



REPUBLIC OF KAZAKHSTAN

TECHINICAL ASSISTANCE REPORT—GOVERNMENT FINANCE STATISTICS

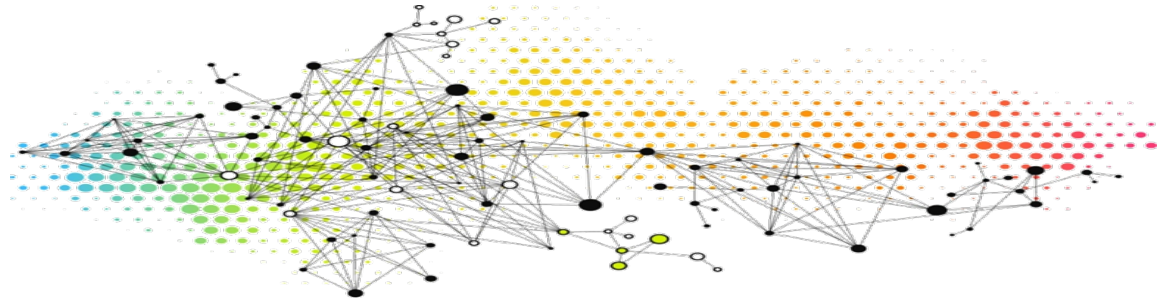
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REPORT ON TECHNICAL ASSISTANCE MISSION ON GOVERNMENT FINANCE STATISTICS (SEPTEMBER 2-13, 2019)

Prepared by **Dalia Budko**

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Glossary

JSC	Joint-stock Company
BC	Budget Classification
SPE	State-owned Public Enterprise
SE	State Enterprise
GS	Government Sector
SSIF	State Social Insurance Fund
DPB	Department for Public Borrowing
DRS	Department of Reporting and Statistics of the MF
DS	Debt securities
SPU	Special-purpose Unit
SC	Statistics Committee
IMF	International Monetary Fund
MF	Ministry of Finance
NBK	National Bank of Kazakhstan
NPO	Nonprofit Organization
NMHC	National Management Holding Company
NF	National Fund
MSMI	Mandatory Social Medical Insurance [<i>OSMS</i>]
NB	National Budget
PSDS	Public Sector Debt Statistics
RK	Republic of Kazakhstan
<i>GFSM 2014</i>	<i>Government Finance Statistics Manual 2014</i>
GGs	General Government Sector
GFS	Government Finance Statistics
<i>SNA-2008</i>	<i>System of National Accounts 2008</i>
LLP	Limited Liability Partnership
PLF	Problem Loan Fund
SMIF	Social Medical Insurance Fund

FOREWORD

By agreement with the Ministry of Finance (MF) of the Republic of Kazakhstan (RK), the most recent mission of the Statistics Department of the International Monetary Fund (IMF) took place from September 2 through 13, 2019, in Nur-Sultan, focused on providing technical assistance in the area of government finance statistics (GFS). The mission was led by a short-term IMF expert on GFS, Dalia Budko.

The mission's primary goal was to provide assistance to the MF RK in further improving GFS reporting.

The mission's chief objectives were focused on methodological and practical matters associated with adopting the requirements of the *Government Finance Statistics Manual 2014 (GFSM 2014)*:

- analysis of progress attained – fulfillment of the previous mission's recommendations;
- expanded coverage of the general government sector;
- issues of budget classification (BC);
- expanded data coverage – line items for stocks of nonfinancial and financial assets and liabilities;
- consultations on completing the annual questionnaire packet on GFS;
- assistance in compiling and disseminating quarterly government sector debt for the shared World Bank/IMF database.

The mission is especially grateful to the Department of Reporting and Government Finance Statistics (DRS) for its assistance in organizing meetings and providing data. It was the principal technical partner from the MF. Working meetings also took place with the Department of Methodology and Accounting, Audit, and Assessment; the Bureau for the Establishment of Budget Classifications and Budget Planning Methodology; the Public Debt Department (PDD); the Committee for State Property and Privatization of the MF RK; the Statistics Committee (SC) of the Ministry of the National Economy of the RK; the Problem Loan Fund; and the Social Medical Insurance Fund (SMIF).

SUMMARY OF MISSION RESULTS AND PRIORITY RECOMMENDATIONS

1. The mission welcomes the progress made by the RK in improving the quality of GFS. The Ministry of Finance has taken into account several recommendations of the previous mission on increasing transparency, improving data quality, and regarding the channels used to provide GFS. In particular, updated bridge tables are used when generating statistics, National Fund (NF) data are recorded separately from national budget (NB) data, and GFS are disseminated through the IMF Integrated Data Collection System.

2. The issue of expanding institutional coverage of the general government sector (GGS) remains urgent. The mission noted that the terms and definitions used in the draft law “Economic Sector Classifier”, prepared by the Statistics Committee, are consistent with accepted definitions in international statistics (in the *System of National Accounts 2008 (SNA 2008)*, *GFSM 2014*). Nonetheless, for the practical application of this classifier to be successful a sequential algorithm must be developed when determining the economic sector of an economic entity. It is unavoidable that the SC will encounter borderline cases in which it is difficult to definitively assign a specific entity to a specific sector. For this, we recommend creating an interagency working group including the SC, MF, and National Bank of Kazakhstan (NBK).

3. Special attention should be devoted to determining the economic sector of state-owned enterprises; enterprises that are nonmarket producers should be assigned to the GGS. Kazakhstan has a large number of institutional entities that carry out so-called government tasks and are financed from the treasury, but at the same time have the status of a state enterprise (SE). Treasury funds allocated to fund such enterprises are recorded as acquisitions of goods and services; as a result, we see disproportionately inflated expenditures on acquisitions of goods and services while other expenditure categories—wages, for example—are not fully reflected.

4. After reviewing the activities of 2 entities—the PLF and SMIF—it was determined that they should be assigned to the GGS. Recording the activities of the PLF (Problem Loan Fund) and the SMIF (Social Medical Insurance Fund) in GFS will provide a more complete picture of government activities. Coverage of the GGS will be expanded by including the SMIF (in 2019, beginning with the 2018 reports) and the PLF (in 2020, beginning with the 2017 reports).

5. The concept of “deficit” used in budgetary statutes of the RK differs from the GFSM 2014. In the latter, the balance sheet ratio *net lending/net borrowings* is derived as revenues minus expenses and net investments in nonfinancial assets. In addition, the budget deficit of the RK also includes government-funded lending and transactions with other financial assets. Following the GFSM 2014 methodology, transactions with financial assets, including payments and repayment of public loans (repayment of which can be realistically expected) should not affect the deficit.

6. The budget classification of the expenditures of the RK contains specific features that are difficult to assign to any economic expenditure category of the GFSM 2014. For example, expenditures such as targeted deposits and special expenditures make it difficult to precisely identify the economic content of the expenses reflected in them. Additionally, a substantial portion of budget resources depart as government assistance to enterprises, but in the budget this is most often reflected as “acquisition of goods and services”, not as subsidies or capital transfers. As a result, one is left with a distorted picture of the state of the government finances of the RK. Due to the incorrect distribution of expenditures by economic classification, it is impossible to compare the GFS of the RK with those of other countries.

7. To improve the quality of statistical data, one must systematically verify consistency between stock flows and positions. Together with DRS employees, the mission conducted an analysis of the consistency of positions on stocks and flows of public loans issued from the national budget and assets of the National Fund. Similarly, recommendations call for analyzing positions on stocks and flows of other assets and liabilities. Use when compiling the 2018 GFS and revise the corresponding tables for 2017. Agreement between stock and flow positions allows one to evaluate the reliability of statistical data.

8. Public sector debt statistics have yet to be compiled at the MF RK according to the international methodology. Due to the heavy workload and/or lack of DGB personnel, the mission was not able to complete the World Bank questionnaire on public sector debt. Provision of data on the central government is the minimum requirement, but the MF is fully capable of completing the questionnaire on debt securities (DS) and on credits and loans of not just the central government, but local government bodies as well. Communication with the NBK is needed concerning data on the liabilities of other public sector entities. Although statutes on the government debt of the RK include the concept of residency, in practice it is not applied when separating liabilities into domestic and foreign.

9. One important consideration for compiling reliable, high-quality GFS is timely receipt of all necessary benchmark data. Close cooperation is needed, within the MF and with the NBK, PLF, SMIF, and the State Social Insurance Fund (SSIF).

10. To further the efforts being made in the above areas, the mission recommended a detailed annual action plan with the following priority recommendations that are particularly importance for achieving the result of improving GFS:

Table 1. Priority Recommendations

Target date	Priority Recommendation	Organizations responsible
Q4 of 2019	<i>Include the Social Medical Insurance Fund (SMIF) in the Social Security Funds subsector, beginning with reports for 2018.</i>	MF
Q4 of 2019	<i>When recording financial assets and liabilities, verify consistency between positions on stocks and flows, distinguishing transactions and other flows.</i>	MF
Q4 of 2020	<i>Include the Problem Loan Fund (PLF) in the "Central Government subsector (extrabudgetary), starting with reports for 2017.</i>	MF

DETAILED TECHNICAL ASSESSMENT AND RECOMMENDATIONS

A. Expanded Coverage of the General Government Sector

11. One of the focus areas for improving the quality of GFS is to expand the coverage of the GGS. According to the *GFSM 2014*, the general government sector is primarily occupied with nonmarket activities and consists of all units of government administration and all resident nonmarket, noncommercial organizations that are controlled by units of government administrative agencies. The GGS also includes state enterprises that are legally created as corporations but do not satisfy the statistical criteria to be considered as corporations.

12. Kazakhstan has a very large government sector—in September of 2019, there were 6,349 state-owned enterprises¹ (see Table 2). The largest portion of state-owned enterprises is comprised of state enterprises by right of operations management; i.e., state-owned public enterprises (SOPE)—with a total of 4,345. SOPE are created for the purpose of fulfilling a so-called public mission, and often their sole source of funding for their operations is public funds. Prices for goods (work, services) that are produced and sold by national and/or local public enterprises are set by an authorized body of the respective sector/local executive authority. SOPE are in many ways similar to state institutions: they are active on the market in conditions devoid of competition with private producers, and the personnel compensation system is established by the Government of the RK. When identifying economic sectors, most SOPE are likely to fall under the GGS. The Ministry of Finance reported that a review of the form of legal registration of state-owned enterprises—not only SOPE, but also joint-stock companies (JSC), limited liability partnerships (LLP), and others. The mission was not provided with more specific information as a draft had not yet been prepared.

¹ Per information from the website: <http://sqp.gosreestr.kz>

13. However, the RK GFS cover only the national budget, budgets of local government bodies, the National Fund, and the State Social Insurance Fund. To bring coverage of the GGS of the RK into line with international requirements, market and non-market producers in the government sector must be delineated² and the nonmarket producers included in the GGS. Market producers deliver all or most of their products at economically significant prices, at which sales cover the greater part of expenditures, and consumers can decide whether to buy and how much to buy. A producer that provides goods and services in conditions devoid of competition with private producers is not a market producer. The principal stages in determining the economic sector of resident state entities are presented in Appendix I. More detailed methodological instructions for differentiating GGS and state corporations are presented in Chapter 2 of the *GFSM 2014*. When making a decision, one should be guided by the principle of the predominance of economic content over legal form.

Table 2. State-Owned Enterprises (September 2019)

Type of ownership/ Form of legal registration	Property of state holding companies	National property	Municipal oblast property	Municipal raion property	Municipal, local government	Total
JSC	124	132	50	6	0	312
SE under operational management (state-owned)	0	97	1039	2395	814	4345
SE under economic control	0	125	745	477	3	1350
Closed JSC	1	0	0	0	0	1
Open JSC	0	0	1	0	0	1
LLP	8	13	114	205	0	340
Total	133	367	1949	3083	817	6349

² The government sector consists of all resident institutional entities that are directly or indirectly controlled by resident entities in the general government sector—that is, all entities of the general government sector and resident government corporations.

14. The Statistics Committee is the institution directly responsible for allocating institutional entities by sectors. The mission familiarized itself with the “Classifier of Economic Sectors” project, which is planned for passage in 2020. The document is founded on the general principles, criteria, and concepts set forth in the *SNA 2008*. Use of this classifier should further consistency in identifying institutional entities by sector in various systems of statistical data—in national accounts, GFS, the balance of payments, and monetary and financial statistics. As of now, the general government sector is limited only by the budgetary data in the national accounts of the RK.

15. The terms and definitions used in the draft classifier are consistent with the general principles and concepts of international macroeconomic statistics. Criteria for assigning institutional entities to market or nonmarket producers (the “50 percent rule”), criteria for monitoring government administrative bodies over corporations and non-profit organizations are also set forth in accordance with the GFSM 2014.

16. Despite a well-prepared theoretical section, the introduction of this classifier appears incomplete. Although the document lists sectors/subsectors and gives a description of the entities belonging to a particular sector/subsector, it is still unclear how that classifier will be used in practice. During the working meeting, representatives of the SC were not able to explain which data would be needed or whether there is access to that data/ who will provide that data, etc. In other words, for the classifier to really work, a precise algorithm must be developed and approved for the sequence of actions needed to maintain the classifier.

17. Cooperation must be facilitated between the MF, NBK, and SC in the area of classifying institutional entities by economic sector. An information-sharing and cooperation agreement was signed between the SC and NBK and the NBK is taking an active part in the process of delimiting the financial sector. The MF too must participate in assigning institutional entities to sectors, particularly when defining the Government Sector (GS) and GGS. It would be logical to create an interagency working group, as all macroeconomic statistics datasets define sectors in the same way and each institutional entity may be assigned to only one economic sector. A concerted decision among the MF, SC, and NBK is especially needed in borderline cases, where applying an algorithm is insufficient and a more careful analysis is required.

B. National Management Holding Companies

18. Particular attention should be devoted to national management holding companies (NMHC) — one type of government-owned enterprise. The national economic policy of the RK, including the implementation of strategic goals specified in government programs and company development plans as well as the financial recovery of enterprises, is implemented to a large degree through NUKh and their subsidiaries. Kazakhstan has three national management³ holding companies: Samruk-Kazyna National Prosperity Fund, JSC; NMHC Bayterek, JSC; and NMHC KazAgro, JSC, the sole shareholder of which is the Government of the RK. These holding companies exert significant influence on the economy of the RK: according to financial reporting data published on the NUKh websites⁴. At the end of 2018, the value of assets managed by NMHC was about KZT 32 trillion (including Samruk-Kazyna— KZT 25,6 trillion, Bayterek—KZT 4,7 trillion, and KazAgro—KZT 1,6 trillion). For comparison, the gross domestic product of the RK in 2018 amounted to KZT 58.8 trillion (according to data from NBK statistical bulletin No. 10 of 2019). In 2018, Samruk-Kazyna paid out KZT 12,7 billion in dividends to the republican budget of NMHC Bayterek and NMHC KazAgro did not pay out dividends in 2018.

19. Holding companies are created not only to increase the management efficiency of subsidiaries, but also to perform government regulation of their activities.

Government regulation of the activities of NMHC means not only a small degree of independence in making various decisions, but also a negligible share of the risk assumed directly by the NMHC and their subsidiaries. Enterprises receive government assistance primarily through NMHC. When determining economic sectors, one should carefully analyze relationships/transactions among the Government, NMHC, and their subsidiaries.

A few examples:

- In 2018, Samruk-Kazyna financed NMHC Bayterek by acquiring bonds for KZT 70.1 billion. The difference between the acquisition cost and the fair value of the bonds as of the date of acquisition was KZT 31.34 billion and was declared as a transaction with a shareholder (change in capital)— in other words, the Government of the RK;
- Also in 2018, Samruk-Kazyna acquired bonds of AO “Tsesna Bank” at a nominal value of KZT 38.5 billion, while the fair value amounted to a mere KZT 6.8 billion. The difference of KZT 31.7 billion was declared as a loss from discounting financial assets at initial recognition;
- Moreover, the NMHC participates in quasi-fiscal activities: in 2018, pursuant to a

³ Management holding companies— other than functions of stockholders engaged in managing business activities.

⁴ <https://www.sk.kz/>; <https://www.baiterek.gov.kz/>; <http://www.kazagro.kz/>

- directive from the shareholder (the Government of the RK), Samruk-Kazyna financed various social projects for a total of KZT 64.7 billion, but KZT 31 billion was directed to the construction of social facilities.
- In 2018, JSC NMHC KazAgro sustained losses amounting to KZT 117,9 billion (they were KZT 126 the previous year) but nonetheless, KZT 400.1 were channeled to support the agro-industrial sector.

20. The NMHC sector is defined by what sector the majority of the subsidiaries belong to. This means that one must first identify the economic sector of each subsidiary. Depending on the classification of the subsidiaries, holding companies may be classified as nonfinancial or financial corporations. With the development of holding companies, new forms of entities have appeared, created for special purposes (the so-called SPE—special-purpose entities), which are only keepers of assets and liabilities but are not involved in production. Holding companies that are merely keepers of the assets of subsidiaries and are not engaged in management activities are assigned to a subsector of the financial corporations sector—“Captive Financial Institutions and Lenders”. When classifying SPE such as organizations engaged in specialized management of asset and liability portfolios and restructuring agencies, their residency status, conformance to the criteria of institutional entity, and degree of control by the state are taken into account.

Social Medical Insurance Fund (SMIF)

21. The question of medical insurance was broached during the mission. Over a period of many years, medical insurance in Kazakhstan was voluntary, and only recently was a new model of a guaranteed amount of free medical assistance and mandatory social medical insurance (MSMI) launched. In this connection, a non-profit joint-stock company, the “Social Medical Insurance Fund”⁵.

22. Determining the economic sector of the SMIF. The SMIF is a nonprofit organization structured as a joint-stock company whose sole founder and shareholder is the Government of the RK. The Fund has a seal, bank accounts, and its own balance sheet, and may acquire and exercise ownership rights and other personal rights in its own name, bear obligations, and be a plaintiff or respondent in a court of law. The assets of the SMIF shall be created via contributions/withholdings made by employers, employees, sole proprietors, self-employed and unoccupied persons—in other words, the majority of the population of the RK participates in the mandatory medical insurance system⁶. The amount of medical services in the MSMI is not dependent on the size of individual withholdings. We make the conclusion that the SMIF is a separate institutional entity that should be assigned to the general government sector and the *Social Security Funds* subsector.

⁵ Resolution of the Government of the Republic of Kazakhstan No. 389, dated July 1, 2016.

⁶ Charter of the NAO [non-profit joint-stock company] “Social Medical Insurance Fund” was approved by order of the chair of the Committee for State Property and Privatization (CSPP) of the MF RK No. 969, dated September 16, 2016.

23. MSMI assets began to be generated as of July 1, 2017, while the SMIF began to operate at full capacity in 2020. During the mission, a working meeting took place with representatives of the SMIF, who committed to providing data to the Ministry of Finance for compilation of GFS. When compiling GFS for 2018, SMIF data will be included in the *Social Security Funds* subsector.

Problem Loan Fund (PLF)

24. JSC Problem Loan Fund was created in 2012 to provide assistance in the recovery of the national economy. From 2012 through 2017, the PLF was managed by the NBK. In 2017, the PLF was transferred to be managed by the Ministry of Finance of the RK. The sole shareholder is the Government of the RK. The activities of the PLF are focused on banking sector recovery and putting idle redeemed assets into economic circulation.

25. Examples of a pair of large transactions performed by the PLF to improve the quality of the banking system’s loan portfolio by decision of the shareholder—i.e., the Government of the RK:

- On July 1, 2017, a transaction was concluded involving the purchase of problem assets from JSC “BTA Bank”, based on an order of the MF RK dated June 29, 2017, for KZT 2.6398 trillion⁷. The purchase price of the redeemed assets was set on the basis of the balance-sheet cost to the seller (i.e., BTA) without conducting an appraisal. An independent appraiser was hired for the initial recognition of the assets in the PLF’s records. The results of the independent appraisal showed that the market value of the redeemed assets at the time of purchase was KZT 267.7 billion. In 2017, the PLF received a targeted transfer from the NBK in the amount of KZT 2.0929 trillion to finance a transaction with BTA, which is recorded as additional paid-in capital in the financial statements;
- In September of 2018, the PLF acquired problem assets from JSC Tsesnabank, totaling KZT 450 billion⁸. An independent appraisal firm determined that the market value of the repurchased claims came to KZT 45.7 billion as of the purchase date. The difference between the purchase amount and the market value was KZT 404.3 billion.
- This transaction was financed by a securities issue in the same amount—i.e., KZT 450.0 billion, which were acquired by JSC “Kazakhstan Stability Fund”, whose sole shareholder is the NBK.

⁷ In the opinion of the independent auditor of the PLF’s financial statements for 2018, this transaction is set apart as an emphasis of matter.

⁸ In the opinion of the independent auditor of the PLF’s financial statements for 2018, this transaction is noted as a key audit issue.

26. Determining the economic sector of the PLF. The PLF is a resident of the RK and meets the criteria to consider it an institutional entity. The PLF is controlled by a body of state, allowing it to be placed in the government sector. Next, one must determine whether the PLF is a market or nonmarket producer. For this, we are guided by items 2.129-2.131 of Chapter 2 of the *GFSM 2014*, regarding restructuring institutions. The Restructuring Agency, which (i) intentionally purchases assets at prices higher than market prices with direct or indirect financial support from government agencies; (ii) is principally occupied with reallocating national revenues (and property); (iii) does not function independently from government agencies and does not expose itself to risk, is not a market producer, and should be assigned to the general government sector. As we see from the above examples, the terms of transactions with the BTA and with Tsesnabank are not market terms; transactions are carried out solely pursuant to a decision of the shareholder, and funds to acquire financial assets are not raised on the financial markets. We reach the conclusion that JSC PLF is a GGS entity and all its losses should be included in the GGS shortfall.

Recommended actions:

- supplement the classifier of economic sectors with explanations on how to use it (develop a sequential algorithm)
- in borderline cases, make a consensus decision among the MF, SC, and NBK
- classify the FSMS and PLF in GGS
- establish a sector of the economy for national management holding companies (and, accordingly, their subsidiaries)
- compile a list of GGS entities and publish it.

C. Budget Classification

General Structure

27. Forming the budget classification of the RK in accordance with the principles of the *GFSM 2014* would facilitate higher quality in the data needed to develop and analyze budget policy. In the *GFSM 2014*, transactions are divided into revenues, expenditures, transactions with nonfinancial assets, and transactions with financial assets and liabilities. As seen in Table 3, the BK [*Budget Code*] of the RK distinguishes the following transactions: revenues, expenditures, publicly funded lending, transactions with financial assets, and deficit financing. In other words, the BK RK is not consistent with the *GFSM 2014* methodology in the following: (i) the definitions of revenues and expenditures differ from the *GFSM 2014*; (ii) transactions with nonfinancial assets are not set apart in a separate group but are part of revenues and expenditures; (iii) publicly funded loans are set apart in a separate category from financial assets⁹; (iv) publicly-funded lending and transactions with financial assets are recorded “above the line”, i.e., they affect the surplus/deficit¹⁰.

⁹ In the *GFSM 2014*, only those issued loans whose repayment may be realistically expected are considered financial assets.

¹⁰ In the analytical foundation of the *GFSM 2014*, net lending (+)/net borrowing (-) is derived as revenues minus expenditures and minus transactions with nonfinancial assets. This balance sheet amount is also equal to the net result of transactions with financial assets and liabilities.

Table 3. Budget Classification and *GFSM 2014*

Aggregated form of the budget classification of the RK	Statement of sources and use of funds (cash method of accounting) <i>GFSM 2014</i>
<p>REVENUES</p> <p>Tax</p> <p>Non-tax</p> <p><u>Earnings from sale of fixed capital</u></p> <p>Transfer payments</p> <p>EXPENDITURES</p> <p>Current expenditures</p> <p style="padding-left: 40px;">Spending on goods and services</p> <p style="padding-left: 80px;">Including: wages, employer contributions, purchase of services and work, other current expenditures</p> <p style="padding-left: 40px;">Remuneration payments</p> <p style="padding-left: 40px;">Current transfers</p> <p>Capital costs</p> <p><u>Purchases of fixed assets</u></p> <p>NET GOVERNMENT LENDING</p> <p>Government loans</p> <p><u>Repayment of government loans</u></p> <p>BALANCE OF TRANSACTIONS WITH FINANCIAL ASSETS</p> <p><u>Acquisition of financial assets</u></p> <p><u>Earnings from sales of government financial assets</u></p>	<p>REVENUES</p> <p>Tax</p> <p>Contributions/withdrawals for social needs</p> <p>Grants</p> <p>Other earnings</p> <p>EXPENDITURES</p> <p>Employee wages</p> <p>Purchases of goods and services</p> <p>Interest</p> <p>Subsidies</p> <p>Grants</p> <p>Social benefits</p> <p>Other payments</p> <p>NET OUTFLOW OF FUNDS RESULTING FROM INVESTMENTS IN NONFINANCIAL ASSETS</p> <p>Fixed capital</p> <p>Inventories</p> <p>Assets</p> <p>Non-produced assets</p>
<p><i>BUDGET DEFICIT/SURPLUS</i></p>	<p><i>CASH SURPLUS/DEFICIT</i></p>
<p>FINANCING A BUDGET DEFICIT (USE OF BUDGET SURPLUS)</p> <p>Loan proceeds</p> <p>Loan repayments</p> <p>Usable balances of budget funds</p>	<p>CASH FLOWS RELATED TO TRANSACTIONS WITH FINANCIAL ASSETS AND LIABILITIES (FINANCING)</p> <p>Net acquisition of financial assets other than cash</p> <p style="padding-left: 40px;">Internal/ External</p> <p>Net assumption of liabilities</p> <p style="padding-left: 40px;">Internal/ External</p> <p>Net change in cash reserve</p>

Goods and Services

28. One salient example of inconsistency in the budget classification of the RK with the methodological criteria of the *GFSM 2014* is “Expenditures on goods and services”. Judging by its title, one might assume that this class¹¹ corresponds to the expenditure item in the *GFSM 2014* “Use of goods and services”, which records the cost of goods and services used by entities in the general government sector for production of market and nonmarket goods and services. Table 4 presents an example of the subclasses and features into which the “Expenditures on goods and services” class of the RK budget classification is divided—it is apparent that it includes not only acquisition of goods and services, but also wages (subclasses 110-130) and transfers (features 166, 167, and 169). For a more precise allocation of expenditures between use of goods and services and other expenditure items such as wages and transfers or acquisition of nonfinancial assets, see the clarifications provided in items 6.33-6.52 of the *GFSM 2014*.

¹¹ The economic classification grouping of “budget expenditures of the RK” consists of category, class, subclass, and feature.

**Table 4. The “Expenditures on Goods and Services”
Class of the BC RK**

Subclass	Features
110 “Wages”	111 Wages
	112 Additional monetary payments
	113 Compensation payments
	114 Mandatory professional pension contributions
120 “Employer contributions”	121 Social tax
	122 Social deductions to the State Social Insurance Fund
	123 Mandatory insurance contributions
	124 Deductions for mandatory social medical insurance
130 Payment of wages to specific categories of citizens and deduction of contributions per regulations of the Republic of Kazakhstan.	131 Payment of wages to technical personnel
	132 Payment of wages to foster parents
	133 Reimbursement of average wage to representatives of the Maslikhat according to their principal place of employment
	134 Juror compensation
	135 Employer contributions for technical personnel
	136 Business and official travel within the country – technical personnel
	137 Juror travel expenses
140 Inventory purchases	141 Food purchases
	142 Purchases of medicines and other medical products
	143 Purchases, tailoring, and repair of uniforms and kits and other service dress and special uniforms
	144 Purchases of fuel and petroleum fuels and lubricating materials
	149 Purchases of other stocks
150 Purchases of work and services	151 Utility payments
	152 Payments for communications services
	153 Payments for transportation services
	154 Payments for leased premises
	155 Payments for services entailed in public procurements of social services
	156 Payments for consulting and research services
160 Other current expenditures	159 Payments for other work and services
	161 Domestic business and official travel
	162 Foreign business and official travel
	163 Expenditures of the Fund for Mandatory Universal Secondary Education
	164 Payments for scholarship recipients studying abroad
	165 Execution of enforcement documents and court rulings
	166 Dedicated contributions
	167 Special expenditures
	169 Miscellaneous current expenditures

29. The expenditure line of Kazakhstan’s GFS includes a substantial share¹² of use of goods and services, and greatly exceeds the respective expenditures of other countries. It may be assumed that use of goods and services reflects expenditures that should not be there— for example, subsidies or capital transfers. Most problematic are the features of BC 159 (Payment for miscellaneous services and work), 166 (Dedicated contributions), 167 (Special expenditures), and 169 (Miscellaneous current expenditures). It is impossible to assign these to any expenditure type using the designations of the above features, because it is impossible to precisely determine the economic content of the expenditures reflected there. There is no item for “miscellaneous” or “other” in the economic expenditure classification of the GFSM 2014. Features used in the BC of the RK must be more specific—expenditures should be classified according to their economic substance. Box 1 provides a detailed explanation of feature 169, “Other current expenditures”, and it is obvious that widely different types of expenditures are included in it: funeral expenditures for members of the armed services, representation expenses, funding activities of political parties, expenditures for compensation of reduced fares during vacation periods for certain categories of students, innovation grant awards, etc.

¹² According to data from the IMF portal <http://data.imf.org/?sk=89418059-d5c0-4330-8c41-dbc2d8f90f46&slid=1437430552197>, in 2015-2017, the percentage of GDP going to *all expenditures or use of goods and services* in the RK comprised, respectively, 16.6, 17.6, 20.5, and 7.0, 7.6, and 11.1.

Box 1. Feature 169 “Other Current Expenditures”

This feature reflects current expenditures not assigned to other features:

- expenditures for burials of members of the armed services and employees of special bodies of state, internal affairs agencies, and the financial police, and persons whose rights to possess special titles and civil service ranks or wear a uniform have been rescinded, as well as convicts;
- expenditures on burials of residents of residential care facilities of the social welfare agencies;
- costs of representation;
- penalties and fines for late payment of individual income tax;
- penalties and fines for late payment of mandatory pension contributions;
- fines, late fees, commissions, and membership fees;
- payment for environmental emissions, stamp duties, taxes and other mandatory payments to treasury, and fines and penalties on the latter (other than social tax that is paid under feature 121);
- funding activities of political parties;
- conducting elections:
 - appearances of candidates on government information media outlets;
 - public pre-election events with candidates and releases of campaign materials;
 - transportation costs of candidates (leased transport, fuels, and lubricants);
 - prizes, promotional gifts, monetary awards to winners and participants in cultural, athletic, other events in accordance with statutes, and other monetary payouts to individuals;
 - transit tickets purchased for persons released after serving prison sentences or periods of arrest, to their place of residence;
 - expenditures associated with conducting offsite events (travel, lodging, meals), other than business travel expenses of employees of government institutions;
 - expenditures on meals for conscripts at oblast-level assembly stations (cities of national status, capital cities);
 - expenditures on reduced-fare travel during vacation periods for certain categories of students studying under government educational contracts;
 - presentation of grant for the “Best Secondary Education Organization”;
 - presentation of government grant to a private business in the framework of the “Business Roadmap 2020” Program.

- expenditures to attract overseas specialists to higher education institutions of Kazakhstan in the framework of the State Program to Development Education in the Republic of Kazakhstan for 2011-2020, approved by Order of the President of the Republic of Kazakhstan No. 1118, dated December 7, 2010;
- innovation grants;
- targeted transfer to the autonomous cluster fund, an organization specializing in improving the quality of credit portfolios of second-tier banks, a nonprofit organization that secures the conditions for the activities of state agencies and their organizations, as well as participants in the international financial center;
- other expenditures not classified under other features.

30. The mechanism for providing government assistance to enterprises in the RK is rather confusing and it is difficult to see specific amounts in budget expenditures. It may be assumed that most budget funds allocated to support enterprises are recorded as acquisition of goods and services, not as subsidies or capital transfers (see Table 5 “Movement in executing RB expenditures for 2016-2018 by economic classification”). For the most part this concerns feature 159 “Payment for other services and work”, 166 “Targeted contribution”, 167 “Special expenditures”; and 169 “Other current expenditures”. It should be noted that in 2017, PLF funding went through feature 169 “Other current expenditures”.

Table 5. Change in the Execution of Expenditures of the RB for 2016-2018 by Economic Classification, KZT Billions

Expenditure classes and features	2016	2017	2018
Current expenditures	7 037,3	9 669,6	8 396,3
Spending on goods and services	2 525,3	4 942,2	2 239,1
...
159 Payment for other services and work	1 097,0	1 519,9	900,2
166 Targeted contribution	107,0	86,5	60,0
167 Special expenditures	224,8	284,7	366,9
169 Other current expenditures	375,9	2 308,2	107,6
...
Remuneration payments	523,2	458,8	585,3
Current transfers	3 988,8	4 268,6	5 571,9
...

311 Subsidies to individuals and legal entities, including peasant (farming) enterprises	88,4	89,3	93,4
322 Transfers to individuals	505,0	545,7	548,8
...
Capital expenditures	830,1	968,4	816,8
...
418 Material and technical equipping of state enterprises	7,7	4,9	13,4
423 Capital repairs to premises, buildings, and structures	0,2	1,9	1,6
435 Construction of new facilities and reconstruction of existing facilities of state enterprises	1,1	0,3	0,8
...

*The table uses data from the annual statements of the republican budget for 2018:

http://www.minfin.gov.kz/iri/portal/anonymous?NavigationTarget=ROLES://portal_content/mf/kz.ecc.roles/kz.ecc.anonymous/kz.ecc.anonymous/kz.ecc.anonym_budgeting/budgeting/reports_fldr/yearly_reports

(concluded)

Recommended actions:

- Consider the budget deficit/surplus to be consistent with *GFSM 2014*—that is, not including transactions with financial assets
- Record publicly funded loans, repayment of which (or of a portion of which) cannot realistically be expected, in expenditures
- Make changes to the economic classification of expenditures, following the classification structure of the *GFSM 2014*. Features must include fungible expenditures.

D. Integration Between Flows and Stock Positions

31. In the process of assessing and verifying the data sources used in compiling GFS and statistical results, cross-checks between stock positions and flows¹³ are one of the key statistical methods. GFS represent an integrated foundation and all changes between the balance sheet at the beginning and end of the reporting period can be explained by flows:

$$S_0 + F_1 = S_1$$

where S_0 and S_1 are the value of a specific type of asset/liability at the beginning and end of the reporting period, respectively, while F is the value of all flows during that period that affected that specific type of asset/liability. Flows may be divided into transactions and other economic flows, in which case the equation will be as follows:

$$S_0 + T_1 + OEF_1 = S_1$$

where T is the value of transactions, while OEF represents other economic flows during the reporting period. The two main categories of other economic flows are (i) *holding gains and losses* and (ii) *other changes in the amount of assets*.

32. GFS take into account all events affecting the financial indicators, financial position, or liquidity situation in the general government sector. For example, changes in the stock positions of debt obligations cannot be explained merely by monetary flows. One must take into account flows that are distinct from monetary flows, such as assumption of debt, debt forgiveness, exchange rate changes, etc.

33. Together with DRS personnel, the mission conducted an analysis of stock positions and flows of government loans issued from the national budget and NF assets. Similarly, it is recommended that an analysis be done of stock positions and flows of other assets and liabilities. Use this when compiling the 2018 GFS and revise the respective tables for 2017.

Recommended actions:

- When recording financial assets and liabilities, verify consistency between stock positions and flows and distinguish between transactions and other flows

¹³ All data recorded in macroeconomic systems represents either flows or stock positions. Flows measure change in economic value during the reporting period, while stock positions measure economic value at a defined moment in time.

D. Government Sector Debt Statistics and Other Issues

34. Public sector debt statistics are not yet being compiled in Kazakhstan per the international methodology. Due to the heavy workloads and/or absence of DPB personnel, the mission was not able to complete the World Bank questionnaire on public sector debt. Providing central government data is the minimum requirement, but the MF has every opportunity to complete the questionnaire on DS [*Debt Securities*] and credits and loans, not only for the central government, but also for local government bodies. As for data on the liabilities of other public sector entities, communication with the NBK is needed. Although the concept of residency appears in statutes on the public debt of the RK, in practice it is not applied when separating liabilities into domestic and foreign.

35. Government finance statistics compiled by the MF RK are not considered official statistical information. The mission acquainted itself with the “Statistics Work Plan for 2020”, approved by Order of the Minister of the National Economy of the RK No. 89, dated November 13, 2019, and with the “Schedule for dissemination of official statistical information for 2020”, and notes¹⁴ that GFS are not mentioned in any of these documents. In other words, the official statistical information generated by the state statistical agencies does not cover GFS, although the statistics generated by the NBK are included in full (including the balance of payments, international investment position, direct investment statistics, external debt statistics, and monetary and banking statistics). The “Official statistical information produced by government statistics agencies” section of the statistics work schedule indicates that the MF RK generates the following:

- information on utilization and repayment of government and government-guaranteed loans, loans taken out under state guarantees (1-OPZ, and monthly memorandum);
- report on official foreign loans (14-PB, quarterly memorandum)

In the “Published data of departmental statistics” section of the schedule for disseminating official statistical information, government finances are denoted as an area of responsibility of the MF RK, but only data on the execution of the state, republican, and local budgets is included.

Recommended actions:

- Join the joint IMF/WB initiative to submit quarterly public sector debt statistics
- Include GFS in the schedule of statistics work plan and the schedule for disseminating official statistical information

E. Action Plan

Priority	Measure/stage	Target date for implementation
Result: GGS coverage is consistent with GFSM 2014		
Moderate (M)	Supplement the economic sector classifier with explanations concerning its application (develop an algorithm for the sequence of actions).	2020
Moderate (M)	When identifying the economic sector of GS entities in borderline cases, make a consensus decision among the MF, SC, and NBK.	2020
High (H)	Determine the economic sector of national management holding companies (and of their respective subsidiaries).	2020
High (H)	Include the Social Medical Insurance Fund (SMIF) in the Social Welfare Funds subsector, starting with the 2018 statements.	Q4 of 2019
High (H)	Include the Problem Loan Fund (PLF) in the Central Government subsector (extrabudgetary), starting with the 2018 statements.	Q4 of 2020
High (H)	Prepare and publish a list of GGS entities	2020
Result: appropriate statistical methods are used when compiling and disseminating GFS data,		
Moderate (M)	When recording financial assets and liabilities, verify consistency between stock positions and flows and distinguish transactions and other flows.	Q4 of 2020
Result: a new dataset is compiled and disseminated domestically and/or for the public		
Moderate (M)	Join the joint IMF/WB initiative to submit quarterly public sector debt statistics	2019

F. Officials with Whom the Mission Met

First and last name	Organization	Email address
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Treasury Committee of the MF RK		
Sumenova, Saule Boranbaevna	Chief Expert/Chief Treasurer of the Office of National Budget Reporting	
Aubakirova, Raushan	Chief expert/Chief Treasurer of the Office of Income Accounting	

First and last name	Organization	Email address
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Nursultanova, Aynur Abylkhairovna	Chief Expert	
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Problem Loan Fund		
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Urustenov, Arman Sadykovich	Head of the Office of Marketing and Communications with the Public and Government Agencies, Department of Corporate Development	7 701 757 25 33

Appendix I. Identifying the Economic Sector of Government Entities¹

1. The **Government Sector** consists of all resident institutional entities that are directly or indirectly controlled by resident entities in the general government sector—that is, all entities in the general government sector and resident government corporations. **Control** is the ability to determine an entity’s general policy. Legislative and regulatory enactments that apply to all entities as a class or to a specific sector should not be viewed as evidence of control over such entities. The most important factors to be taken into account when determining the presence of government control are:

- in the case of corporations, the presence of control is indicated by a majority shareholding, control over the board of directors or other management body, control over the appointment and removal of key personnel, control over an organization’s principal committees, control associated with the borrowing of funds from government administrative agencies, or control on the part of a predominant government-sector client or group of government-sector clients (for more detail see Box 2.2 Government control over corporations GFSM 2014);
- in the case of a nonprofit organization, control is exerted through the right to appoint officials, determine significant aspects of overall policy, the presence of a contractual agreement between the government and the NPO, the degree of government funding, and the NPO’s vulnerability to risk (for more detail see Box 2.1 Government control over nonprofit organizations GFSM 2014).

Government sector	
<p>General government sector <i>(nonmarket producers)</i></p> <ul style="list-style-type: none"> • Units of government administrative bodies • Nonmarket resident NPO that are controlled by units of government administrative bodies 	<p>State corporations <i>(market producers)</i></p> <ul style="list-style-type: none"> • Government nonfinancial corporations • Government financial corporations

2. The **general government sector** consists of nonmarket producers whose production is designed for individual and collective consumption and who are funded by mandatory

¹ This material is based on the methodology of the *SNS 2008* and *GFSM 2014*. Some government entities such as special-purpose structures, restructuring companies, national welfare funds, market regulation agencies, joint enterprises, etc., are not considered in this document. For those specific cases, see the section on “Practical application of sector classification principles” of the *GFSM 2014*.

payments made by entities that belong to other sectors. Among others, the general government sector includes the following:

- **Units of government administrative agencies.** These are types of legal entities that are created due to political processes and possess legislative, judicial, or executive authority relative to other institutional entities located within a given territory. They assume responsibility for providing the public as a whole or specific households with goods and services, primarily on a nonmarket basis, redistribute income and property through transfers, are engaged primarily in nonmarket production, and fund their activities mainly through taxes or other mandatory payments;
- **Nonmarket resident NPO that are controlled by government administrative entities.** Including government enterprises that are legally created as corporations but do not meet the statistical criteria to be considered corporations.

3. The **government corporation subsector** consists of all corporations that are controlled by entities in the GGS or other government corporations.

4. In macroeconomic statistics, **corporations** are considered to be entities that are market producers, i.e., that are engaged in production of goods and services for the market at economically significant prices and that serve as a source of profit or other financial gain for their owners (see items 2.65-2.66 of the *GFSM 2014*). Other NPO are legally corporations that produce goods for the market but cannot be a source of financial gain for their owners. On the contrary, some structures that have the legal form of a joint-stock company or partnership could be viewed as corporations for purposes of economic statistics when they satisfy the definition of corporation.

5. To determine which government enterprises should be viewed as GGS entities and which as state corporations, one must differentiate nonmarket and market producers.

6. **Market producer:** an institutional entity that delivers the entire volume or a significant part of its production to other entities at prices that are **economically significant**. **A nonmarket producer** delivers the entire volume or a significant part of its production to other entities free of charge or at prices that are not economically significant.

7. **Economically significant prices** are prices that have a significant effect on the product volumes that producers are prepared to deliver and the volume of products that buyers are prepared to buy. Prices are economically significant if sales cover the greater part of the producer's costs, and consumers can decide whether to buy and how much to buy based on specified prices.

8. When producers are private corporations, the prices set are usually economically

significant. With state corporations, prices may be controlled for purposes of government policy. Even if the sales of government corporations cover a substantial portion of their costs, one may assume that they respond to the market climate differently than private corporations.

9. The principal steps to identifying the economic sector of resident government entities are presented below in the decision tree. When making the decision, one should be guided by the principle of the preeminence of economic substance over legal form.

