign exchange (FX) in February-May; sold FX in July-August to prevent sharp ER fluctuations, and has since stayed out of the market. Inflation peaked at nearly 18 percent in July, before falling to 7.8 percent in February,

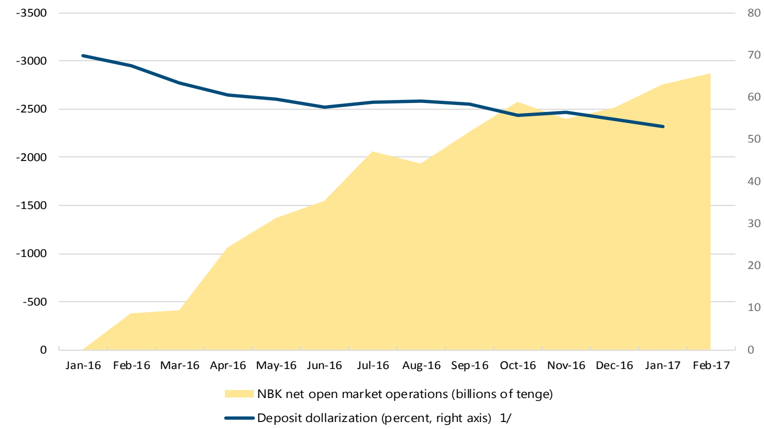
Exchange Rate and NBK FX Interventions



Source: National Bank of Kazakhstan

within the NBK's 6-8 percent target range.[2] The anchoring of the inflation expectations has allowed the NBK to reduce its policy rate from 17 to 11 percent.

NBK Net Open Market Operations and Deposit Dollarization



1/ Share of FX deposits in total.
Source: National Bank of Kazakhstan

9. **Since mid-2016, monetary policy has been challenged by high tenge liquidity.** Dedollarization, significant expenditures of the public and quasi-public sectors, weak activity, and limited lending opportunities resulted in surplus of tenge liquidity, which the NBK has been absorbing through issuing short-term notes.

10. **Bank vulnerabilities are high, following the depreciation and slowdown.** These factors affected asset quality, lending, and profitability, and therefore growth.[3] Deposit dollarization remains elevated at 55 percent, although it fell in 2016, while loan dollarization has stabilized at around 35 percent. Bank lending contracted by 3 percent in real terms last year, and the quality of portfolios worsened, with restructured loans surging from 10 to 25 percent of total loans. Official NPL and capital ratios have not deteriorated, however, likely reflecting deconsolidation of reporting and other reporting gaps or lags, definitional issues, and evergreening. Considering restructured loans and NPLs in off balance-sheet SPVs (particularly in BTA, a large, troubled former bank that is now an off-balance sheet entity owned by Kazkommertzbank (KKB), the system's largest), a broader definition suggests a level of underperforming loans of over 40 percent of total loans. Accordingly, additional capital will likely be needed.[4] The authorities have provided substantial support to banks via deposit placements and subsidized lending programs, including via the national pension fund (UAPF) (Box 2).

11. **Delays in a system-wide Asset Quality Review (AQR), closure of a small bank, and difficulties at the largest bank—KKB—have contributed to uncertainty.** In early 2016, the NBK announced its intention to complete an AQR, but resistance has led to delays. The NBK now aims to complete the AQR by end-2017. The NBK intervened at two small banks in late 2016, closing one, leading to deposit flows to banks perceived as safe. KKB has operated under growing uncertainty since acquiring BTA from the state in 2014. In December 2016, KKB received a KZT 400 billion ($1.2 billion) loan from the NBK, which was partially repaid and extended. KKB may be purchased by

[2] The nominal effective ER depreciated by 44 percent between July 2015 and January 2016. Staff estimates the ER pass-through to consumer prices at about 30 percent (see Selected Issues Papers).

[3] Financial sector development and inclusion beyond banks are modest (see Annex III).

[4] See Annex IV for details.

Halyk, the second largest bank, with the state expected to provide substantial financial support (based on results of due diligence) to clean KKB's balance sheet. Halyk would ensure that the KKB is fully capitalized, a substantial financial commitment. If the transaction goes ahead, the majority of bad assets from KKB-BTA would go to the Problem Loan Fund (PLF) for resolution, although a substantial share of BTA bad assets may be retained by current KKB-BTA owners. If completed, the combined Halyk-KKB would control 40 percent of the market. Mergers or acquisitions are under consideration by other banks—for example, the third largest bank, Tsesnabank, is acquiring BCC, the sixth largest.

12. Ambitious structural reforms are advancing, although implementation is complex. The reforms aim to address underlying gaps in public administration, the business environment, and competitiveness, notably commodity dependency. A flagship "100 Concrete Steps" program was adopted in 2015 to support diversification and competitiveness and improve transparency, accountability, and efficiency of public administration. The program is comprehensive and well designed, although specific actions are taking time to prepare, put forth for legislative and regulatory consideration and approval, and implement. A key area is reduction of the state's role in the economy and privatization of major assets by 2021. A first set of transactions, involving "blue chips" Air Astana, Kaztelekom, and the nuclear fuel firm, Kazatomprom, is expected to begin later in 2017 or in 2018 via IPOs.

Box 2. Kazakhstan—Exposure of the Public Sector to Local Banks

Public funds in local banks are estimated at 22 percent of sectoral liabilities in 2016 ($15.7 billion or 11 percent of GDP). Exposure increased by 15.5 percent last year, mainly reflecting new subsidized lending programs for SMEs and agriculture and deposits of SOEs.

Exposure	USD billion	2016 growth (in percent)
Bank loans and deposits of state agencies and SOEs of which:	9.8	
Problem Loan Fund	1.2	0.0
Samruk Kazyna entities	6.6	38.2
Baiterek entities	2.0	19.1
Deposits at banks and bank bonds purchased by the UAPF	5.9	-3.4
Total	**15.7**	**15.5**

Source: Annual Financial Reports.

OUTLOOK AND RISKS

13. **Growth prospects are expected to improve.** A pickup of growth in 2017 and over the medium term reflects, in part, an increase of oil production as development of the huge Kashagan field gathers speed. Non-oil activity is also expected to gain strength, reflecting the lagged effects of Nurly Zhol spending, structural reforms, and a restarting of bank lending. Staff estimates potential growth at 4.0 percent, down from 4.75 percent previously; lower medium-term growth prospects for Russia and China, together with lower oil prices have affected capital accumulation. Inflation is projected to remain within the NBK's target band of 6-8 percent. While the fiscal deficit is assumed to adjust gradually, a full adjustment, in line with the new NFRK rules, will require specifics by the authorities of their medium-term revenue and expenditure plans. The current account is expected to improve with higher exports, but a return to surplus will be gradual.

14. **Uncertainty is high.** Kazakhstan is highly vulnerable to swings in commodity prices and a significant further slowdown in China (exports, FDI). In particular, a sustained decline in oil prices represents a high-impact downside risk (Annex V). Further tenge appreciation could reverse non-oil competitiveness gains. Failure to resolve decisively banking issues is a key risk to growth and public finances. The high total external debt level is another risk, although the significant share of parent company debt is a mitigating factor. Upside risks include enhanced regional cooperation (e.g., on "Silk Road" initiatives), opening and growing economic relations with Uzbekistan, and a stronger recovery in Russia.

Authorities' views

15. **The authorities broadly shared staff's assessment**. They see growth in the same range and hold similar views on risks, in particular on oil prices and bank credit. Key growth drivers in their projections are agriculture, mining, and construction, with construction benefitting from a new housing program "Nurly Zher." The authorities underscored their commitment to the wide-ranging reforms under the 100 Concrete Steps initiative to boost and diversify growth.

POLICY DISCUSSIONS

16. **Discussions focused on the continued response to lower oil prices, including further strengthening of the fiscal and monetary policy frameworks, addressing financial sector issues, and accelerating structural reforms.** Staff's views are that (i) fiscal support was justified in a period of subdued demand, but gradual consolidation is needed going forward, underpinned by a clearer fiscal framework; (ii) significant progress has been made in monetary policy, and gains with inflation targeting and ER flexibility should be consolidated; (iii) public support to the financial sector—if it goes ahead—should be carefully designed and proceed with a substantial strengthening of regulation, oversight, and governance to ensure that problems do not reoccur; and (iv) decisive implementation of the authorities' ambitious structural reform program is critical for diversification and growth.

A. Fiscal Policy

17. In the near term, fiscal policy remains broadly supportive of activity. Staff assesses the supportive fiscal stance in 2016 as appropriate, although it urged that extrabudgetary spending be avoided. Given the fragility of the recovery, staff and the authorities agreed that substantial consolidation is not desirable in 2017-18. While the overall deficit is expected to be lower in 2017—excluding support to the banking sector, this is driven by oil revenues. Staff also observed that there are few new revenue or expenditure initiatives in the 2017 budget, noting that this was appropriate, as Nurly Zhol (and 100 Concrete Steps) will continue in 2017, and the authorities are working on a new tax code. Higher tax rates without changes to tax bases or treatments could impede growth. One new initiative is "Nurly Zher," which redirects a portion of planned Nurly Zhol spending to construction of affordable housing. Moreover, staff and the authorities agreed that the very sizable envisioned banking support would be beneficial for growth if credit is unlocked and bad assets are sold to new investors. Importantly, no extrabudgetary spending is planned.

18. While Kazakhstan has substantial fiscal space, strong buffers should be maintained, and medium-term consolidation is needed. Despite increased NFRK transfers and issuance of public debt to support the financial sector, the overall fiscal position remains strong, and the government has substantial fiscal space. Financing and fiscal adjustment risks are mitigated by Kazakhstan's relatively large sovereign wealth fund; NFRK assets amount to 45 percent of GDP, and public debt is expected to remain below 25 percent of GDP (Annex VI). However, renewed oil price shocks, slower growth, persistently higher fiscal deficits, or a materialization of contingent liabilities could erode buffers. As the shocks are likely to continue, adjustment over the medium term is needed. Moreover, the authorities should continue to pursue inter-generational equity and savings objectives. Staff recommended adjustment in line with an oil price-based approach to anchor medium-term policies (Selected Issues Papers). This could target levels of the structural non-oil primary balance at predetermined benchmark prices, helping to limit volatility and achieve savings objectives. Staff welcomed the new NFRK rules, noting that they should help guide the non-oil deficit to sustainable levels estimated by staff (5-7 percent of non-oil GDP).

19. With the new NFRK rules providing guidance, staff urged the authorities to develop and implement credible medium-term consolidation plans. Staff stressed that the consolidation should be focused on non-oil revenue mobilization to protect and increase social and capital spending. More progressive tax rates should be considered.

- **A new tax code under preparation presents an opportunity to reduce distortions and raise revenues**. The new code aims to rationalize exemptions and preferential treatments, thus broadening tax bases and supporting consolidation. Changes envisage greater reliance on indirect taxes, including increases in excise taxes and expansion of the VAT by reducing the registration threshold. Natural resource taxation will also be reexamined. Staff welcomed the approach and suggested that the code could benefit from IMF TA.

- **Fiscal policy would also benefit from enhanced reporting and coverage.** The headline fiscal accounts include central and local government operations, but not extrabudgetary funds or initiatives, oil-related revenues, or fiscal operations of the UAPF or SOEs. These should be fully integrated in the accounts, and adoption of IMF Government Financial Statistics (GFS) standards remains a priority. Improved coordination, analytics, and communications by and between the ministries of Economy and Finance would enhance policy clarity.

Authorities' views

20. The authorities acknowledged the need for medium-term fiscal consolidation. Given the long-lasting nature of the oil price shock, they see the case for adjustment and pointed to the medium-term targets in the new NFRK framework, welcoming staff's analytical work on price-based rules. They also agreed that non-oil revenues should be increased over the medium term, as spending cuts alone would not ensure a credible fiscal path or support diversification and robust non-oil growth. Further gains in revenue administration will generate additional revenues, along with tax policy measures in the new tax code. The authorities expressed interest in IMF TA in tax policy and in adopting the GFS reporting standards.

B. Monetary and Exchange Rate Policy

21. While the transition to inflation targeting has advanced, key challenges remain. Staff commended the progress made in changing the monetary and ER policy framework and operations over the past year, noting that the NBK has kept short-term money market rates in the interest-rate corridor and enhanced analytical capacity and communications. Discussions focused on:

- *Excess liquidity.* Tenge liquidity surged in 2016 and the NBK responded with repos and short-term notes. Sterilization reached KZT 3 trillion ($9 billion or 7 percent of GDP) in March 2017. However, market rates have stayed close to the lower bound of the corridor, suggesting that surplus liquidity may be due to structural factors. Real sector lending has stalled, reflecting weak demand by creditworthy borrowers, and banks have also encountered difficulties in matching asset and liability maturities (Annex IV). Staff suggested unwinding FX swaps and tightening reserve requirements, along with the notes issuance, to sterilize excess liquidity.

- *Yield curve.* Besides their use in monetary policy, NBK notes have played a role in building the tenge yield curve. In addition to 7- and 28-day maturities, the NBK has issued longer-maturity notes (up to 1 year). Staff welcomed these efforts as well as cooperation with the MoF to extend the yield curve and develop the market.

- *Long-term FX swaps*. More than half of the long-term FX swaps that the NBK arranged with local banks two years ago (originally $8 billion) have been unwound, and most remaining swaps are set to expire later in 2017. Staff noted that these should not be renewed, as they are costly for the NBK.

- *ER policy*. The adoption of a floating ER is an important landmark in the NBK's monetary policy overhaul, and it has helped the economy adjust to the negative terms of trade shock. Staff underscored the benefits of continuing this policy—especially if adverse pressures reemerge. Given the importance of ER flexibility for inflation targeting, interventions should be used primarily to avoid disorderly market conditions.

- *Analytical capacity and communication*. Staff commended progress made by the NBK in strengthening analytical capacity and communications. Models developed with support of IMF TA are being continuously improved to better inform decisions. Additional short-term forecasting tools have been introduced. Communication of policy decisions has been strengthened, including through press releases, interviews, meetings with market experts, the inflation report, publication of forward-looking policy guidelines and more data. Transparency has increased, including through publishing monthly data on FX interventions and daily data on open positions of the NBK's operations. These efforts should continue.

22. Staff stressed that monetary policy should continue to focus on inflation, with due consideration to growth and employment. Staff assessed monetary policy as appropriate and noted that recent data and expectations surveys suggest that disinflation continues, with inflation expectations increasingly anchored. This should allow the NBK to continue its easing cycle, thus providing support to activity within its existing mandate of price stability. Staff advised against changing the NBK's mandate to explicitly include growth. A dual mandate can be operationally complex and may send confusing signals to the public and markets. Moreover, a central bank's instruments are aimed at managing liquidity; they are not well suited to address structural challenges or imbalances.

Authorities' views

23. The authorities concurred with staff's views. They appreciated the open discussions and staff's analytical work on ER pass-through and interest rate rules (Selected Issues Papers). The authorities reiterated their commitment to inflation targeting and ER flexibility. Managing and unwinding excess liquidity is a challenge, particularly given financial sector issues. The NBK agreed with staff that central bank notes, expiry of FX swaps, deepening of the T-bill market, and possibly, changes in required reserves would help, along with regularization of lending conditions. More broadly, the use of long-term instruments and structural changes in the economy to address excess liquidity would help avoid potential adverse developments. The NBK stressed that its cooperation with MoF has grown, especially on bond market development.

C. Financial Sector Policies

24. Weak balance sheets will continue to drag on the banking sector's ability to support the economy in the near term; prompt action, based on clear principles, is needed. The sector has long been clouded by poor lending and reporting standards, opacity of ownership, and reliance on state support, with high NPLs worsening bank profitability and ability to extend credit. This has inhibited investment in banks and their contribution to growth. Also, banking sector contingent liabilities are an important risk to public finances. Addressing long-standing issues will be critical.

- *KKB-Halyk transaction.* Staff welcomed the authorities' possible actions to address issues at KKB, but expressed regret that measures had not been taken earlier. Problems of KKB-BTA have been long standing—their combined NPLs account for over 35 percent of sectoral problem loans. Actions should decisively address these problems and thereby avoid future state support. Staff outlined key principles to guide actions and noted concern with some aspects of the authorities' approach. Staff stressed that the KKB-Halyk transaction should proceed only after robust due diligence and any issues with KKB's assets have been fully identified, so that the combined institution will not become another bad bank. Existing KKB shareholders should not retain assets, and the NBK should not provide new funds but should be repaid for past liquidity support. To avoid a potential future burden on state resources, a clear viability assessment should be made of the combined bank; proper supervision of the new, systemically-important institution will require additional resources and more intervention powers for the NBK, bringing the regulatory and supervisory framework into line with international best practices. This would also help ensure that the KKB-Halyk transaction does not have negative implications for competition.

- *Addressing issues at other banks.* Staff stressed that an independent, forward-looking AQR will be crucial to evaluate financial conditions and capital adequacy and that state involvement in the KKB-Halyk transaction should not create a precedent for support to other banks. Loan-loss recognition and shareholder capital injections should be key elements to strengthen the sector, and banks that are unable to raise new capital should exit. Several important legislative changes are needed for the NBK to have the sufficient authority and tools to intervene quickly and decisively.

- *Use of public funds.* SOE and UAPF deposits, subsidized loans, and other claims of public agencies (e.g., bank bonds) account for a large share of bank liabilities; however, rules guiding placement of funds do not account for risks or are overridden. Staff urged enhanced risk management and noted that with growth picking up, subsidized lending should be phased out promptly. On resolution, staff stressed that public support should be provided only for viable, systemic institutions and when stability is at risk. Shareholders should be fully diluted before public funds are used, and capital support should come from the budget and not the NBK or UAPF.

- *Problem loans.* The PLF has been used so far as a pass-through for public deposits at banks, rather than to resolve bad assets.[5] Successful resolution of KKB-BTA NPLs will require providing the PLF with more resources, staff, authority, and flexibility. The PLF should have a mandate to maximize value recovery and operate in line with international best practices regarding independence, transparency, and accountability. As the regulator, the NBK should

[5] For example, KZT 250 billion ($1.4 billion at then-prevailing June 2015 ER) aimed at capitalizing the PLF and making it operational, were instead deposited at KKB for 10 years at a below-market interest rate.

no longer be responsible for managing the PLF. More generally, stronger NBK supervision and regulation and changes in tax law would support NPL resolution.

25. Regulatory and reporting improvements are needed. Staff stressed that reestablishing consolidated reporting (covering SPVs) is crucial to present a clear picture of NPLs and capital adequacy. As recommended by the 2014 FSAP and subsequent IMF TA, NBK intervention and regulatory powers and the Lender of Last Resort (LoLR) and resolution frameworks also need urgent strengthening. Staff acknowledged that macroprudential measures implemented in 2014 helped reduce concentration and slow FX lending, and encouraged the authorities to consider further tools, such as higher risk weights and caps on exposures to corporates that are particularly sensitive to oil price and ER movements. Staff recommended that loosening of prudential measures from October 2015 be reversed and provisioning rules tightened further. For better risk monitoring, the quality of corporate and household balance sheet data should be enhanced. Increases in capital requirements, originally planned for 2016, were introduced in January 2017, and staff encouraged the NBK to proceed with further upward adjustments towards Basel III standards. Improving regulation and supervision is a prerequisite for a sound and more inclusive financial system that would foster growth.

Authorities' views

26. The authorities agreed that prompt actions are needed and that the regulatory and supervisory framework should be strengthened. They shared staff's diagnostics and pledged to move ahead with reforms, but also underscored the difficulties involved. They noted that a consensus has emerged that sectoral challenges should be addressed decisively, with the government working closely with the NBK on KKB and other issues. They stressed that KKB is a systemically-important bank that plays a key role in the payment system; accordingly, strong state actions are needed to safeguard financial stability. The authorities expressed confidence that acquisition of KKB by Halyk would put in place a strong management team with sufficient capital, and noted that a system-wide consolidation was necessary, given a large number of small, under-performing banks and a relatively small market size. They do not see the combined KKB-Halyk Bank as impeding competition, nor do managers of other local banks. To support NPL resolution, the authorities indicated that they were planning to capitalize the PLF and give it more powers and to enact tax law changes to facilitate write-offs of NPLs. These legal changes were approved by the President in February. The authorities also indicated that draft legal amendments were being prepared to strengthen the NBK's resolution powers and that work was underway on the LoLR framework and on other supervisory and regulatory changes. These include reintroduction of consolidated reporting and further transition to risk-based supervision.

D. Structural Reforms

27. The authorities' structural reform agenda aims to support more effective governance, diversification, and broad-based and inclusive growth. Reforms encompass a wide range of measures in public administration, rule of law and accountability, the business environment, and nation building. Diversification extends even to the energy sector through efforts to foster use of alternative energy and a goal of producing half of electricity from renewables by 2050. Another key area is transport, where development of road and rail corridors under Nurly Zhol complements international integration via the One Belt-One Road initiative. These efforts should boost logistics and processing, including agro-processing. The authorities see development of the Astana International Financial Center as important to developing financial markets and instruments and attracting investors. "Innovation clusters" in Astana and Almaty and support for R&D are seen as central to building human capital.

28. Staff considers the authorities' agenda to be well intentioned, but also very wide-ranging and ambitious, and accordingly stressed the importance of implementation. The reforms will tax capacity and require consensus-building among groups and individuals that have benefited from the *status quo*. Lack of clarity on prioritization, benchmarks, and timetables should be addressed, and progress should be systemically reported domestically and internationally. Some observers noted a tendency for the authorities to unveil new flagship plans before existing initiatives are concluded. Indeed, some of the "100 Concrete Steps" have been drawn into a new "Third Modernization" strategy and the constitutional reforms. Staff also recommended that the approach to privatization be clarified: IPOs should be launched where the likelihood of success is greatest, while retention of a government majority or "golden" share may dampen investor interest. Delays in land reforms following protests in 2016 are understandable, but may also postpone or limit prospects for Kazakhstan to harness its immense agricultural potential, especially exports to China. Clear and decisive implementation, continued dialogue with IFIs and regional counterparts, and regular communications will be key to instilling accountability and creating an environment conducive to growth.

Authorities' views

29. The authorities stressed that reform implementation is proceeding, with responsibilities under each measure assigned to ministries, offices, and agencies. The reforms also receive high priority for budget appropriations. While capacity within ministries is a challenge, working groups make progress, meet regularly, and report to the President.

STAFF APPRAISAL

30. While Kazakhstan has faced significant challenges since 2014, the authorities' response has helped mitigate the impact of shocks. The authorities rightly recognize that favorable factors that boosted growth over the decade-and-a-half prior to 2014 have changed: commodity prices are likely to be lower for an extended period, along with growth in key trading partners—particularly Russia and China. Their response has included: targeted fiscal stimulus that provided funding to infrastructure, SMEs, and housing; ER flexibility in the context of transition to inflation targeting; and structural reforms focused on improvements to public administration and the business climate, including privatization. Growth decelerated in 2015-16, but is expected to pick up in 2017 and further over the medium term, supported by higher oil production and the authorities' ambitious reform agenda. The external position has deteriorated and is moderately weaker than implied by fundamentals; with the recovery of oil prices, the current account is expected to improve. Key risks are commodity prices and the financial sector.

31. Fiscal policy has appropriately been supportive of activity, but with recovery, the focus should shift to ensuring long-term sustainability. Nurly Zhol has helped support demand, but as growth picks up and projects under this initiative are completed, the case for continuing support is less compelling, despite substantial fiscal space. Moreover, there is a need to maintain a sizeable buffer in view of high revenue volatility and uncertainty, and inter-generational/savings objectives. The 2017 budget envisages higher revenue and broadly unchanged expenditures, excluding fiscal support for the financial sector, which can be justified as long as the necessary measures are in place to ensure a lasting solution of banking issues. Over the medium term, fiscal adjustment should be gradual, so that headwinds on growth are minimized. The new NFRK framework, which targets a lower non-oil deficit and lower NFRK transfers over the medium term, is a step in the right direction. Consideration should be given to a price-based rule to anchor the medium-term deficit. It will be important to work out the specifics of the fiscal adjustment and follow up with decisive action. To protect capital and social outlays important for inclusive growth, focus should be on increasing non-oil revenues. The new tax code presents a key opportunity to do so. Further strengthening of the fiscal framework requires improved coverage and reporting, and the authorities should fully integrate the NFRK and other operations in the budget and the fiscal accounts, and they should adopt the IMF's GFS reporting standards to enable a comprehensive assessment of fiscal operations. Direct NFRK and UAPF involvement in fiscal initiatives should be limited. Improved analytics and communications are also important.

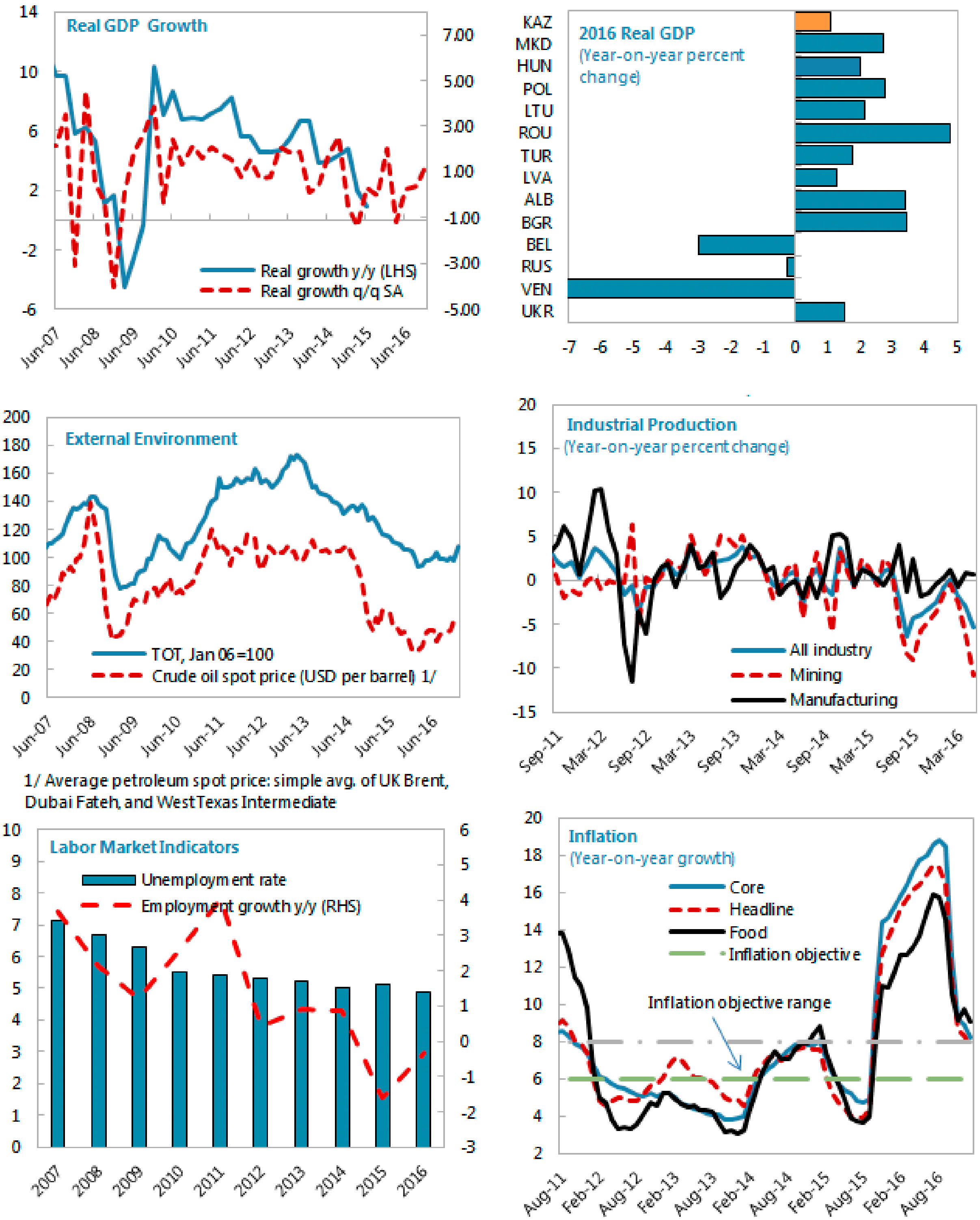
32. Monetary policy should continue to focus on price stability within the inflation-targeting framework. Adopting an explicit dual mandate to target both inflation and growth is not recommended. The NBK should continue to build credibility in its new policy regime, including by maintaining ER flexibility which has played an important role in adjusting to the oil price shock. Achieving low, stable inflation will support further reductions of the policy rate and the savings and investment needed for diversification and growth. The NBK efforts to further enhance analytical capacity and strengthening communication of policy decisions are strongly supported.

33. Financial sector weaknesses call for decisive actions. Coordinated efforts to resolve the challenges of high NPLs and of KKB, Kazakhstan's largest bank, are needed. Previous interventions during the past decade have not been successful. This time, a resolute approach is needed. State support to the sector should be subject to strict conditions to limit costs and reduce moral hazard, and weak, non-systemic institutions should not be bailed out. An independent AQR remains a key component of the strategy to restore the health of the banking sector. Bank shareholders should fully bear losses before public funds are used. Mergers between banks should take place only after due diligence is completed and only if the resulting institutions are strong and do not pose risks to competition or financial stability. The authorities should ensure that the acquisition of KKB by Halyk complies with these principles. Bad assets obtained from banks should be transferred to the PLF and liquidated in a transparent, auction-type approach, in line with international best practices. Legal and regulatory changes are needed to support PLF operations, along with capacity improvements. The authorities have already made important steps in that direction, including by transferring PLF ownership to the government and providing more favorable tax treatment of NPL write-offs. Although TA from the IMF and other international institutions has been provided, progress in key areas of bank resolution, regulation and supervision has been slow. The priority given to strengthening of the bank supervision and resolution frameworks is welcome; concrete measures will be needed to avoid the recurrence of problems. Crucially, consolidated reporting should be reinstated, and the LoLR framework should be clarified and strengthened. This is particularly important given possible requests for support from other banks following the KKB-Halyk transaction.

34. Structural reforms are key to diversification and broad-based and inclusive growth, along with improvements in public administration and governance. The authorities have adopted an ambitious reform agenda, and an important challenge is to ensure decisive implementation, with objectives, actions, and progress effectively communicated to the public, markets, and investors to help ensure that desired positive effects materialize. To promote private sector development and diversify the economy away from oil and the state, it will be important to attract investors in non-resource sectors. This calls for resolute actions to improve the business environment, encourage competition, and strengthen governance. An important milestone will be successful conclusion of the first round of blue-chip IPOs; these will set the tone for other actions.

35. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Kazakhstan: Economic Developments

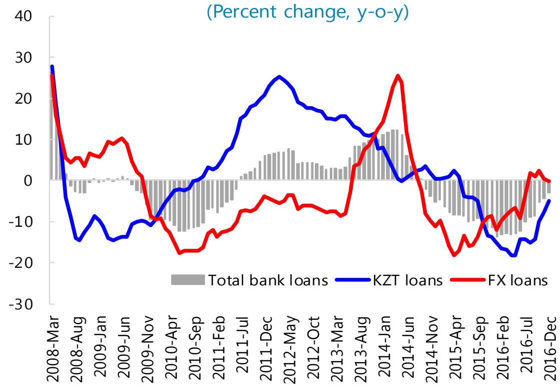


Sources: Kazakhstani authorities and IMF staff estimates.

Figure 2. Kazakhstan: Banking Sector Developments

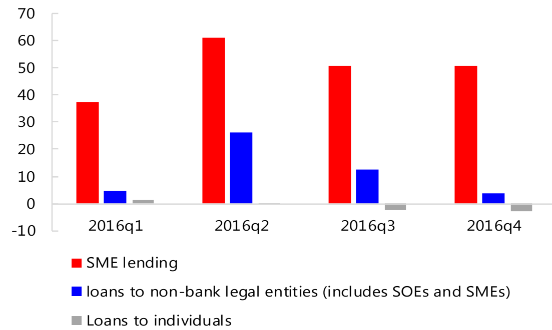
Real credit growth has been negative for over 2 years.

Real bank lending growth
(Percent change, y-o-y)



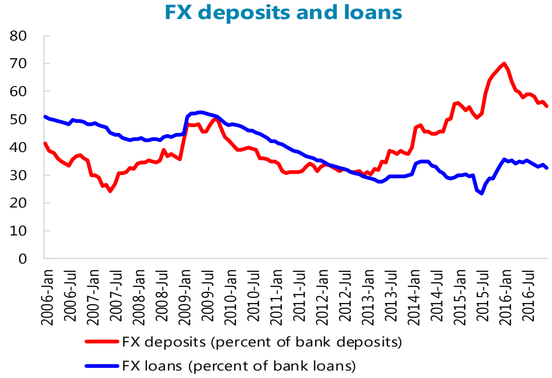
State subsidies resulted in strong growth in SME lending in 2016.

Nominal bank lending growth in 2016
(Percent change, y-o-y)



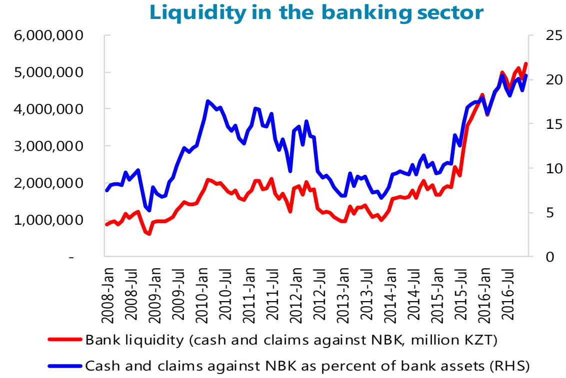
FX deposits increased to over 70 percent of total deposits in January 2016, but have been falling since then.

FX deposits and loans



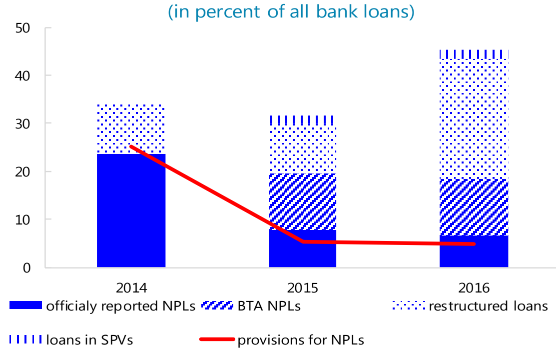
Amid poor economic prospects, banks have accumulated excess liquidity.

Liquidity in the banking sector



Problem loans have increased in 2016, while provisioning remains low.

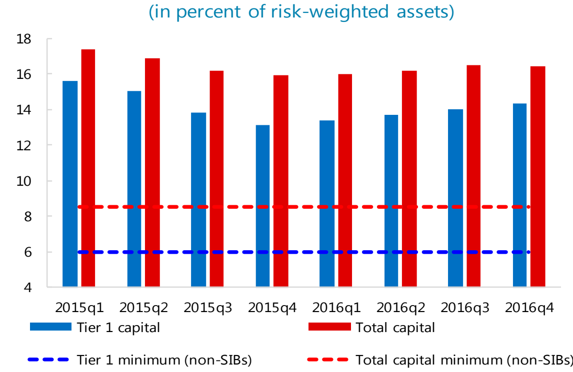
Bank problem loans[1/]
(in percent of all bank loans)



1/ Assuming 90 percent of de-licensed BTA loans are non-performing

System-wide capital adequacy ratios fell in 2015, but have been increasing since then.

Bank capital ratios
(in percent of risk-weighted assets)

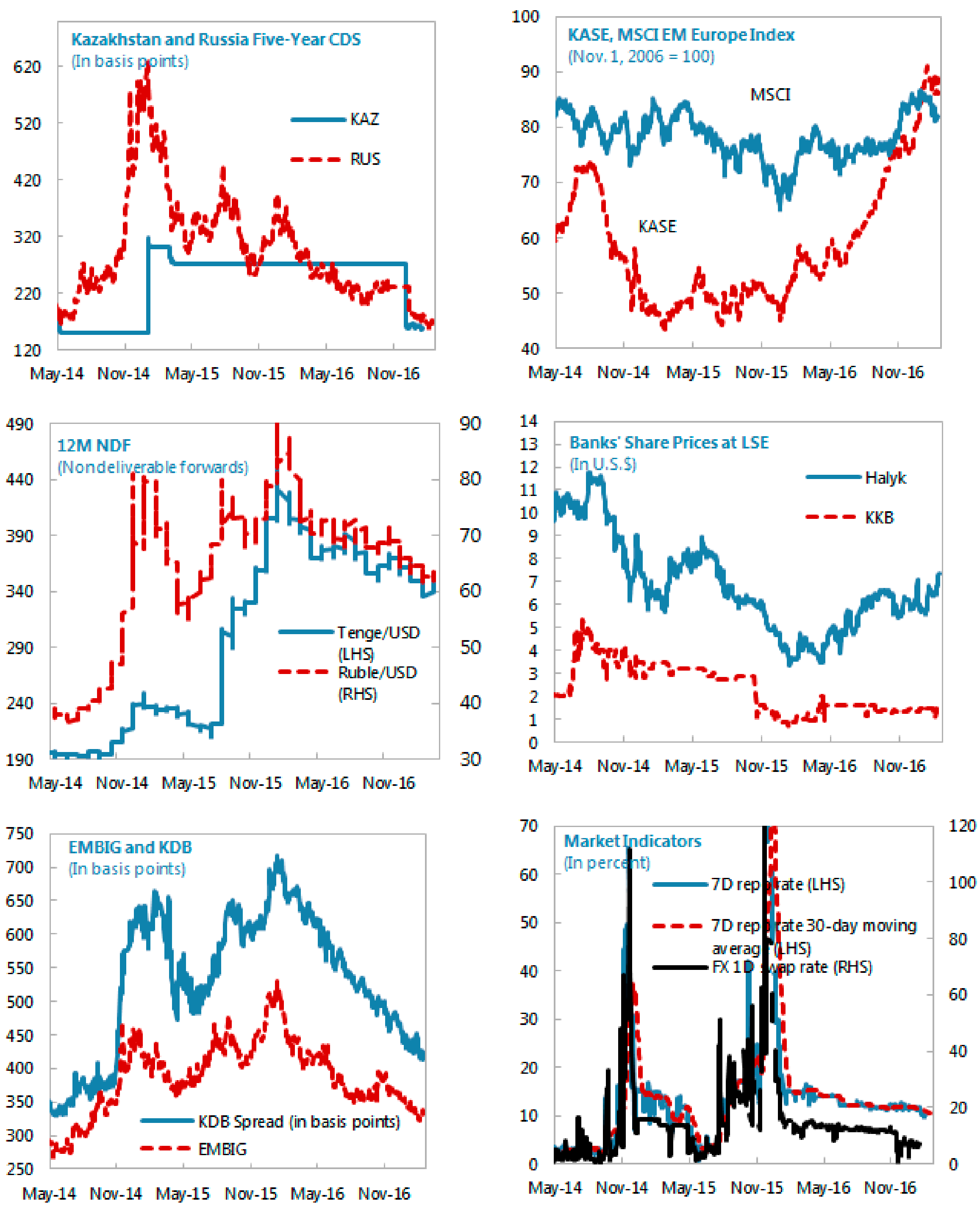


Source: Authorities data, IMF Staff calculations

Figure 3. Kazakhstan: Key Financial Soundness Indicators, Cross-Country Comparison 1/

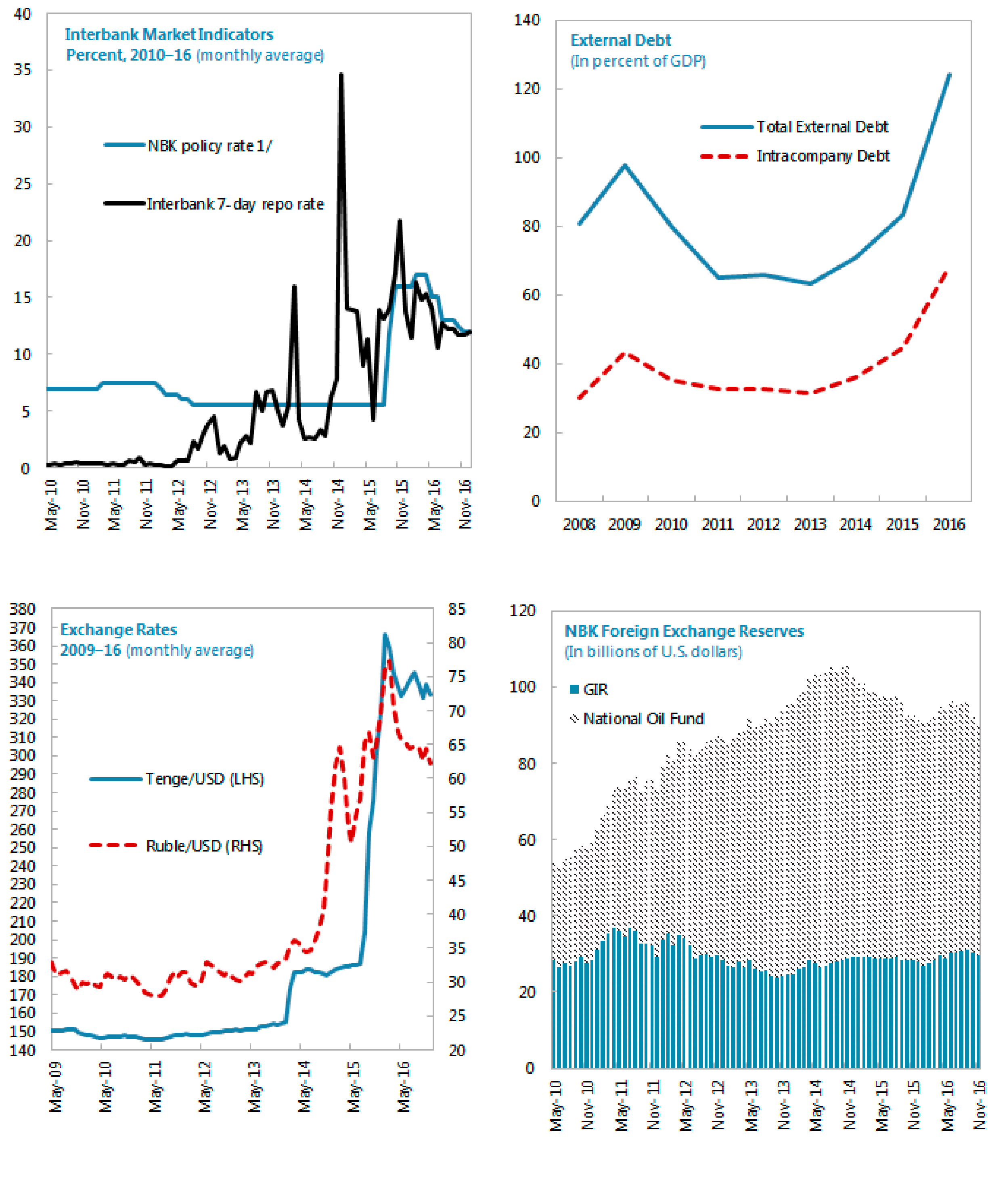
Sources: Financial Soundness Indicators; World Economic Outlook; and IMF staff calculations.
1/ Official data.

Figure 4. Kazakhstan: Capital Markets Indicators



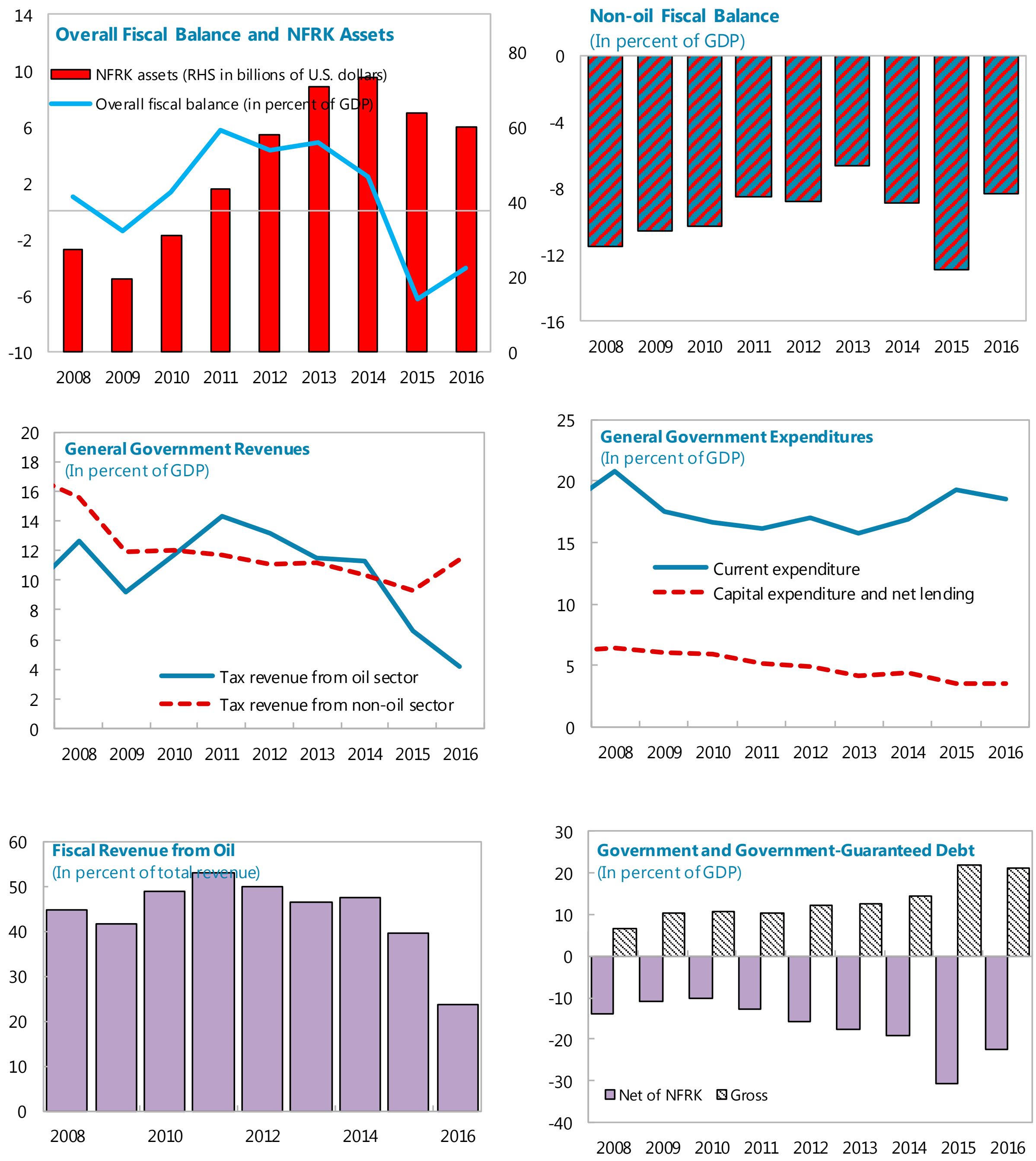
Source: Bloomberg.

Figure 5. Kazakhstan: Monetary and External Sector Developments



Sources: Kazakhstani authorities, Bloomberg, and IMF staff estimate.
1/ NBK policy rate is refinancing rate through September 2015, then base rate.

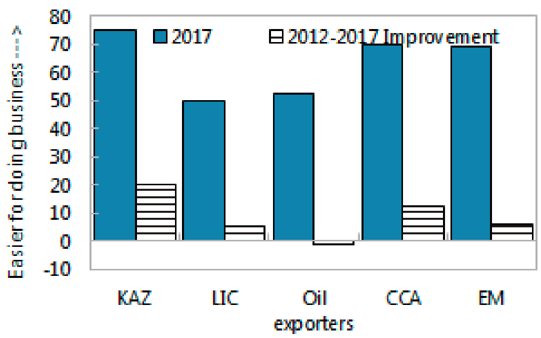
Figure 6. Kazakhstan: Fiscal Developments and Outlook



Sources: Kazakhstani authorities and IMF staff estimates.

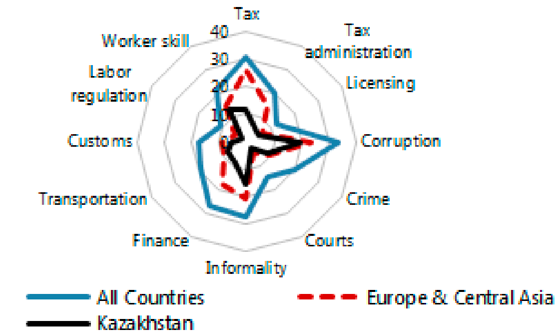
Figure 7. Kazakhstan: Business Environment and Governance Indicators

Ease of Doing Business
(Distance to frontier)



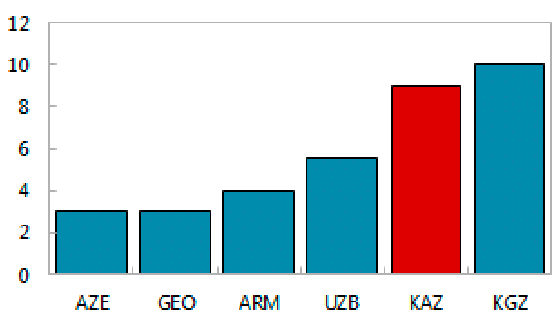
Sources: World Bank; and IMF staff calculations.

Firm-level Business Constraints
(Percentage of firms identifying constraints)



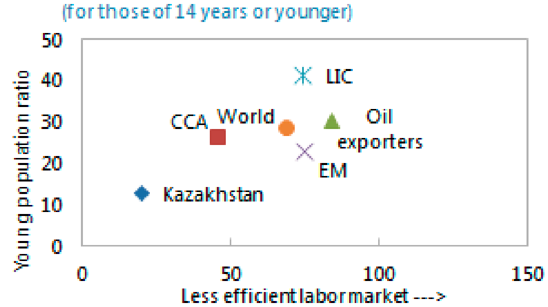
Source: World Bank Enterprise Survey (2013).

Average Days to Start a Business



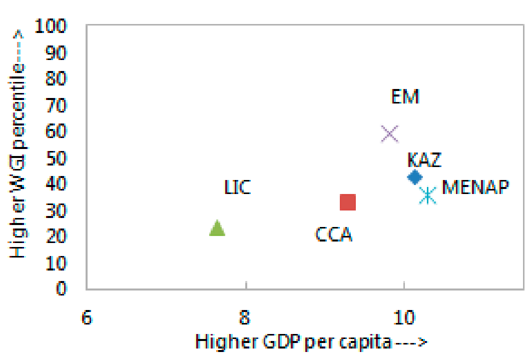
Sources: Doing Business Indicators; and IMF staff calculations.

Labor Market Efficiency and Young Population Ratio
(for those of 14 years or younger)



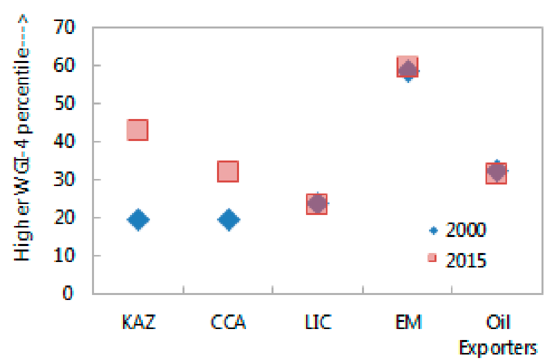
Sources: WEF Global Competitiveness Report (2016-17, pillar7; World Development Indicators; and IMF staff calculations.

WGI-4 and GDP per capita
(log PPP, current international dollars)



Sources: Worldwide Governance Indicators (government effectiveness, regulatory quality, rule of law, and control of corruption); and World Development Indicators.

Changes in WGI-4, 2000-2015
(percentile rank)



Source: Worldwide Governance Indicators (government effectiveness, regulatory quality, rule of law, and control of corruption).

Table 1. Kazakhstan: Selected Economic Indicators, 2013–22

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Projections					
	(Annual percent change, unless otherwise indicated)									
National accounts and prices										
Real GDP	6.0	4.3	1.2	1.1	2.5	3.4	2.8	3.2	3.9	4.6
Real oil	3.2	-1.3	-2.6	-1.2	3.9	6.3	2.2	2.3	3.4	6.6
Real non-oil	7.0	6.3	2.5	1.8	2.0	2.5	3.0	3.5	4.0	4.0
Real consumption	9.8	-1.2	-1.8	1.1	2.5	1.7	1.7	0.9	2.9	1.8
Real investment	5.4	5.8	4.3	1.0	2.7	2.9	2.0	1.0	1.6	1.2
Real exports	-0.9	-5.8	-2.1	-6.2	4.6	6.6	4.3	9.3	5.6	13.1
Real imports	5.0	-16.7	-6.5	-8.3	5.9	2.2	0.7	2.2	0.8	5.0
Output gap (in percent of potental GDP)	3.5	4.0	1.6	-1.1	-0.7	-0.6	-0.2	0.0	0.0	0.3
Consumer price index (eop)	4.8	7.4	13.6	8.5	7.3	6.8	6.0	5.1	4.0	4.0
GDP deflator	9.5	5.7	1.8	10.7	11.5	6.5	5.5	5.2	2.1	2.6
Official exchange rate (Tenge per U.S. dollar; eop)	2.2	18.7	86.2	-1.8	…	…	…	…	…	…
	(In percent of GDP, unless otherwise indicated)									
General government fiscal accounts										
Revenues and grants	24.8	23.7	16.6	18.0	19.6	19.8	20.0	20.7	20.6	21.4
Oil revenues	11.5	11.3	6.6	4.2	6.4	6.6	6.5	6.9	6.8	7.5
Non-oil revenues	13.2	12.4	10.0	13.8	13.2	13.2	13.4	13.9	13.8	13.8
Expenditures and net lending	19.9	21.3	22.9	22.1	25.9	21.8	21.8	21.6	21.6	21.5
of which : Current expenditure 1/	15.7	16.9	19.3	18.5	22.7	18.7	18.6	18.5	18.4	18.4
Capital expenditure	3.9	4.2	3.2	2.9	2.9	3.0	3.0	3.0	3.0	3.0
Overall fiscal balance	4.9	2.4	-6.3	-4.1	-6.3	-2.1	-1.8	-0.8	-1.0	-0.1
Financing	-3.2	1.6	8.3	4.2	6.3	2.1	1.8	0.8	1.0	0.1
Domestic financing	2.0	1.5	0.5	-0.2	3.0	2.1	2.2	1.8	2.1	1.5
Foreign financing	0.1	1.3	2.6	1.7	0.4	0.2	0.2	0.2	0.2	0.1
NFRK	-5.4	-1.1	5.3	2.6	2.9	-0.2	-0.6	-1.1	-1.2	-1.5
Gross public debt (percent of GDP)	12.6	14.5	21.9	21.1	21.8	22.0	22.7	22.9	23.8	23.8
Non-oil fiscal balance (percent of GDP)	-6.6	-8.9	-12.9	-8.3	-12.7	-8.7	-8.3	-7.7	-7.8	-7.7
Non-oil fiscal balance (percent of non-oil GDP)	-8.8	-11.9	-15.6	-10.1	-15.9	-10.8	-10.2	-9.3	-9.3	-9.6
	(Annual percent change, eop, unless otherwise indicated)									
Monetary accounts										
Reserve money	-2.2	20.8	39.2	8.7	8.0	8.7	7.1	9.5	7.9	8.3
Broad money	10.2	10.5	34.3	15.7	9.4	10.1	8.4	9.5	7.9	8.3
Credit to the private sector 2/	12.6	5.7	24.5	0.4	4.0	8.1	7.9	8.9	8.7	8.8
Credit to the private sector (percent of GDP) 2/	39.6	37.9	45.8	41.1	37.5	36.8	36.6	36.7	37.7	38.2
NBK policy rate (eop; percent) 3/	5.5	5.5	16.0	12.0	…	…	…	…	…	…
	(In billions of U.S. dollars, unless otherwise indicated)									
External accounts										
Current account balance (percent of GDP)	0.5	2.8	-2.8	-6.4	-4.3	-3.1	-2.2	-0.7	0.1	0.1
Exports of goods and services	90.9	86.9	53.0	43.6	56.0	59.3	60.8	66.4	70.6	80.7
Oil and gas condensate	57.2	53.6	26.8	19.4	26.7	28.6	28.5	29.2	30.6	40.1
Non-oil exports	33.6	33.3	26.2	24.2	29.3	30.7	32.3	37.2	40.0	40.6
Imports of goods and services	63.3	57.0	45.4	38.9	45.3	46.1	46.2	47.5	48.3	51.1
NBK gross reserves (eop)	24.7	29.2	27.9	29.5	32.5	35.5	38.5	41.5	44.5	47.5
NFRK assets (eop)	70.8	73.2	63.5	60.0	58.5	58.8	59.9	62.3	65.0	68.4
Total external debt (percent of GDP) 4/	63.4	71.2	83.2	122.5	106.9	98.9	93.0	86.6	82.5	77.9
Excluding intracompany debt (percent of GDP)	32.1	35.3	38.7	54.2	47.6	43.8	40.9	37.6	35.4	33.2
Memorandum items:										
Nominal GDP (in billions of tenge)	35,999	39,676	40,884	45,732	52,256	57,542	62,391	67,719	71,819	77,080
Nominal GDP (percentage change)	16.1	10.2	3.0	11.9	14.3	10.1	8.4	8.5	6.1	7.3
Nominal GDP (in billions of U.S. dollars)	236.6	221.4	184.4	133.7	157.9	173.8	188.5	204.6	217.0	232.9
Total Transfers from the NFRK (in billions of U.S. dollars)	9.2	10.9	11.1	8.3	8.0	7.8	6.9	6.0	6.0	6.0
Exchange rate (tenge per U.S. dollar; eop)	153.6	182.4	339.5	333.3	…	…	…	…	…	…
Saving-Investment balance (percent of GDP)	0.5	2.8	-2.8	-6.4	-4.3	-3.1	-2.2	-0.7	0.1	0.1
Crude oil, gas cnds. production (millions of barrels/day) 5	1.70	1.68	1.64	1.62	1.69	1.79	1.83	1.87	1.94	2.06
Oil price (in U.S. dollars per barrel)	104.1	96.2	50.8	42.8	55.2	55.1	54.1	54.0	54.4	55.2

Sources: Kazakhstani authorities and Fund staff estimates and projections.

1/ For 2015 it includes a transfer of USD 4.5 billion to KazMunaiGaz to make external debt payments.
For 2017 it includes the support of the banking sector of about $6.4 billion.

2/ Private sector includes nonbank financial institutions, public and private nonfinancial institutions, nonprofit institutions,

3/ Refinancing rate through 2014 and base interest rate of the NBK from 2015.

4/ Gross debt, including arrears and other short-term debt.

5/ Based on a conversion factor of 7.6 barrels of oil per ton.

Table 2. Kazakhstan: Balance of Payments, 2013–22

(In billions of U.S. dollars, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Projections					
Current account	1.2	6.1	-5.1	-8.5	-6.7	-5.4	-4.2	-1.4	0.2	0.2
Trade balance	34.8	36.2	12.7	9.4	15.9	18.3	19.3	22.7	25.6	33.5
Exports (f.o.b.)	85.6	80.3	46.5	37.3	48.3	51.3	52.4	56.7	60.2	70.1
Oil and gas condensate	57.2	53.6	26.8	19.4	26.7	28.6	28.5	29.2	30.6	40.1
Non-oil exports	28.3	26.7	19.7	17.9	21.6	22.7	23.9	27.5	29.6	30.0
Imports (f.o.b.)	50.8	44.1	33.8	27.9	32.5	33.0	33.1	34.0	34.6	36.6
Non-oil, gas imports	48.0	43.9	33.8	27.9	32.5	33.0	33.1	34.0	34.6	36.6
Services and income balance	-32.3	-28.8	-16.3	-17.6	-22.1	-23.1	-22.8	-23.3	-24.6	-32.3
Services, net	-7.2	-6.3	-5.1	-4.8	-5.3	-5.1	-4.7	-3.8	-3.3	-3.9
Income, net	-25.1	-22.5	-11.2	-12.8	-16.8	-18.0	-18.1	-19.5	-21.3	-28.4
Of which: Income to direct investors	22.5	19.8	8.8	10.9	14.8	15.8	15.8	17.0	18.8	25.8
Current transfers	-1.3	-1.3	-1.6	-0.4	-0.5	-0.6	-0.7	-0.8	-0.9	-1.0
Capital and financial account	-8.9	-7.1	-9.3	-8.5	-9.7	-8.4	-7.2	-4.4	-2.8	-2.8
Foreign direct investment ("-"= inward)	-8.0	-4.6	-3.1	-14.4	-9.1	-9.2	-8.6	-8.0	-7.4	-6.9
Portfolio investment, net	6.0	1.0	-5.9	0.7	-2.2	-2.3	-2.3	-2.4	-2.4	-2.5
Of which: National Fund	7.8	6.8	-8.4	-2.6	-3.2	-1.5	-0.6	0.6	0.8	1.5
Other investment	-7.0	-3.5	-0.3	5.0	1.6	3.1	3.8	6.0	7.0	6.6
Errors and omissions	-3.9	-9.0	-5.2	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.4	-4.3	0.8	0.3	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Financing: Net international reserves of NBK	-2.4	4.3	-0.8	-0.3	3.0	3.0	3.0	3.0	3.0	3.0
Memorandum items: 1/				*(In percent of GDP)*						
Current account	0.5	2.8	-2.8	-6.4	-4.3	-3.1	-2.2	-0.7	0.1	0.1
Exports of goods	36.2	36.3	25.2	27.9	30.6	29.5	27.8	27.7	27.7	30.1
Oil exports	24.2	24.2	14.5	14.5	16.9	16.4	15.1	14.3	14.1	17.2
Non-oil exports	12.0	12.1	10.7	13.4	13.7	13.0	12.7	13.5	13.6	12.9
Imports of goods	21.5	19.9	18.4	20.8	20.6	19.0	17.5	16.6	15.9	15.7
				(Annual growth rate, in percent)						
Exports	-1.5	-6.2	-42.1	-19.8	29.6	6.1	2.2	8.2	6.1	16.5
Non-oil exports	-7.0	-5.9	-26.0	-9.2	20.8	4.7	5.3	15.2	7.5	1.6
Volume on non-oil exports	-3.4	1.6	-9.7	-1.6	5.0	6.0	7.0	10.5	7.0	1.0
Average price of non-oil exports	-3.8	-7.4	-18.1	-7.8	15.0	-1.2	-1.5	0.3	0.5	0.6
Imports	4.1	-13.3	-23.2	-17.7	16.5	1.6	0.2	2.8	1.7	5.9
Non-oil imports	3.1	-8.5	-22.9	-17.6	16.5	1.6	0.2	2.8	1.7	5.9
Volume on non-oil imports	5.2	-4.9	-13.2	-15.4	12.0	2.0	0.5	0.5	1.0	4.0
Average price of non-oil imports	-3.0	-3.8	-11.2	-5.9	8.9	-0.5	-0.5	0.7	0.9	0.8
Exports of oil and gas condensate (in MT)	70.7	68.2	63.6	62.3	66.5	71.5	72.5	74.5	77.5	100.0
NBK gross international reserves (in billions of U.S. dollars	24.7	29.2	27.9	29.5	32.5	35.5	38.5	41.5	44.5	47.5
In months of next year's imports of g&n.f.s. 2/	5.2	7.7	8.6	7.8	8.5	9.2	10.0	10.5	11.1	11.2
National Fund (including interest), e.o.p.	70.8	73.2	63.5	60.0	58.5	58.8	59.9	62.3	65.0	68.4
External debt in percent of GDP	63.4	71.2	83.2	122.5	106.9	98.9	93.0	86.6	82.5	77.9
Public external debt (percent GDP)	2.4	3.7	6.6	9.6	8.8	8.2	7.7	7.1	6.6	6.3
Private external debt (percent GDP)	61.0	67.4	76.6	112.9	98.1	90.8	85.2	79.5	75.9	71.6
Excluding inter-company loans (percent GDP)	32.1	35.3	38.7	54.2	47.6	43.8	40.9	37.6	35.4	33.2
World oil price (U.S. dollars per barrel)	104.1	96.2	50.8	42.8	55.2	55.1	54.1	54.0	54.4	55.2

Sources: Kazakhstani authorities and Fund staff estimates and projections.

1/ Estimates and projections are based on GDP at market exchange rates.

2/ The number reflects months of same year's imports of g&n.f.s. in 2022.

Table 3. Kazakhstan: Financial Soundness Indicators of the Banking Sector, 2013–16

	2013	2014	2015	2016
	(in billions of tenge)			
Total Regulatory Capital	2108	2587	3058	3226
Total Assets	13303	15598	19149	24562
Risk-Weighted Assets	11842	14453	19218	19736
	(in billions of USD)			
Total Regulatory Capital	14	14	9	10
Total Assets	87	86	56	74
Risk-Weighted Assets	77	79	57	59
Capital adequacy	*(In percent)*			
Regulatory Capital to Risk-Weighted Assets	18	18	16	16
Regulatory Tier 1 Capital to Risk-Weighted Assets	12	14	13	14
Capital to Assets	13	14	10	11
Asset quality				
Non-performing Loans to Total Gross Loans	19	12	8	7
Provisions as percent of NPL	66	52	66	72
Non-performing Loans Net of Provisions to Capital	39	31	17	10
Large Exposures to Capital	176	182	288	248
Earnings and profitability				
Return on Assets	2	3	2	2
Return on Equity	16	23	13	18
Interest Margin to Gross Income	59	57	70	67
Trading Income to Total Income	4	2	-3	4
Non-interest Expenses to Gross Income	37	36	47	43
Personnel Expenses to Non-interest Expenses	38	39	36	37
Liquidity				
Liquid Assets to Total Assets (Liquid Asset Ratio)	18	19	21	20
Liquid Assets to Short Term Liabilities	51	58	69	59
Foreign-Currency-Denominated Loans to Total Loans	32	31	43	40
Foreign-Currency-Denominated Liabilities to Total Liabilities	40	54	67	50
Customer Deposits to Total (Non-interbank) Loans	85	90	100	112
Sensitivity to market risk				
Gross Asset Position in Financial Derivatives to Capital	6	7	47	17
Gross Liability Position in Financial Derivatives to Capital	5	6	12	5
Net Open Position in Foreign Exchange to Capital	-5	-1	3	2

Source: IMF Financial Soundness Indicators (FSI) database

Table 4. Kazakhstan: Monetary Accounts, 2013–22

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(End of period, in billions of tenge)									
Monetary Survey										
Net Foreign Assets	6,426	7,462	9,220	10,573	12,110	13,245	14,373	15,509	16,624	17,759
Net Domestic Assets	5,922	6,582	9,239	9,468	10,053	11,121	12,013	13,334	14,459	15,856
Domestic Credit	14,789	15,636	18,903	18,865	19,813	21,208	22,636	24,383	26,224	28,226
Net claims on government	545	585	167	53	240	44	-198	-486	-820	-1200
Credit to the private sector 1/	14,244	15,051	18,736	18,812	19,573	21,164	22,835	24,869	27,044	29,426
Other items, net	-8,868	-9,053	-9,665	-9,397	-9,760	-10,087	-10,623	-11,048	-11,765	-12,370
Broad money	11,598	12,817	17,208	19,913	21,776	23,978	25,999	28,456	30,695	33,228
Currency in circulation	1,512	1,122	1,237	1,749	1,838	1,942	2,061	2,207	2,329	2,464
Total deposits	10,086	11,694	15,971	18,164	19,938	22,036	23,937	26,249	28,366	30,763
Nonliquid liabilities	208	271	377	387	387	387	387	387	387	387
Statistical discrepancy	541	957	874	-259	0	0	0	0	0	0
Accounts of NBK										
Net foreign assets 2/	3,742	5,253	9,419	9,770	11,192	12,235	13,277	14,320	15,363	16,405
Net international reserves 2/	3,724	5,153	9,444	9,674	10,767	11,760	12,753	13,746	14,739	15,732
Net domestic assets 2/	-140	-579	-1,992	-3,055	-5,096	-5,622	-6,206	-6,606	-7,060	-7,441
Net domestic credit	671	871	618	-688	-1,553	-1,845	-2,187	-2,578	-3,019	-3,510
Net claims on central government	-788	-1,137	-1,968	-991	-1,499	-1,771	-2,093	-2,464	-2,885	-3,356
Net claims on banks	553	701	-939	-36	-56	-76	-96	-116	-136	-156
Other items, net	-810	-1,450	-2,610	-2,367	-3,543	-3,778	-4,020	-4,028	-4,041	-3,930
Reserve money	2,826	3,414	4,751	5,162	5,573	6,059	6,488	7,101	7,659	8,292
Currency in circulation	1,763	1,382	1,495	2,050	2,173	2,304	2,443	2,590	2,746	2,911
Liabilities to banks	844	1,500	2,836	2,680	2,792	3,051	3,289	3,563	3,794	4,071
Required reserves	804	1,399	2,756	2,311	2,423	2,682	2,919	3,194	3,425	3,702
Other liabilities	39	101	80	370	370	370	370	370	370	370
Demand deposits	219	532	420	432	607	703	756	948	1,119	1,309
Other liquid liabilities	28	29	73	493	523	553	583	613	643	673
Deposit money banks										
Net foreign assets	2,683	2,209	-199	803	918	1,011	1,096	1,189	1,261	1,354
Net domestic assets	9,017	11,275	18,663	19,766	20,003	21,997	23,896	26,134	28,267	30,655
Domestic credit	15,769	17,399	22,509	23,476	26,220	28,307	30,499	33,154	35,991	39,095
Net claims on government	663	707	819	671	1,475	1,551	1,630	1,713	1,801	1,892
Credit to the private sector 1/	14,009	14,758	17,537	17,594	19,570	21,161	22,832	24,867	27,041	29,424
Net claims on other financial corporations	560	514	1,309	979	979	979	979	979	979	979
Banks' reserves	1,097	1,934	4,124	4,973	5,174	5,595	6,036	6,574	7,149	7,779
Other items, net	-6,752	-6,124	-4,148	-4,158	-6,217	-6,310	-6,603	-7,020	-7,724	-8,440
Banks' liabilities	11,700	13,484	18,464	20,570	20,920	23,008	24,991	27,323	29,528	32,009
Demand deposits	2,636	2,971	3,786	4,622	4,753	5,234	5,675	6,159	6,532	7,011
Other deposits	7,203	8,163	11,692	12,617	13,844	15,294	16,624	18,242	19,716	21,383
Other liabilities	1,861	2,350	2,987	3,305	2,324	2,480	2,692	2,922	3,280	3,615
Memorandum items:										
Reserve money (percent change, y-o-y)	-2.2	20.8	39.2	8.7	8.0	8.7	7.1	9.5	7.9	8.3
Broad money (percent change, y-o-y)	10.2	10.5	34.3	15.7	9.4	10.1	8.4	9.5	7.9	8.3
Credit to private sector (percent change, y-o-y)	12.6	5.7	24.5	0.4	4.0	8.1	7.9	8.9	8.7	8.8
Exchange rate KZT/USD (eop)	153.6	182.4	339.5	333.3						
Exchange rate KZT/USD (period average)	152.1	179.2	221.7	342.1						
Velocity of broad money	3.1	3.1	2.4	2.3	2.4	2.4	2.4	2.4	2.3	2.3
Money multiplier	4.1	3.8	3.6	3.9	3.9	4.0	4.0	4.0	4.0	4.0
Foreign currency liabilities (in percent of total liabilities) 3/	40	54	67	50						
Foreign currency loans (in percent of total loans) 3/	32	31	43	40						

Sources: Kazakhstani authorities and Fund staff estimates.
1/ Private sector includes nonbank financial institutions, public and private nonfinancial institutions, non-profit institutions, and
2/ Does not include oil fund resources.
3/ Commercial banks only.

Table 5. Kazakhstan: General Government Fiscal Operations, 2013–22[1/]

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
							Projections			
					(In billions of tenge)					
Total revenue and grants	8,911	9,420	6,791	8,233	10,242	11,382	12,456	14,043	14,769	16,485
Tax revenue	8,176	8,583	6,497	7,153	9,218	10,288	11,310	12,835	13,501	15,174
Oil 2/	4,150	4,486	2,683	1,934	3,352	3,802	4,077	4,663	4,853	5,812
Non-oil	4,025	4,097	3,814	5,220	5,866	6,485	7,233	8,172	8,648	9,362
Of which : Income Tax	2,763	3,030	2,391	2,567	2,913	3,191	3,459	3,858	4,034	4,358
VAT	1,328	1,198	944	1,496	1,675	1,876	2,176	2,525	2,727	3,054
Nontax revenue 3/	698	786	242	1,028	972	1,042	1,093	1,156	1,215	1,259
Total expenditure and net lending	7,151	8,457	9,367	10,102	13,528	12,573	13,581	14,618	15,484	16,574
Total expenditure	7,067	8,367	9,223	9,789	13,370	12,498	13,501	14,531	15,391	16,474
Current expenditure 4/	5,668	6,701	7,901	8,463	11,865	10,778	11,635	12,506	13,244	14,170
Of which : Wages	1,045	1,113	1,153	1,360	1,551	1,675	1,809	1,953	2,110	2,278
Goods and services	1,920	2,357	2,529	2,873	3,658	4,028	4,367	4,740	5,027	5,396
Capital expenditure	1,399	1,666	1,321	1,326	1,505	1,721	1,865	2,025	2,147	2,305
Net lending	83	90	145	313	158	74	80	87	92	99
Overall balance	1,761	963	-2,576	-1,869	-3,286	-1,190	-1,126	-575	-716	-90
Non-oil balance	-2,390	-3,523	-5,259	-3,803	-6,637	-4,992	-5,203	-5,238	-5,568	-5,901
Statistical discrepancy	595	1,614	826	30	0	0	0	0	0	0
Financing	-1,166	650	3,402	1,899	3,286	1,190	1,126	575	716	90
Domestic financing, net	718	563	171	-93	1,548	1,163	1,385	1,227	1,470	1,118
Foreign financing, net	54	505	1,054	787	203	111	111	111	111	111
NFRK 3/	-1,957	-439	2,159	1,189	1,518	-101	-386	-778	-882	-1,155
					(In percent of GDP)					
Total revenue and grants	24.8	23.7	16.6	18.0	19.6	19.8	20.0	20.7	20.6	21.4
Tax revenue	22.7	21.6	15.9	15.6	17.6	17.9	18.1	19.0	18.8	19.7
Oil 2/	11.5	11.3	6.6	4.2	6.4	6.6	6.5	6.9	6.8	7.5
Non-oil	11.2	10.3	9.3	11.4	11.2	11.3	11.6	12.1	12.0	12.1
Of which : Income Tax	7.7	7.6	5.8	5.6	5.6	5.5	5.5	5.7	5.6	5.7
VAT	3.7	3.0	2.3	3.3	3.2	3.3	3.5	3.7	3.8	4.0
Nontax revenue 3/	1.9	2.0	0.6	2.2	1.9	1.8	1.8	1.7	1.7	1.6
Total expenditure and net lending	19.9	21.3	22.9	22.1	25.9	21.8	21.8	21.6	21.6	21.5
Total expenditure	19.6	21.1	22.6	21.4	25.6	21.7	21.6	21.5	21.4	21.4
Current expenditure 4/	15.7	16.9	19.3	18.5	22.7	18.7	18.6	18.5	18.4	18.4
Of which : Wages	2.9	2.8	2.8	3.0	3.0	2.9	2.9	2.9	2.9	3.0
Goods and services	5.3	5.9	6.2	6.3	7.0	7.0	7.0	7.0	7.0	7.0
Capital expenditure	3.9	4.2	3.2	2.9	2.9	3.0	3.0	3.0	3.0	3.0
Net lending	0.2	0.2	0.4	0.7	0.3	0.1	0.1	0.1	0.1	0.1
Primary balance	5.4	3.0	-5.6	-2.9	-5.4	-1.1	-0.8	0.1	21.6	22.5
Overall balance	4.9	2.4	-6.3	-4.1	-6.3	-2.1	-1.8	-0.8	-1.0	-0.1
Non-oil primary balance	-6.1	-8.3	-12.1	-7.2	-11.8	-7.7	-7.3	-6.7	14.9	15.0
Non-oil balance	-6.6	-8.9	-12.9	-8.3	-12.7	-8.7	-8.3	-7.7	-7.8	-7.7
Statistical discrepancy	1.7	4.1	2.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-3.2	1.6	8.3	4.2	6.3	2.1	1.8	0.8	1.0	0.1
Domestic financing, net	2.0	1.4	0.4	-0.2	3.0	2.0	2.2	1.8	2.0	1.5
Foreign financing, net	0.1	1.3	2.6	1.7	0.4	0.2	0.2	0.2	0.2	0.1
NFRK 5/	-5.4	-1.1	5.3	2.6	2.9	-0.2	-0.6	-1.1	-1.2	-1.5
Memorandum items:										
Non-oil balance (in billions of tenge)	-2,390	-3,523	-5,259	-3,803	-6,637	-4,992	-5,203	-5,238	-5,568	-5,901
Non-oil balance (in percent of non-oil GDP)	-8.8	-11.9	-15.6	-10.1	-15.9	-10.8	-10.2	-9.3	-9.3	-9.6
Non-oil revenues (in percent of non-oil GDP)	17.5	16.7	12.2	16.7	16.5	16.4	16.4	16.7	16.6	17.3
Gross public debt (percent of GDP) 6/	12.6	14.5	21.9	21.1	21.8	22.0	22.7	22.9	23.8	23.8
NFRK assets (in billions U.S. dollars)	70.8	73.2	63.5	60.0	58.5	58.8	59.9	62.3	65.0	68.4
Nominal GDP (in billions KZT)	35,999	39,676	40,884	45,732	52,256	57,542	62,391	67,719	71,819	77,080

Sources: Kazakhstani authorities and Fund staff estimates and projections.

1/ General Government includes republican and local budgets plus the NFRK.

2/ Oil Revenues include items such as royalties, export duties on oil and corporate income and social taxes levied on oil companies.

3/ Non-tax revenues include items such as income from business activities and properties as well as the interest earned by the NFRK

4/ For 2015 it includes a transfer of USD 4.5 billion to KazMunaiGaz to make external debt payments.
For 2017 it includes the support to the banking sector of about $6.4 billion.

5/ National Fund of the Republic of Kazakhstan. (-) is accumulation in the Fund.

6/ General government, including republican and local budgets.

Table 6. Kazakhstan: Oil Indicators, 2013–22

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Projections					
Oil GDP - Billion Tenge	9861.4	11205.0	7231.9	7987.0	10564.2	11192.0	11254.5	11474.5	11957.8	15490.9
Oil GDP - Billion Dollars	64.8	62.5	32.6	23.3	31.9	33.8	34.0	34.7	36.1	46.8
Oil GDP / Total GDP	*27.4*	*28.2*	*17.7*	*17.5*	*20.2*	*19.5*	*18.0*	*16.9*	*16.7*	*20.1*
Oil Production (millions metric tons)	81.7	80.8	79.0	78.0	81.0	86.0	88.0	90.0	93.0	99.0
Oil Production (millions barrels per day)	1.7	1.7	1.6	1.6	1.7	1.8	1.8	1.9	1.9	2.1
Oil Exports (millions of USD)	57249.5	53626.9	26773.0	19378.0	26680.2	28593.7	28514.8	29198.6	30615.5	40100.7
Percentage of GDP	*24.2*	*24.2*	*14.5*	*14.5*	*16.9*	*16.4*	*15.1*	*14.3*	*14.1*	*17.2*
Percentage of Total Exports	*66.9*	*66.8*	*57.6*	*52.0*	*55.2*	*55.8*	*54.4*	*51.5*	*50.9*	*57.2*
WEO Oil Price	104.1	96.2	50.8	42.8	55.2	55.1	54.1	54.0	54.4	55.2
Oil Revenues (Billion Tenge)	4150.3	4485.9	2683.1	1933.6	3351.5	3802.2	4077.2	4662.6	4853.4	5812.2
Oil Revenues (Billion USD)	27.3	25.0	12.1	5.7	10.1	11.5	12.3	14.1	14.7	17.6
Percentage of GDP	*11.5*	*11.3*	*6.6*	*4.2*	*6.4*	*6.6*	*6.5*	*6.9*	*6.8*	*7.5*
Percentage of Total Revenues	*49.5*	*47.6*	*39.5*	*23.5*	*32.7*	*33.4*	*32.7*	*33.2*	*32.9*	*35.3*
NFRK					*(In billions of USD)*					
Assets	70.8	73.2	63.5	60.0	58.5	58.8	59.9	62.3	65.0	68.4
Inflows Total	25.2	30.0	32.9	6.3	7.8	8.1	8.1	8.4	8.7	9.5
Receipts from oil companies	22.6	19.6	7.4	4.4	6.1	6.3	6.3	6.6	6.8	7.5
Investment income	3.7	3.2	0.0	1.9	1.7	1.8	1.8	1.8	1.9	1.9
Outflows Total	9.3	11.0	11.1	10.5	9.3	7.8	6.9	6.0	6.0	6.0
Guaranteed Transfer To The Budget	9.1	8.3	7.7	8.0	8.0	7.8	6.9	6.0	6.0	6.0
Targeted Transfers To The Budget	0.2	2.7	3.5	2.2	1.3	0.0	0.0	0.0	0.0	0.0
Quasifiscal Transfers For Diversification/Industrialization Projects	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Net Income	-4.1	-8.0	-6.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net addition to NFRK	15.9	19.0	21.8	-4.2	-1.6	0.3	1.2	2.4	2.7	3.5

Sources: Kazakhstani authorities and Fund staff estimates.

Annex I. Fiscal Initiatives 2014–17

1. In recent years, the Kazakhstan authorities have launched several multi-year fiscal initiatives to support the economy. These have aimed to stimulate key sectors and promote infrastructure modernization and SME lending. The first was introduced in 2014, followed by the flagship "Nurly Zhol" program in 2015. With increased uncertainty and a further decline of oil prices, the authorities launched additional efforts in 2016-17. The initiatives were financed through transfers from the NFRK, bond issuances, the national pension fund (UAPF), and a government reserve.

More specifically, the initiatives have included:

- *A "1 Trillion Tenge" program*, introduced in February 2014 after a 19-percent depreciation of the tenge and aimed at stimulating manufacturing and SMEs lending over 2014-15. KZT 250 billion was used to capitalize the Problem Loan Fund, and a similar amount was used to increase the Special Government Reserve. The initiative was funded via transfers from the NFRK (KZT 684 billion) and issuance of bonds (KZT 311.1 billion).

- *Nurly Zhol* (NZ) was announced in late 2014, with an allocation of $9 billion over 2015-17 to support construction (42 percent of NZ has involved housing projects), to fund infrastructure in transport, industry and utilities, and to promote entrepreneurial activity. NZ was funded via transfers from the NFRK (KZT 1,297.1 billion) and issuance of debt (KZT 543.7 billion).

- *Additional anti-crisis measures* were introduced in 2016 to counteract the further decline of oil prices by supporting agriculture, promoting export and SME lending, and boosting infrastructure. Some projects were related to EXPO-17 and the Winter Universiade games. A big portion (17 percent) was implemented off-budget through Baiterek Holding and Samruk Kazyna. The measures were funded via targeted NFRK transfers (KZT 164.1 billion), the special reserve (KZT 201.3 billion) and the UAPF (KZT 576.2 billion).

- *Nurly Zher* was introduced at the beginning of 2017 to stimulate construction and provide affordable housing. It is expected to last until 2031 and will be funded through bond issuance (KZT 314.3 billion).

- *Support for Basic Sectors*. Budgetary capital expenditures in agriculture, housing, and infrastructure were identified to staff as a support package for sectors in early 2017. About 10 percent of this program funds EXPO-17 infrastructure. The initiative is funded via targeted NFRK transfers (KZT 716.6 billion).

- *Banking Sector Support*. This 2017 operation aims at cleaning of bank balance sheets and is financed by NFRK transfers (KZT 1,093.1 billion) and issuance of debt (KZT 1 trillion).

Tables 1 and 2 provide a detailed breakdown of the fiscal initiatives.

Table 1 - Fiscal Initiatives 2014-17				
	2014	2015	2016	2017
1 Trillion Tenge	598	397.9	-	-
Nurly Zhol	-	660.2	739	441.6
Additional Anti-Crisis Measures (First Package)	-	-	699	-
Additional Anti-Crisis Measures (Second Package)	-	-	242.6	-
Nurly Zher	-	-	-	314.3
Support of Basic Sectors of the Economy	-	-	-	716.6
Support to the Banking Sector	-	-	-	2093.1
Other Initiatives	-	12.7	-	56.4
TOTAL	**598**	**1070.8**	**1680.6**	**3622**
In percent of GDP	1.5	2.6	3.7	6.9
Without the support to the banking sector				2.9
In USD (Billions)	3.3	4.8	4.9	11.0
Without the support to the banking sector				4.6

Source: Ministry of Finance and Ministry of National Economy.

Table 2 - Financing of the Fiscal Initiatives 2014-17				
	2014	2015	2016	2017
Transfers from the NFRK	325	755.2	636.9	2307.7
Bond issuance	273	315.6	266.2	1314.3
Pension Fund	-	-	576.2	-
Special Government Reserve	-	-	201.3	-
TOTAL	**598**	**1070.8**	**1680.6**	**3622**

Source: Ministry of Finance and Ministry of National Economy.

2. **The increase in overall fiscal spending in 2014-17 was less than the amount covered by these fiscal-support initiatives**. Total spending increased from 19.9 percent of GDP in 2013 to an expected 25.9 percent of GDP in 2017 (Table 3). Excluding banking support, total spending in 2017 is expected to amount to 21.9 percent of GDP. Budgetary capital spending increased to 4.4 percent of GDP in 2014, but decreased to 3.6 percent of GDP in 2016 and to an estimated 3.2 percent in 2017. A full accounting is difficult, however, as part of the broader stimulus effort was implemented off-budget, notably the projects implemented through SOEs and financed by the pension fund.

Table 3 - Expenditures and the Fiscal Initatives 2013-17

	2013	2014	2015	2016	2017
			(in billion tenge)		
Total Expenditures and Net Lending (excl. fiscal initiatives)	7150.6	7858.6	8296.5	8998.0	9906.2
Fiscal intiatives (on budget)	-	598	1070.8	1104.4	3622
Total Expenditures and Net Lending	7150.6	8456.6	9367.3	10102.4	13528.2
			(in percent of GDP)		
Total Expenditures and Net Lending (excl. fiscal initiatives)	19.9	19.8	20.3	19.7	19.0
Fiscal intiatives (on budget)	-	1.5	2.6	2.4	6.9
Total Expenditures and Net Lending	19.9	21.3	22.9	22.1	25.9

Source: Ministry of Finance and Ministry of National Economy.

Annex II. Assessment of Kazakhstan's External Position

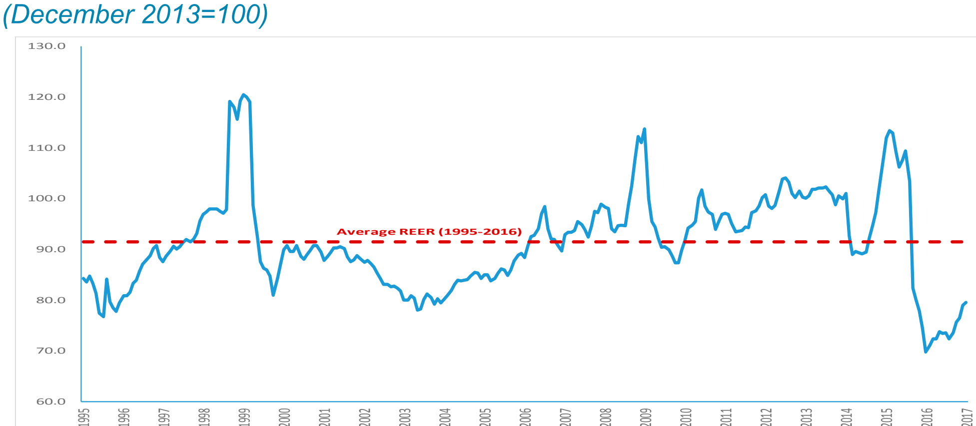
Kazakhstan's external position appears moderately weaker than implied by fundamentals, but it is expected to improve following the tenge depreciation in late 2015-early 2016. The current account is expected to strengthen with higher oil prices and production, supporting reserves, which are already at adequate levels. External debt increased as percent of GDP in 2015-16, but is projected to decline gradually over the medium term; it remains vulnerable to ER depreciation.

1. **Following the decline of oil prices in late 2014, the current account of the balance of payments deteriorated sharply.** It reached -3 percent of GDP in 2015, and data for 2016 suggest a further weakening to -6 percent of GDP. The ER depreciated sharply in late 2015, after the NBK announced a shift in policy towards greater flexibility. As a result, the value of the tenge in real effective terms fell to a historical low in early 2016. Notwithstanding the contraction of imports, the negative trend of the current account continued, as the value of exports declined relatively more, driven by lower volumes and prices of energy products.[1]

2. **Staff assesses Kazakhstan's external position as moderately weaker than implied by economic fundamentals.** The CA model of the IMF's EBA-lite framework estimates a cyclically-adjusted current account norm of -2.0 percent of GDP, relative to an estimated actual balance of -6.4 percent in 2016, implying an overall gap of 4.4 percent of GDP.[2] This translates to a REER *overvaluation* of 7.5 percent (Table 1). The external sustainability approach suggests a current account norm of -3.5 percent of GDP to stabilize the NIIP at the 2015 level (-25 percent of GDP). This approach, as well as the real ER model, point to an *undervaluation* of the tenge (text table).

Real Effective Exchange Rate

(December 2013=100)



Source: National Bank of Kazakhstan

[1] The 2016 current account deficit may have been affected by transitory factors. The pickup of oil output in late 2016 that supported GDP growth did not translate fully into exports in 2016, but rather temporarily higher inventories.

[2] The contribution of the policy gap to the difference is positive, largely reflecting Kazakhstan's low level of credit compared to countries with similar income per capita (target level).

sector

EBA-Lite CA Approach	
Actual CA	-6.4
Cyclically-adjusted CA	-6.5
CA norm	-2.0
Cyclically-adjusted CA norm	-2.1
CA gap	-4.4
o/w policy gap	3.4
Elasticity	-0.6

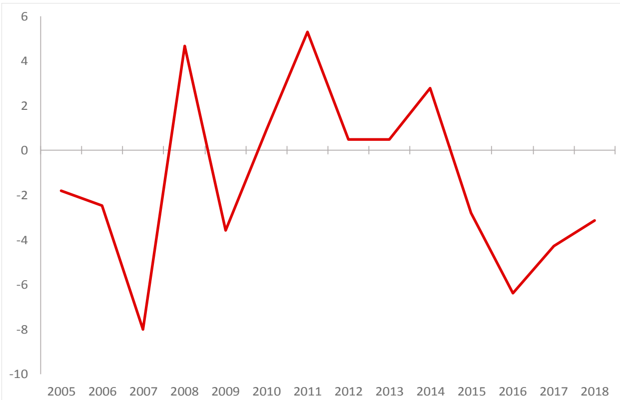
Real Exchange Rate Misalignment (percent)	
CA methodology	7.5
ES methodology	-14.6
REER methodology	-40.4

Whenever the different approaches to the external assessment point to contradicting conclusions about the real ER misalignment, the CA model is often, although not always, considered more informative and reliable. Staff's overall assessment is consistent with the result from the CA method. However, several factors need to be taken into consideration. First, the current account dynamics in Kazakhstan are largely driven by oil exports, and the CA model has limitations when applied to countries that are heavily dependent on commodities. In addition, the current account norm is strongly influenced by factors of a longer-term nature, such as the dependency ratio (contribution of 3.8 percentage points to the fitted current account in the case of Kazakhstan) which significantly outweighs the impact of other variables like the terms of trade gap and trade openness. Second, besides oil, the balance on income was a major contributor to the worsening of the current account deficit in 2016. This reflects the significant increase in FDI last year, on which interest is accrued in accordance with the authorities' methodology. Finally, the impact of the real ER depreciation on competitiveness and exports is likely to manifest with a lag.

3. **Going forward, Kazakhstan's external position is expected to strengthen.** The current account balance is expected to improve this year due to higher export volumes and prices; however, a return to a surplus is not expected before 2021 under the baseline assumptions. The envisaged tightening of fiscal policy after 2017, along with implementation of the government's privatization and structural reform programs should support the external adjustment. The inflow of FDI, after the peak in 2016 when substantial new investments in oil and gas and geological exploration were made, is projected to slow, and the IIP is expected to stabilize close to its estimated current level of around 35 percent of GDP. Overall, in the absence of adverse shocks, Kazakhstan's external position will likely strengthen over the medium term. However, there is considerable uncertainty to the outlook, especially reflecting the future path of energy prices.

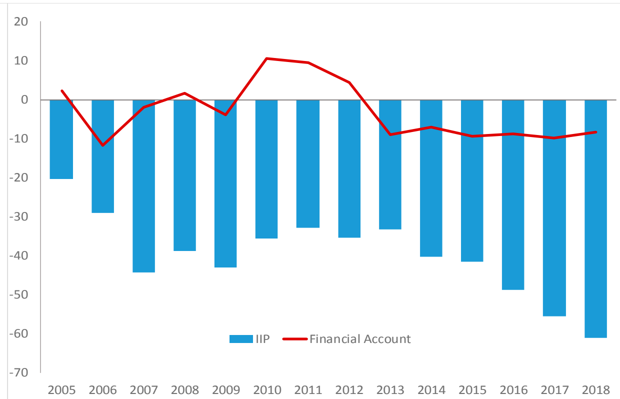
Kazakhstan: Current Account Deficit

(in percent of GDP)



Kazakhstan: International Investment Position (IIP) and Capital Flows

(in USD billion)



Source: National Bank of Kazakhstan and IMF staff estimates

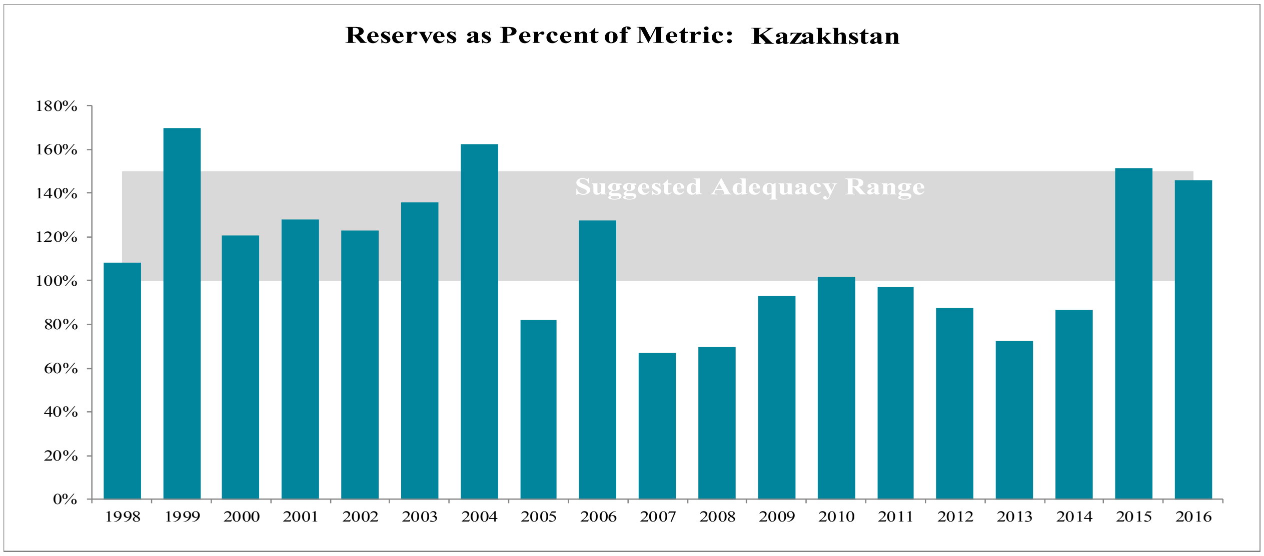
4. **The NBK's international reserves are at an adequate level for a country with a floating ER arrangement.**[3] Based on the IMF's ARA methodology, NBK gross reserves (excluding foreign asset holdings of the NFRK) are estimated at 146 percent of the ARA metric and fall within the suggested adequacy range of 100–150 percent of the metric; they are in line with emerging markets peers (panel figure). Reserves remain adequate even after controlling for an additional buffer necessary for commodity exporters, which in the case of Kazakhstan amounts to about 20 percent. The NBK intervened heavily in the FX market in the first half of 2016 to buy dollars, and as a result, gross reserves increased by $1.7 billion last year.[4] In addition to NBK reserves, the accumulated assets of the NFRK—$60 billion—provides a further buffer.

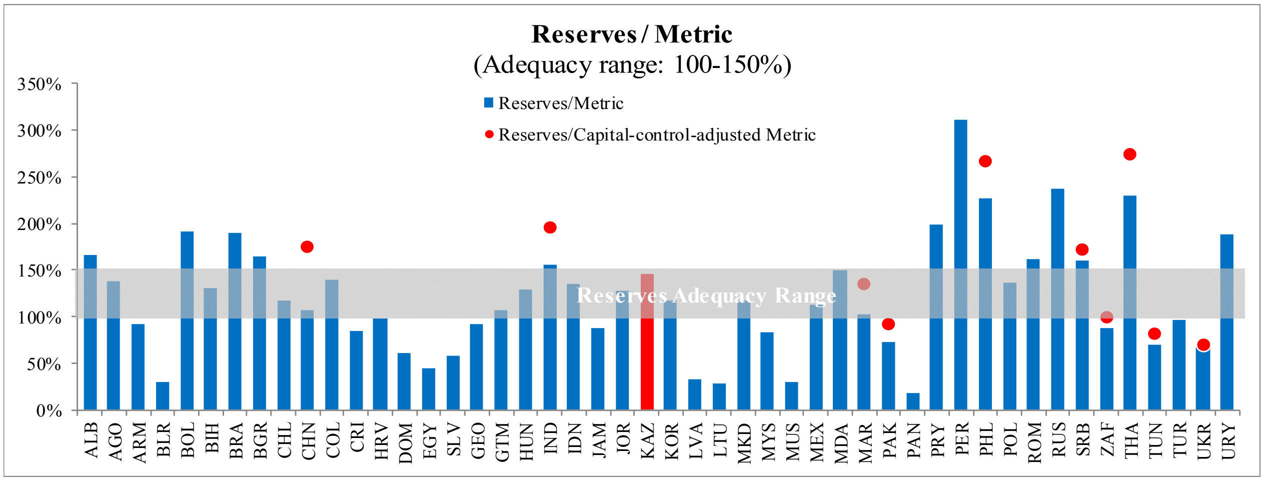
5. **Kazakhstan's external debt increased sharply in 2015 in percent of GDP, due to the tenge depreciation, and is estimated to have increased further in 2016.** Total external debt declined in U.S. dollar terms in 2015 to $153 billion, from $157 billion a year earlier. However, the sharp depreciation resulted in an increase of the external-debt-to-GDP ratio by 12 percentage points. The debt dynamics in 2016 were driven mainly by accumulation of external liabilities by the private sector, a large part of which is comprised of intercompany loans. As of end 2016, gross external debt stood at $164 billion or 122 percent of estimated 2016 GDP. Staff's baseline projections envisage a gradual decline of the external debt ratio to about 80 percent of GDP, as the current account improves with higher oil production and non-oil exports.

[3] The de facto exchange range arrangement was reclassified twice in 2015: (1) from stabilized to other managed, effective from August 20, and (2) from other managed to a floating arrangement, effective December 15.

[4] Staff's medium-term baseline projections show a continuous moderate buildup of foreign reserves, in line with the gradual improvement of the current and capital accounts.

6. The sustainability of external debt is sensitive to real ER shocks. Standard shocks to growth, interest rates, and the non-interest current account have only a moderate impact on the external debt ratio, increasing its level by up to 10 percentage points. A combined shock has a similar effect. However, a real ER depreciation of 30 percent would result in a significant increase in the debt ratio—to 122 percent of GDP versus 78 percent under the baseline scenario. This highlights the country's vulnerability to large ER movements.





Source: IMF staff calculations

Kazakhstan: External Debt Sustainability Framework, 2011–2022

(In percent of GDP, unless otherwise indicated)

	Actual							Projections							
	2012	2013	2014	2015	2016			2017	2018	2019	2020	2021	2022		Debt-stabilizing non-interest current account 6/
Baseline: External debt	65.8	63.4	71.2	83.2	122.4			**106.9**	**98.9**	**93.0**	**86.6**	**82.5**	**77.9**		**-4.8**
Change in external debt	0.8	-2.4	7.8	12.0	39.2			-15.5	-8.0	-5.9	-6.4	-4.0	-4.6	0.0	
Identified external debt-creating flows (4+8+9)	-10.8	-11.9	-0.4	15.4	27.1			-4.0	-5.5	-4.9	-6.0	-6.6	-6.6	0.0	
Current account deficit, excluding interest payments	-2.5	-2.1	-4.6	0.5	3.2			0.9	-0.1	-0.8	-2.3	-3.1	-3.7	4.8	
Deficit in balance of goods and services	-14.5	-11.7	-13.5	-4.1	-3.5			-6.7	-7.6	-7.8	-9.2	-10.3	-12.7		
Exports	44.1	38.4	39.3	28.7	32.6			35.4	34.1	32.3	32.5	32.5	34.7		
Imports	29.6	26.7	25.7	24.6	29.1			28.7	26.5	24.5	23.2	22.3	22.0		
Net non-debt creating capital inflows (negative)	-5.5	-3.4	-2.0	-1.7	-10.8			-5.7	-5.3	-4.5	-3.9	-3.4	-3.0	-3.0	
Automatic debt dynamics 1/	-2.8	-6.4	6.1	16.6	34.7			0.9	0.0	0.4	0.2	-0.1	0.1	-1.9	
Contribution from nominal interest rate	2.0	1.6	1.8	2.3	3.2			3.4	3.3	3.0	2.9	3.0	3.6	3.4	
Contribution from real GDP growth	-3.0	-3.5	-2.9	-1.0	-1.2			-2.5	-3.3	-2.6	-2.7	-3.1	-3.6	-3.4	
Contribution from price and exchange rate changes 2/	-1.8	-4.5	7.3	15.3	32.7			...	...	...	...	...	...	-2.0	
Residual, incl. change in gross foreign assets (2-3) 3/	11.6	9.5	8.2	-3.4	12.2			-11.5	-2.5	-1.0	-0.5	2.6	2.0	0.0	
External debt-to-exports ratio (in percent)	149.2	165.1	181.3	289.4	375.5			301.6	290.2	288.2	266.7	253.5	224.7		
Gross external financing need (in billions of US dollars) 4/	21.5	24.1	20.1	29.4	26.5			28.9	37.2	36.5	34.3	33.1	33.4		
in percent of GDP	10.3	10.2	9.1	16.0	19.8	10-Year	10-Year	18.3	21.4	19.4	16.8	15.2	14.3		
Scenario with key variables at their historical averages 5/								**106.9**	**99.8**	**93.0**	**86.7**	**80.8**	**74.9**		**-8.6**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							For debt stabilization	
Real GDP growth (in percent)	5.0	6.0	4.3	1.2	1.1	4.6	2.9	2.5	3.4	2.8	3.2	3.9	4.6	4.6	
GDP deflator in US dollars (change in percent)	2.8	7.3	-10.3	-17.7	-28.2	2.2	18.8	15.2	6.5	5.5	5.2	2.1	2.6	2.6	
Nominal external interest rate (in percent)	3.3	2.7	2.6	2.7	2.8	2.7	0.4	3.3	3.4	3.3	3.4	3.7	4.7	4.7	
Growth of exports (US dollar terms, in percent)	2.5	-0.9	-4.4	-39.0	-17.7	2.6	31.8	28.3	5.9	2.6	9.2	6.3	14.3		
Growth of imports (US dollar terms, in percent)	19.9	2.8	-9.9	-20.3	-14.3	-0.4	16.2	16.5	1.6	0.2	2.8	1.7	5.9		
Current account balance, excluding interest payments	2.5	2.1	4.6	-0.5	-3.2	1.4	4.2	-0.9	0.1	0.8	2.3	3.1	3.7		
Net non-debt creating capital inflows	5.5	3.4	2.0	1.7	10.8	5.7	3.3	5.7	5.3	4.5	3.9	3.4	3.0		

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

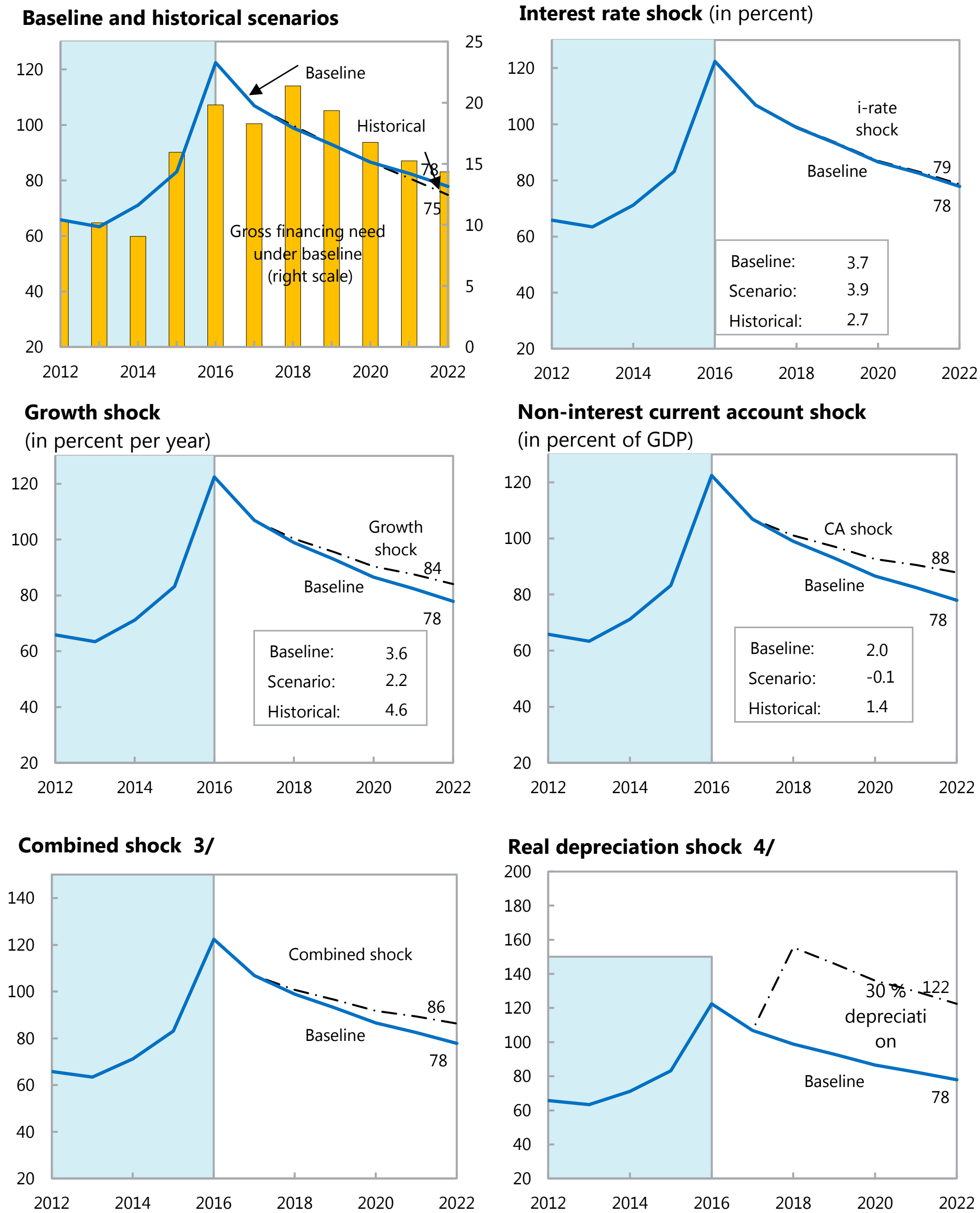
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Kazakhstan: External Debt Sustainability; Bound Tests[1/2/]

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2017

Annex III. Kazakhstan—Financial Inclusion

1. **The financial sector in Kazakhstan is small compared to other emerging economies, as key sectors like energy and mining depend primarily on foreign funding**. The financial sector is dominated by banks, with total bank assets equal to 58 percent of GDP, and bank credit to the private sector at around 40 percent of GDP in 2016. The bank credit-to-GDP ratio is below the average for upper middle-income economies. Total assets of non-bank financial institutions represented about 4 percent of GDP in 2014, compared to almost 9 percent on average for Kazakhstan's peers.[1] In terms of coverage and access of the population to financial services, the picture is mixed; based on the number of bank accounts, credit and debit card holders and ATMs, Kazakhstan is either at par with or outperforms its peers (Table 1). At the same time, household debt is low at 10.1 percent of GDP, and the insurance sector is underdeveloped. The non-financial corporate sector (including SOEs) has much higher total debt levels, around 92 percent of GDP (Figure 1) but a large share is comprised of intercompany lending from parent companies. Financing from abroad likely explains the much smaller shares of firms in Kazakhstan that rely on domestic banks to finance investment and working capital compared to other upper middle-income countries.

2. **Development of Kazakhstan's financial sector has been affected by vulnerabilities in the banking system and by the significant presence of the state in the economy.** The high share of non-performing loans reduces the availability of funding and contributes to high interest rate spreads. Currency and maturity mismatches between bank assets and liabilities and, more recently, increased volatility of deposits, make longer-term lending challenging. In addition, local banks lack the resource base and experience to provide financial services to large international companies operating in the country. The development of the non-bank financial sector is constrained by a narrow investor base, limitations on the participation of institutional investors in government securities offerings, the absence of a reliable yield curve, and shortage of good quality domestic financial instruments in the securities market. A significant share of the economy is still controlled by the state which limits investment opportunities. The insurance market has been driven largely by mandatory insurance, and the consolidation of the private pension funds into a Unified Accumulated Pension Fund (UAPF) managed by the NBK has affected private asset managers.

3. **The authorities are taking steps to address the constraints.** The 2014 "Concept for the Financial Sector Development of the Republic of Kazakhstan until 2030" proposes a long-term strategy based on consultations with the private sector and building on the recommendations of the 2014 FSAP. The Concept envisions a focus through 2020 on increasing the financial sector's soundness by addressing existing problems and strengthening its competitive position. Priorities include consolidation and increased capitalization of the banking system, strengthening the resource base and improving bank liquidity management, further progress towards a risk-based

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[1] For Kazakhstan, the total assets of non-bank financial institutions are calculated as the sum of total assets of insurance companies, portfolio managers, brokers and dealers, pension asset managers, mortgage organizations, organizations executing certain types of bank operations and microfinance companies, using NBK data. For upper-middle income averages, data come from the World Bank's Global Financial Development database.

approach in the regulation and supervision of financial institutions, increasing the supply of financial instruments through IPOs, and increasing financial literacy. State support to clean up the balance sheet of KKB, and the NBK's efforts to conduct a system-wide AQR would reduce uncertainty and help unlock credit. The NBK has also signaled its commitment to improving the regulation of insurance and the securities markets and to protecting the rights of consumers. The central bank has taken a number of steps in these directions in the last few years.[2]

4. The establishment of the Astana International Financial Center (AIFC) is a recent addition to the authorities' strategy to enhance financial development. The AIFC plans to attract both local and international investors by offering favorable tax treatment, simplified labor and visa regimes, large investments in infrastructure, and a separate legal framework based on UK common law, independent of the domestic judicial system. The AIFC will focus primarily on capital markets, asset management and private banking. The privatization of public entities may be carried out through AIFC. As Kazakhstan strives to create AIFC, it will be important to ensure the integrity and sustainability of its financial sector, including through mobilization of the AML/CFT framework.

5. A well-functioning financial sector and greater access to financial services can help accelerate growth and make it more inclusive. Empirical research suggests that financial development increases long-run growth (Levine, Loayza and Beck, 2000) and reduces income inequality (Burgees and Pande, 2005; Clarke, Xu, and Zou, 2006).[3] A recent study by Cojocaru et al. (2011) focusing on CEE and CIS countries yields support to the importance of the financial system for growth; in particular, the authors find evidence that efficiency and competitiveness of the financial sector are more important than the amount of credit. At the individual level, access to financial services is found to increase savings and productive investments, as well as to positively affect consumption and employment (Demirguc-Kunt et al., 2015). Importantly for Kazakhstan, efficient financial markets can increase the speed of economic diversification and thus reduce the volatility of GDP growth (Manganelli and Popov, 2010).

[2] For details on specific measures see the Annual Reports of the National Bank of Kazakhstan.

[3] At the same time, at high levels of financial development, the marginal benefits to growth of increasing financial inclusion begin to decline and higher financial inclusion can have a negative impact on financial stability – see e.g. IMF Staff Discussion Note 15/17 "Financial Inclusion – Can It Meet Multiple Goals".

Table 1. Selected Financial Sector Development Indicators[1]

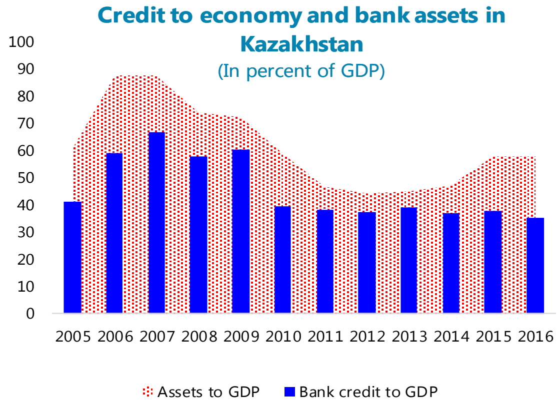
	Kazakhstan	Upper Middle Income Countries
Account at a formal financial institution (% age 15+)	53.9	53.9
ATMs per 100,000 adults	72.0	46.3
Credit card (% age 15+)	11.5	10.9
Debit card (% age 15+)	32.0	34.1
Insurance company assets to GDP (%)	1.5	5.1
Life insurance premium volume to GDP (%)	0.1	0.3
Nonlife insurance premium volume to GDP (%)	0.5	1.2
Stock market capitalization to GDP (%)	10.5	44.8
Stock market total value traded to GDP (%)	0.3	4.8
Corporate bond issuance volume to GDP (%)	1.4	1.6
Investments financed by equity or stock sales (%)	2.9	3.5
Investments financed by banks (%)	8.8	14.6
Firms identifying access to finance as a major constraint (%)	8.8	19.3
Firms using banks to finance investments (%)	16.3	27.1
Firms using banks to finance working capital (%)	13.0	40.2
Firms with a bank loan or line of credit (%)	19.2	42.0

Source: Global Financial Development database.

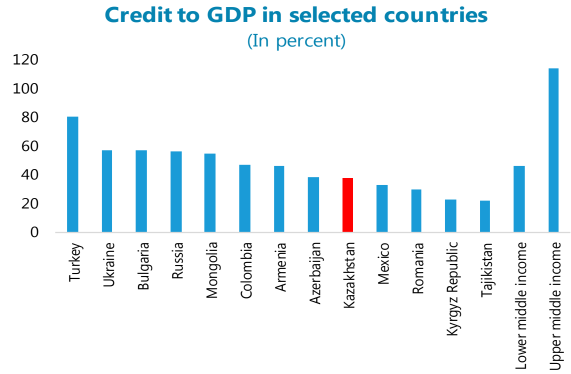
1/ Data for 2014 or the latest year for which information is available.

Figure 1. Kazakhstan—Banking Sector and Financial Inclusion

Credit and bank access have recovered slowly since the global financial crisis…

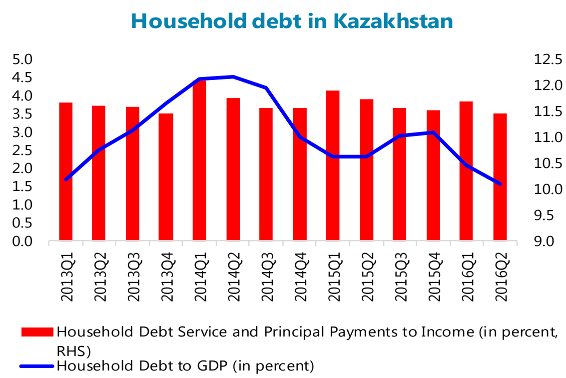


…and credit is relatively low in comparison with other middle income countries

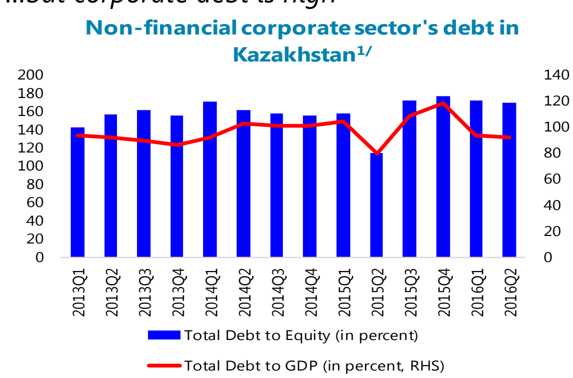


Source: World Bank

Household debt is modest…

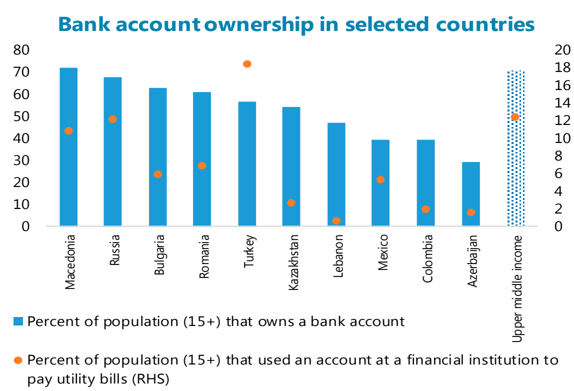


…but corporate debt is high

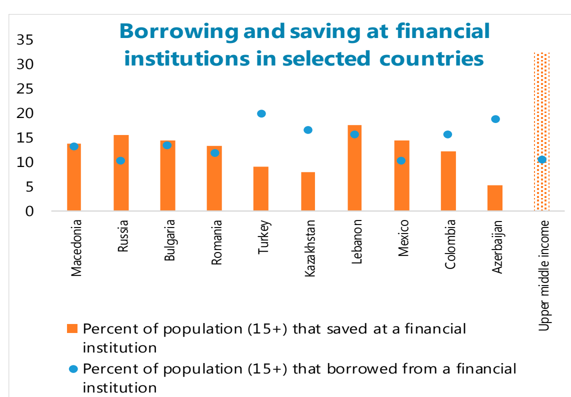


1/ Includes SOEs

Banks accounts are less widely used than in other middle income countries…



…as is savings in local banks.



Source: IMF staff calculations.

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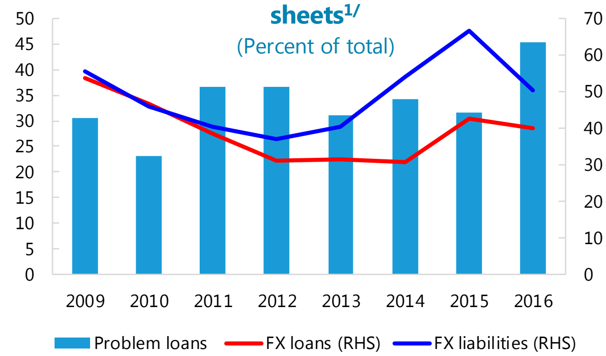
Annex IV. Banking Sector in Kazakhstan—Key Issues

1. The banking sector in Kazakhstan needs a system-wide balance-sheet clean-up, better bank governance, and more vigilant supervision by a strong, independent central bank. The ER depreciation and economic slowdown have exacerbated long-standing issues in the banking sector, notably weak balance sheets and high dollarization. Insufficient lending and reporting standards, gaps in supervision and regulation, regulatory forbearance, and expectations of state support will need to be addressed for the sector to play a strong role in supporting growth.

Asset quality and dollarization of bank balance sheets[1/]
(Percent of total)



1/ Problem loans proxied by NPLs or bad loans before 2014, after 2014 equal to the sum of official NPLs, restructured loans, BTA NPLs, and loans in SPVs.

2. Officially-reported NPL ratios overstate the true condition of bank balance sheets. The reported system-wide NPL level decreased from 23 to 10 percent following delicensing of BTA Bank in June 2015; however, BTA's NPLs were not written off, but remained in the system.[1] More generally, penalties for breaching the 10 percent regulatory limit for NPLs and lack of a consolidated reporting requirement encourage banks to underreport NPLs and to keep them off-balance sheet. Contrary to international best practice, loan restructuring is free of provisions and additional capital charges, and according to estimates, restructured loans have increased from 10 to 25 percent of total loans in 2016. Agreement among banks to exchange problem loans and record them as new loans also takes place. A broader definition suggests that the overall problem loan level—accounting for the BTA portfolio, loans in off-balance special purpose vehicles (SPVs), and restructured loans—is likely above 40 percent of total loans.

3. Capital ratios and provisioning buffers are low relative to the size of problem loans and given currency mismatches. The system-wide capital adequacy ratio decreased in 2015, but improved in 2016, amid the strengthening of the tenge, and as banks prepared to comply with higher regulatory requirements from January 2017. As of end-2016, two banks—including the system's largest, Kazkommertzbank (KKB) —did not comply with the new requirement, while five banks breached other prudential regulations.

[1]After the acquisition of BTA by Kazkommertzbank (KKB), BTA was transformed into, a legally-independent entity. However, it remains linked to KKB's balance sheet through a credit line (of around KZT 2 trillion) and through common shareholders. During the acquisition, a large part of KKB's own NPLs was moved to BTA.

The level of provisioning, although higher in 2016, is low at 72 percent of official NPLs. To ensure sufficient capital following provisioning and write-off of all problem loans (including SPV loans, BTA loans, and restructured loans), very sizeable capital injections appear to be needed. The high volume of FX loans and dollarization of bank liabilities make asset performance and compliance with prudential regulations highly sensitive to ER movements.

Capital requirements in Kazakhstan (in percent of RWA)

Regulatory requirement	Before January 2017	January 2017
Common Equity	5%	5.5%
Tier 1 Capital	6%	6.5%
Total Capital	7.5%	8%
Conservation buffer	1%	
- for all banks	1%	2%
- for SIBs	2.5%	3%
Systemic buffer	0%	1%

4. Reliance on short-term funding and other structural and regulatory obstacles hinder bank lending and therefore the sector's contribution to growth. In 2014, the NBK provided KZT 1.5 trillion via FX swaps in order to ease scarcity of tenge liquidity – a by-product of increasing deposit dollarization at that time.[2] These swaps are being wound down, and with greater stability and an appreciation of the tenge in 2016-17, there has been progressive de-dollarization of deposits. In this context, banks accumulated excess liquidity, which has been managed mainly via short-term NBK notes. Uncertain economic prospects, along with structural and regulatory obstacles, have discouraged lending to the real economy. Banks rely heavily on short-term funding, as high competition for deposits has led to a market in which most term deposits, including from SOEs, have low early withdrawal penalties, and are effectively demand deposits. A limited supply of medium- and long-term government bonds has translated into a shortage of collateral for interbank transactions and an incomplete yield curve, key for pricing and investment decisions. Regulatory constraints also hold up development of money and capital markets. In this context, domestic financial markets have limited depth and scope, contributing to a modest impact of the financial sector on growth.

5. Gaps in risk analysis for SOE deposits and prospects for state support (along with state-subsidized lending programs) encourage risk-taking. SOE deposits, subsidized loans, and bonds owned by public agencies account for a large share of bank liabilities.[3] Rules and decisions on placement of public funds in local banks do not fully take account of the riskiness of individual banks (as measured by ratings, capital adequacy, NPL ratios or other indicators), limiting incentives for adequate risk management practices by banks. On repeated occasions over the past 10 years, state support has been provided to distressed banks (Box), with lack of full recovery of funds.

[2] Strict limits on the share of domestic funding that can be invested in foreign securities constrain the ability of banks to manage effectively high FX deposit volumes.

[3] The minimum estimate is 20 percent - based on the financial statements of Samruk Kazyna, Baiterek and UAPF only. Moody's estimates that state deposits account for 40 percent of corporate bank deposits.

Box. Public Support to the Banking Sector During 2008–14

Staff estimates place the total amount of public funds injected in the banking sector during 2008-14 at $11.6 billion, equivalent to 5.3 percent of 2014 GDP.

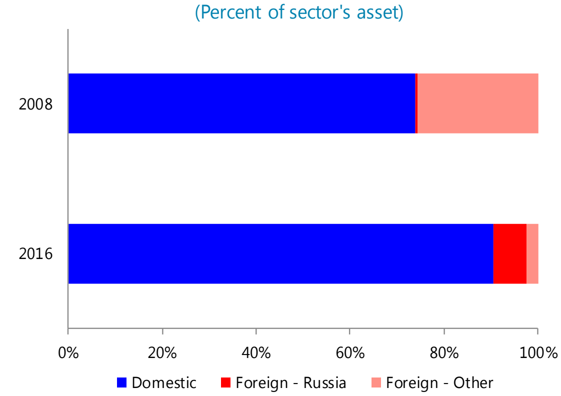
Financial crisis of 2008-10 ($billion)	
Bank bailouts (e.g. KKB, Halyk, Alliance, BTA banks)	$3.5
Subsidized lending and loan refinancing programs	4.7
Deposits at banks	0.5
Interventions in 2012-14 ($billion)	
BTA and Alliance Bank: debt restructuring, capital and deposits injections	$2.9

Note: The state has not fully recovered funds injected in the banking sector. Of the $3.5 billion used to purchase bank shares in 2008-10, $1.7 billion was recovered. While the state still holds minority stakes in some banks, most shares were sold at a loss in 2011 and 2014. It should be noted that high negative returns on equity and assets in 2008-09 were followed by high positive returns immediately after the crisis, suggesting that a part of the state support was potentially recovered in the form of dividends. Some banks in which the state intervened also went through restructurings that imposed losses on private creditors (e.g., Temirbank, BTA Bank, Alliance Bank).

Source: Staff calculations.

6. **Gaps in supervision and regulation, shortcomings in intervention powers, and powerful shareholders have contributed to banking issues**. A large share of current NPLs date to the 2008-10 financial crisis and the decline of real estate prices, despite two rounds of state intervention. The legal framework gives insufficient intervention powers to supervisors and regulators, making it difficult to force recapitalization by shareholders or to close weak banks; tax rules have made loan-loss recognition costly for banks. Elimination of the consolidated reporting requirement, soft provisioning rules, insufficiently strict regulatory definitions (e.g. of related-party lending) and reporting standards (e.g. collateral valuations) have enabled underreporting of real risks. Lack of transparency, gaps in corporate governance standards, and a regulatory framework that is not fully in line with international practices have added to challenges.

Banking sector ownership
(Percent of sector's asset)



Annex V. Kazakhstan: Risk Assessment Matrix

Risk	Likelihood/ Time horizon	Expected Impact if Risk Realized	Recommended Policy Response
Global risks:			
Retreat from cross-border integration	**High/ Short-Medium Term**	**Medium** Reduced trade flows and FDI could result in balance of payment (BOP) tensions and FX market pressures.	Allow the ER to adjust and step up implementation of structural reforms aimed at diversifying the economy.
Policy and geopolitical uncertainty: policy uncertainty and divergence	**High/ Short-Medium Term**	**Low** Pressures through lower commodity prices and export volumes could lead to external and ER pressures.	Allow ER to adjust with lower oil revenues, slow the pace of fiscal adjustment to support activity, continue close monitoring of financial sector and SOE risks. Ensure decisive implementation of structural reforms.
Financial conditions: significant further strengthening of the US dollar and/or higher rates	**High/** **Short Term**	**Low** Direct pressures are limited due to tightened requirements for FX borrowing and subdued credit. Indirect pressures through perceived (and historical) links of the tenge to the dollar (combined with possibly lower commodity prices or movements in FX cross rates).	Maintain ER flexibility and provide guidance through NBK communications.
Weaker-than-expected global growth: Significant China slowdown and its spillovers	**Low-Medium/**	**Medium** Pressures through lower commodity prices and export volumes and export of other goods and services to China.	Allow ER to adjust; if pressures are sharp, use buffers to smooth short-term impacts. If sustained, slow fiscal adjustment to support

Risk	Likelihood/ Time horizon	Expected Impact if Risk Realized	Recommended Policy Response
Significant slowdown in other large EMs/frontier economies Structurally weak growth in key advanced and emerging economies	**Short-Medium term** **Medium/ Short Term** **High-Medium/ Medium Term**	These could lead to external and ER pressures.	activity, continue close monitoring of financial sector and SOE risks. Ensure decisive implementation of structural reforms.
Lower energy prices.	**Low/ Short-Medium Term**	**High** External and ER pressures, as well as budgetary pressures, although somewhat mitigated by fixed NFRK transfer rule. Pressures on the financial sector via the ER and slower growth.	Allow ER to adjust; if pressures are sharp, use buffers to smooth short-term impacts. If sustained, slow pace of fiscal adjustment to support activity, continue close monitoring of financial sector and SOE risks. Ensure decisive implementation of structural reforms.
Country-specific risks:			
Renewed/worse geopolitical strains, especially involving Russia.	**Low/Short term**	**Medium** External and ER pressures.	Allow ER to adjust; if pressures are sharp, use buffers to smooth short-term impacts. If sustained, slow pace of fiscal adjustment to support activity, continue close monitoring of financial sector and SOE risks. Ensure decisive implementation of structural reforms.
Adoption of macroeconomic and structural reforms by new authorities in Uzbekistan and Turkmenistan.	**Medium/ Medium Term**	**Medium** Favorable dynamic for trade, services, and the region; may be enhanced competition for FDI.	Support reform momentum in neighboring countries (e.g., reduce barriers to trade and financial integration).

Annex VI. Kazakhstan: Public Debt Sustainability Assessment

Kazakhstan Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(In percent of GDP unless otherwise indicated)

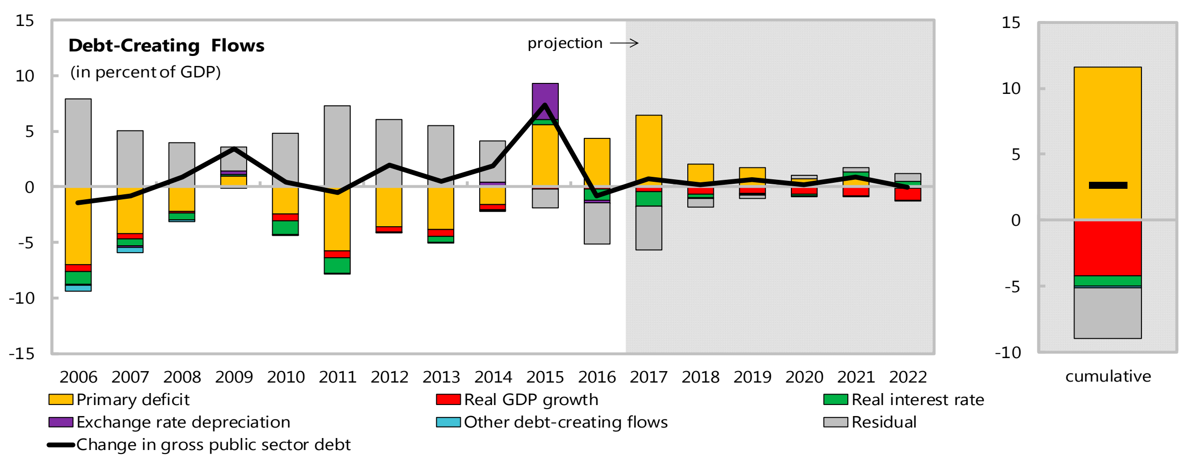
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	10.0	21.9	21.1	21.8	22.0	22.7	22.9	23.8	23.8
Public gross financing needs	-1.6	7.1	4.9	6.4	2.2	1.9	0.9	1.1	0.2
Public debt (in percent of potential GDP)	10.1	22.2	20.8	21.6	21.9	22.6	22.9	23.8	23.8
Real GDP growth (in percent)	6.0	1.2	1.1	2.5	3.4	2.8	3.2	3.9	4.6
Inflation (GDP deflator, in percent)	13.6	1.8	10.7	11.5	6.5	5.5	5.2	2.1	2.6
Nominal GDP growth (in percent)	20.6	3.0	11.9	14.3	10.1	8.4	8.5	6.1	7.3
Effective interest rate (in percent) [4/]	5.5	5.2	5.8	5.0	5.1	5.0	4.8	4.9	5.0

As of March 23, 2017		
Sovereign Spreads		
Bond Spread (bp) 3/	236	
5Y CDS (bp)	158	
Ratings	Foreign	Local
Moody's	Baa3	Baa3
S&Ps	BB-	BB-
Fitch	BBB	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.7	7.4	-0.8	0.7	0.2	0.7	0.2	0.9	0.0	2.7	
Identified debt-creating flows	-4.5	9.1	2.9	4.7	1.0	1.0	-0.1	0.5	-0.7	6.5	
Primary deficit	-3.3	5.6	4.4	6.4	2.1	1.7	0.7	0.8	-0.2	11.6	-0.5
Primary (noninterest) revenue and gra	25.3	16.6	16.6	18.5	18.8	19.0	19.9	19.7	20.5	116.4	
Primary (noninterest) expenditure	22.0	22.2	20.9	25.0	20.8	20.8	20.6	20.5	20.4	128.1	
Automatic debt dynamics [5/]	-1.0	3.6	-1.4	-1.7	-1.0	-0.7	-0.8	-0.3	-0.5	-5.0	
Interest rate/growth differential [6/]	-1.1	0.3	-1.2	-1.7	-1.0	-0.7	-0.8	-0.3	-0.5	-5.0	
Of which: real interest rate	-0.6	0.5	-1.0	-1.3	-0.3	-0.1	-0.1	0.6	0.5	-0.7	
Of which: real GDP growth	-0.5	-0.2	-0.2	-0.5	-0.7	-0.6	-0.7	-0.8	-1.0	-4.2	
Exchange rate depreciation [7/]	0.1	3.3	-0.3	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	
Please specify (1) (e.g., privatization r	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., other debt flo	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	5.2	-1.7	-3.7	-4.0	-0.8	-0.3	0.3	0.4	0.7	-3.8	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG (bp).

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ) times previous period debt ratio, with r = effective nominal interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes in the oil fund.

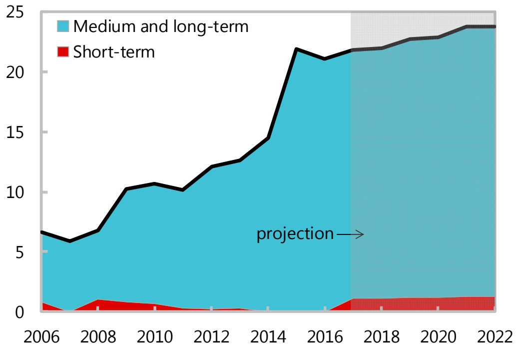
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Kazakhstan Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

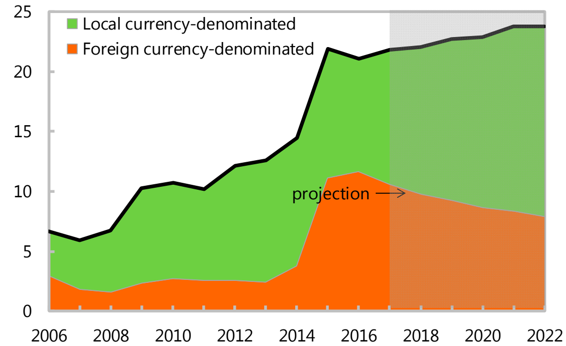
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

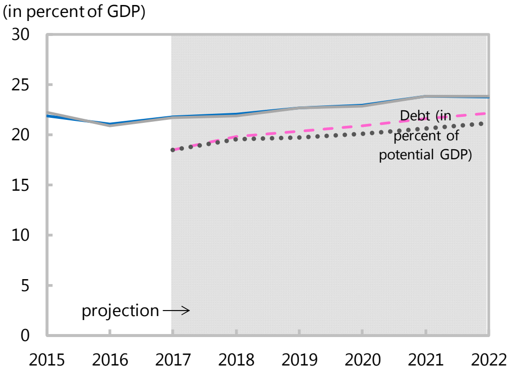


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

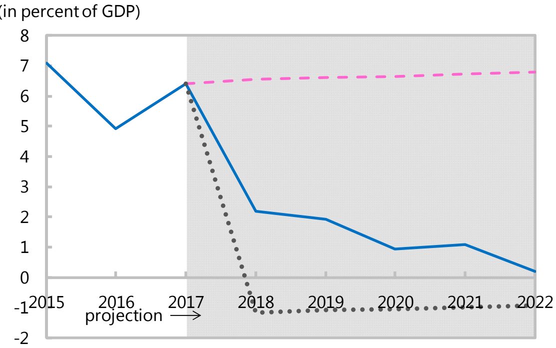
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	2.5	3.4	2.8	3.2	3.9	4.6
Inflation	11.5	6.5	5.5	5.2	2.1	2.6
Primary Balance	-6.4	-2.1	-1.7	-0.7	-0.8	0.2
Effective interest rate	5.0	5.1	5.0	4.8	4.9	5.0
Constant Primary Balance Scenario						
Real GDP growth	2.5	3.4	2.8	3.2	3.9	4.6
Inflation	11.5	6.5	5.5	5.2	2.1	2.6
Primary Balance	-6.4	-6.4	-6.4	-6.4	-6.4	-6.4
Effective interest rate	5.0	6.0	5.6	5.3	5.3	5.5

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	2.5	4.6	4.6	4.6	4.6	4.6
Inflation	11.5	6.5	5.5	5.2	2.1	2.6
Primary Balance	-6.4	1.3	1.3	1.3	1.3	1.3
Effective interest rate	5.0	6.0	5.6	5.3	5.3	5.5

Source: IMF staff.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 13, 2017

Prepared By

The Middle East and Central Asia Department
(In Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of March 31, 2017)

Membership status:

Joined: July 15, 1992. Accepted Article VIII, Sections 2, 3, and 4 in 1996 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The de jure exchange rate (ER) arrangement is free floating; the de facto arrangement is classified as floating.

General Resources Account:

	SDR Million	Percent Quota
Quota	1,158.40	100.00
Fund holdings of currency	960.23	82.89
Reserve position in the Fund	198.18	17.11

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	343.65	100.00
Holdings	348.49	101.41

Outstanding Purchases and Loans: None

Latest Financial Arrangements (in millions of SDR):

Type	Arrangement	Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	12/13/99	3/19/02	329.10	0.00
EFF	7/17/96	7/16/99	309.40	154.70
Stand-By	6/05/95	6/04/96	185.60	185.60

Projected Payments to Fund: None

Safeguards Assessments: Not applicable.

Exchange Rate Arrangements:

The currency of Kazakhstan is the tenge, which was introduced in November 1993. Effective January 5, 2016, the market ER of currencies is determined daily on business days on which the Kazakhstan Stock Exchange (KASE) holds foreign currency (FX) auctions, according to the following procedure:

(1) for the U.S. dollar, the market ER is defined as the weighted-average market rate of the tenge against the dollar as of 3:30 p.m. Astana time, based on the results of two KASE sessions – the morning (main) session and the afternoon (additional) session; (2) for other foreign currencies, the market ER with respect to the tenge is defined as the cross-rate, calculated using the market ER of the U.S. dollar with respect to the tenge and the ERs of the given currencies against the U.S. dollar as of 4:00 p.m. Astana time, in accordance with the demand quotes received through news agency channels. The market ER is established as the official ER for the business day following the trading day. The NBK publishes daily ERs of certain currencies against the tenge for accounting and computation of customs and other mandatory payments to the budget.

From late 1999 to October 2007, the ER regime was a managed float with no preannounced path. From October 2007 the tenge was maintained within a narrow range against the U.S. dollar. In February 2009, the tenge was devalued by 18 percent against the U.S. dollar, and a trading band was introduced. In February 2010, the band was widened and made asymmetric. In February 2011, the band was abolished, and the de jure ER arrangement was changed from a pegged ER within horizontal bands to a managed float. Between September 2013 and February 2014, the tenge was managed within an unofficial 2 percent band against a basket of currencies comprised of the U.S. dollar (70 percent), the euro (20 percent), and the Russian ruble (10 percent). From February 2014, following an 18 percent devaluation against the U.S. dollar, the tenge was stabilized within a trading band of T185/USD +/- 3 tenge/USD. The de facto ER was reclassified from a crawl-like to a stabilized arrangement, effective February 11, 2014. In September 2014, the band was asymmetrically widened to T170-188/USD.

Effective August 20, 2015, the NBK and Government announced a transition to a de jure free floating ER arrangement. On August 21, the ER against the U.S. dollar weakened from 188.35 to 255.26 tenge. On November 5, the NBK adopted a decision to minimize its participation in the FX market to preserve reserves. The de facto ER arrangement was reclassified twice in 2015: (1) from stabilized to other managed, effective August 20, 2015, and (2) from other managed to floating, effective December 15, 2015.

The NBK conducts FX operations on KASE, in the interbank FX market, and directly with market participants based on quotes. The NBK publishes information on interventions on a monthly basis. The FX system is free from restrictions on payments and transfers for current international transactions.

Article IV Consultation:

Kazakhstan is on the standard 12-month consultation cycle. The last consultation was concluded on July 31, 2015 (see IMF Country Report No. 15/241). The current Article IV consultation was delayed by IMF staffing issues.

FSAP Participation and ROSCS:

Kazakhstan first participated in the Financial Sector Assessment Program (FSAP) in 2000. FSAP updates were conducted in 2004, 2008, and 2014, with a Financial Sector Stability Assessment issued in August 2014 (see IMF Country Report 14/258). A fiscal transparency ROSC report was published in 2003, and a report on the update of the data ROSC was published in 2008.

AML/CFT Assessment:

Kazakhstan's AML/CFT framework has been assessed against the AML/CFT standard, the Financial Action Task Force (FATF) 40+9 Recommendations. The evaluation was conducted by the Eurasian Group on money laundering and financing of terrorism (EAG), the FATF-style regional body of which Kazakhstan is a member. The final mutual evaluation report was adopted in 2011. The report indicated that the main sources of criminal proceeds in Kazakhstan were crimes related to fraud and abuse of public office. The evaluators found that Kazakhstan had a relatively comprehensive AML/CFT framework in place, but that deficiencies remained, notably with respect to customer due diligence and reporting of suspicious transactions. Kazakhstan is tentatively scheduled to undergo its next AML/CFT assessment by the EAG in April 2020.

Technical Assistance and Training:

Kazakhstan has received IMF TA and training in all areas of economic policy during 1993-2017. The Fund has also provided resident or peripatetic advisors to the NBK, the Committee on Statistics, the Ministry of Finance, and the former Financial Supervision Agency. Other international agencies and governments also provide TA (e.g., the World Bank, EBRD, UNDP, ADB, OECD, USAID). The following list summarizes Fund TA to Kazakhstan since 2010.

Monetary and Capital Markets Department

IMF TA has enabled progress in several monetary and capital markets areas, including monetary and ER policy and operations, central bank accounting, payments system reform, central bank organization and management, banking legislation, banking supervision, statistics, and money-market development. Missions have included:

1. 2009–12: Bank stress testing—initial mission in 2009, followed by expert visits in 2009–12.
2. November 2010: Reducing nonperforming loans in the banking system (joint with LEG).
3. February 2013–14: Resolving problem assets, including posting of a long-term expert to the Problem Loans Fund (financed by the Japanese government).
4. November 2014: Enhancing the monetary policy framework.
5. March 2015: Liquidity forecasting.
6. March-April 2015: Enhancing the monetary policy framework.
7. June-July 2015: Modeling and forecasting.

8. August 2015: Monetary and exchange rate policy and operations.

9. November 2015: Monetary and exchange rate policy and operations.

10. June 2016: Monetary and exchange rate policy and operations.

11. July 2016: Banking issues.

Fiscal Affairs Department

The IMF Fiscal Affairs Department has given advice to Kazakhstan in revenue administration and public financial management, including treasury operations, accounting, IT systems, and the introduction of a social safety net.

1. 2011–17: TA by IMF regional advisor on PFM issues.
2. May 2014: Fiscal risk management, IPSAS and accrual accounting.
3. September-October 2014: Accrual accounting and reporting for tax and customs revenues.
4. May-June 2015: Accrual budgeting and public-private partnership (PPP) issues.

Statistics

1. April 2011: BOP statistics.
2. July 2013: Government finance statistics.
3. November 2014: Government finance statistics.
4. April 2015: Monetary and financial statistics.
5. June 2015: National accounts statistics.
6. August 2015: External sector statistics.
7. January 2017: National accounts statistics.

Legal Department

1. April 2010: Anti-money laundering and combating the financing of terrorism (jointly with the World Bank and United Nations Office on Drugs and Crime).
2. November 2010: Reducing nonperforming loans in the banking system (joint with MCM).
3. July 2011: Bankruptcy legislation.

Training

Officials from Kazakhstan have participated in IMF courses and workshops in Washington, at the Joint Vienna Institute, and in the region in macroeconomic management, monetary and exchange policy and operations, central bank communications, budgetary expenditure control, financial programming, taxation, and statistics.

Local Office

The IMF maintains a local office in Almaty.

RELATIONS WITH THE WORLD BANK

(As of March 14, 2017)

Kazakhstan became a member of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) in July 1992 and a member of the International Finance Corporation (IFC) in September 1993. In 2010 Kazakhstan became an IDA donor under the IDA16 replenishment and contributed to the IDA17 replenishment in 2017. Kazakhstan is the largest client of the IFC in Central Asia.

IBRD in Kazakhstan

The Bank's lending operations in Kazakhstan are aligned with the Country Partnership Strategy (CPS) for FY12–17, endorsed by the Board in 2012. The new Country Partnership Framework is expected to be considered by the Board of Directors in early 2018. As of March 2017, the IBRD loan program comprised fifteen projects with a total commitment of US$3.9 billion, of which US$2.4 billion has been disbursed. While 82 percent of the commitments are concentrated in the on-going South-West roads project and the East-West roads project, the portfolio remains diverse with two-thirds of the projects focused on institutional building. The other thirteen projects are: SME competitiveness, fostering productive innovations, tax administration reform, justice sector institutional strengthening, statistical capacity building, health sector technology transfer and institutional reform, social health insurance, education modernization, skills and jobs, Youth Corp, catastrophe risk insurance, energy efficiency, and second irrigation and drainage.

The Bank also provides extensive advisory services and analytics (ASA) to the government through the Joint Economic Research Program (JERP). The JERP is instrumental in providing policy analysis, strategic planning expertise, and good practice options to assist the government with the reform agenda in the field of economic and social development and the institutional capacity of the government to conduct economic and sectoral work. The JERP for FY17 amounts to slightly over US$3 million and comprises nine interrelated stand-alone and programmatic activities focusing on the government's strategic priorities in attraction of investments into the economy, strengthening the private sector, enhancement of business climate, sustainable regional development, establishment of agglomerations, the development of skills for the labor market, and implementation of institutional reforms.

IFC in Kazakhstan

In the context of the CPS for FY12–17, the IFC's role is to contribute to the government's development plans by supporting the private sector and thereby advance the economic diversification and growth agenda, particularly in the non-extractive sectors and frontier regions. In the short term, the IFC is focusing on: (i) strengthening the financial sector, both in the context of the post-crisis recovery and as a prerequisite to pursue the diversification agenda; and, (ii) infrastructure development, including through public private partnerships (PPPs). In the medium term, more efforts will be dedicated to the establishment of best practices in international banking, improvement of corporate governance and the regulatory environment, SME development, increasing investments in value-added manufacturing, agribusiness and services, and supporting energy efficiency.

The IFC's investment program has been expanding in the context of the response to the global financial crisis. It grew tenfold between FY05 and FY08 (to US$110 million) and nearly doubled again in FY09. In FY10, the IFC invested a record US$336 million in five projects in the financial and agribusiness sectors, with a vast majority provided to commercial banks. The post-crisis IFC's investment level has moderated and averaged about US$100 million per year in FY11–13. The IFC invested US$174 million between FY13 and FY16. As of February 2017, Kazakhstan remains IFC's largest client in Central Asia with a total committed portfolio of US$162.5 million, of which US$82 million is outstanding. The investment portfolio is mostly concentrated in the financial sector, infrastructure, general manufacturing and consumer services, although the IFC has begun making investments in the agribusiness sector as well.

RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

(As of March 10, 2017)

In May 2014 EBRD and the government signed an Enhanced Partnership Framework Agreement ("EPFA"), which took the historic co-operation between the EBRD and Kazakhstan to a new level both in terms of investment and policy dialogue. More than €1.86 billion in new projects have been signed since the conclusion of the EPFA, with an average annual business volume of €650 million.[1] Under the agreement, the government has provided €15.6 million to fund the EBRD's technical assistance, as well as US$33 million for Advice to Small Business (ASB) programs. With more than €1 billion of investments in 33 projects in 2016, Kazakhstan became the number two country by business volume for the EBRD.

In Kazakhstan, EBRD has the following priorities:

[1] Annual Bank Investment (ABI) in Kazakhstan was €576 million in 2014, €709 million in 2015, and €1.051 billion in 2016.

Diversification and support for the non-resource sector. The EBRD is already the largest investor in the non-oil and gas sector of the economy. The EBRD will continue to support development of other sectors by financing projects that enhance productivity in the corporate sector, improve the business environment, promote modernization of the agribusiness sector along the entire value chain, and facilitate growth of the SME sector. The EBRD will also work to further develop the banking and non-banking financial sectors.

Balancing the role of the state and the market. The EBRD will seek to assist the Kazakh authorities in balancing the roles of the state and the market by supporting growth of private sector enterprises. The EBRD will also support policies aimed at commercializing public enterprises and making them more efficient, as well as upgrading infrastructure ensuring appropriate sharing of risks between the private and public sectors.

Promoting low-carbon growth and energy efficiency. The government's recently announced Green Economy Strategy is a top national priority and the EBRD will assist in implementing key aspects of the strategy through projects in energy, renewables, agriculture, water, waste management, transport, and other sectors.

Across these strategic priorities, the EBRD is also looking for opportunities, through both projects and policy dialogue, to facilitate greater regional integration and inclusion. EBRD is in the process of adopting a new country strategy for Kazakhstan for a four-year period 2017-20.

EBRD activity in Kazakhstan to date

222 Number of projects	**106** Number of active portfolio projects
€7,314 million Cumulative EBRD investment	**€2,646 million** Current portfolio of projects
€4,840 million Cumulative disbursements	**€1,803 million** Operating assets
42% Private sector share of portfolio	**7%** Equity share of portfolio

Data valid as of: 31 January 2017

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of March 14, 2017)

Kazakhstan became a member of the Asian Development Bank (ADB) in 1994. In the early years of the country's transition from a centrally-planned to a market-driven economy, the ADB focused its support on agriculture, education, finance, and delivery of social services. In recent years, ADB sovereign lending operations in Kazakhstan have focused on financing credit lines for small and medium-sized enterprises (SMEs) and road transport sector projects, mainly highways under the Central Asia Regional Economic Cooperation (CAREC) program.

The ADB has also expanded knowledge support under the Knowledge Experience Exchange Program (KEEP), jointly financed with the government of Kazakhstan. KEEP delivers reports, policy advisory services, and capacity building programs. During 1994-2016, the ADB has approved a total of \$4.9 billion in sovereign loans, non-sovereign loans, and guarantees for Kazakhstan, of which \$2.4 billion (including \$1 billion as budget support) was disbursed over the last five years (2012-2016).

In the transport sector, the ADB has been supporting Kazakhstan in realizing its transit potential and integration into the global transport network. In Zhambyl oblast, the reconstruction of 375 km of the international transit corridor running between Western Europe and People's Republic of China was completed in 2016, while the reconstruction of 470 km of the Aktau-Beineu road in Mangistau oblast is ongoing. In 2016, the ADB approved a loan for the reconstruction of the Aktobe-Makat road to help Kazakhstan increase its trade links with markets in East Asia, Europe, and the Caspian Sea subregion.

The ADB has been supporting the growth of Kazakhstan's SMEs by providing financial institutions with liquidity in local currency channeled through DAMU, a fund established under Baiterek, one of the three large public holding companies in Kazakhstan (along with Samruk Kazyna and KazAgro). Improved access to finance has been helping to drive investment, increase employment, and generate income for SMEs, particularly those located in regions outside Astana and Almaty and operated by women entrepreneurs.

In the energy sector, the ADB is providing technical assistance to help develop renewable energy generation, and also capacity building for the development of performance-based energy-saving contracts. In the health sector, the ADB has recently started providing transaction advisory services for the preparation of a public-private partnership project to construct and operate a hospital at the Karaganda State Medical University.

The ADB's private sector operations in Kazakhstan began in 2006, with private sector financing to six entities in the financial and agribusiness sectors amounting to a total of \$455.2 million approved to-date. Recent private sector financing operations involved projects in energy and agribusiness in addition to trade finance.

Kazakhstan was one of the four founding partners of the CAREC Program in 1997 (together with the People's Republic of China, the Kyrgyz Republic, and Uzbekistan). Since then, seven other countries (Tajikistan, Azerbaijan, Turkmenistan, Mongolia, Afghanistan, Pakistan, Georgia) have joined CAREC. CAREC-related investments in partner countries have totaled US\$29.4 billion in the region, covering transport, energy, trade policy, and trade facilitation. Four of the six CAREC road and rail corridors traverse Kazakhstan. Developing these Central Asian corridors is a priority for achieving the CAREC's goal of land bridges connecting Europe and Asia.

The ADB's new 2017-2021 country partnership strategy aims to support Kazakhstan's economic diversification, sustainable development, and inclusive growth. In 2012, Kazakhstan became a donor to the Asian Development Fund—the ADB's concessional financing resource—contributing a total of US$8.2 million to date.

STATISTICAL ISSUES

(As of April 4, 2017)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. The most affected areas are the balance of payments and national accounts.
National accounts: The Committee on Statistics (CS) under the Ministry of National Economy has made considerable progress in improving the statistical infrastructure and updating the business register with full coverage of legal entities and individual entrepreneurs. Annual estimates of oil and gas sector are compiled and disseminated following international standards, but only in Russian. The CS also compiles quarterly GDP, but on a cumulative basis—instead of a discrete basis—and using "comparable prices" instead of fixed base or previous year prices. In addition to supporting migration to a discrete basis, a recent IMF STA mission (January 2017) identified the need to revise the method used to compile volume movements for taxes on products used to construct movements in real GDP.
Price statistics: Kazakhstan has a monthly Consumer Price Index (CPI). The quality of consumer price statistics is affected by occasional use of administrative price controls. Typically, for each good or service administrative controls are imposed on the variety that is included in the CPI basket. Since producers/importers are not compensated by the government for any losses due to the price controls, they may switch to non-controlled varieties and/or compensate by increasing the prices of non-controlled varieties.
Government finance statistics: Progress has been made in the classification of the fiscal accounts consistent with the Fund's government Finance Statistics Manual 2001 (GFSM 2001). The authorities have expanded coverage of data reported for the IMF government Finance Statistics Yearbook to include both the National Fund of the Republic of Kazakhstan and State Social Insurance Fund, and consequently are now able to report annual data for the whole of the consolidated general government, including a financial balance sheet. However, statistics on the enlarged government (including public enterprises) are not available.
Monetary statistics: The National Bank of Kazakhstan (NBK) reports the Standardized Report Forms (SRFs) 1SR for the central bank and 2SR for other depository corporations (ODCs) on a monthly basis for publication in the IMF's *International Financial Statistics (IFS)* with a lag of about one month.

Following IMF TA, the NBK developed a framework for compiling SRF 4SR for other financial corporations (OFCs) and started publishing quarterly data from March 2015. While good progress has been made on data compilation and dissemination, more efforts are needed to address remaining inconsistencies in the reporting of inter-bank positions, which are due to the lack of information on the counterpart sector of certain transactions. **Financial sector surveillance:** Kazakhstan participates in the IMF's Coordinated Direct Investment Survey (CDIS), and Coordinated Portfolio Investment Survey (CPIS). The country reports 34 financial soundness indicators (FSIs) for posting on the IMF's FSI website on a quarterly basis—all 12 core FSIs and 11 of the 13 encouraged FSIs for deposit takers, and 11 encouraged FSIs for other sectors and markets (two FSIs for OFCs, four FSIs for nonfinancial corporations, two FSIs for households, and three FSIs for real estate markets).	
Balance of payments: The authorities have transitioned to the compilation of balance of payments in concordance with the sixth edition of the IMF Balance of Payments Statistics Manual (BPM6) starting in 2013. The NBK is reporting quarterly BOP and IIP data and the Reserves Template, and it participates in the World Bank's Quarterly External Debt Statistics (QEDS). Deficiencies remain in direct investment statistics as local branch offices of foreign companies operating in the construction sector are considered nonresident entities. This leads to discrepancies with national accounts statistics where this activity is treated as domestic production. In external debt statistics, there are discrepancies between data compiled by different governmental agencies owing to methodological differences, including coverage of external debt of publicly-owned corporations. Statistical treatment of trade within the Eurasian Customs Union (ECU) is not accurate, which has contributed to large and increasing errors and omissions. The authorities are cooperating with relevant agencies in the ECU partner countries to resolve these problems.	
II. Data Standards and Quality	
Kazakhstan has subscribed to the Special Data Dissemination Standard (SDDS) since March 2003.	Data ROSC published in 2008.

Kazakhstan: Table of Common Indicators Required for Surveillance

(As of April 4, 2017)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo Items: Data Quality-Methodological Soundness[8]	Memo Items: Data Quality-Accuracy and Reliability[9]
Exchange Rates	Feb/2017	3/10/2017	D	D	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb/2017	3/10/2017	M	M	M		
Reserve/Base Money	Feb/2017	3/17/2017	M	M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	Feb/2017	3/17/2017	M	M	M		
Central Bank Balance Sheet	Feb/2017	3/17/2017	M	M	M		
Consolidated Balance Sheet of the Banking System	Feb/2017	3/17/2017	M	M	M		
Interest Rates[2]	Feb/2017	3/10/2017	M	M	M		
Consumer Price Index	Feb/2017	3/3/2017	M	M	M	O, O, O, O	O, O, LO, O, O
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	3/1/17	3/4/17	M	M	M	O, LO, LO, LO	O, O, O, O, LNO
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	3/1/17	3/4/17	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	1/1/17	1/27/17	M	M	M		
External Current Account Balance	Q4/2016	4/3/2017	Q	Q	Q	LO, O, O, O	O, O, O, O ,O
Exports and Imports of Goods and Services	Q4/2016	4/3/2017	Q	Q	Q		
GDP/GNP	Q3/2016	12/30/2016	Q	Q	Q	O, O, O, LO	LO, O, LO, O, O
Gross External Debt	Q4/2016	4/3/2017	Q	Q	Q		
International Investment Position[6]	Q4/2016	4/3/2017	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes, and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] Reflects the assessment provided in the update of the data ROSC published in February 2008, based on the findings of the mission that took place during November 29–December 13, 2006 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

[9] Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.