INTERNATIONAL MONETARY FUND

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REPUBLIC OF KAZAKHSTAN

April 2022

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR KAZAKHSTAN

In the context of the 2021 Article IV Consultation, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its April 4, 2022 consideration of the Staff Report that concluded the Article IV consultation with Kazakhstan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 4, 2022, following discussions that ended on November 17, 2021 with the officials of Kazakhstan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 21, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Kazakhstan.

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

Selected Issues Paper

*Also included in the abovementioned Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2021 Article IV Consultation with the Republic of Kazakhstan

FOR IMMEDIATE RELEASE

Washington, DC – April 11, 2022: On April 4, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Kazakhstan.

Kazakhstan's economy has recovered from the initial effects of the COVID pandemic. Real GDP grew by 4 percent in 2021, following a 2.5 decline in 2020. Substantial buffers and policy space enabled the authorities to mitigate the impact of the shock on livelihoods and economic activity. Progress in vaccinations also contributed to the recovery, and activity returned to its pre-COVID level in 2021. However, spillovers from the war in Ukraine will affect growth and fuel inflationary pressures in 2022. Together with the ongoing pandemic and heightened social tensions, they raise substantial uncertainty about economic prospects. In the long term, sustainable growth will require greater economic diversification and decisive actions to tackle climate-related challenges.

The authorities plan to return to fiscal consolidation to preserve buffers once the recovery is entrenched. The set of fiscal rules has been expanded aiming to safeguard sustainability and intergenerational equity and promote a countercyclical policy framework. Facing elevated external spillovers and inflation pressures, the National Bank of Kazakhstan (NBK) raised its policy rate and signaled possible further tightening if needed in 2022. Banks weathered the COVID crisis well, but the withdrawal of support measures and a rapid pickup in consumer lending have led to intensified financial supervision. The government, NBK, and financial regulatory agency are strengthening their cooperation and policy coordination.

The social unrest in early 2022 has provided new impetus for structural reforms. Key priorities announced by the authorities are to raise economic growth and inclusion by promoting economic diversification, private sector development, and improved governance. The authorities are also committed to reduce greenhouse gas emissions by 15 percent in 2030 (relative to the 1990 level) and achieve carbon neutrality by 2060. Given the multiplicity of reform needs, a Supreme Council for Reforms, chaired by the President, was created to strengthen reform prioritization and implementation.

[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 agreed with the thrust of the staff appraisal. They commended the authorities for their well-coordinated policy response to the COVID-19 pandemic, which supported a strong recovery in 2021. Directors noted that activity is being affected by spillovers from the war in Ukraine, while downside risks to the outlook have increased, including from the recent social unrest. In this context, they concurred that continued fiscal support is warranted in 2022 and that, amid sustained price pressures, further monetary tightening may be necessary to anchor inflation expectations. Over the medium term, Directors underscored the need to safeguard policy buffers and lay the groundwork for more diversified, private sector-led, inclusive, and green economic growth.

Directors emphasized the need for gradual medium-term fiscal consolidation to preserve buffers. To achieve this, they noted that strengthening revenue administration should be complemented by reforms to raise the VAT rate, broaden the tax base, and introduce a progressive income tax. Directors recommended enhancing public expenditure efficiency and public sector transparency. They also concurred that streamlined fiscal rules would support sustainability, intergenerational equity, and policy flexibility.

Directors commended the central bank for its commitment to a fully-fledged inflation targeting regime, which along with exchange rate flexibility, will help absorb shocks. They stressed that strengthening monetary policy effectiveness requires continued efforts to enhance the central bank’s policy independence and credibility, improve its analytical framework and communications, develop domestic capital markets, and reduce dollarization. Directors agreed that the enhanced coordination between monetary and fiscal policies should also help curb inflation.

Directors underscored that financial sector policy should continue to balance supporting the economic recovery and safeguarding financial stability. They called for careful monitoring of risks, including from bank liquidity pressures and fast-growing consumer lending, and for further efforts to strengthen risk-based supervision and the bank resolution framework. Directors encouraged the authorities to carefully consider the implications of introducing a central bank digital currency.

Directors emphasized the need for accelerated structural reforms and greater economic diversification to make long-term growth sustainable and inclusive. They saw a need to reduce the state’s footprint in the economy, including by reassessing and reducing the role of state-owned enterprises and by ensuring a level playing field for competition. Considering the recent social unrest, Directors called for accelerated reforms to improve governance, address corruption vulnerabilities, and strengthen the business environment.

Directors welcomed the authorities’ commitment to achieve carbon neutrality by 2060. While noting that increasing carbon taxation would provide adequate incentives and help finance a smooth and inclusive transition, Directors stressed the importance of proceeding gradually to allow time to reinforce social safety nets and for the private sector to adjust.

[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.

Kazakhstan: Selected Economic Indicators, 2019–23					
	2019 (est.)	2020 (est.)	2021 (est.)	2022 (proj.)	2023 (proj.)
Output					
Real GDP growth (%)	4.5	-2.5	4.0	2.3	4.4
Real oil	0.1	-4.7	-0.3	0.6	7.5
Real non-oil	5.9	-2.0	5.3	2.8	3.5
Crude oil and gas condensate production (million tons)	90.4	85.7	85.7	86.2	92.6
Employment					
Unemployment (%)	4.9	4.9	4.9	4.8	4.9
Prices					
Inflation (%)	5.4	7.5	8.4	8.5	6.0
General government finances					
Revenue (% GDP)	19.7	17.5	18.7	21.7	20.6
Of which: oil revenue	6.9	3.4	5.2	8.2	7.0
Expenditures (% GDP)	20.3	24.6	22.8	22.2	21.1
Fiscal balance (% GDP)	-0.6	-7.1	-4.1	-0.5	-0.5
Non-oil fiscal balance (% GDP)	-7.5	-10.5	-9.4	-8.7	-7.5
Gross public debt (% GDP)	19.9	26.4	25.9	27.6	29.4
Money and credit					
Broad money (% change)	2.4	16.9	10.7	20.1	9.7
Credit to the private sector (% GDP)	21.3	22.0	23.2	22.2	22.8
NBK policy rate (%, eop)	9.3	9.0	9.8	…	…
Balance of payments					
Current account (% GDP)	-4.0	-3.8	-3.0	3.0	0.3
Net foreign direct investments (% GDP)	-3.2	-3.5	-2.1	-1.7	-1.7
NBK reserves (in months of next year's imports of G&S)	7.7	9.1	8.3	9.4	9.9
NFRK assets (in months of next year's imports of G&S)	16.4	15.4	13.4	15.0	16.3
External debt (% GDP)	87.6	96.0	90.7	88.9	75.0
Exchange rate					
Exchange rate (y-o-y percent change; Tenge per U.S. dollar; eop)	-0.8	10.4	2.6	…	…

Sources: Kazakhstani authorities and Fund staff estimates and projections.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

March 21, 2022

KEY ISSUES

Context: Activity returned to its pre-COVID level in 2021. Inflation remains well above the NBK's 4–6 percent target band, and spillovers from sanctions on Russia will exacerbate price pressures and weaken economic growth in 2022. Kazakhstan benefits from strong fiscal and external buffers but risks to the outlook are elevated due to the uncertain impact on Kazakhstan of the sanctions on Russia and heightened domestic tensions since the January social unrest episode. In the medium term, non-oil growth under the baseline is expected to converge to about 4 percent. Sustainable growth will require greater economic diversification. Climate-related challenges are acute for Kazakhstan given its outsized hydrocarbon sector, high per-capita greenhouse gas emissions, and low domestic energy prices.

Key recommendations: The discussions focused on near-term pressures on inflation and growth, the need to secure economic resilience through stronger macro-financial policy frameworks, and reforms to reach sustainable long-term growth:

- *Fiscal policy*. Accommodative fiscal policy supported the post-COVID recovery, and some fiscal stimulus remains warranted in light of recent shocks. Buffers should be rebuilt through gradual medium-term consolidation. A simple set of fiscal rules would best serve the authorities' goals to safeguard sustainability and intergenerational equity, and to promote countercyclical policy.
- *Monetary policy*. Monetary policy is assessed as moderately tight, which is appropriate given the continued inflation pressures and fiscal stimulus. Further tightening may be warranted in the coming months. The authorities should continue the transition to full-fledged inflation targeting, while enhancing transparency and the National Bank of Kazakhstan's (NBK) independence.
- *Financial sector policy*. Policies should continue to balance supporting the economic recovery and safeguarding financial stability. Further progress in strengthening the supervisory and resolution frameworks is needed. Risks from fast-growing consumer lending and potential bank liquidity pressures should be carefully monitored.
- *Structural reforms*. Sustained and inclusive growth in a low-carbon global economy calls for economic diversification driven by the private sector. Accelerated reforms are needed to reduce the state's footprint in the economy, improve governance and the business environment, and take early action to address climate-related challenges.

Approved By
Subir Lall (MCD) and Stephan Danninger (SPR)

Discussions took place in Almaty and Nur-Sultan during November 4–17, 2021 and remotely during January 28-March 14, 2022. The team comprised N. Blancher (head), A. Hajdenberg, G. Impavido, and W. Shi (MCD), J. Zhou (MCM), O. Basdevant (FAD), K. Kao (LEG), and O. Bissekeyeva (local office manager). The mission met with senior government and NBK officials, as well as representatives from the private sector, civil society organizations, diplomatic community, and media. P. Trabinski and M. Zhunusbekova (OED) attended the meetings, and L. Nigmatullina, and S. Arzoumanian provided support from IMF HQ.

CONTENTS

TABLES

ANNEXES

APPENDIX

CONTEXT

1. **Prior to the COVID pandemic, the economy was recovering from the 2014–15 crisis and important reforms were underway.** The economy was growing at close to its potential and the transition to President Tokayev from his predecessor, in 2019, ensured policy continuity. Subsequently, the authorities increased their focus on social issues and reforms proceeded broadly in line with staff recommendations (Annex I).

2. **The COVID crisis, social unrest, and international sanctions on Russia interrupted this trajectory and required strong policy responses.** In 2020, activity was affected by the combined COVID pandemic and oil market shocks. In January 2022, violent social protests led to emergency measures and reforms addressing income inequality, corruption, and public sector governance were announced (Box 1). More recently, following the sanctions on Russia, the authorities have intervened to contain market pressures and announced an anti-crisis action plan. Many of these reforms have yet to be designed and implemented.

3. **While macroeconomic stability and policy frameworks are being strengthened, challenges to growth sustainability from limited economic diversification are increasingly pressing**. Kazakhstan benefits from substantial buffers and economic resilience would be enhanced by stronger macro-financial policy frameworks. However, achieving the authorities' *Kazakhstan 2050* vision to position the country among the top 30 most advanced economies requires wide-ranging reforms. Economic activity that is driven by the private sector is needed to attain sustainable and more inclusive growth, including by diversifying the economy and preparing for a low-carbon future.

Box 1. Social Unrest in January 2022

Demonstrations against fuel price increases morphed into the most violent protests in Kazakhstan since its independence. The price of liquified petroleum gas (LPG) doubled in parts of the country following its liberalization at the start of 2022. This triggered protests that spread quickly across the country, with the focus of discontent broadening to socio-economic and corruption-related issues. Calm returned after several days but the events resulted in numerous casualties and arrests, as well as damage to private and public property.

These events led to new reform announcements. President Tokayev declared a two-week national emergency, appointed a new Prime Minister, and took over as chairman of the National Security Council. On the economic front, he reversed the LPG price increase and introduced new fuel and food price regulations, a moratorium on home utility price increases and rent subsidies for vulnerable groups. Subsequently, the new government reiterated its commitment to the previously announced fiscal consolidation path, as well as plans to increase social spending and raise non-oil revenues. The main announcements are summarized below:

- Reversal and postponement by one year of the liberalization of LPG prices;
- 180-day price controls for LPG, gasoline, diesel, and basic food products; moratorium on home utility price increases and rent subsidies for low-income residents. Freeze of natural gas prices until 2024;
- Increased excise taxes on wholesale fuel sales (except for aviation) and mining tax (metals sector);

Box 1. Social Unrest in January 2022 (concluded)

- Stepped up efforts to reduce tax evasion and repatriate funds transferred abroad illegally;
- New fund to support social programs financed by private contributions;
- Anti-inflation measures to reduce the role of intermediaries, stimulate production, improve storage and logistics, regulate foreign trade, and enhance competition;
- Preparation of new laws for individual bankruptcy and public-private partnerships;
- Privatizations and SOE reforms, including new public procurement procedures;
- Adoption of an anti-corruption policy concept and action plan.

RECENT DEVELOPMENTS

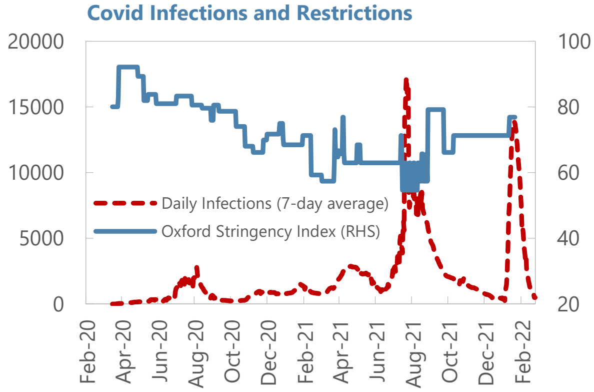
4. **COVID infection rates have been declining since the January 2022 peak with about 50 percent of the population vaccinated** (Box 2). Vaccinations accelerated in the second half of 2021. Nevertheless, the evolution of the pandemic remains a source of uncertainty.

Box 2. COVID-19 Impact and Response

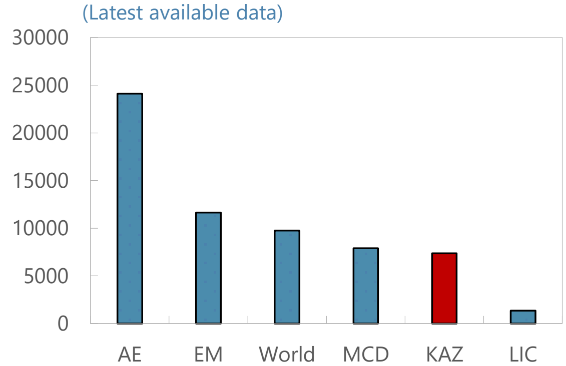
Repeated infection waves have imposed a significant human toll despite the government's containment efforts. As of end-February 2022, the pandemic had led to over 1.3 million infections and 13,000 deaths. Kazakhstan suffered another severe wave in early 2022 due to the Omicron variant. The number of cases started declining in early February.

As of end-February 2022, 53 percent of the over-5-year-old population had received two vaccine doses. Vaccinations started in February 2021, making Kazakhstan an early mover in the region. Rapid steps were taken to acquire the Sputnik V vaccine from Russia, and Kazakhstan was the first country to produce it locally, while also developing its own vaccine (QazVac). Immunization now also relies on the Sinovac, Sinopharm and Pfizer vaccines.

Covid Infections and Restrictions

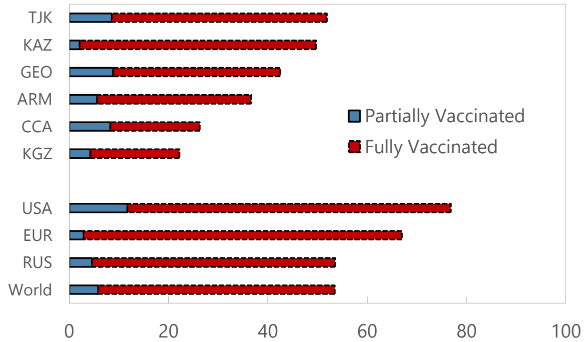


Cumulative COVID-19 Infections per 100,000
(Latest available data)

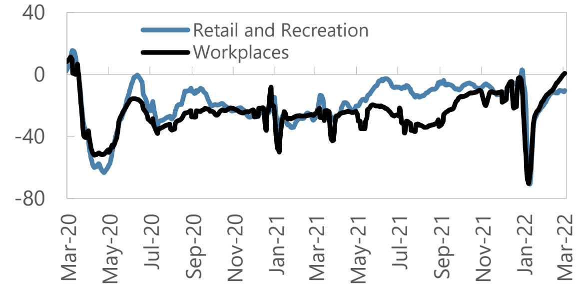


Box 2. COVID-19 Impact and Response (concluded)

Vaccination Rates in international comparison
(Percent of 2020 population)



Mobility Indicators
(Percent compared to Baseline, 7-day m.a. 1/)



1/ The baseline is the median value, for the corresponding day of the week, during the 5- week period Jan 3–Feb 6, 2020.

Sources: Johns Hopkins University Github, COVID-19 Government Response Tracker, Google Mobility Report, and IMF staff estimates.

5. **Economy activity recovered in 2021** (Figure 2). With support from government programs, higher oil prices and the improved COVID situation, growth reached 4 percent in 2021. Headline inflation has been above the NBK's 4-6 percent target band since 2020, standing at 8.7 percent in February 2022, driven mainly by food prices. Credit growth accelerated to 26 percent in December, reflecting rapid growth in consumer lending and state support programs. Labor market and poverty indicators have remained resilient, with unemployment remaining below 5 percent.

6. **The authorities' sizable policy response to the COVID crisis has weakened fiscal balances**. State support amounting to about 10 percent of GDP entailed increased health expenditures, income and employment support to vulnerable households, tax exemptions, as well as subsidized credit and government guarantees. Most measures expired by end-2020. As a result, the overall and non-oil fiscal deficits surged to around 7 and 10½ percent of GDP in 2020, respectively. For 2021, the budget incorporated further spending measures and the overall and non-oil fiscal deficits stood at around 4 and 9.4 percent of GDP, respectively. The large deficits have been financed through national oil fund (NFRK) withdrawals, debt issuance, and loans from international financial institutions.

Kazakhstan: Anti-Crisis Fiscal Measures
(Percent of GDP)

	2020	2021
Total 1/	**8.5**	**1.6**
Fiscal measures	**3.6**	**1.6**
Increase in spending	**2.4**	**1.6**
Health measures	0.3	0.3
Support to households	1.1	0.1
Public works (Employment Support Program)	1.0	0.8
Other spending	0.0	0.3
Foregone revenue	**1.1**	**0.0**
Quasi-fiscal measures 2/	**2.9**	**0.0**
Economy of Simple Things (subsidized loans)	1.4	
2025 Business Roadmap Program (subsidies and guarantees)	0.3	
Subsidized loans from the NBK for SMEs.	1.1	
Unidentified measures	**2.1**	**0.0**

1/ Measures in 2021 include also spending to implement other policy priorities.
2/ The whole amount is allocated to 2020 but part of it has also been deployed in 2021.
Sources: National authorities and IMF staff calculations.

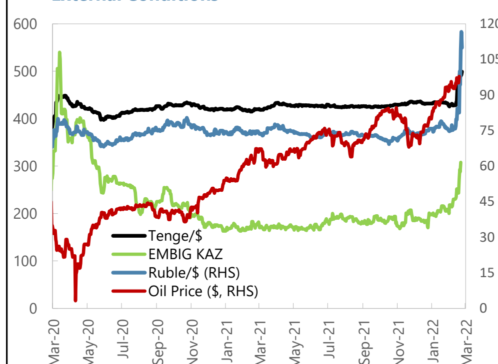
7. **In response to rising inflation and external spillovers, the NBK has been tightening monetary policy since 2021.** Rising inflation pressures fueled by external developments, pent-up demand, and strong credit growth, prompted policy rate increases by 125 basis points to 10.25 percent by early 2022. Following the sanctions on Russia, which led to tenge depreciation pressures,

the policy rate was raised further to 13.5 percent in March 2022.[1] While maintaining exchange rate flexibility, the authorities have intervened to limit FX and money market volatility, freeze domestic energy prices, and address monopolies that lead to higher intermediation margins and prices. Sanctions on Russian banks also prompted measures to preempt major liquidity pressures in the domestic banking sector.[2]

8. **The external accounts improved in 2021.** In 2020, the current account was virtually unchanged as a share of GDP, as lower oil exports were offset by reduced income outflows and imports. It strengthened to a deficit of -3 percent of GDP in 2021, driven by favorable commodity prices. Official reserves declined in 2021, despite the allocation of 1.11 billion SDRs, due to a deterioration in the capital account (according to preliminary data). Overall, the external position in 2021 is assessed as weaker than the level implied by fundamentals and desirable policies, and gross reserves remain adequate (Annex II).

9. **A range of temporary prudential relaxation measures mitigated the impact of the COVID crisis on the banking sector** (Figure 5, Table 4). Key measures included looser capital and liquidity requirements, loan payment deferrals, and delayed non-performing loan (NPL) recognition. With these measures, banks, which entered the crisis with relatively strong buffers, weathered the crisis well, and their profitability, liquidity and capitalization have remained strong,[3] while dollarization continued to decline. Housing prices have increased, helped by subsidized mortgage programs and the government's authorization to partially withdraw pension savings.[4] In 2020, the conduct of financial oversight was transferred from the NBK to a newly created agency (ARDFM).

External Conditions



Sources: Bloomberg, Haver Analytics, national authorities, and staff calculation.

10. **Despite the COVID crisis, social unrest, and adverse external spillovers, the authorities remain committed to accelerate structural reforms.** In 2021, reform priorities were re-formulated under a set of national projects addressing economic diversification, labor market reform, private sector development, governance, regional development, and digitalization. The authorities intend to reduce carbon emissions by 15 percent by 2030 (relative to the 1990 level) and achieve carbon neutrality by 2060. To strengthen reform coordination and implementation, a Supreme Council for Reforms chaired by the President was created. An independent agency for the promotion of competition was also established. At the same time, public interventions in the economy have

[1] By early March 2022, the tenge had depreciated by about 15 percent against the US dollar and appreciated by 25 percent against the Russian ruble.

[2] The government and the NBK launched a program to support deposits in tenge, whereby the government will pay 10 percent on bank deposits covered by the Deposit Insurance Fund and held for at least one year.

[3] The Asset Quality Review (AQR) completed in late 2019 identified capital shortfalls in four medium-sized banks, which are being addressed.

[4] Individuals can withdraw part of them for home purchase or improvement, medical treatment, or transfer to a private management company. About 2 percent of GDP have been withdrawn, by almost 400,000 individuals.

increased during the COVID crisis, while large-scale privatizations were suspended due to unfavorable market conditions.

OUTLOOK AND RISKS

11. Economic activity returned to its pre-COVID level in 2021, but spillovers from the sanctions on Russia are expected to hamper the recovery in 2022. While the economic fallout of the January protests is limited, spillovers from Russia and related policy measures, including interest rate increases to counter exchange rate and inflation pressures, are projected to reduce growth to 2.3 percent in 2022. An unusually large degree of uncertainty surrounds this baseline given that the spillovers continue to evolve both in terms of channels and degree. Staff assumes that these spillovers would abate by end-2022, and non-oil growth would converge to its potential of 4 percent over the medium term. Oil production is expected to rise substantially in 2024 upon completion of the Tengiz field expansion project. Inflation should remain elevated in 2022 and recede towards 4 percent in the medium term. The current account would be in surplus in 2022 at 3 percent of GDP due to higher oil prices, but a deficit rising to about 2 percent of GDP is projected in the medium term as imports outgrow oil exports.

12. Downside risks to the outlook from social tensions and external spillovers are elevated and extend beyond 2022 (Box 3, Annex III). The international environment is highly uncertain, and slower-than-expected growth of trading partners or inflationary pressures requiring further policy tightening could all dent projected growth.[5] Spillovers from sanctions on Russia could persist and escalate through various channels, including trade, foreign investment flows, and exchange rate volatility. While Kazakhstan would benefit from high international commodity prices, its exports might be affected by sanctions targeting specific Russian interests and pipelines. Finally, while recent domestic protests could pave the way for faster reforms, a resurgence of underlying social tensions may lead to fiscal slippages and a reform slowdown, with potential outward spillovers, as some of their triggers (e.g., inequality, governance issues, and price pressures) are also concerns in neighboring countries.

Box 3. Spillover Risks from the Sanctions on Russia

The consequences of the sanctions could impact Kazakhstan's economy through multiple channels:

- **Trade**. Russia accounts for about 10 percent of Kazakhstan's exports and more than a third of its imports (amounting to 3 and 7.5 percent of GDP, respectively). Imports from Russia account for a significant share of imports of capital and intermediate goods, and food. Hence, economic activity could be affected through weaker exports and higher prices (or shortfalls) of industrial inputs and food items.
- **Investment.** Growth could be impacted through reduced local investments by Russian companies, which are concentrated in the oil and mineral sectors.
- **Exchange rate**. The pass-through from a depreciation of the tenge against the US dollar is estimated at about 20-30 percent, but this effect could be mitigated by the tenge's recent appreciation against the ruble.

[5] See Selected Issues Paper, *Kazakhstan—Growth at Risk*.

Box 3. Spillover Risks from the Sanctions on Russia (concluded)

- **Financial sector**. Three local subsidiaries of Russian banks represent over 10 percent of Kazakhstan's banking system assets and the sanctions could impact their activities in Kazakhstan.

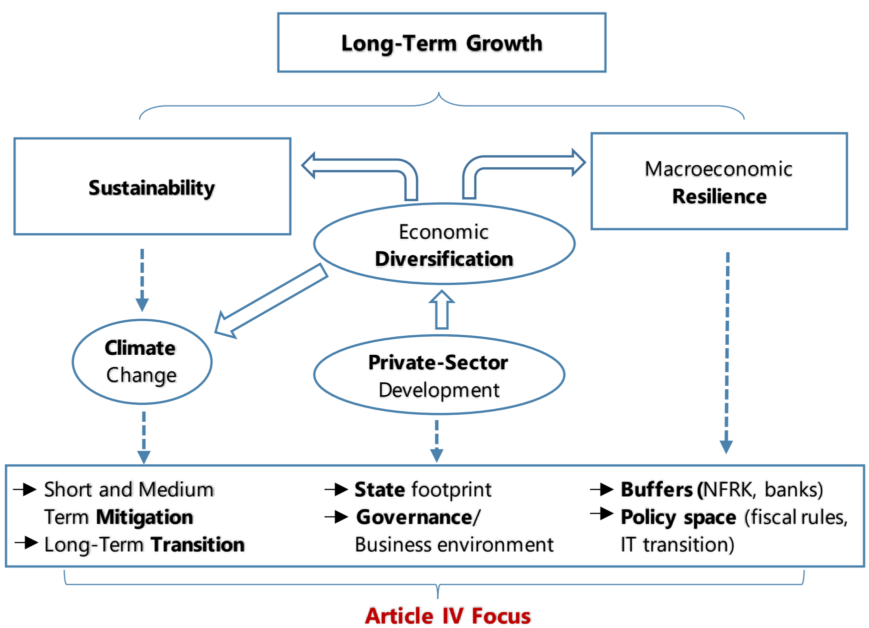
Other potential indirect effects include lower global growth and increased risk premia. On the positive side, higher oil and other commodity prices would benefit Kazakhstan, although the sanctions may affect the operations of key pipelines and ports that transport most of Kazakhstan's exports to Europe through Russia.

13. In the long run, addressing risks to the level, resilience and sustainability of economic growth will require greater economic diversification. The current commodity-led development model is not sustainable in the long term. Global greening (e.g., carbon taxation) could rapidly reduce external demand for Kazakhstan's hydrocarbons. New sources of growth driven by the private sector will depend critically on the pace of structural reforms to make the economy more market-based and to manage climate-related risks.

Authorities' Views

14. The authorities broadly agreed with staff's assessment of the outlook but emphasized the upside risks from recent reform announcements. They view elevated inflation as a near-term risk with social impact, and measures are being implemented to temporarily regulate prices for socially significant food and energy products. They stressed that the January 2022 protests will lead to accelerated efforts to address the sources of social discontent and implement reforms that will strengthen medium-term growth prospects.

Figure 1. Kazakhstan: Pillars of Long-term Growth



Source: IMF staff.

POLICY DISCUSSIONS

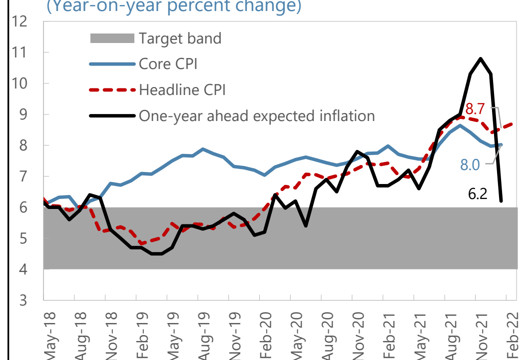
A. Current Macro-Financial Policy Mix

15. The authorities' responses to the COVID crisis have been well coordinated. Fiscal, monetary, and financial sector policies reinforced each other in supporting activity. Many COVID emergency measures were withdrawn with the recovery, but policies remained accommodative in 2021. Initiatives to strengthen policy coordination and clarify the roles of the government, NBK, and ARDFM in macro-financial policy implementation are welcome. Tightened FX regulations for resident legal entities and state-owned enterprises (SOEs), introduced in early 2020 to alleviate currency pressures, are assessed as capital flow management measures (CFMs) and should be phased out (Annex II).

16. The availability of substantial fiscal space has allowed Kazakhstan to cushion the impact of recent shocks. Government debt net of NFRK assets is estimated at -3 percent of GDP at end-2021 (compared to -14 percent of GDP in 2019) (Annex IV). With the health crisis continuing, the government prolonged some stimulus measures in 2021, when the non-oil fiscal deficit of 9.4 percent of GDP struck an appropriate balance between fiscal prudence and targeted support to activity. In early 2022, new stimulus measures were announced to meet social demands and mitigate the impact of spillovers from the sanctions on Russia, including the above-mentioned program to support tenge deposits, which is estimated to cost about 0.4 percent of GDP.[6]

17. The NBK remains committed to a flexible exchange rate and containing inflation may require further monetary tightening in 2022.[7] Monetary policy is currently moderately tight, while headline and expected inflation should stay above the target range in 2022, including due to external spillovers. The NBK needs to be ready for further policy tightening to ensure inflation expectations remain anchored. Given weaknesses in monetary policy transmission, recent efforts to coordinate monetary and fiscal policy are welcome, while government initiatives to ease domestic supply chain disruptions and increase competition in some sectors should also help curb inflation.[8]

Inflation and Inflation Expectations
(Year-on-year percent change)



Sources: National authorities, Haver Analytics, and IMF staff estimates.

18. Financial sector policy has balanced supporting the recovery and safeguarding financial stability. Most prudential relaxation measures introduced in 2020 were unwound by end-2021, including those that were not in line with international good practices (e.g., the relaxation of risk

[6] The total fiscal cost of announced measures is not yet known. Staff projects it to be about 1 percent of GDP over 2022-23.

[7] See Selected Issues Paper, *Monetary Transmission in Kazakhstan: Empirical Findings from an Estimated DSGE Model.*

[8] These measures include facilitating direct contracting between retailers and producers by local governments, and investments in local storage facilities.

weights and loan classification requirements).[9] Any buffers reduced during the COVID crisis, such as due to loosened prudential requirements, will need to be rebuilt. Following the sanctions on Russian banks, which have a significant domestic presence, some deposit movements were observed, but these remained manageable given the strong overall liquidity position of the banking system.

Authorities' Views

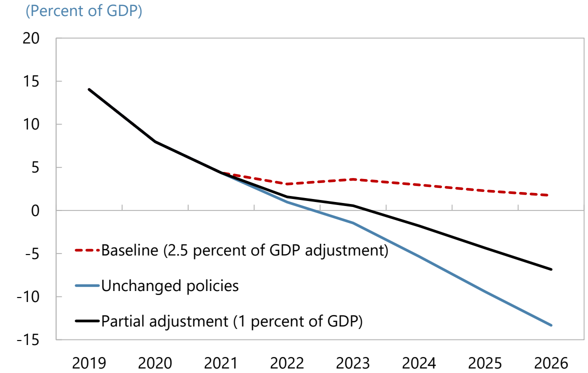
19. The authorities stressed the role of anti-crisis measures introduced in 2020-21 in mitigating the economic fallout of the COVID pandemic. The NBK pointed to non-monetary factors contributing to inflation (imbalances in some consumer product markets, high international food and fuel prices, supply chain disruptions) and stressed that joint actions with the government would help control inflation. The authorities were also confident that the potential impact on bank asset quality and capitalization of the removal of forbearance measures introduced in 2020 would not be substantial.[10]

20. They were of the view that staff concerns about CFMs are unwarranted. They argued that the lower threshold for legal entities to provide information on FX purchases does not constrain their operations since their access to FX is not restricted if they document their FX obligations. The authorities are preparing statistics on FX transactions to illustrate this. The SOE surrender requirement is not binding for most firms as SOEs sell on average more than 50 percent of their export proceeds; the measure may be removed soon.

B. Preserving Future Fiscal Space

21. In the medium term, returning to gradual fiscal consolidation will be important to preserve buffers. In 2022, the non-oil deficit is expected to decline to about 8½ percent of GDP.[11] The authorities aim to reduce it to 6 percent of GDP in 2025 and 5 percent of GDP in 2030.[12] This requires a structural adjustment of at least 3 percent of GDP by 2025 relative to end-2021. It would allow Kazakhstan to remain a net creditor in the long run. Without such adjustment, public debt would remain sustainable but continue to increase, with net debt turning positive within the next 5 years (Annex IV).

Net Public Assets
(Percent of GDP)



Sources: National authorities and IMF staff calculations.

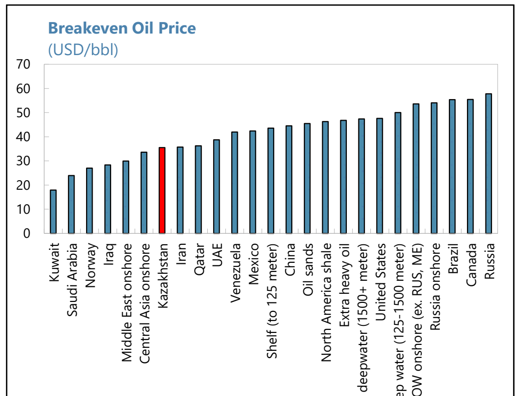
[9] In 2020, risk weights were reduced from 75 to 50 percent for SMEs, 200 to 100 percent for foreign currency loans, and 100 to 50 percent for syndicated loans.

[10] In September 2021, the authorities estimated that the capital adequacy ratio of the banking system would fall from 20.7 to 20.2 percent if COVID-related support measures were removed.

[11] High oil prices are expected to entail a larger improvement of the headline balance.

[12] See Selected Issues Paper, *Climate Change and Structural Transformation*, and 2017 Selected Issues Paper.

22. The transition to a low-carbon global economy will entail additional but manageable fiscal efforts for Kazakhstan (Figure 9, Box 4). Kazakhstan could withstand significant oil price declines owing to its low producing costs. However, oil revenues would still be vulnerable to reduced global demand. Under an illustrative scenario with oil revenues reduced by 40 percent relative to baseline starting in 2028, the non-oil primary balance consistent with maintaining net wealth constant as a share of non-oil-GDP would be about 0.5 percent of GDP higher in the long run. Therefore, a revenue mobilization strategy is warranted to make up for the expected lower oil revenues and create additional fiscal space to protect the most vulnerable, while addressing (currently low) energy taxation and climate change mitigation objectives.



Source: Rystad Energy.

23. The above medium-term fiscal consolidation path requires a range of reforms:

- **Non-oil revenue mobilization.** Non-oil tax revenues in Kazakhstan are comparatively low. The targeted non-oil deficit could be achieved through an average annual improvement of 0.7 percent of GDP over 2022–25, which would help smooth the adjustment. The authorities' plans to strengthen mining taxation and revenue administration, reduce informality, and improve digitalization should be complemented by measures to broaden the tax base (e.g., streamlining corporate income tax exemptions and taxing capital income), raise tax rates (e.g., VAT rates which, at 12 percent, are relatively low), and introduce a progressive income tax.

- **Spending efficiency.** There is scope to improve the quality of public services (e.g., education and health) through better resource utilization, while addressing gaps in infrastructure and social spending (Figure 4). Identifying areas for spending efficiency gains should build on detailed performance reviews.[13] While civil service reforms to streamline employment levels and attract talent are underway, it will be important to strengthen public employment statistics and properly assess the cost of these reforms as part of overall fiscal policy objectives.[14]

[13] The World Bank is currently conducting a Public Expenditure Review in Kazakhstan.

[14] Incomplete data on employment by the general government and the lack of economic classification of expenditures hinder the assessment of civil service reform plans and announced increases in remuneration.

Box 4. Addressing Climate Change in Kazakhstan

Kazakhstan faces multiple challenges from climate change. Climate change will affect the economy through various channels, including long-term growth, the fiscal and external positions, and the financial sector. The main policy challenges can be summarized as follows:

- ***Adaptation—addressing rising temperatures and hydrological changes.*** Increased resilience and support to vulnerable groups will be key to deal with the rising frequency of adverse natural phenomena affecting economic activity and livelihoods (for example, the impact of land degradation on agriculture, or access to water in southern Kazakhstan).
- ***Mitigation—reducing emissions from current high levels***. Kazakhstan was the 20th largest emitter in 2020 (Global Carbon Project) and in the top ten countries based on per-capita emissions. Coal accounts for 70 percent of electricity generation, and renewable sources only 3 percent. The EU's new Carbon Adjustment Border Mechanism could affect Kazakhstan's exports.
- ***Transition—preparing for a long-term decline in global demand for oil***. The resulting reduction in fiscal space will necessitate a transition to a greener and more diversified economy, which would generate additional non-oil fiscal revenue.

The government has set ambitious targets to curb emissions. As part of the Nationally Determined Contribution under the Paris Agreement, the goal is to unconditionally reduce emissions by 15 percent in 2030 relative to the 1990 levels (25 percent conditional on external help).[1/] President Tokayev has more recently announced the authorities' intention to achieve net zero emissions by 2060.

To achieve these targets, structural measures will need to be complemented by carbon price increases. Energy prices are low in Kazakhstan, including due to pre-tax subsidies and low carbon taxation (about $1 per tCO_2, imposed through the Emissions Trading Scheme).[2/] Given Kazakhstan's economic structure, raising the carbon tax to $25/$tCO_2$ would lead to large increases in the domestic prices of coal (185 percent), electricity (72 percent), and natural gas (66 percent). Potential revenue gains of about 6 percent of GDP would also help strengthen social safety nets and finance the infrastructure needed to facilitate the green transition.

Against this background, the long-term fiscal effort to compensate for oil revenues losses appears manageable. On top of the adjustment needed to achieve a sustainable and fair intergenerational fiscal position, assuming revenue losses of 40 percent starting in 2028 would require an additional increase in the non-oil primary surplus of about 0.5 percent of GDP per year.

However, a delicate balance will be needed to achieve the emissions targets while promoting structural adjustment. A gradual approach would facilitate the transition, and international experience suggests that the success of energy pricing reforms hinges on three main pillars:

- ***Engaging proactively and early*** with the population and key stakeholders on the need to implement the reform, its cost, but also mitigation strategies and benefits to be expected.
- ***Depoliticizing the process*** of energy pricing adjustments, notably through automatic pricing formulas (especially to remove pre-tax energy subsidies) and a pre-defined path for tax changes.
- ***Strengthening fiscal governance***, including transparency, to ensure that the funds derived from higher taxation of energy products are rightly spent, including on strengthening social safety nets.

[1/] In 2019, emissions were at 360 MtCO2e, 10 percent higher than the 2030 target.

[2/] "How to Mitigate Climate Change?" Fiscal Monitor. Washington, DC, October 2019.

24. Fiscal rules should be simple and consistent with Kazakhstan's long-term fiscal goals (Box 5). Two new fiscal rules were adopted by Parliament in late 2021 and will be implemented with the 2023 budget. Aiming to safeguard sustainability and intergenerational equity and promote countercyclical policy, they add to pre-existing rules caps on NFRK transfers to government and on government spending growth. Staff argued that the authorities' objectives could be best achieved with only two rules: (i) a long-term anchor, such as preserving positive net public financial assets, and (ii) an operational annual limit on the non-oil deficit (to non-oil GDP) or on government spending growth. Additional rules may overly constrain annual budgets, hamper sound execution, and weaken policy effectiveness and credibility. To preserve flexibility, escape clauses should be incorporated, and an independent fiscal council established to monitor implementation.

25. An improved fiscal framework should be supported by stronger institutions and transparency:[15]

- **Medium-term budget framework**. The operational fiscal rule (either on expenditure growth or the non-oil balance) should be anchored in multi-annual budgeting, with potential deviations from targets corrected through regular budget updates.

- **Fiscal risks.** Disclosing fiscal risks can enhance policy credibility and effectiveness. The authorities intend to produce the first Fiscal Risk Statement (FRS) in 2022. The statement should quantify risks, including from large and complex quasi-government entities (QGE), but also discuss contingent measures should these risks materialize.[16]

- **Asset and liabilities management.** Debt reporting should be expanded to cover QGE debt, and the authorities should strengthen their debt management strategy.[17] Improved disclosure on the NFRK's portfolio composition and investment income would be welcome.

- **Accounting and classification**. Proper sectorization of public sector units, improved budget reporting by economic classification, and accrual accounting, in line with the 2014 Government Financial Statistics Manual (GFSM), remain priorities.

Authorities' Views

26. The authorities broadly agreed with staff's assessment and recommendations. They indicated the new fiscal rules would limit the procyclicality of fiscal policy. They were open to conduct a fiscal transparency evaluation and further collaborate with the IMF on the preparation of the FRS and tax improvements.

[15] See 2019 Selected Issues Paper.

[16] SOE-related fiscal risks appear contained at this stage: explicit SOE guarantees amount to 1 percent of GDP while the total debt of the largest SOEs is around 12 percent of GDP.

[17] Work has been initiated for more active debt management, including to stimulate domestic capital market development, supported by Fund technical assistance.

Box 5. New Fiscal Rules for Kazakhstan

The new set of fiscal rules is complex and will likely be difficult to implement. It comprises 10 rules, some of them potentially inconsistent with each other, and with varying legal standing. The rules include limits on transfers from the NFRK, spending growth, and different concepts of public debt, debt service, and the level of assets of the NFRK. Rules rely on oil price forecasts (rule on NFRK transfers) and estimates of the (unobservable) output gap (rule on structural balance) which, experience shows, can be subject to bias or political interference. In the absence of escape clauses, the proposed framework also lacks flexibility against shocks, which could lead to frequent amendments (as seen under the current framework) and potentially undermine policy credibility.

An NFRK transfer rule may be counterproductive. The new rule sets the transfer to central government at the level of projected NFRK revenues at a given oil price. However, if other fiscal rules (e.g., on total expenditure or the deficit level) target fiscal aggregates in a way consistent with a broader sustainability objective (e.g., net government debt), a transfer rule becomes superfluous while complicating asset-liability management. To illustrate, under an adverse shock, capping NFRK transfers could force the government to borrow at higher cost than NFRK asset returns. Moreover, the current proposal could lead to higher (lower) transfers when oil price and/or demand is high (low), resulting in procyclical fiscal policy.

Based on international experience, a framework combining a medium-term anchor and an operational target would serve Kazakhstan well. One option is to combine a floor on net government assets with a government expenditure rule. The focus on net government assets is a particularly suitable measure of fiscal sustainability for resource-rich countries (although a ceiling on gross government debt may be easier to communicate). This target would need to be calibrated based on Kazakhstan's large assets and preference for intergenerational wealth sharing. The expenditure rule would be calibrated to meet a non-oil deficit objective that is consistent with the target on net government assets. Alternatively, the operational target could be the non-oil balance directly.

Fiscal rules also need to be supported by well-specified escape clauses to account for exceptional circumstances beyond government control (e.g., pandemics, national disasters). Operationally, an escape clause can be tied to indicators such as the deviation of GDP growth from long-term trend or a rise in the unemployment rate. Guidance on returning to the rules after activating the escape clause is also important – a correction mechanism should be included in the framework to manage deviations from the rules.

C. Transitioning to Full-Fledged Inflation Targeting

27. The transition to fully-fledged inflation targeting (IT) continues. The NBK's Monetary Policy Strategy 2030 lays out a comprehensive reform agenda and projects a lower inflation target range (3–4 percent) in 2025. Recent improvements relate to transparency (publication of the NFRK's FX transactions), policy independence (new Monetary Policy Committee with no government participation), analytics (with ongoing Fund TA support), and public communication.

28. A holistic reform approach is needed to address obstacles to effective IT. Inflation is influenced by structural factors, such as the large exchange rate pass-through,[18] and policy factors, including the strong and at times procyclical impact of fiscal policy on domestic demand. Interest rate transmission continues to be hampered by underdeveloped domestic bond markets, excess bank

[18] See *Exchange Rate Pass-Through in Kazakhstan: Empirical Findings and Implications for Inflation Targeting*, Selected Issues Paper, 2017 Article IV Consultation, IMF Country Report No. 17/109.

liquidity, widespread credit subsidies, and deposit dollarization.[19] To better guide policy, the NBK's surveys of inflation expectations could cover time horizons beyond one year and more agents than just households (e.g., firms). On the institutional side, the NBK should continue strengthening its independence, including by swiftly phasing out its subsidized lending programs and non-core mandates (e.g., managing NFRK and pension fund assets, and other quasi-fiscal activities).

29. The NBK is contemplating the adoption of a digital tenge to enhance the efficiency of the national payments system. A recent report sets up the conceptual framework, lists desirable features of a digital tenge, and reviews options drawing on experience from economies at a more advanced stage of digital currency adoption.[20] The next step is for the NBK to launch a pilot project on retail digital currency, which will help identify legal and operational gaps. Macroeconomic and financial stability risks from a digital currency will also need to be properly assessed and managed.

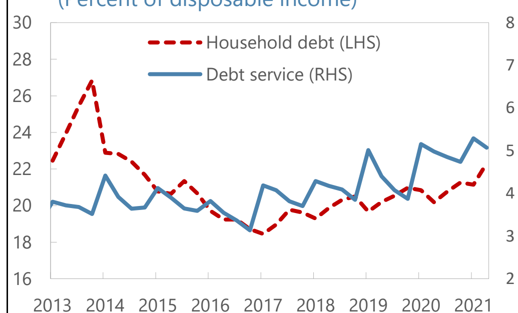
Authorities' Views

30. The authorities reaffirmed their commitment to inflation targeting and the flexible exchange rate regime. There was broad agreement with staff on major obstacles and reforms needed to tackle them. The NBK values the Fund's ongoing technical assistance to further build up modeling capacity, support capital market development, and assess the macroeconomic impact of adopting a digital currency.

D. Safeguarding Financial Stability

31. The authorities should carefully monitor potential financial sector risks from the removal of crisis measures and fast-growing consumer lending. While overall household indebtedness appears limited, consumer lending increased by 37 percent in 2021. The lack of disaggregated debt-to-income data complicates the assessment of risks across retail market segments. Macro-prudential measures targeted to both banks and nonbank financial institutions may be warranted to avoid an excessive household debt build-up.

Household debt
(Percent of disposable income)



Source: National Bank of Kazakhstan.

32. The current framework for loan classification and provisioning could be updated. Broader NPL measures based on international best practice (IFRS 9) would help regulators and market participants assess bank soundness more accurately. The current NPL ratio (about 5 percent based on loans overdue by 90 days or more) would be close to 20 percent if it included questionable loans.[21] The ARDFM plans to expand the definition of NPLs to include: (i) refinanced loans to repay overdue

[19] Staff estimates that the impact on domestic demand of a 100 basis points decrease in the policy rate is only about half of the impact observed in emerging market economies with an effective interest rate channel. See Selected Issues Paper, *Monetary Transmission in Kazakhstan: Empirical Findings from an Estimated DSGE Model*.

[20] See *NBK - Digital Tenge Public Discussion Report* (May 2021) at https://www.nationalbank.kz/en/page/cifrovoy-tenge-pilotnyy-proekt.

[21] Based on the NBK's 2021 Financial Stability Report.

loans; (ii) restructured loans where the borrower's creditworthiness is deteriorating; and (iii) all bank claims on a borrower, if 20 percent of the borrower's liabilities are overdue for 90 days or more.

33. **A stronger risk-based supervisory framework will be critical to promote sound risk management practices and limit risks of bank distress and public liabilities.** The ARDFM is actively building capacity to align this framework with international standards, including through the introduction of regular asset quality reviews and stress tests in collaboration with financial institutions, with Fund TA support.[22] Going forward, close cooperation between the ARDFM and NBK in ensuring financial stability will be essential and would benefit from clearer accountability and transparency arrangements, including more formalized information exchange. The Financial Sector Assessment Program (FSAP) expected in 2023 will be an opportunity to assess recent changes to Kazakhstan's financial stability framework.

34. **Continued efforts to strengthen the resolution framework will also be needed to ensure effective and orderly resolution of failing banks**. The framework was amended in 2019, with specific instruments introduced to resolve failing banks (Box 6), but it has not been fully tested in practice. The ARDFM recently revoked the licenses of three small banks, relying on court-based insolvency proceedings, and sending important signals to bank managers and shareholders. However, general corporate insolvency proceedings do not provide sufficient tools to manage risks to financial stability from the failure of systemic banks. In addition, the mandate of the resolution authority would need to be clarified further, and its staff should be granted stronger legal protection. Finally, efforts to develop a distressed asset market are also ongoing.

Authorities' Views

35. **The authorities broadly agreed with staff's assessment.** They are monitoring closely emerging risks in the household sector. They agreed that the overall framework for loan loss classification and provisioning needs further improvements but stressed that bank capital buffers were quite substantial.

Box 6. Improved Bank Resolution Framework

The legislative framework for bank resolution was reviewed following the 2008 crisis and further amended in 2019 to better align with best practices. The following amendments were included:

- A mechanism to force the conversion to capital or write-off of creditors' liabilities (bail-in), and increased flexibility in implementing other related mechanisms.
- The removal of legal barriers to the effective use of resolution instruments (e.g., purchase and assumption, stabilization bank, voluntary restructuring).
- Principles to follow a hierarchy of creditors upon liquidation, and of "no creditor worse off in liquidation," which will help minimize government liabilities.
- An institutional separation between bank resolution mechanisms and supervision.

[22] The IMF is providing extensive support in areas ranging from institutional issues, capital requirements, bank recovery plans, interest rate and liquidity risk supervision, and cybersecurity.

Box 6. Improved Bank Resolution Framework (concluded)

- New mechanisms for early supervisory intervention in troubled banks.
- Legal protection for employees of the resolution authority.
- Stronger crisis management arrangements, including a decision-making center outside government, and improved coordination between the ARDFM, the NBK, and the government.

E. Promoting Diversified and Inclusive Growth

36. Kazakhstan has made progress in promoting inclusive growth by leveraging its natural resources, but challenges remain. The country compares favorably to its peers based on aggregate indicators of poverty and inequality, human development, gender equality, access to services, and labor market (Table 1). However, the recent social protests brought to the fore persisting income inequality (e.g., between regions) that needs to be addressed. More broadly, while inclusive growth has benefited from the wealth derived from the oil and gas sector, this development model will not be sustainable in a low-carbon global economy.

Table 1. Kazakhstan: Inclusive Growth Indicators

	Indicator		EMDE Average
Growth			
GDP per capita growth (percent; 2018-20 average)	0.7		-0.7
Gross Fixed Capital Formation (percent of GDP; 2018-20 average)	23.1		23.1
Poverty and Inequality			
Poverty headcount ratio at $5.50/day (percent of population; 2019)	4.6	⇧	24.9
Income share held by highest 10% (2018)	23.5	⇩	31.3
GINI Index (2018)	27.8	⇩	41.0
Growth in mean consumption (growth, %, bottom 40th percentile, 2018)	-0.3		1.6
Labor Markets (ILO estimates)			
Unemployment rate (% of total labor force, 2021)	6.1	⇩	8.4
Female (% of female labor force, 2019)	5.3	⇧	9.0
Youth (% of total labor force ages 15-24, 2019)	3.7	⇧	16.4
Labor force participation (% of total population ages 15+, 2020)	69.2	⇩	64.1
Female (% of female population ages 15+, 2019)	63.6	⇩	58.1
Youth (% of population ages 15-24, 2019)	39.1	⇩	47.0
Female employment to population ratio (%, 2020)	60.2	⇩	54.8
Government			
Commitment to reducing inequality index (2018)	0.4		0.3
Government spending on social safety net programs (percent of GDP, 2019)	1.7		1.8
Coverage of social safety net programs in poorest quintile (% population, 2017)	36.2	⇩	59.0
Government expenditure on education, total (% GDP, 2019)	2.9	⇧	4.3
Health expenditure, domestic general government (% of GDP, 2019)	1.7	⇩	2.9

	Indicator		EMDE Average
Human Development and Access to Services			
Human Development Index (2019)	0.8	⇧	0.7
Life expectancy at birth (years, 2019)	73.2	⇧	71.3
Prevalence of stunting (% of children under 5, 2015)	8.0	⇧	17.7
Child mortality (per 1,000, 2020)	10.0	⇩	34.0
Access to electricity (% of population, 2019)	100.0	⇧	81.2
Net school enrollment, secondary, total (% population, 2019)	99.8	⇧	68.4
Net school enrollment, secondary (female vs male, %, 2012)	100.7	⇧	102.7
Individuals using internet (% population, 2020)	85.9	⇧	13.8
Literacy rate (% population, 2018)	99.8	⇧	82.7
Literacy rate (female vs male, %, 2018)	99.9	⇧	92.9
Gender Gap Index (2021)	0.7	⇩	0.7
Access to Finance			
Account at a financial institution (% age 15+, 2017)	58.7	⇧	43.7
Account at a financial institution (female vs male, %, 2017)	106.0	⇩	72.2
Domestic credit to private sector (% GDP, 2020)	22.0	⇧	40.9
SME Financial Inclusion Index (IMF, 2019)	0.3	⇩	0.5
Governance[1]			
Government Effectiveness (WGI, 2020)	0.2	⇧	-0.5
Regulatory Quality (WGI, 2020)	0.1	⇩	-0.5
Rule of Law (WGI, 2020)	-0.4	⇧	-0.5
Control of Corruption (WGI, 2020)	-0.4	⇩	-0.4
Corruption Perceptions Index (2020)	38.0	⇧	36.7

Better than EMDE Average (green) **Worse than EMDE Average** (pink)
Improvement since previous observation ⇧ **Deterioration since previous observation** ⇩

Sources: IMF World Economic Outlook, World Bank, World Economic Forum, International Labour Organization, Transparency International, UNDP, Oxfam International.
1 / Indicators use official sources and surveys to summarize perceptions of the quality of governance and business environments. Higher scores indicate better governance.

37. Transitioning to a more diversified, job-rich, private-sector-led growth model requires a transformation of the public sector. The state retains a heavy footprint in the economy via sector-specific interventions, broad public ownership, and regulatory barriers to market access, trade, and investment, while a strong interventionist mindset remains.[23] According to a 2019 World Bank survey,

[23] For instance, measures to regulate domestic food supply and energy prices should be transitory, so that the economy can operate on a market basis in the future. See OECD, The regulation of goods and services markets in Kazakhstan, 2018.

private firms face obstacles related to taxation, informality, an insufficiently educated workforce, political instability, and transportation.[24] The public sector should be an enabler and facilitator for private sector development and investment, including foreign investment, rather than a competitor. In particular, the authorities should resume privatizations, especially of large SOEs, and ensure the independence and adequate functioning of the recently created competition agency. The rationale for, and risks from, activities of the SOEs also need to be reevaluated.

38. **Efforts to improve governance and anti-corruption reforms should continue.** Systematic monitoring along with measurable benchmarks will be key for the success of the 2015–25 National Anti-Corruption Strategy and related measures announced in 2022. If properly implemented, the transition to a universal asset declaration regime in 2021, starting with citizens holding public positions, could contribute significantly to the fight against corruption. Improvements to the procurement framework will also support competition, although excluding foreign companies in certain cases may limit their effectiveness. To enhance transparency in public spending, the authorities should require the disclosure of beneficial ownership of contracting entities. The Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT) regime has been recently strengthened (e.g., for politically exposed persons and relating to beneficial ownership), and proper implementation will be essential to help detect, track, and recover proceeds of corruption.[25]

39. **Timely policy planning and implementation are needed to meet Kazakhstan's climate-related challenges and objectives.**[26] Climate change is particularly challenging for Kazakhstan given its outsized hydrocarbon sector and high per-capita greenhouse gas emissions. The authorities' reform objectives are established in the Strategic Development Plan until 2025, and more recently, a pledge to reach zero emissions by 2060. They should move expeditiously to delineate and implement actions needed to meet these goals and prepare for the transition to a low-carbon economy and adaptation to climate changes. In particular, the required public investment should be incorporated into the macro-fiscal framework. The impact of climate-related policies will likely be large and, as shown by recent protests, require a gradual approach to ensure that the most vulnerable are protected and that the private sector has adequate time to adjust.

40. **Given the multiplicity of challenges and needed actions, reform prioritization will be essential.** Scaling back the recently increased state footprint will be a priority to safeguard earlier reform achievements. Resuming privatizations would send an important signal in this regard. Improving infrastructure, especially for transportation, can also have significant near- and medium-term payoffs if projects are well executed, as illustrated by Phase One of the Nurly Zhol program.[27] Finally, tackling human capital gaps and climate-related challenges will take time and sustained efforts, and an early start is warranted.

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[24] World Bank Enterprise Survey: https://www.enterprisesurveys.org/en/data/exploreeconomies/2019/kazakhstan#2. Also see Figure 8.

[25] An assessment of Kazakhstan's AML/CFT regime by the Eurasian Group on Combating Money Laundering and Financing of Terrorism is due in 2022.

[26] See Selected Issues Paper mentioned in footnote 12.

[27] See "Infrastructure Investment and Firm Performance: Evidence from Kazakhstan's Nurly Zhol Program," IMF country report No. 20/38.

Authorities' Views

41. **The authorities shared staff's views on the long-term reform needs and priorities.** They emphasized that the new state planning system built around the national development plan and national projects will support reform focus and coordination. The authorities also expressed interest in further collaboration with the Fund, including on climate issues.

STAFF APPRAISAL

42. **Kazakhstan's economy has recovered from the COVID crisis but is facing the impact of heightened geopolitical tensions.** Supported by strong policies, output returned to its pre-COVID level in 2021. However, spillovers from sanctions on Russia are expected to weaken activity and exacerbate price pressures in 2022, with inflation continuing to exceed the 4–6 percent target band. Labor market and poverty indicators have remained resilient, but recent social turmoil points to the need for further progress towards inclusive growth. The baseline is surrounded by an unusually high degree of uncertainty in the currently still-evolving geopolitical context.

43. **Downside risks to the outlook have increased.** In the medium term, non-oil sector growth should converge to 4 percent, and inflation to its target range. However, near-term risks are elevated. While Kazakhstan would benefit from high international oil prices, external spillovers from sanctions on Russia remain highly uncertain. Their impact on growth and inflation may be larger and more persistent than currently expected. On the domestic front, while recent protests could pave the way for faster reforms, a resurgence of social tensions may lead to fiscal slippages and a reform slowdown, while also generating outward spillovers in neighboring countries.

44. **Macroeconomic policy responses to recent shocks have been appropriate and well-coordinated.** Fiscal accommodation balanced prudence with targeted support to the economy during the COVID crisis. In 2022, continued fiscal support is warranted to mitigate the impact of domestic unrest and external spillovers. In a context of heightened inflation, economic recovery and relaxed prudential requirements, monetary policy tightening has been necessary to anchor inflation expectations since 2021. With continued price pressures following the sanctions on Russia, the authorities should be ready to raise the policy rate further in 2022.

45. **A return to gradual fiscal consolidation will help preserve buffers.** Achieving the authorities' goal of reducing the non-oil deficit to 6 percent of GDP by 2025 will require non-oil revenue increases. In addition to ongoing efforts to strengthen revenue administration, measures to broaden the tax base and raise VAT rates, as well as the introduction of a progressive income tax and a carbon tax, should be considered. The proposed increased in mining taxation could generate significant revenues. Efficiency gains in public expenditure, including through civil service reform, should build on detailed performance reviews.

46. **Streamlining fiscal rules will be important to safeguard sustainability and intergenerational equity and enhance countercyclicality**. Current rules remain complex. A simple set of rules, which are easy to monitor and communicate, could include a long-term anchor, such as preserving positive net public financial assets, and an annual limit on the non-oil deficit or public expenditure growth. Escape clauses should preserve flexibility and be monitored by an independent

fiscal council. The fiscal policy framework also needs to be supported by stronger public institutions and transparency. Preparations for a first annual Fiscal Risks Statement (FRS) are welcome.

47. The authorities' continued commitment to fully-fledged inflation targeting is to be commended. Strengthening monetary policy effectiveness requires continued efforts to improve the analytical framework and communications, develop domestic capital markets, reduce dollarization, strengthen policy coordination, and enhance the NBK's policy independence and credibility, including by expediting the end of its subsidized lending programs. Improved coordination between monetary and fiscal policies should also help curb inflation.

48. Financial sector policy should continue to balance supporting the economic recovery and safeguarding financial stability. While unwinding anti-crisis regulatory measures, the authorities should carefully monitor any new risks, including from bank liquidity pressures or fast-growing consumer lending. Continued progress in strengthening risk-based supervision will be critical to promote sound risk management practices and limit the recurrence of bank distress. In this regard, cooperation between the ARDFM and NBK would benefit from clearer accountability and more formalized information exchange. Further strengthening the bank resolution framework will also be important. The next FSAP for Kazakhstan is expected in 2023.

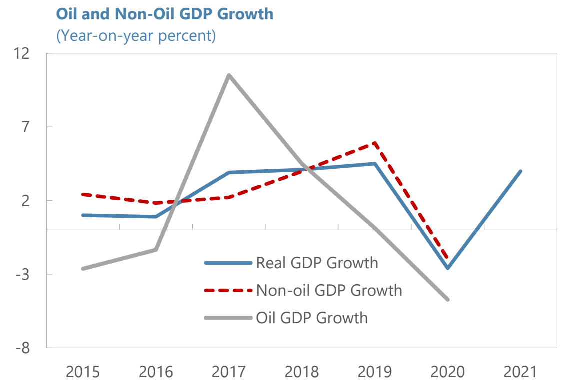
49. In the long term, increasing the level, resilience, and sustainability of economic growth will necessitate greater economic diversification. The current growth model will not be sustainable in a low-carbon global economy. More private sector-led growth requires reforms to reduce the state footprint and make the economy more market-based. The privatization of large SOEs would send an important signal. Furthermore, the role of SOEs should be reevaluated, and their risk management, governance, and transparency enhanced. The recently created independent competition agency is a promising step to help reduce barriers to market access, trade, and investment. Finally, the January 2022 protests highlight the urgency of reform implementation, including to improve governance, address corruption vulnerabilities and strengthen the business environment.

50. The authorities' commitment to achieve carbon neutrality by 2060 is an important step given Kazakhstan's dependence on hydrocarbons and high per-capita greenhouse gas emissions. Increasing carbon prices would help align incentives to achieve the authorities' goals while raising additional fiscal revenue to finance a smooth and inclusive transition. This, together with the cost of needed public investments, should be reflected in the macro-fiscal framework, and guide early policy planning and decisions. Indeed, reforms in this area should proceed gradually, so that reinforced social safety nets can mitigate the impact on vulnerable population groups, while the private sector achieves its structural transformation.

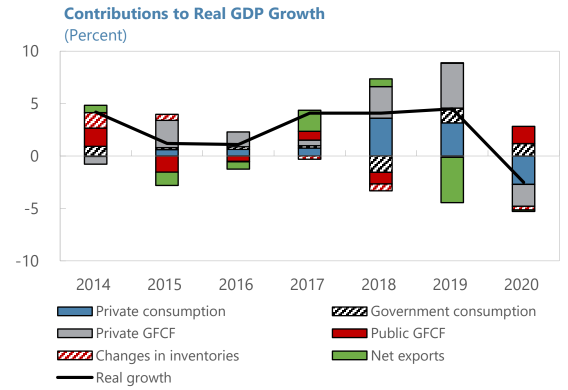
51. It is proposed that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 2. Kazakhstan: Economic Developments

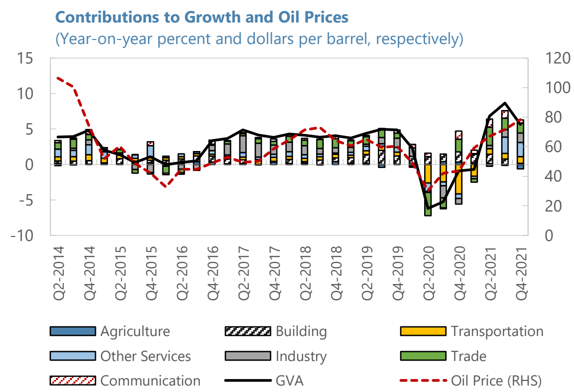
The COVID crisis hit the oil and non-oil sectors in 2020.



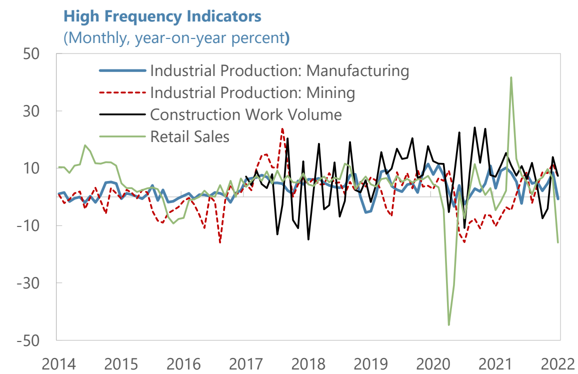
Government programs supported economic activity.



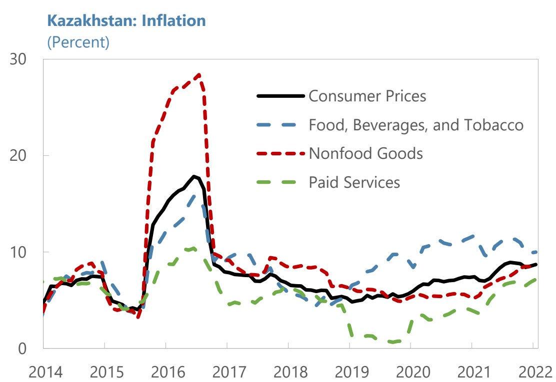
The recovery in 2021 was led by the construction and services sectors.



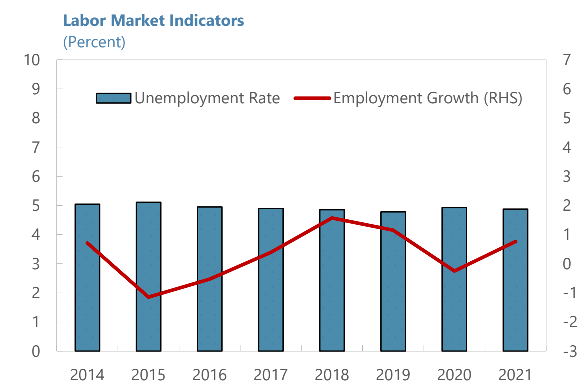
The mining sector has recovered from earlier lows.



Inflation has been elevated and accelerated in 2021.



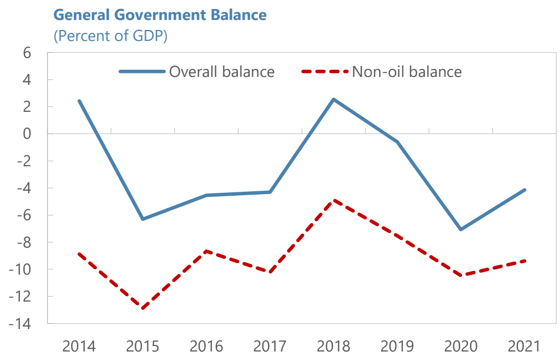
Unemployment remained stable.



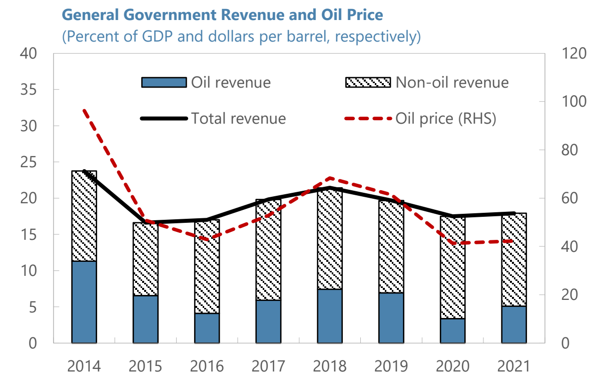
Sources: National authorities, Haver Analytics, and IMF staff estimates.

Figure 3. Kazakhstan: Fiscal Sector Developments

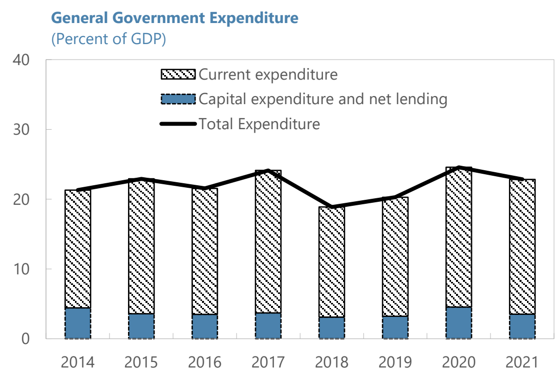
Fiscal balances deteriorated sharply in 2019-20…



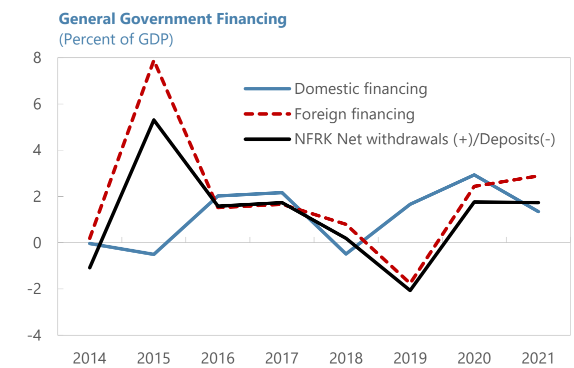
… due to lower oil and non-oil revenues…



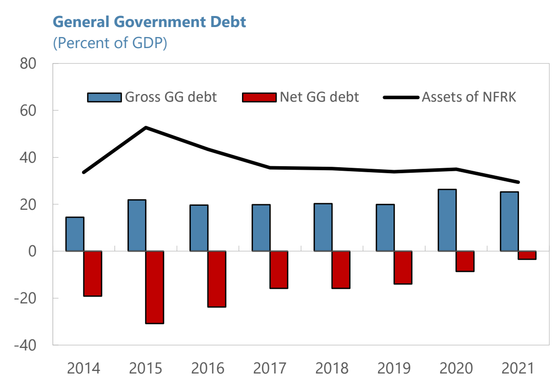
… and higher public spending.



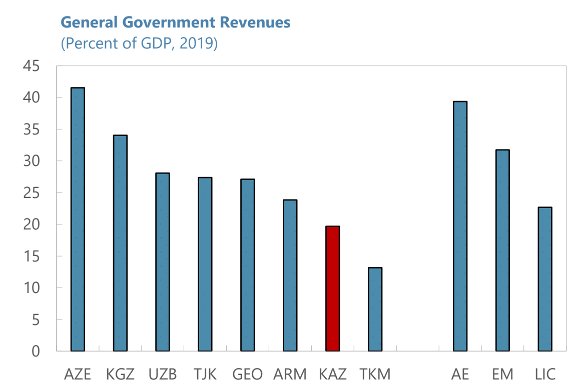
The higher deficit required increased domestic financing and withdrawals from the NFRK.



The public balance sheet has been shrinking due to higher debt and reduced NFRK assets.



Revenues are low in Kazakhstan by international standards.

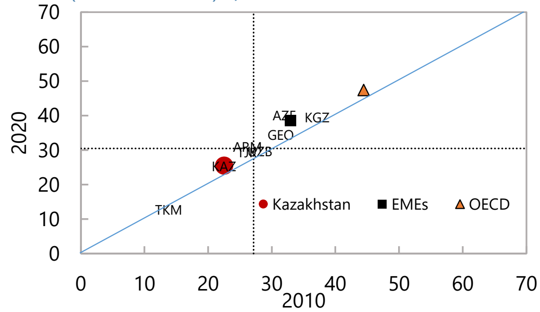


Sources: National Authorities, IMF World Economic Outlook, and IMF staff estimates.

Figure 4. Kazakhstan: Fiscal Expenditure Assessment

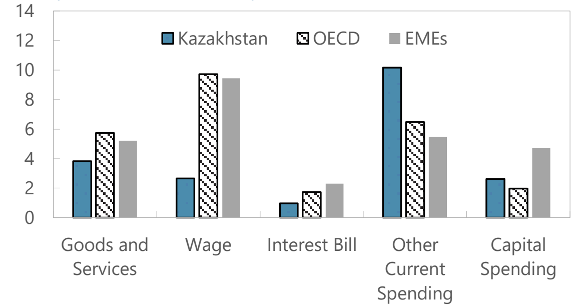
Government spending in Kazakhstan is comparatively low…

General Government Spending
(Percent of GDP) 1/



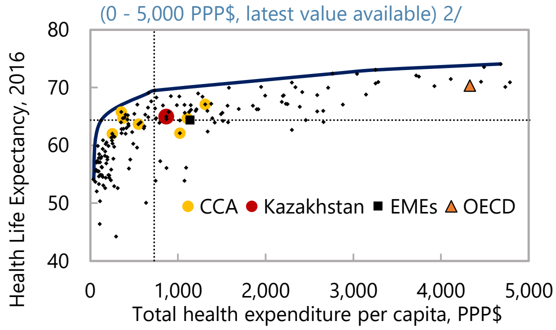
… especially as regards capital spending.

Economic Classification
(Percent of GDP, 2019)



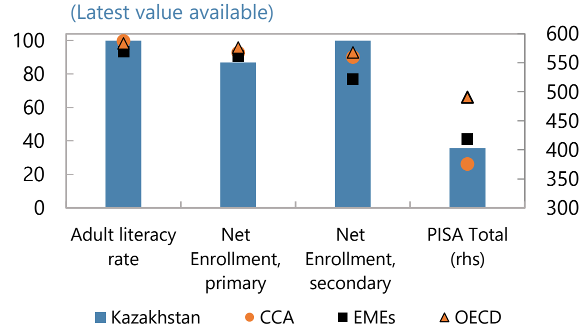
Health outcomes appear low for the level of spending…

Health Efficiency Frontier
(0 - 5,000 PPP$, latest value available) 2/



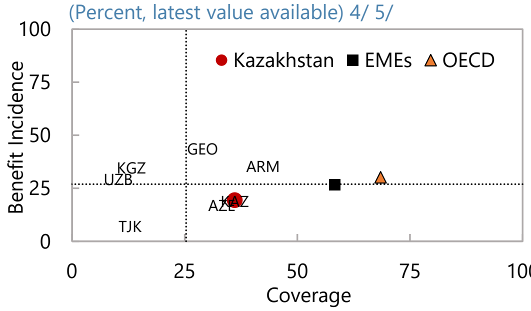
…and there is scope to improve educational attainment…

Education Indicators
(Latest value available)



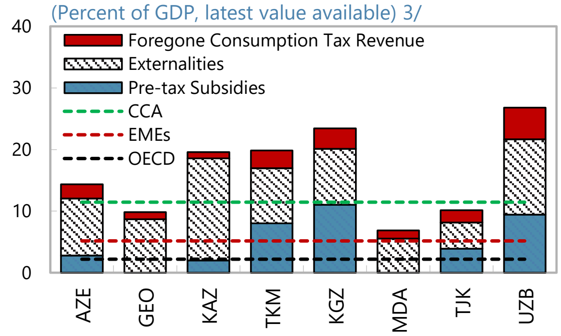
… and targeting of social programs.

Social Assistance Coverage and Benefit Share of the Poorest 20 Percent
(Percent, latest value available) 4/ 5/



Energy subsidies remain substantial.

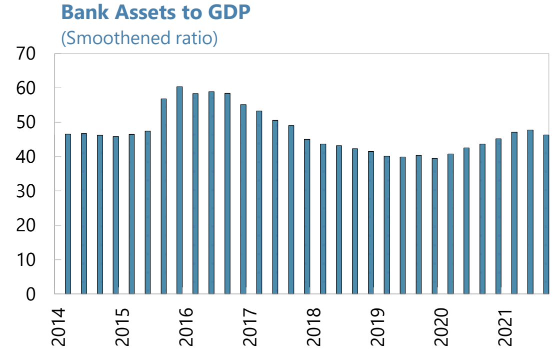
Energy Subsidies by Component
(Percent of GDP, latest value available) 3/



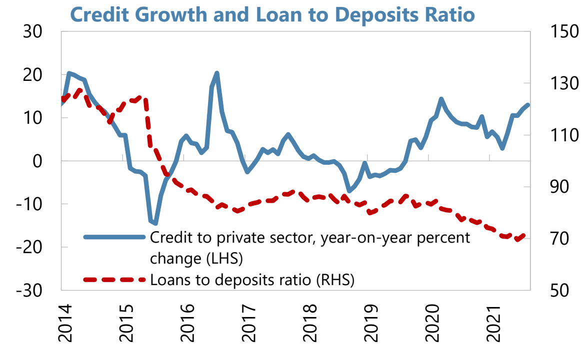
Sources: IMF FAD Expenditure Assessment Tool (EAT).
1/ Coverage refers to general government as per World Economic Outlook metadata.
2/ Healthy life expectancy (HALE) is a measure of health expectancy that applies disability weights to health states to compute equivalent number of years of life expected to be lived in full health.
3/ Dashlines are the median for countries in the region.
4/ Dashlines are the average of CCA.
5/ Coverage is (number of individuals in the quintile who live in a household where at least one member received the transfer)/(number of individuals in that quintile).

Figure 5. Kazakhstan: Banking Sector Developments

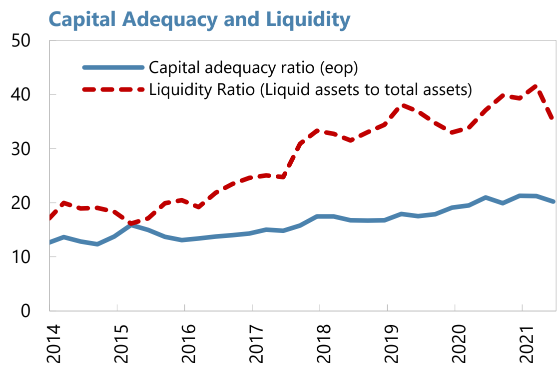
Bank assets have been low and stable in recent years…



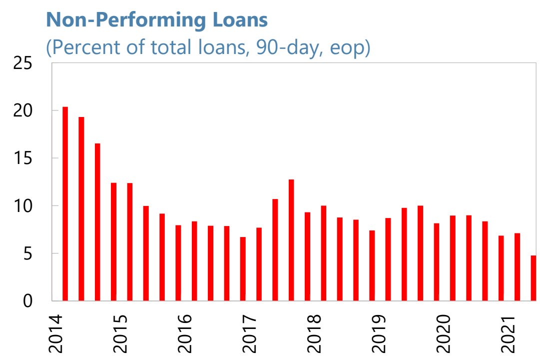
…leading to a decline in the loan-to-deposit ratios



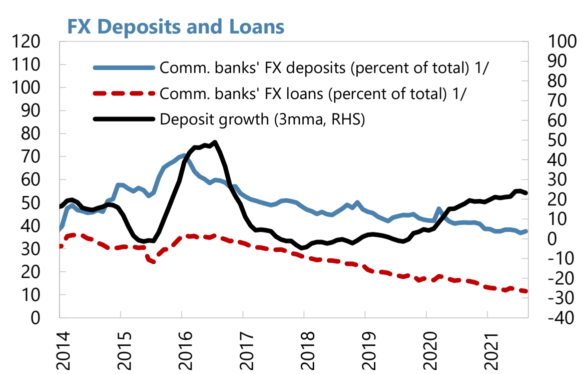
Capital and liquidity ratios are elevated…



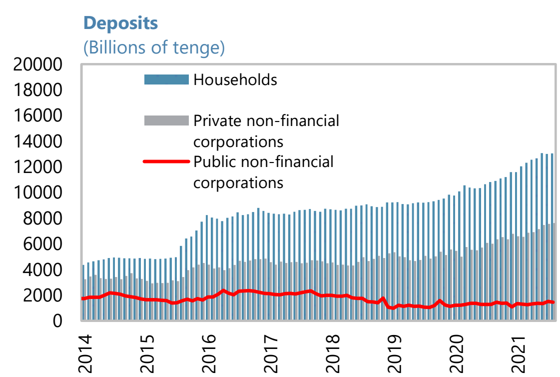
…while the share of NPLs has declined.



Both asset and liability dollarization declined…



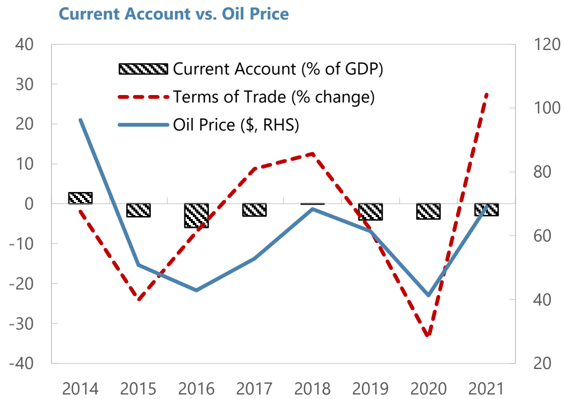
…and private sector deposits continued to rise.



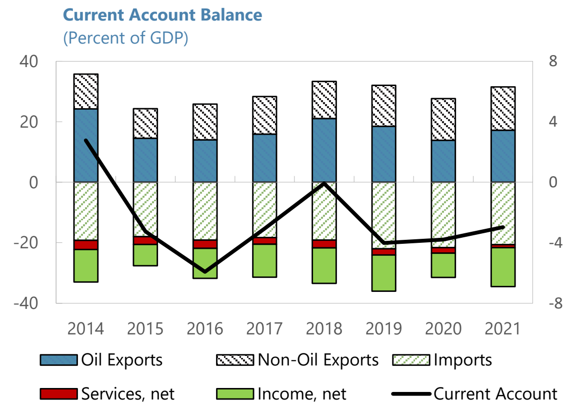
Sources: Kazakhstani authorities, GFSR, and IMF staff estimates.
1/ Accounting for exchange rate valuation effects.

Figure 6. Kazakhstan: External Sector Developments

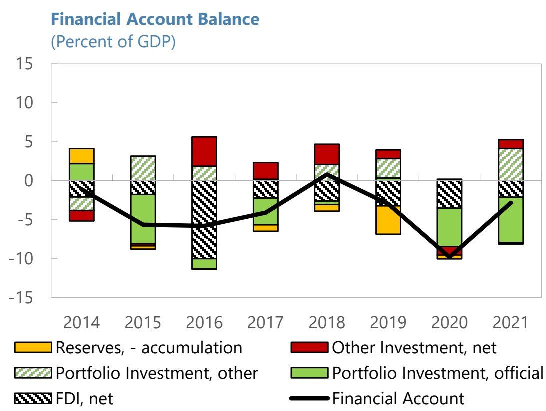
The current account improved modestly in 2021 helped by higher oil prices.



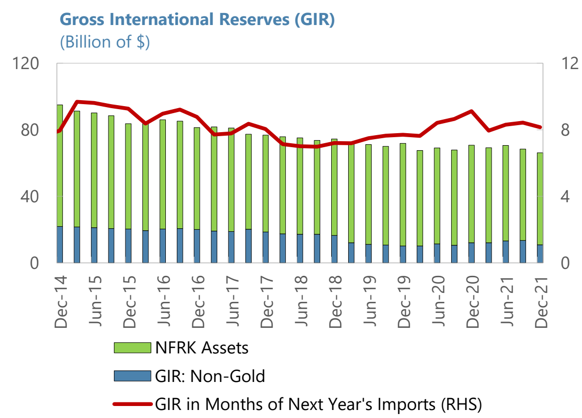
Higher oil exports were offset by increased income payments.



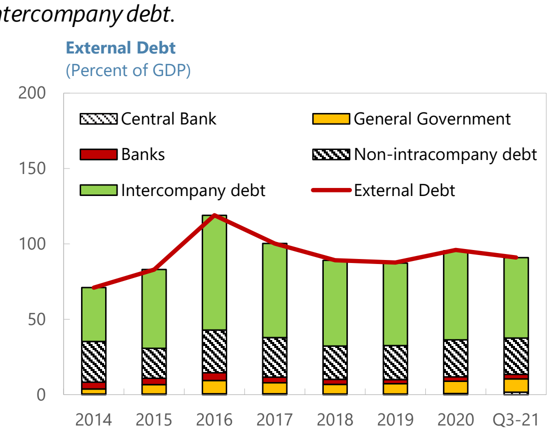
Significant portfolio inflows reflected government and NFRK operations.



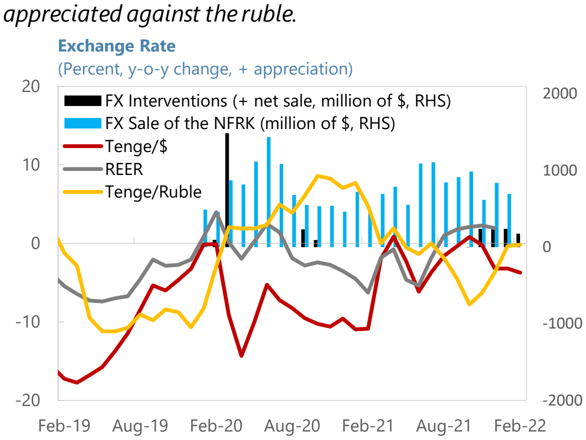
International reserves remain at about 8 months of imports.



External debt declined slightly, half of which consisting of intercompany debt.



The tenge has depreciated against US$ in 2022 but appreciated against the ruble.

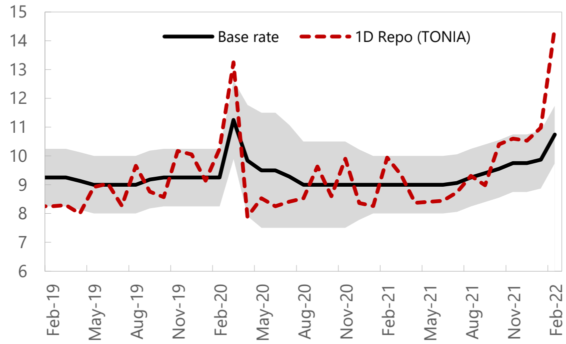


Sources: National authorities, Haver Analytics, Bloomberg, and IMF staff calculation.

Figure 7. Kazakhstan: Monetary Sector Developments

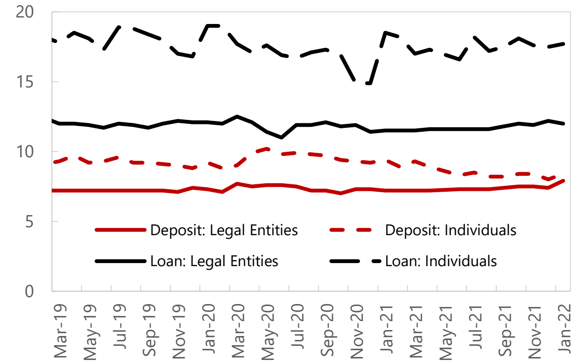
The NBK raised the policy rate sharply in response to the sanctions on Russia.

Policy Rate
(Percent)



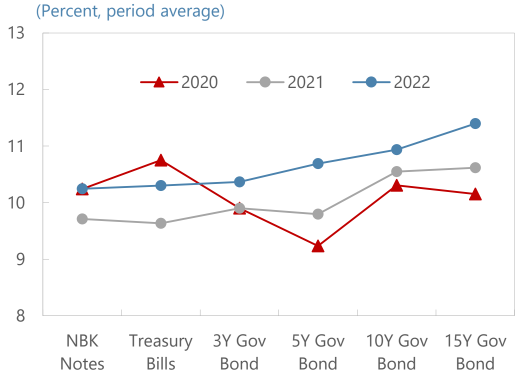
Bank rates are stable around their pre-COVID levels.

Bank rates
(Percent)



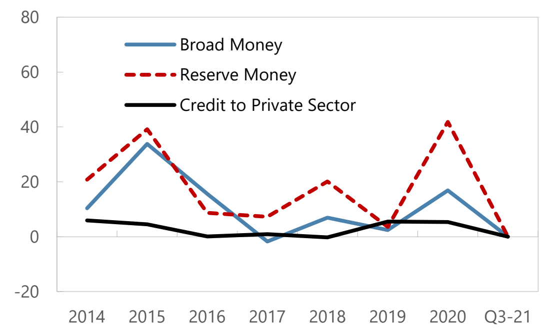
The yield curve is steepening reflecting increasing inflation expectations.

Yield Curve
(Percent, period average)



Monetary expansion was supported by anti-crisis measures since 2020.

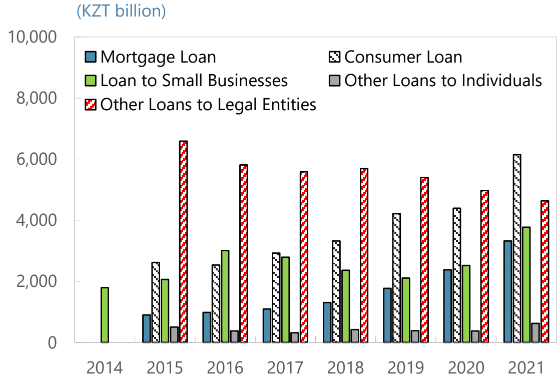
Monetary Aggregates
(Percent, y-o-y change)



Note: Data for Q3-2021 are proxied using August 2021 data.

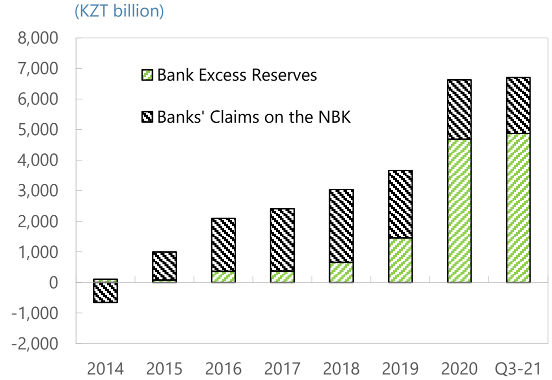
Growth was observed in consumer and SME loans, benefiting from state support.

Loan by Type and Borrower
(KZT billion)



Banks have accumulated significant excess liquidity.

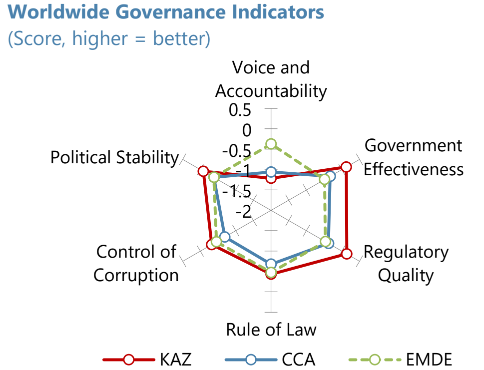
Excess Liquidity
(KZT billion)



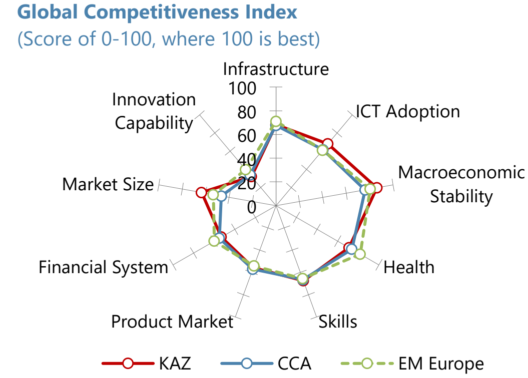
Sources: National authorities, Haver Analytics, Bloomberg, and IMF staff calculation.

Figure 8. Kazakhstan: Business Environment and Governance

Improvements to the business environment and governance have put Kazakhstan on par or above peers on many aspects.

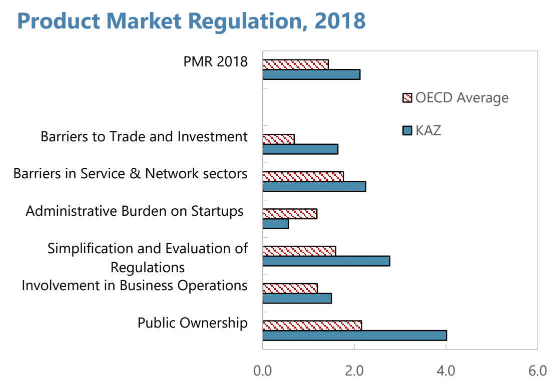


Note: Survey-based indicators summarize perceptions of quality of governance, higher scores indicate better governance. CCA Average excludes TJK.



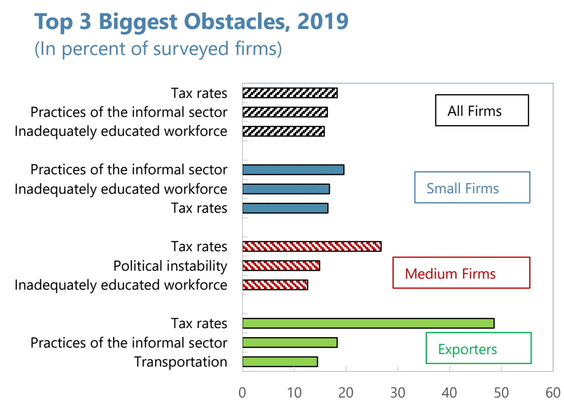
Note: Uses both official data and survey responses from executives on areas of competitiveness, higher is better. CCA Average excludes TKM and UZB (for lack of data) and TJK.

Yet, state interventions remain sizable in product market...



Note: Higher value indicates that policies tend to inhibit competition.

...and businesses continue to face various obstacles.

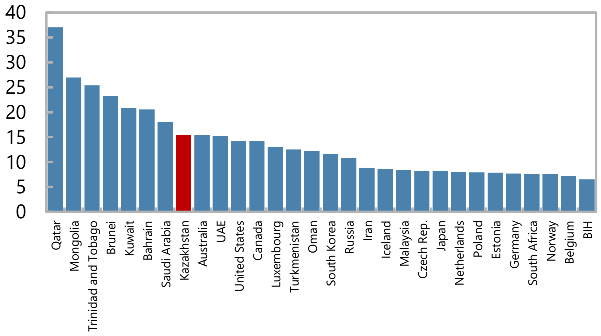


Sources: World Bank World Governance Indicators, World Bank Global Competitiveness Indicators, OECD 2018 PMR database, the World Bank Enterprise Survey, and IMF staff calculation.

Figure 9. Kazakhstan: Climate-Related Challenges and Opportunities

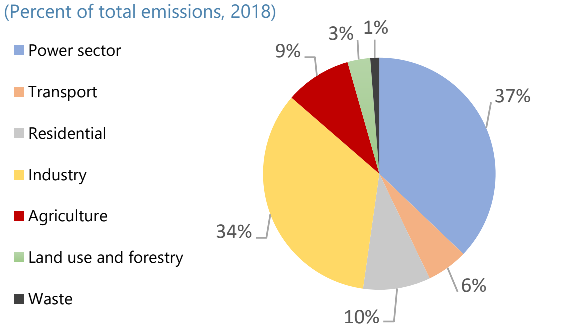
Kazakhstan is a high emitter of GHG per capita.

CO2 emissions per capita
(Metric tons, 2020)



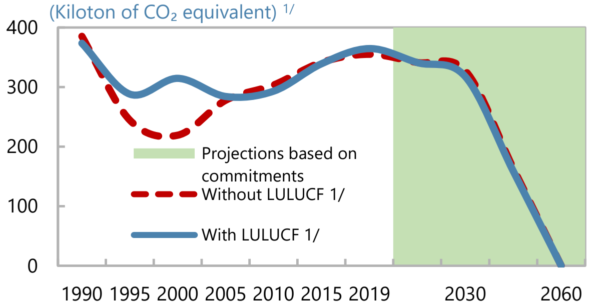
The energy sector accounts for the largest share of emissions.

GHG Emissions by Sector
(Percent of total emissions, 2018)



Kazakhstan has committed to cut net emissions by 15 percent by 2030 and to zero by 2060.

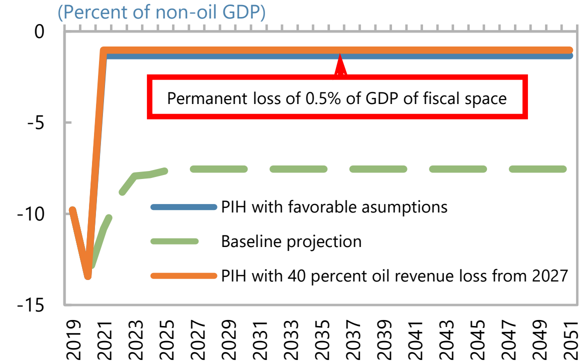
Greenhouse Gas (GHG) Emissions
(Kiloton of CO_2 equivalent) 1/



1/ Land use, land-use change and forestry (LULUCF) activities that affect GHG emissions through their impact on the carbon cycle.

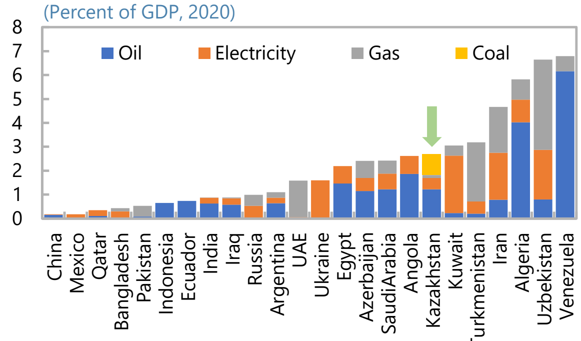
Reduced oil revenues in a low-carbon world could have manageable fiscal impact.

Non-Oil Primary Balance
(Percent of non-oil GDP)



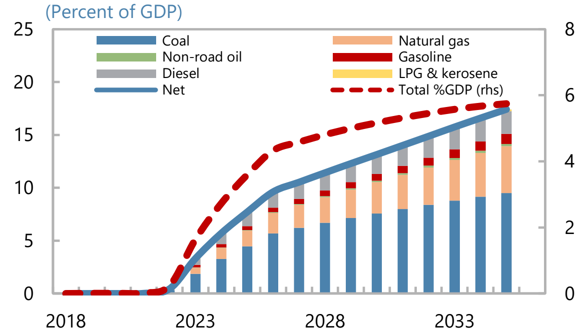
Pre-tax energy subsidies are substantial, especially when considering environmental externalities.

Pre-Tax Energy Subsidies
(Percent of GDP, 2020)



Gradual reduction of these subsidies could generate significant fiscal revenue.

Revenue Mobilization
(Percent of GDP)



Sources: Global Carbon Project, IMF Carbon Pricing Assessment Tool (CPAT), United Nations Climate Change Commission, International Energy Agency, Kazakhstan authorities, and IMF staff estimates.

Table 2. Kazakhstan: Selected Economic Indicators, 2018–2027

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Projections				
						(Annual percent change, unless otherwise indicated)				
National accounts and prices										
Real GDP	4.1	4.5	-2.5	4.0	2.3	4.4	4.4	4.3	3.1	3.1
Real oil	4.5	0.1	-4.7	-0.3	0.6	7.5	6.0	5.3	0.0	1.0
Real non-oil	4.0	5.9	-2.0	5.3	2.8	3.5	4.0	4.0	4.0	4.0
Real consumption	3.2	7.0	-2.3	7.6	2.7	3.2	3.9	3.6	3.0	2.7
Real investment	3.5	11.8	-2.1	-0.7	1.1	2.7	4.3	4.4	4.2	4.3
Real exports	10.2	1.6	-12.3	-17.3	-1.5	5.9	5.2	5.1	1.8	3.2
Real imports	7.2	14.5	-10.0	-11.9	-1.3	0.3	3.5	3.3	3.4	4.0
Output gap (in percent of potental GDP)	1.2	3.4	-1.4	0.0	-0.6	-0.3	-0.1	0.0	0.0	0.0
Consumer price index (eop)	5.3	5.4	7.5	8.4	8.5	6.0	4.5	4.0	4.0	4.0
GDP deflator	9.2	7.6	4.3	10.6	15.5	3.5	3.7	3.8	3.9	4.0
Real effective exchange rate	-0.9	-4.9	-0.5	-1.4	…	…	…	…	…	…
						(In percent of GDP, unless otherwise indicated)				
General government fiscal accounts										
Revenues and grants	21.4	19.7	17.5	18.7	21.7	20.6	20.4	20.3	20.1	19.9
Oil revenues	7.4	6.9	3.4	5.2	8.2	7.0	6.5	6.1	5.6	5.3
Non-oil revenues	14.0	12.8	14.1	13.5	13.5	13.6	13.9	14.2	14.5	14.6
Of which : Income Tax	6.3	5.9	4.8	6.1	7.3	6.9	6.7	6.6	6.5	6.5
VAT	3.3	3.9	3.6	3.5	3.7	3.8	3.9	4.1	4.2	4.4
Expenditures and net lending	18.9	20.3	24.6	22.8	22.2	21.1	20.8	20.7	20.8	20.9
Current expenditure	15.8	17.1	20.0	19.3	18.8	17.8	17.5	17.4	17.4	17.6
Of which : Wages	2.5	2.7	3.4	3.6	3.4	3.1	2.9	2.9	2.9	2.9
Goods and services	4.1	3.8	4.6	4.2	4.0	3.9	3.8	3.7	3.7	3.7
Net transfers to other levels of government	1.5	1.5	2.0	2.2	2.0	1.8	1.7	1.6	1.6	1.6
Capital expenditure	2.7	2.7	4.0	3.0	2.9	2.8	2.8	2.8	2.8	2.8
Overall fiscal balance	2.5	-0.6	-7.1	-4.1	-0.5	-0.5	-0.4	-0.4	-0.7	-1.0
Statistical discrepancy	2.9	-0.7	-1.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Financing 1/	0.3	-0.1	5.4	4.5	0.5	0.5	0.4	0.4	0.7	1.0
Domestic financing, net	-0.5	1.7	2.9	1.5	3.9	3.5	3.5	3.8	4.0	4.0
Foreign financing, net	0.8	-1.8	2.4	3.0	-3.4	-3.0	-3.1	-3.4	-3.3	-3.0
of which: NFRK withdrawal (+) / accumulation (-), net	0.2	-2.1	1.8	1.8	-3.9	-3.5	-3.6	-3.9	-3.7	-3.4
Gross public debt (percent of GDP)	20.3	19.9	26.4	25.9	27.6	29.4	31.3	33.2	35.6	37.7
Non-oil fiscal balance (percent of GDP)	-4.9	-7.5	-10.5	-9.4	-8.7	-7.5	-6.9	-6.5	-6.3	-6.3
Non-oil fiscal balance (percent of non-oil GDP)	-6.2	-9.5	-12.7	-11.3	-10.4	-9.1	-8.4	-7.9	-7.6	-7.5
Structural non-oil fiscal balance (percent of non-oil GDP)	-6.2	-10.0	-12.4	-11.3	-10.4	-9.1	-8.5	-8.0	-7.6	-7.7
						(Annual percent change, eop, unless otherwise indicated)				
Monetary accounts 2/										
Reserve money	20.1	3.6	41.8	14.3	17.5	6.7	8.5	7.9	6.6	6.5
Broad money	7.0	2.4	16.9	10.7	20.1	9.7	10.0	9.2	7.5	7.3
Credit to the private sector	-0.2	5.5	5.3	21.1	13.2	10.9	11.3	11.3	10.1	10.2
Credit to the private sector (percent of GDP)	22.7	21.3	22.0	23.2	22.2	22.8	23.5	24.1	24.8	25.5
NBK policy rate (eop; percent)	9.3	9.3	9.0	9.8	…	…	…	…	…	…
						(In billions of U.S. dollars, unless otherwise indicated)				
External accounts										
Current account balance (percent of GDP)	-0.1	-4.0	-3.8	-3.0	3.0	0.3	-0.9	-1.4	-1.9	-2.1
Exports of goods and services	67.1	65.9	52.3	65.8	92.1	85.5	83.7	84.1	83.1	84.5
Oil /3	37.8	33.6	23.7	32.0	49.9	46.6	45.1	44.5	42.2	41.3
Non-oil exports and services	29.3	32.3	28.6	33.8	42.2	39.0	38.6	39.5	41.0	43.2
Imports of goods and services	46.2	51.5	45.2	46.9	49.5	50.1	52.0	54.0	56.0	58.6
NBK gross reserves (eop) 4/	30.9	29.0	35.6	34.4	39.4	43.1	46.2	47.7	48.9	49.4
NFRK assets (eop)	58.0	61.8	58.7	55.3	62.9	70.9	79.4	89.2	99.0	108.4
Total external debt (percent of GDP) 5/	89.1	87.6	96.0	90.7	88.9	75.0	71.2	67.1	63.7	60.4
Excluding intracompany debt (percent of GDP)	32.7	34.0	36.8	37.6	36.4	30.0	28.5	26.8	25.4	24.0
Memorandum items:										
Nominal GDP (in billions of tenge)	61,820	69,533	70,649	81,269	96,049	103,701	112,309	121,612	130,211	139,557
Nominal GDP (percentage change)	13.7	12.5	1.6	15.0	18.2	8.0	8.3	8.3	7.1	7.2
Nominal GDP (in billions of U.S. dollars)	179.3	181.7	171.1	190.8	…	…	…	…	…	…
Total Gross Transfers from the NFRK (in billions of U.S. dollars)	7.6	8.1	11.6	10.6	5.9	5.7	5.1	4.2	4.1	4.3
The NFRK assets (in percent of GDP)	32.3	34.0	34.3	29.0	32.5	31.4	33.3	35.3	37.2	38.7
Crude oil, gas cnds. production (millions of barrels/day) 6/	1.86	1.86	1.76	1.76	1.77	1.90	2.02	2.12	2.12	2.14
Oil price (in U.S. dollars per barrel)	68.3	61.4	41.3	69.1	106.8	92.6	84.2	78.5	74.7	72.5

Sources: Kazakhstani authorities and Fund staff estimates and projections.
1/ Does not include revenues from IPOs.
2/ The presentation of monetary accounts has been revised based on Standardized Report Form (SRF). Transactions carried out by the NBK on behalf of the custodian
3/ Starting with 2021, the series includes "crude oil and gas condensate" and "refined petroleum goods".
transactions related to the NFRK management are excluded. Credit to the private sector comprises credit to non-financial private enterprises and other resident sectors (mainly households).
4/ For 2021, gross international reserves include the SDR allocation of $1.575 billion effective on August 23, 2021.
5/ Gross debt, including arrears and other short-term debt.
6/ Based on a conversion factor of 7.5 barrels of oil per ton.

Table 3. Kazakhstan: Balance of Payments, 2018–27

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
							Projections			
					(In billions of USD)					
Current account	-0.1	-7.3	-6.5	-5.7	5.8	0.6	-2.2	-3.5	-5.0	-5.8
Trade balance	25.6	18.1	10.3	20.7	45.0	37.5	33.9	32.3	29.4	28.2
Exports (f.o.b.)	59.8	58.2	47.3	60.2	86.7	80.0	78.3	78.6	77.7	78.8
Oil and gas condensate	37.8	33.6	23.7	32.0	49.9	46.6	45.1	44.5	42.2	41.3
Non-oil exports 1/	22.0	24.6	23.6	28.2	36.8	33.5	33.2	34.1	35.5	37.5
Imports (f.o.b.)	34.2	40.0	37.0	39.4	41.8	42.5	44.3	46.3	48.3	50.6
Non-oil, gas imports	34.2	40.0	37.0	39.4	41.7	42.5	44.3	46.3	48.3	50.6
Services and income balance	-26.6	-26.5	-18.1	-26.0	-38.7	-36.3	-35.4	-35.0	-33.5	-33.1
Services, net	-4.7	-3.7	-3.1	-1.8	-2.4	-2.1	-2.3	-2.2	-2.2	-2.3
Income, net	-22.0	-22.8	-15.0	-24.2	-36.3	-34.2	-33.2	-32.9	-31.3	-30.8
Of which: Income to direct investors	20.4	21.3	14.0	22.9	34.9	32.6	31.5	31.2	29.5	28.9
Current transfers	0.9	1.0	1.3	-0.4	-0.4	-0.6	-0.7	-0.8	-0.8	-0.9
Capital account	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Financial account	1.4	-5.4	-16.8	-8.4	6.0	0.8	-2.0	-3.3	-4.8	-5.5
Foreign direct investment ("-"= inward)	-4.7	-5.9	-6.1	-4.1	-3.3	-3.8	-4.3	-4.6	-5.0	-5.4
Portfolio investment, net	2.9	5.1	-8.1	-3.3	-0.3	-4.4	-3.2	-2.9	-3.7	-3.6
Of which: National Fund	-0.9	1.9	-7.6	-8.9	4.8	4.9	5.0	5.8	5.4	5.0
Other investment, net	4.7	2.0	-1.8	1.2	4.5	5.2	2.4	2.5	2.7	2.8
Reserve assets, net	-1.5	-6.6	-0.9	-2.4	5.0	3.7	3.1	1.6	1.2	0.5
Errors and omissions	1.3	1.7	-10.6	-3.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items: 2/					*(In percent of GDP)*					
Current account	-0.1	-4.0	-3.8	-3.0	3.0	0.3	-0.9	-1.4	-1.9	-2.1
Exports of goods	33.4	32.0	27.7	31.5	44.8	35.4	32.8	31.1	29.2	28.2
Oil exports	21.1	18.5	13.9	16.8	25.8	20.6	18.9	17.6	15.8	14.8
Non-oil exports	12.3	13.5	13.8	14.8	19.0	14.8	13.9	13.5	13.4	13.4
Imports of goods	19.1	22.0	21.6	20.7	21.6	18.8	18.6	18.3	18.2	18.1
					(Annual growth rate, in percent)					
Exports	26.5	-2.8	-18.7	27.2	44.1	-7.7	-2.2	0.5	-1.2	1.4
Non-oil exports	6.3	11.6	-4.0	19.4	30.8	-9.2	-0.8	2.7	4.3	5.5
Volume on non-oil exports	2.1	10.9	0.7	-14.6	0.0	2.0	4.0	4.5	5.0	5.5
Average price of non-oil exports	4.1	0.6	-3.1	39.3	29.1	-11.0	-4.6	-1.7	-0.7	0.0
Imports	12.0	16.9	-7.5	6.6	5.9	1.8	4.3	4.5	4.4	4.6
Non-oil imports	12.0	16.9	-7.5	6.5	5.9	1.8	4.3	4.5	4.4	4.6
Volume on non-oil imports	8.0	16.6	-26.4	-9.6	-1.0	1.0	4.0	4.0	4.0	4.0
Average price of non-oil imports	3.8	0.2	25.4	17.7	7.1	0.8	0.2	0.5	0.4	0.6
Exports of oil and gas condensate (in MT)	69.8	70.0	70.6	68.3	68.8	74.1	78.9	83.6	83.2	84.0
NBK gross international reserves (in billions of U.S. dollars) 3/	30.9	29.0	35.6	34.4	39.4	43.1	46.2	47.7	48.9	49.4
In months of next year's imports of goods and services	7.2	7.7	9.1	8.3	9.4	9.9	10.3	10.2	10.0	10.0
National Fund (including interest), e.o.p.	58.0	61.8	58.7	55.3	62.9	70.9	79.4	89.2	99.0	108.4
External debt in percent of GDP	89.1	87.6	96.0	90.7	88.9	75.0	71.2	67.1	63.7	60.4
Public external debt (percent GDP)	6.9	7.3	8.9	9.3	9.2	8.3	8.3	8.1	8.1	8.0
Private external debt (percent GDP)	82.2	80.3	87.1	81.4	79.6	66.7	62.9	59.0	55.6	52.4
Excluding inter-company loans (percent GDP)	32.7	34.0	36.8	37.6	36.4	30.0	28.5	26.8	25.4	24.0
World oil price (U.S. dollars per barrel)	68.3	61.4	41.3	69.1	106.8	92.6	84.2	78.5	74.7	72.5

Sources: Kazakhstani authorities and Fund staff estimates and projections.

1/ Starting with 2021, the series includes "crude oil and gas condensate" and "refined petroleum goods".

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

3/ For 2021, gross international reserves include the SDR allocation of $1.575 billion effective on August 23, 2021.

Table 4. Kazakhstan: Financial Soundness Indicators of the Banking Sector, 2018–2021Q2

	2018	2019	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2
Capital adequacy				*(In percent)*				
Regulatory Capital to Risk-Weighted Assets	21.9	24.2	24.6	26.4	25.3	27.0	26.8	25.2
Regulatory Tier 1 Capital to Risk-Weighted Assets	16.8	19.1	19.5	21.0	19.9	21.3	21.3	20.2
Capital to Assets	11.8	13.2	12.3	12.6	11.6	11.8	11.7	11.2
Asset quality								
Non-performing Loans to Total Gross Loans	7.4	8.1	8.9	9.0	8.4	6.9	7.1	4.8
Provisions as percent of NPL	75.1	80.2	78.8	72.0	75.6			
Non-performing Loans Net of Provisions to Capital	8.4	6.6	6.3	8.0	6.9	5.0	5.0	3.6
Large Exposures to Capital	142.2	115.9	122.8	112.2	119.8	110.6	106.9	121.5
Earnings and profitability 1/								
Return on Assets	3.2	3.7	4.2	3.0	3.1	3.1	3.9	4.4
Return on Equity	25.6	29.5	27.0	20.0	21.4	19.3	28.3	32.6
Interest Margin to Gross Income	52.7	49.0	55.1	54.0	54.6	45.5	58.4	58.1
Trading Income to Total Income	4.2	2.5	12.7	8.1	8.3	1.9	7.5	7.7
Non-interest Expenses to Gross Income	42.4	36.1	34.4	35.4	37.0	44.7	41.9	39.9
Personnel Expenses to Non-interest Expenses	30.5	31.2	34.5	33.0	32.4	23.5	31.5	31.3
Liquidity								
Liquid Assets to Total Assets (Liquid Asset Ratio)	35.8	34.3	33.9	37.1	39.8	39.3	41.6	35.1
Liquid Assets to Short Term Liabilities	90.8	95.9	92.0	112.5	111.6	103.6	106.1	95.6
Foreign-Currency-Denominated Loans to Total Loans	23.3	16.9	17.9	16.1	15.9	13.7	13.2	13.2
Foreign-Currency-Denominated Liabilities to Total Liabilities	42.7	38.0	41.1	36.4	37.1	34.2	32.8	33.3
Customer Deposits to Total (Non-interbank) Loans	124.3	122.4	126.3	129.4	135.6	137.2	145.1	146.8
Sensitivity to market risk								
Gross Asset Position in Financial Derivatives to Capital	17.4	7.4	4.7	2.3	2.8	2.9	2.7	3.7
Gross Liability Position in Financial Derivatives to Capital	12.9	8.0	2.3	1.8	2.1	2.5	2.4	3.4
Net Open Position in Foreign Exchange to Capital	2.5	1.6	0.5	0.9	1.7	0.3	1.5	1.3

Source: IMF Financial Soundness Indicators (FSI) database.

Table 5. Kazakhstan: Monetary Accounts, 2018–27

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
							Projections			
				(End of period, in billions of tenge)						
Monetary Survey										
Net Foreign Assets	13,329	13,370	16,671	16,865	21,820	23,251	25,441	26,804	28,014	28,943
Net Domestic Assets	7,948	8,429	8,704	11,182	11,773	13,548	14,994	17,295	19,340	21,846
Domestic Credit	14,784	17,602	21,483	25,581	28,422	31,297	34,612	38,257	41,903	45,954
of which										
Net claims on government	317	740	1,202	967	577	447	283	94	-70	-261
Credit to the private sector 1/	14,015	14,784	15,574	18,863	21,343	23,676	26,352	29,321	32,270	35,552
Other items, net	-6,837	-9,173	-12,779	-14,399	-16,650	-17,749	-19,618	-20,962	-22,563	-24,108
Broad money	20,813	21,322	24,918	27,589	33,135	36,341	39,977	43,641	46,896	50,332
Currency in circulation	2,260	2,301	2,828	3,069	3,556	3,764	4,036	4,327	4,587	4,820
Total deposits	18,553	19,022	22,090	24,520	29,579	32,577	35,941	39,314	42,309	45,512
Nonliquid liabilities	464	477	458	458	458	458	458	458	458	458
Accounts of NBK										
Net foreign assets 2/	12,230	11,552	15,360	15,357	20,038	21,326	23,356	24,547	25,597	26,353
Net international reserves 2/	11,579	10,740	14,443	14,440	19,121	20,409	22,440	23,630	24,681	25,436
Net domestic assets 2/	-4,445	-4,230	-4,972	-3,447	-6,312	-6,667	-7,494	-7,505	-7,456	-7,074
Net domestic credit	-2,589	-572	1,253	1,711	-134	558	443	810	1,718	2,576
of which										
Net claims on central government	-1,746	-1,384	-2,032	-2,370	-2,859	-3,089	-3,353	-3,642	-3,906	-4,198
Net claims on banks	-1,592	12	2,593	3,231	1,769	2,594	2,624	3,153	4,198	5,204
Claims on non-financial public corporations	708	756	674	816	923	1,025	1,141	1,269	1,397	1,539
Credit to the private sector 1/	40	44	17	34	32	28	31	30	30	30
Other items, net	-1,856	-3,658	-6,225	-5,158	-6,178	-7,225	-7,937	-8,315	-9,174	-9,651
Reserve money	6,651	6,893	9,778	11,174	13,126	14,011	15,201	16,406	17,493	18,630
Currency in circulation	2,619	2,688	3,250	3,527	4,087	4,326	4,639	4,973	5,272	5,540
Liabilities to banks	3,264	3,163	5,989	6,819	8,116	8,809	9,582	10,407	11,161	11,976
Required reserves	2,608	1,701	1,299	1,424	1,740	1,926	2,127	2,335	2,517	2,712
Other liabilities	655	1,462	4,690	5,395	6,376	6,884	7,455	8,073	8,643	9,264
Demand deposits	768	1,042	538	828	923	875	980	1,025	1,060	1,114
Other liquid liabilities	1,113	421	579	704	568	617	630	605	617	618
Deposit money banks										
Net foreign assets	1,099	1,818	1,311	1,508	1,783	1,925	2,084	2,257	2,417	2,590
Net domestic assets	16,015	16,210	20,088	21,907	26,733	29,587	32,673	35,854	38,642	41,617
Domestic credit	20,581	21,877	26,835	29,513	34,992	37,124	40,474	43,719	46,377	49,418
of which										
Net claims on government	2,063	2,124	3,234	3,337	3,436	3,536	3,636	3,736	3,836	3,936
Credit to the private sector 1/	13,975	14,740	15,557	18,829	21,311	23,649	26,321	29,291	32,241	35,522
Net claims on other financial corporations	-1,640	-1,477	-908	-1,342	-1,242	-1,164	-1,250	-1,219	-1,211	-1,226
Banks' reserves	5,595	5,902	8,539	8,136	10,867	10,458	11,056	11,154	10,707	10,328
Other items, net	-4,566	-5,667	-6,747	-7,607	-8,259	-7,537	-7,801	-7,866	-7,735	-7,800
Banks' liabilities	17,114	18,028	21,399	23,415	28,515	31,512	34,757	38,111	41,058	44,207
Demand deposits	5,214	5,517	6,272	7,431	8,783	10,241	11,756	13,239	14,459	15,729
Other deposits	11,457	12,042	14,701	15,558	19,306	20,844	22,575	24,445	26,173	28,051
Non-liquid liabilities	443	469	427	427	427	427	427	427	427	427
Memorandum items:										
Reserve money (percent change, y-o-y)	20.1	3.6	41.8	14.3	17.5	6.7	8.5	7.9	6.6	6.5
Broad money (percent change, y-o-y)	7.0	2.4	16.9	10.7	20.1	9.7	10.0	9.2	7.5	7.3
Credit to private sector (percent change, y-o-y)	-0.2	5.5	5.3	21.1	13.2	10.9	11.3	11.3	10.1	10.2
Exchange rate KZT/USD (eop)	384.2	381.2	420.7	431.7	…	…	…	…	…	…
Exchange rate KZT/USD (period average)	344.7	382.7	413.0	425.9	…	…	…	…	…	…
Velocity of broad money	3.0	3.3	2.8	2.9	2.9	2.9	2.8	2.8	2.8	2.8
Money multiplier	3.1	3.1	2.5	2.5	2.5	2.6	2.6	2.7	2.7	2.7
Foreign currency liabilities (in percent of total liabilities)	43	38	34	…	…	…	…	…	…	…
Foreign currency loans (in percent of total loans)	23	17	14	…	…	…	…	…	…	…

Sources: Kazakhstani authorities and Fund staff estimates.

1/ Private sector includes nonfinancial private enterprises and other resident sectors (mainly households).

2/ Does not include oil fund resources. For 2021, gross international reserves include the SDR allocation of $1.575 billion effective on August 23, 2021.

Table 6a. Kazakhstan: General Government Fiscal Operations, 2018–27 1/

(In billions of tenge)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
							Projections			
Total revenue	13,246	13,683	12,370	15,199	20,847	21,369	22,908	24,735	26,150	27,765
Tax revenue	11,091	12,054	9,926	13,329	18,740	19,140	20,390	21,910	22,978	24,472
Oil 2/	4,592	4,817	2,395	4,262	7,865	7,266	7,337	7,477	7,310	7,347
Non-oil	6,499	7,236	7,530	9,067	10,876	11,874	13,053	14,433	15,667	17,125
Of which : Income Tax	3,900	4,094	3,412	4,931	7,005	7,123	7,508	8,016	8,496	9,014
VAT	2,034	2,693	2,533	2,808	3,534	3,934	4,423	5,026	5,430	6,071
Nontax revenue 3/	2,083	1,534	2,341	1,695	1,900	2,008	2,279	2,567	2,894	2,991
of which: Interest income	1,077	815	1,222	1,361	1,503	1,583	1,821	2,072	2,359	2,412
Total expenditure and net lending	11,672	14,101	17,365	18,562	21,342	21,887	23,361	25,164	27,035	29,211
Total expenditure	11,405	13,703	16,976	18,114	20,852	21,358	22,788	24,543	26,371	28,499
Current expenditure	9,748	11,860	14,153	15,692	18,043	18,429	19,616	21,109	22,693	24,557
Of which : Wages	1,515	1,850	2,397	2,896	3,223	3,170	3,253	3,522	3,771	4,042
Goods and services	2,507	2,658	3,250	3,389	3,813	4,013	4,234	4,463	4,779	5,122
Other Current Expenditures	687	1,251	1,143	1,091	1,529	1,340	1,451	1,571	1,682	1,803
Net transfers to other levels of government	936	1,042	1,447	1,797	1,890	1,890	1,895	1,901	2,035	2,181
Interest payment	587	679	767	1,029	1,271	1,588	1,858	2,153	2,397	2,805
Capital expenditure	1,657	1,843	2,822	2,422	2,809	2,929	3,172	3,435	3,678	3,942
Net lending	267	398	389	448	490	529	573	620	664	712
Overall balance	1,573	-418	-4,995	-3,363	-495	-518	-453	-429	-885	-1,446
Statistical discrepancy	1,783	-466	-1,174	314	0	0	0	0	0	0
Financing	210	-48	3,821	3,677	495	518	453	429	885	1,446
Domestic financing, net	-300	1,155	2,074	1,222	3,753	3,630	3,941	4,584	5,149	5,599
Foreign financing, net	488	-1,225	1,724	2,421	-3,292	-3,147	-3,523	-4,190	-4,299	-4,187
of which: NFRK withdrawal (+) / accumulation (-), net 4/	119	-1,441	1,243	1,457	-3,742	-3,670	-4,044	-4,687	-4,809	-4,698
Memorandum items:										
Non-oil balance	-3,019	-5,235	-7,391	-7,626	-8,360	-7,784	-7,790	-7,906	-8,195	-8,793
Primary balance	1,082.9	-553.6	-5,449.8	-3,695.6	-727.3	-512.2	-415.4	-348.0	-846.6	-1,054.2
Structural Balance	1,417	-869	-4,824	-3,357	-369	-454	-430	-429	-885	-1,515
Structural Non-oil Balance	-3,003	-5,489	-7,222	-7,667	-8,365	-7,794	-7,838	-7,959	-8,223	-8,977
NFRK assets (in billions U.S. dollars)	58.0	61.8	58.7	55.3	62.9	70.9	79.4	89.2	99.0	108.4
Nominal GDP	61,820	69,533	70,649	81,269	96,049	103,701	112,309	121,612	130,211	139,557

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/ National Fund of the Republic of Kazakhstan. Classified under external financing as most of the assets are external.

Table 6b. Kazakhstan: General Government Fiscal Operations, 2018–27 1/

(In percent of GDP, unless otherwise specified)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Projections				
Total revenue	21.4	19.7	17.5	18.7	21.7	20.6	20.4	20.3	20.1	19.9
Tax revenue	17.9	17.3	14.0	16.4	19.5	18.5	18.2	18.0	17.6	17.5
Oil 2/	7.4	6.9	3.4	5.2	8.2	7.0	6.5	6.1	5.6	5.3
Non-oil	10.5	10.4	10.7	11.2	11.3	11.5	11.6	11.9	12.0	12.3
Of which : Income Tax	6.3	5.9	4.8	6.1	7.3	6.9	6.7	6.6	6.5	6.5
VAT	3.3	3.9	3.6	3.5	3.7	3.8	3.9	4.1	4.2	4.4
Nontax revenue 3/	3.4	2.2	3.3	2.1	2.0	1.9	2.0	2.1	2.2	2.1
of which: Interest income	1.7	1.2	1.7	1.7	1.6	1.5	1.6	1.7	1.8	1.7
Total expenditure and net lending	18.9	20.3	24.6	22.8	22.2	21.1	20.8	20.7	20.8	20.9
Total expenditure	18.4	19.7	24.0	22.3	21.7	20.6	20.3	20.2	20.3	20.4
Current expenditure	15.8	17.1	20.0	19.3	18.8	17.8	17.5	17.4	17.4	17.6
Of which : Wages	2.5	2.7	3.4	3.6	3.4	3.1	2.9	2.9	2.9	2.9
Goods and services	4.1	3.8	4.6	4.2	4.0	3.9	3.8	3.7	3.7	3.7
Other Current Expenditures	1.1	1.8	1.6	1.3	1.6	1.3	1.3	1.3	1.3	1.3
Net transfers to other levels of government	1.5	1.5	2.0	2.2	2.0	1.8	1.7	1.6	1.6	1.6
Interest payment	0.9	1.0	1.1	1.3	1.3	1.5	1.7	1.8	1.8	2.0
Capital expenditure	2.7	2.7	4.0	3.0	2.9	2.8	2.8	2.8	2.8	2.8
Net lending	0.4	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Overall balance	2.5	-0.6	-7.1	-4.1	-0.5	-0.5	-0.4	-0.4	-0.7	-1.0
Statistical discrepancy	2.9	-0.7	-1.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Financing	0.3	-0.1	5.4	4.5	0.5	0.5	0.4	0.4	0.7	1.0
Domestic financing, net	-0.5	1.7	2.9	1.5	3.9	3.5	3.5	3.8	4.0	4.0
Foreign financing, net	0.8	-1.8	2.4	3.0	-3.4	-3.0	-3.1	-3.4	-3.3	-3.0
of which: NFRK withdrawal (+) / accumulation (-), net 4/	0.2	-2.1	1.8	1.8	-3.9	-3.5	-3.6	-3.9	-3.7	-3.4
Memorandum items:										
Non-oil balance	-4.9	-7.5	-10.5	-9.4	-8.7	-7.5	-6.9	-6.5	-6.3	-6.3
Non-oil balance (in percent of non-oil GDP)	-6.2	-9.5	-12.7	-11.3	-10.4	-9.1	-8.4	-7.9	-7.6	-7.5
Non-oil revenues (in percent of non-oil GDP)	17.7	16.2	17.1	16.2	16.2	16.4	16.8	17.2	17.4	17.5
Primary balance	1.8	-0.8	-7.7	-4.5	-0.8	-0.5	-0.4	-0.3	-0.7	-0.8
Structural Balance	2.3	-1.3	-6.8	-4.1	-0.4	-0.4	-0.4	-0.4	-0.7	-1.1
Structural Non-oil Balance	-4.9	-7.9	-10.2	-9.4	-8.7	-7.5	-7.0	-6.5	-6.3	-6.4
Gross public debt	20.3	19.9	26.4	25.9	27.6	29.4	31.3	33.2	35.6	37.7
NFRK assets	32.3	34.0	34.3	29.0	32.5	31.4	33.3	35.3	37.2	38.7
Net public debt	-12.1	-14.0	-8.0	-3.1	-4.9	-2.0	-2.0	-2.0	-1.7	-1.0

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/ National Fund of the Republic of Kazakhstan. Classified under external financing as most of the assets are external.

Annex I. Implementation of the 2019 Article IV Recommendations

Recommendations	Current Status
Fiscal policy	
Fiscal consolidation following an expansionary policy stance in 2019 to restore buffers.	Planned consolidation was postponed due to the COVID pandemic but is expected to resume when recovery is firm.
Strengthening non-oil revenue by improving administration and adjusting tax policy.	Efforts to improve administration are ongoing, leveraging new technologies. Tax policy changes (e.g., progressive PIT, mining taxation) are expected in the medium term.
Upgrading the fiscal framework to safeguard the sustainability and effectiveness of fiscal policies.	Ongoing. The authorities recently adjusted the rules-based fiscal framework. Further improvements to the set of fiscal rules are desirable.
Monetary Policy	
Strengthening the inflation targeting framework; enhancing central bank independence.	A Monetary policy committee with no government participation was established in 2021. The NBK is expected to phase out subsidized credits in the medium term.
Improving communications and transparency.	The NBK is making progress in communicating about inflation and exchange rate developments. In 2020, it started publishing the monthly amounts of FX transaction it conducts on behalf of the NFRK.
Developing domestic capital markets.	Actions are being prepared jointly between the NBK and MoF to develop the domestic securities market, supported by Fund TA.
Financial Sector Policy	
Conducting an Asset Quality Review (AQR) and taking actions to address identified weaknesses.	An AQR was concluded in early 2020 with results disclosed to the public. Actions are being implemented to address capital shortfalls identified for several banks.
Establishing a sound financial regulator following the authorities' decision to separate the financial supervision function from the NBK.	A new financial regulator started operating in 2020. Efforts are underway to enhance its capacity, such as in implementing risk-based supervision, supported by Fund TA.
Structural Reforms	
Improving business environment to promote diversified, private-sector-led growth.	The new development strategy includes reforms to enhance human and physical capital, improve the efficiency of public administration, reduce the state footprint. A Supreme council was established to improve reform coordination and implementation. More time is needed to assess the effectiveness of these initiatives.
Strengthening governance to address corruption risks.	Some progress has been made, such as in digitalizing tax administration and strengthening the procurement legal framework. Further efforts are needed to enhance the anti-corruption and AML/CFT frameworks.

Annex II. External Sector Assessment

Overall Assessment: *Kazakhstan was hit by a severe terms of trade shock in March-April 2020 due to the sharp drop in oil prices triggered by the COVID-19 pandemic. In 2021, higher oil prices and gradually recovering global demand led to a small improvement in the country's current account deficit. The external position is assessed as weaker than what is implied by fundamentals and desirable policies.*

Potential Policy Responses: *The timely and significant anti-crisis measures helped sustain economic activity. With the economy recovering and elevated inflation, policies are expected to be less accommodative. This will reduce the fiscal deficit and therefore help contain the current account deficit. Over the longer term, structural reforms aiming to boost export competitiveness and promote diversification will lower Kazakhstan's dependence on oil and strengthen its external position.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Since Kazakhstan shifted to a flexible exchange rate regime in 2015, its net international investment position (NIIP) has been gradually widening, reflecting a surge of FDI, and to a lesser extent, portfolio investment inflows. The NIIP reached over US$70 billion in 2020, almost double the size in 2015.

Assessment. Kazakhstan has large gross external liabilities, but over 70 percent are related to direct investment, including in the natural resource sector. The public sector is a net creditor. Overall, risks to external sustainability are limited.

2020 (% GDP)	NIIP: -41	Gross Assets: 95	Debt Assets: 29	Gross Liab.: 136	Debt Liab.: 12

Current Account

Background. The current account deficit improved to -3.0 percent of GDP in 2021 (from -3.8 percent of GDP in 2020), benefiting from higher oil and other commodity prices. Nominal oil exports are estimated to have rebounded by 35 percent in 2021. Non-oil exports are estimated to have grown by about 20 percent due to favorable prices for metals, wheat, and other raw materials. Therefore, the trade surplus doubled in 2021. This improvement was partly offset by a large deterioration of the income balance. In 2022, the current account projected to be in surplus at 3 percent of GDP on the back of higher oil and commodity prices. Over the medium term, the current account deficit is projected to stabilize at around 2 percent of GDP.

Assessment. Staff assesses Kazakhstan's external position in 2021 as weaker than implied by economic fundamentals and desirable policies.[1] The CA model of the IMF's EBA-lite framework estimates a (multilaterally consistent) cyclically adjusted current account norm of -1.1 percent of GDP. The actual cyclically adjusted balance stood at -3.7 percent of GDP, implying a gap of about -2.7 percentage point and a REER gap of 11.9 percent using standard export and import elasticities. The current account gap reflects a policy gap of -1.4 percent, mostly arising from the low public health expenditure relative to the desirable level, and lower credit to private sector and tighter fiscal policy compared with the rest of the world and desirable policies.

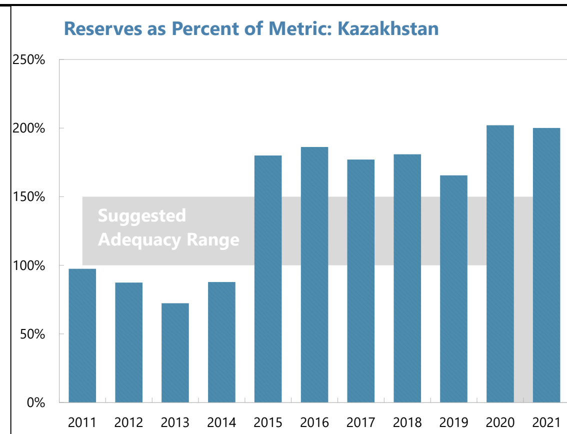
Kazakhstan: Model Estimates for 2021
(In percent of GDP)

	CA model	REER model
CA-Actual	**-3.0**	
Cyclical contributions (from model) (-)	0.9	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-3.8**	
CA Norm (from model) 1/	**-1.1**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-1.1**	
CA Gap	**-2.7**	**4.6**
o/w Relative policy gap	-1.4	
Elasticity	-0.2	
REER Gap (in percent)	**11.9**	**-20.6**

1/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate
Background. The real effective exchange rate (REER) depreciated by 0.5 percent in 2020 (eop), reflecting the impact of negative oil price shocks, but recovered by 1.9 percent in 2021 as oil prices strengthened, broadly consistent with past trends. The impact on competitiveness is expected to be limited given low export diversification outside agriculture and commodities. **Assessment.** The IREER model points to a larger undervaluation, by about 21 percent. However, as the IREER result is strongly influenced by demographic variables in the regression which have a longer-term impact, staff's assessment is more aligned with results from the CA method.
Capital and Financial Accounts: Flows and Policy Measures
Background. Kazakhstan saw large capital inflows in 2020 (9 percent of GDP), reflecting FDI related to oil sector investment and the operations of the government and NFRK to finance pandemic-related expenditures. This helped mitigate pressures on the tenge from adverse terms of trade shocks. Both factors have somewhat normalized in 2021 as the economy recovered from the COVID crisis. In March 2020, to mitigate exchange rate pressures, the authorities halved the daily cap on non-cash foreign currency that a resident legal entity may purchase for purposes unrelated to foreign currency obligations (from $100,000 to $50,000). In addition, SOEs were required to sell at least 50 percent of their FX export proceeds. Both measures are still in place. **Assessment.** Both measures could have been introduced to restrain capital flows amid uncertainty at the onset of the pandemic and are assessed under the IMF's Institutional View on Liberalization and Management of Capital Flows as capital flow management measures (CFMs). The measures are assessed as macro-critical at the time of their introduction, given their expected impact on capital flows and, ultimately, external stability. However, domestic and external conditions have substantially improved since then, and the actual impact of these measures is now minimal. While these measures were warranted last year as part of the broader anti-crisis policy package, they should be eliminated, in line with the Institutional View.
FX Intervention and Reserves Level
Background. At the end of 2021, reserves stood at $34.4 billion, covering about 8 months of projected next-year's imports of goods and services, 200 percent of short-term debt, and 50 percent of broad money. More than two thirds of reserve assets are in gold, and strong gold prices are among the reasons for the lower-than-expected decrease in reserves in 2021. Significant FX interventions to contain exchange rate volatility were conducted at the onset of the pandemic and again following the sanctions on Russia. In 2022, reserves are expected to increase by about $5 billion, subject to high uncertainty regarding the financial account balance and commodity and energy prices.

Assessment. Based on the IMF's ARA metric, gross reserves exceed the adequacy range for a country with a floating exchange rate. They are above the recommended 100–150 percent range for commodity exporters. The assets of the NFRK, currently at almost US$60 billion, provide an additional buffer.



Source: IMF staff calculations.

1/ To maintain consistency with the REER model, the CA model result presented is based on October 2021 World Economic Outlook (WEO) projections. Staff's latest projection is of a slightly better current account balance for 2021 (-0.5 percent of GDP compared with -0.9 percent of GDP under the October WEO) due to the improved oil price outlook. This would reduce the CA gap to -0.3 percent of GDP and REER gap to 1.1 percent, leaving the assessment that Kazakhstan's external position is broadly in line with the level implied by fundamentals and desirable policies unchanged.

Annex III. Risk Assessment Matrix[1]

Source of Risk and Relative Likelihood	Expected Impact	Policy Response
Conjunctural risks		
High **Outbreaks of lethal and highly contagious COVID-19 variants lead to subpar/volatile growth, with increased divergence across countries.**	Medium Rapidly increasing hospitalizations and deaths caused by vaccine-resistant variants, force lockdowns and increased uncertainty. Policies to cushion the economic impact are prematurely withdrawn. In addition to declines in external demand, a reassessment of growth prospects triggers capital outflows, financial tightening, and currency depreciation.	Utilize fiscal buffers to continue supporting the economy. Strengthen the medium-term fiscal framework. Allow the exchange rate to adjust to potential pressures. Continue monitoring financial stability. Accelerate the vaccination campaign.
Medium **De-anchoring of inflation expectations in the U.S. and/or advanced European economies**	Low Higher risk premia could cause pressure for depreciation, higher debt service and refinancing risks. Potential pressure on leveraged firms and households could depress growth.	Allow the exchange rate to adjust; if needed, use buffers to smooth volatility. Maintain fiscal sustainability by raising non-oil revenue and spending efficiency. Continue strengthening financial stability.
High **Extended global supply chains disruptions continue until 2023**	Low Shortages of intermediate and final consumer goods, growth slowdown, and price surges.	Maintain prudent monetary policy to contain inflation expectations.
Medium **Abrupt growth slowdown in China**	Medium Spillovers affect Kazakhstan through financial, trade, and commodity-price channels.	Allow the exchange rate to adjust; if needed, use buffers to smooth volatility.
High **Rising and volatile food and energy prices**	High Sustained high oil prices could contribute to build external and fiscal accounts buffers. A sharp drop in oil prices would have the opposite effect and cause pressures on the financial sector via the exchange rate and slower growth.	Allow the exchange rate to adjust; accumulate buffers and use them to smooth short-term volatility if needed. Continue structural reforms to promote economic diversification.
Structural Risk		
High **Geopolitical tensions and de-globalization**	High Intensified geopolitical tensions, security risks, and conflicts cause economic and political disruptions and lower investor	Use fiscal buffers, tighten monetary policy, as needed. Allow the exchange rate to adjust, intervene to smooth

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risk and Relative Likelihood	Expected Impact	Policy Response
	confidence. Associated supply chain disruptions and commodity price shocks give rise to inflationary pressures.	volatility if needed. Strengthen social safety nets.
High **Widespread social discontent and political instability**	High Social tensions erupt amid increasing prices of essentials and social dissatisfaction. Political instability triggers capital outflows.	Strengthen social safety nets. Accelerate structural reforms to promote inclusive growth. Strengthen the inflation-targeting framework.
Medium **Global information infrastructure failure.**	Medium Cyber-attacks trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	Provide monetary and fiscal support as needed. Support financial stability. Strengthen the bank resolution and crisis preparedness frameworks. Accelerate efforts to enhance cyber-security.
Medium **Natural disasters related to climate change.**	Medium/Low A disruption in global information systems (from an unintended error, natural disaster, or knock-on effects of widespread energy shortages) and/or cyber-attacks on critical infrastructure and institutions trigger financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	Accelerate actions to advance the green transformation, including to foster mitigation and adaptation, and cushion the transition. Utilize fiscal buffers, if needed.
Country-specific risks		
Medium **Fiscal slippages, slowdown of reforms, and delays in privatization.**	Medium Loosening fiscal policy including due to potential further support to banks, decreased investors' confidence, low level of competition, lack of diversification and high vulnerability to external shocks.	Implement strengthened bank resolution framework. Step up structural reforms, including privatizations (IPOs of Samruk Kazyna's largest assets as planned). Improve public sector transparency and accountability.
Medium **De-anchoring of domestic inflation expectations**	Medium Persistently high inflation levels, pressures for depreciation	Tighten monetary policy and recalibrate the policy mix. Reaffirm the independence of the NBK. Strengthen policy communications.

Annex IV. Debt Sustainability Analysis

Figure 1. Kazakhstan: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(In percent of GDP unless otherwise indicated)

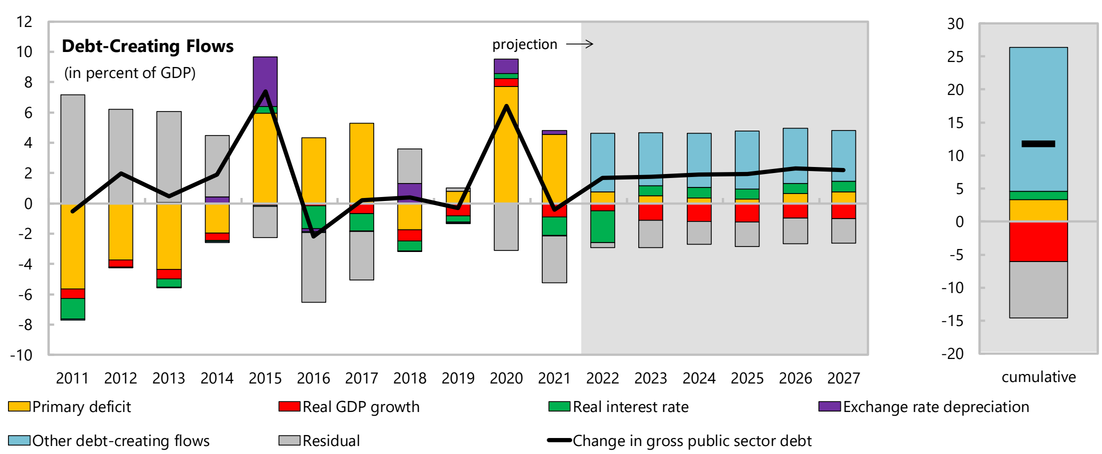
Debt, Economic and Market Indicators 1/

	Actual			Projections					
	2011-2019 2/	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	16.8	26.4	25.9	27.6	29.4	31.3	33.2	35.5	37.7
Of which: guarantees	0.7	1.3	1.5	1.2	1.2	1.1	1.0	0.9	0.9
Public gross financing needs	0.4	8.6	5.5	2.0	2.8	3.2	3.5	3.3	3.8
Net public debt	-18.4	-8.6	-3.5	-4.9	-3.8	-3.8	-3.8	-3.5	-3.0
Public debt (in percent of potential GDP)	16.9	26.0	25.9	27.5	29.3	31.2	33.2	35.5	37.8
Real GDP growth (in percent)	4.1	-2.6	4.0	2.3	4.4	4.4	4.3	3.1	3.1
Inflation (GDP deflator, in percent)	9.4	4.3	10.6	15.5	3.5	3.7	3.8	3.9	4.0
Nominal GDP growth (in percent)	13.9	1.6	15.0	18.2	8.0	8.3	8.3	7.1	7.2
Effective interest rate (in percent) 4/	5.4	5.9	5.8	6.4	6.3	6.3	6.3	6.1	6.2

As of March 03, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		288
5Y CDS (bp)		146
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BBB-	BBB-
Fitch	BBB	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance 10/
Change in gross public sector debt	1.0	6.4	-0.4	1.7	1.7	1.9	1.9	2.3	2.2	11.8	
Identified debt-creating flows	-0.7	9.5	2.6	2.0	3.6	3.4	3.5	4.0	3.8	20.3	
Primary deficit	-0.1	7.7	4.5	0.8	0.5	0.4	0.3	0.7	0.8	3.3	3.0
Primary (noninterest) revenue and grants	20.8	15.8	17.0	20.1	19.1	18.8	18.6	18.3	18.2	113.1	
Primary (noninterest) expenditure	20.6	23.5	21.6	20.9	19.6	19.1	18.9	18.9	18.9	116.4	
Automatic debt dynamics 5/	-0.6	1.8	-1.9	-2.6	-0.4	-0.5	-0.6	-0.3	-0.3	-4.8	
Interest rate/growth differential 6/	-1.1	0.8	-2.1	-2.6	-0.4	-0.5	-0.6	-0.3	-0.3	-4.8	
Of which: real interest rate	-0.6	0.3	-1.2	-2.1	0.7	0.7	0.7	0.7	0.7	1.3	
Of which: real GDP growth	-0.5	0.5	-0.9	-0.5	-1.1	-1.2	-1.2	-1.0	-1.0	-6.0	
Exchange rate depreciation 7/	0.5	1.0	0.3	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	3.9	3.5	3.6	3.8	3.7	3.3	21.8	
GG: Privatization Proceeds (negative)	0.0	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	
The NFRK asset accumulation 8/	0.0	0.0	0.0	3.9	3.5	3.6	3.9	3.7	3.4	21.9	
Residual, including asset changes 9/	1.8	-3.1	-3.1	-0.3	-1.8	-1.5	-1.6	-1.7	-1.6	-8.6	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as state guaranteed debt or liabilities of state subsidiaries.

2/ Based on available data.

3/ EMBIG.

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

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = 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 $r - \pi (1+g)$ 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/ The projected fiscal path and the guidelines for use of oil revenue and NFRK resources imply accumulation of assets in the NFRK and issuance of government debt.

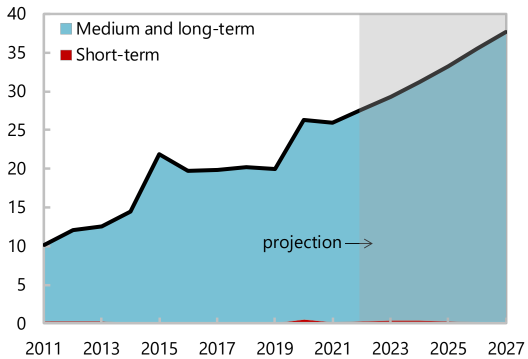
9/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

10/ 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.

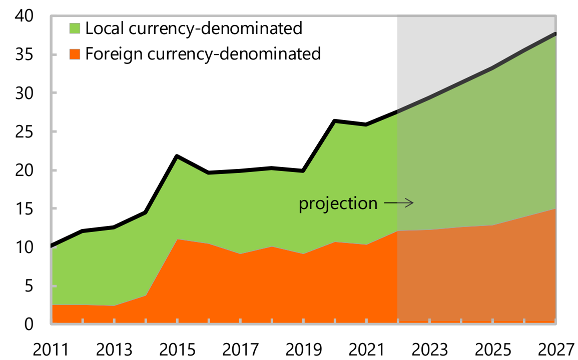
Figure 2. Kazakhstan: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



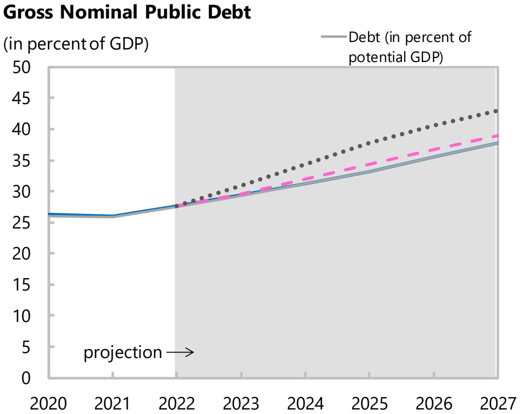
By Currency
(in percent of GDP)



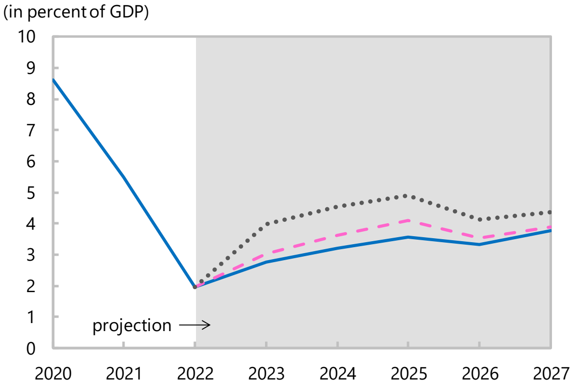
Alternative Scenarios

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	2022	2023	2024	2025	2026	2027
Real GDP growth	2.3	4.4	4.4	4.3	3.1	3.1
Inflation	15.5	3.5	3.7	3.8	3.9	4.0
Primary Balance	-0.8	-0.5	-0.4	-0.3	-0.7	-0.8
Effective interest rate	6.4	6.3	6.3	6.3	6.1	6.2
Constant Primary Balance Scenario						
Real GDP growth	2.3	4.4	4.4	4.3	3.1	3.1
Inflation	15.5	3.5	3.7	3.8	3.9	4.0
Primary Balance	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Effective interest rate	6.4	6.3	6.3	6.3	6.1	6.2

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	2.3	3.1	3.1	3.1	3.1	3.1
Inflation	15.5	3.5	3.7	3.8	3.9	4.0
Primary Balance	-0.8	-1.7	-1.7	-1.7	-1.7	-1.7
Effective interest rate	6.4	6.3	5.7	5.1	4.4	4.2

Source: IMF staff.

Table 1. Kazakhstan: External Sustainability Framework, 2016–26

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2016	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	**119.0**	**100.2**	**89.1**	**87.6**	**96.0**			**90.7**	**88.9**	**75.0**	**71.2**	**67.1**	**63.7**	**-3.4**
2 Change in external debt	36.0	-18.7	-11.1	-1.5	8.3			-5.3	-1.8	-13.9	-3.8	-4.1	-3.4	
3 Identified external debt-creating flows (4+8+9)	24.4	-20.3	-8.7	-0.6	5.1			-2.7	-7.0	-5.5	-4.5	-3.8	-2.4	
4 Current account deficit, excluding interest payments	2.4	-0.2	-3.4	0.6	0.9			0.5	-6.3	-3.0	-1.6	-0.9	-0.2	
5 Deficit in balance of goods and services	-4.0	-7.9	-11.7	-7.9	-4.2			-9.9	-22.0	-15.7	-13.3	-11.9	-10.2	
6 Exports	30.3	32.3	37.4	36.3	30.6			34.5	47.6	37.9	35.1	33.2	31.3	
7 Imports	26.3	24.4	25.8	28.3	26.4			24.6	25.6	22.2	21.8	21.3	21.1	
8 Net non-debt creating capital inflows (negative)	-10.0	-2.3	-1.8	-3.5	-4.1			-2.2	-1.9	-2.0	-2.2	-2.3	-2.3	
9 Automatic debt dynamics 1/	32.0	-17.8	-3.6	2.2	8.3			-1.0	1.3	-0.6	-0.7	-0.5	0.1	
10 Contribution from nominal interest rate	3.5	3.3	3.4	3.4	2.9			2.4	3.3	2.7	2.5	2.3	2.1	
11 Contribution from real GDP growth	-1.0	-3.8	-3.8	-4.0	2.4			-3.4	-2.1	-3.3	-3.2	-2.9	-2.0	
12 Contribution from price and exchange rate changes 2/	29.5	-17.2	-3.2	2.8	3.0			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	11.6	1.6	-2.4	-0.9	3.2			-2.6	5.2	-8.4	0.7	-0.3	-1.0	
External debt-to-exports ratio (in percent)	392.8	310.8	238.0	241.5	313.6			262.9	186.9	198.1	202.8	201.9	203.9	
Gross external financing need (in billions of US dollars) 4/	19.3	17.3	13.7	22.0	21.7			20.5	9.1	14.6	17.4	18.7	20.0	
in percent of GDP	14.1	10.4	7.7	12.1	12.7	10-Year	10-Year	10.7	4.7	6.5	7.3	7.4	7.5	
Scenario with key variables at their historical averages 5/								**90.7**	**90.2**	**86.4**	**83.2**	**79.3**	**74.7**	**-3.4**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	0.9	3.9	4.1	4.5	-2.6	3.5	2.9	4.0	2.3	4.4	4.4	4.3	3.1	
GDP deflator in US dollars (change in percent)	-26.2	16.9	3.3	-3.1	-3.3	-0.9	14.6	7.2	-0.8	11.8	1.0	1.8	2.0	
Nominal external interest rate (in percent)	3.1	3.3	3.7	3.9	3.1	3.2	0.4	2.8	3.7	3.5	3.5	3.5	3.3	
Growth of exports (US dollar terms, in percent)	-18.5	29.4	24.8	-1.8	-20.6	0.5	24.2	25.7	39.9	-7.1	-2.2	0.5	-1.1	
Growth of imports (US dollar terms, in percent)	-18.2	12.7	13.7	11.4	-12.3	1.3	15.5	3.8	5.7	1.2	3.8	3.7	3.8	
Current account balance, excluding interest payments	-2.4	0.2	3.4	-0.6	-0.9	1.6	3.0	-0.5	6.3	3.0	1.6	0.9	0.2	
Net non-debt creating capital inflows	10.0	2.3	1.8	3.5	4.1	3.9	2.5	2.2	1.9	2.0	2.2	2.3	2.3	

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.

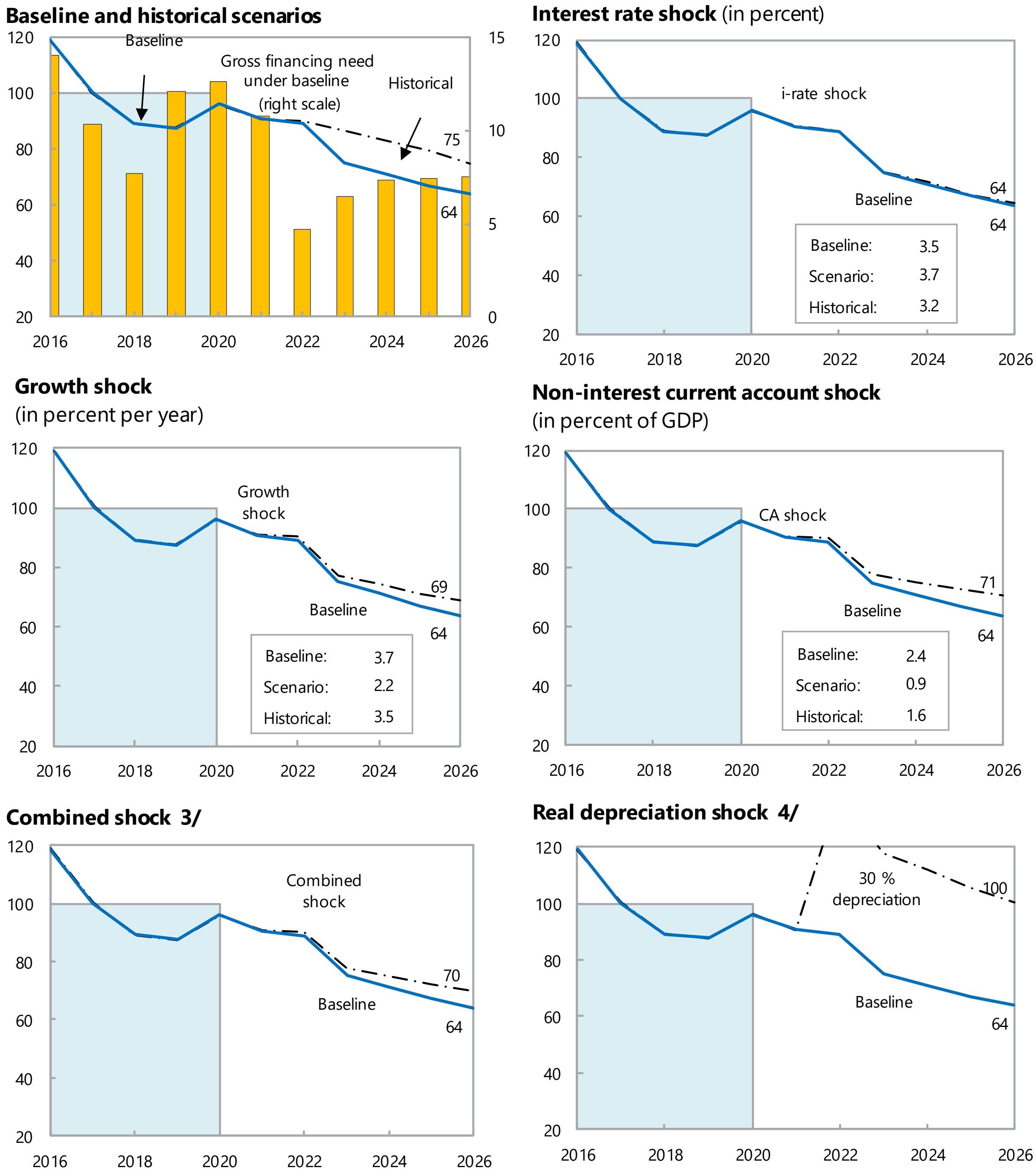
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

Figure 3. 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 2022.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

March 21, 2022

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By: The Middle East and Central Asia Department (in consultation with other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of February 28, 2022)

Membership status:

The Republic of Kazakhstan joined the IMF on July 15, 1992. It accepted the obligations of Article VIII, Sections 2, 3, and 4 in 1996.

General Resources Account:

	SDR Million	Percent of Quota
Quota	1,158.40	100.00
IMF's Holdings of Currency (Holdings Rate)	960.23	82.89
Reserve Tranche Position	198.18	17.11

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	1,453.93	100.00
Holdings	1,463.81	100.68

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: Kazakhstan's de jure exchange rate arrangement is free floating, and its de facto exchange rate arrangement is classified as floating. Interventions by the National Bank of Kazakhstan (NBK) on the foreign exchange market are not systematic but aimed exclusively at limiting short-term market volatility. The NBK started publishing monthly data on net foreign exchange interventions on a regular basis in 2016. Kazakhstan has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation:

Kazakhstan is on the standard 12-month consultation cycle, despite a temporary suspension in 2020 due to the COVID pandemic. The last consultation was concluded by the IMF Executive Board on January 27, 2020 (see IMF Country Report No. 20/32).

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 (see IMF Country Report 14/258). The next FSAP is expected in 2022. 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, adopted in 2011, 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 but 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 2022.

Technical Assistance and Training:

Kazakhstan has received IMF TA and training in all key economic policy areas during 1993-2022. 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. A regional capacity development center for CCA countries and Mongolia (CCAMTAC) was established in Almaty in 2021. Other international agencies and governments also provide TA (e.g., the World Bank, EBRD, UNDP, ADB, OECD, USAID). The following summarizes Fund TA to Kazakhstan since 2010.

Monetary and Capital Markets Department

IMF TA has enabled progress in monetary and exchange rate policy and operations, central bank accounting, payments system reform, central bank organization and management, banking legislation, banking supervision, statistics, and money-market development.

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. 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. 2015–16: Monetary and exchange rate policy and operations.
9. July 2016: Banking issues.
10. April 2018: Management of distressed assets.
11. April 2018: Foreign exchange operations.
12. 2018–19: Forecasting and Policy Analysis System.
13. September 2020: Risk-Based Supervision.
14. November 2020–January 2021: Risk-Based Supervision Pillar 2 Implementation.
15. January–April 2021: Capacity Development Plan of CCAMTAC in Central Bank Policy and Operations.
16. April–May 2021: Risk-Based Supervision Recovery Plans and Interest Rate Risk.
17. July–September 2021: Risk-Based Supervision Pillar 2 Liquidity.
18. July–October 2021: Strengthening Cybersecurity in Financial Institutions.
19. December 2021: Bank Stress Testing.
20. January 2022: Quarterly Projection Model.
21. February 2022: Debt Management.
22. February 2022: Risk-Based Supervision for Securities Markets
23. February 2022: Central Bank Risk Management

Fiscal Affairs Department

Support has been provided on 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.
5. April-May 2019: Accrual budgeting.
6. September 2019: Improving Tax Compliance Risk Management.

7. May-August 2020: Assessing Macro-Fiscal Risks and State-Owned Enterprises.
8. November-December 2020: Accrual Budgeting and First Prospective Consolidated Financial Statements.
9. November 2021: Accrual Budgeting.
10. February-March 2022: Fiscal Risks Management.

Institute for Capacity Development

1. October-November 2021: Forecasting Performance of Quarterly Projection Model of the NBK.

Statistics

1. April 2011: BOP statistics.
2. 2013–14: Government finance statistics.
3. April 2015: Monetary and financial statistics.
4. June 2015: National accounts statistics.
5. August 2015: External sector statistics.
6. 2017–18: National accounts statistics.
7. April 2018: Government finance statistics.
8. September 2019: Government finance statistics.
9. January 2021: Government finance statistics.
10. August–September 2021: National accounts statistics.
11. November 2021: Price statistics.
12. November 2021: Government finance statistics and public sector debt statistics.

Legal Department

1. April 2010: AML/CFT (joint with 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, on 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.

A regional capacity development center for the eight countries in the Caucasus and Central Asia, as well as Mongolia (CCAMTAC), was established in Almaty in 2021.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: https://www.worldbank.org/en/country/kazakhstan

European Bank for Reconstruction and Development: https://www.ebrd.com/kazakhstan.html

Asian Development Bank: https://www.adb.org/countries/kazakhstan/main

STATISTICAL ISSUES

(As of November 2021)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance. Key areas for progress are the balance of payments and national accounts. The Committee on Statistics, previously under the Ministry of National Economy, was relocated in 2020 to be under the Agency for Strategic Planning and Reforms and renamed Bureau of National Statistics (BNS) in order to enhance the agency's independence.
National accounts: Considerable progress has been made in improving the statistical infrastructure and making the coverage of the business register more comprehensive. Annual estimates of the oil and gas sector are compiled and disseminated following international standards, but only in Russian. The BNS 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. It is also in the process of updating the method used to compile volume movements for taxes on products used to construct movements in real GDP. Despite progress made on both issues, publication of discrete quarterly GDP estimates has been delayed and is now expected by December 2022.
Price statistics: Kazakhstan compiles consumer, producer, and import/export prices indices. The quality of the monthly consumer price index 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: While the nationally based budget data do not follow international standards, progress is gradually being made in the classification of fiscal statistics to align with the Fund's Government Finance Statistics Manual 2014 (GFSM 2014). 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, State Social Insurance Fund, and the Compulsory Health Insurance Fund; the Problem Loan Fund and the Victim Compensation Fund will also be added. Additional work is required to improve classification of quasi-government entities. With these caveats, the authorities report annual data for the consolidated general government, including a financial balance sheet. However, statistics on the enlarged government (including public enterprises) are not available. Classification of assets and liabilities does not fully comply with GFSM 2014.

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 for certain transactions. Kazakhstan reports data on several indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches and ATM numbers per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
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 NBK is reporting quarterly BOP and IIP data in line with the sixth edition of the IMF Balance of Payments Statistics Manual (BPM6) and the Reserves Template. It also participates in the World Bank's Quarterly External Debt Statistics (QEDS). A new Law on Currency regulation and Currency Control, adopted in July 2018, changes the status of branches and representative offices of foreign companies from nonresident to resident and introduces stronger reporting requirements for financial transactions. 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. 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 March 1, 2022)

						Memo Items	
	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Data Quality-Methodological Soundness[8]	Data Quality-Accuracy and Reliability[9]
Exchange Rates	2/28/2022	3/1/2022	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jan/2022	2/28/2022	M	M	M		
Reserve/Base Money	Jan/2022	2/19/2022	M	M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	Jan/2022	2/19/2022	M	M	M		
Central Bank Balance Sheet	Jan/2022	2/30/2022	M	M	M		
Consolidated Balance Sheet of the Banking System	Jan/2022	2/30/2022	M	M	M		
Interest Rates[2]	Jan/2022	2/25/2022	M	M	M		
Consumer Price Index	Jan/2022	2/1/2022	M	M	M	O, O, O, O	O, O, LO, O, O
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	2/1/2022	2/2/2022	M	M	M	O, LO, LO, LO	O, O, O, O, LNO
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	2/1/2022	2/23/2022	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	1/1/2022	2/1/2022	M	M	M		
External Current Account Balance	Q4/2021	2/17/2022	Q	Q	Q	LO, O, O, O	O, O, O, O ,O
Exports and Imports of Goods and Services	Q4/2021	2/17/2022	Q	Q	Q		
GDP/GNP	Q4/2021	2/15/2022	Q	Q	Q	O, O, O, LO	LO, O, LO, O, O
Gross External Debt	Q3/2021	1/11/2022	Q	Q	Q		
International Investment Position[6]	Q3/2021	1/11/2022	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.

INTERNATIONAL MONETARY FUND 10

REPUBLIC OF KAZAKHSTAN

Statement by the Staff Representative on the Republic of Kazakhstan
April 4, 2022

This staff statement provides an update on recent developments and information that has become available since the staff report was issued. This information does not alter the thrust of the staff appraisal.

1. Exchange rate pressures. As noted in the staff report, the tenge depreciated by almost 20 percent against the US dollar in the days following the Russian invasion of Ukraine, including because of residents switching from tenge- to US dollar-denominated deposits. In response, the authorities took measures to curb exchange rate volatility, including a policy rate increase of 325 basis points, foreign exchange interventions (about US$745 million between February 24-March 11, compared with US$490 million in all of 2021), and incentives to maintain tenge-denominated deposits. In addition, a presidential decree issued on March 14 prohibited the export of foreign currency in amounts exceeding US$10,000, and of physical gold above 100 grams. As of March 29, the tenge had recouped some of its losses, with the depreciation since February 24 reduced to less than 10 percent relative to the US dollar. Staff is assessing whether the measures adopted under the decree—which aim to avoid a spiral of inflation, additional exchange rate pressures, deposit dollarization, and potential financial stability risks—constitute Capital Flow Management Measures (CFM).

2. Banking system. Bank liquidity pressures were observed in late February, including in local subsidiaries of Russian banks, and as deposits were shifted into US dollar. In line with the above, the situation has stabilized in March. The subsidiaries of Russian banks subject to international sanctions are funded mainly through local deposits, their assets consist largely of domestic tenge loans, and they recently received liquidity support from parent banks to meet their domestic obligations. More broadly, foreign currency lending in the economy is limited (about 12 percent of total lending) and extended mainly to naturally hedged borrowers. The domestic banking system's direct exposure to Russia is also small (1.3 percent of total assets). Finally, the latest available data suggest that credit growth accelerated further in February, to 31 percent (yoy), confirming the importance of increased supervisory focus on consumer lending—an area in which staff has actively engaged with Kazakhstan's financial regulatory agency in recent days.

3. Oil exports. In mid-March, a storm damaged two of the three single point moorings (SPM) of the Caspian Pipeline Consortium (CPC) at Novorossiysk (Russia), on the Black Sea. Kazakhstan transported about 80 percent of its oil exports through this pipeline in 2021. Available information indicates that repairing the damaged SPMs may take three to four weeks. Since the pipeline normally operates with only two SPMs, it can retain at least 50 percent capacity while repairs take place. Like the authorities, staff's preliminary assessment is that a 50 percent loss of oil export capacity for a few weeks would not materially affect the baseline external and fiscal projections in the staff report, including because oil prices are currently above underlying assumptions. Yet, the interruption of the CPC pipeline has increased risks to the outlook, especially considering that options for re-routing oil exports are limited in the short term. Staff will continue to monitor the situation closely, in particular as far as the expected duration of the repairs is concerned.

Statement by Mr. Trabinski and Ms. Zhunusbekova on Republic of Kazakhstan
April 4, 2022

On behalf of the Kazakh authorities, we thank staff for the productive discussions during the Article IV mission, the comprehensive report, as well as the insightful Selected Issues paper. The authorities are grateful for the consistent cooperation and Fund advice that they have benefited from. We broadly share staff's views on the challenges ahead and appreciate their recommendations.

Economic developments and outlook

Kazakhstan has been significantly affected by the COVID-19 pandemic. The authorities responded decisively by introducing and adjusting containment measures. Kazakhstan also adopted an unprecedented support package totaling USD 15 billion, or 9 percent of GDP.

Currently, the pandemic is under control, and all the regions have returned to normal social and economic activity levels. Kazakhstan was among the first ten countries globally to develop its vaccine, QazVac. As of March 28, 2022, 48.8 percent of the population (9.1 million people) has been fully vaccinated, and six types of vaccines are available to Kazakh citizens *(QazVac, Sputnik V, Pfizer, Hayat-Vax, CoronaVac, and Sinopharm).*

The economy rebounded in 2021, with growth reaching 4 percent, driven by strong policy support, and the positive dynamic in manufacturing, services, trade, and construction. The authorities adopted two more packages of operational measures to support the most vulnerable parts of the population and businesses and to further stimulate economic recovery and investments. Strong external buffers provided significant support to the economy. Combined external assets of the national oil fund (NFRK) and the National Bank of Kazakhstan (NBK) amounted to an estimated 46 percent of GDP at end-2021. Higher oil revenues are expected to preserve the strength of the public balance sheet while allowing for additional support to the economy.

The authorities are determined to implement the ambitious Kazakhstan 2050 vision and position the country among the top 30 most advanced economies. To continue on the strong path of structural reforms, the authorities have established the Supreme Council for Reforms under the President, developed the National Development Plan, and approved ten national projects in four main areas, namely ensuring sustainable economic growth, development of entrepreneurship, development of agro-industrial complexes, and technological breakthrough focused on digitalization, innovation, and science. Strategic and budgetary planning is closely integrated with the prioritization of goals and objectives and has already increased the efficiency of budgetary spending.

A less strong dynamics is expected this year in terms of investment and consumer demand due to the situation in Russia and Ukraine, as well as due to the observed volatility in the foreign exchange market. The authorities believe that the geopolitical crisis will have a moderate impact on economic activity. The weakening of external demand will likely be offset by higher commodity prices, and a potential increase in budgetary spending, as well as the significant improvement in the epidemiological situation.

Monetary Policy

In March 2021, the NBK approved the new "Monetary Policy Strategy until 2030." Monetary policy continues to be conducted in accordance with the principles of inflation targeting.

In early 2022, inflationary pressures have increased. After slowing down at end-2021, annual inflation accelerated to 8.7 percent at end-February. Significant increases in prices of food and non-food products (10 percent and 8.6 percent, respectively) and services contributed to this outcome. Tackling inflation and anchoring inflation expectations are top priorities for the authorities. On February 24th, 2022, the NBK raised the base rate to 13.5 percent to tackle inflationary pressures, ensure macroeconomic stability, and support the demand for local currency instruments.

To counter the substantial pressure on the domestic financial markets from the challenging geopolitical situation and supply chain pressures, the NBK and the Government of Kazakhstan immediately started implementing the Joint Action Plan. The NBK is taking actions to support financial stability, and the Government is implementing a set of anti-crisis measures. The Government and the NBK launched the Tenge Deposit Protection Program in February 2022 to support deposits made by individuals in tenge by paying a premium rate, which will be covered by the state budget, on deposits denominated in tenge. Following the increase in the base rate, the marginal rates on tenge deposits recommended by the Kazakhstan Deposit Guarantee Fund have also been increased. These measures aim to preserve the attractiveness of tenge assets and to decrease the pressure on the exchange rate and inflation.

Digital Tenge

Kazakhstan is exploring the potential issuance of central bank digital currency (CBDC), so-called digital tenge. In 2021, the NBK, in cooperation with financial institutions and the expert community, developed a retail CBDC proof-of-concept and initiated research on economic implications and regulatory aspects. The project aimed to explore the potential of CBDC for enhancing financial inclusion, fostering innovation in the financial market, and enabling effective cross-border transactions.

At this stage, NBK has tested the basic functionality of the two-tiered CBDC prototype, which included tokenization of ownership, offline payments, customizable anonymity, and integration of financial institutions. Exploring the prospect of digital tenge is a creative exercise that requires further investigation with market participants. The decision-making framework for CBDC issuance in Kazakhstan will be determined by July 2022. The resolution on the need for the digital tenge and its introduction in the market will be prepared at end-2022, based on the results of a comprehensive study of potential benefits and risks, elaboration of technological aspects, the impact on monetary policy and financial stability, as well as the effect on the National Payment System and its participants.

Fiscal Policy

Fiscal policy will continue to balance support to the economy with preserving the sustainability of public finances. On December 31, 2021, the President Tokayev signed and enacted new amendments to the Budget Code that incorporate a set of rules in accordance with the new economic policy, which became effective on January 1, 2022. Specifically, the counter-cyclical budget rule establishes a maximum level of guaranteed transfers from the NFRK to the republican budget and limits the growth rate of public spending at the level of long-term economic growth adjusted for the inflation target.

To reduce the dependence of the republican budget on oil revenues and on external factors, fiscal policy will target the gradual reduction of the non-oil deficit relative to GDP. The authorities plan to reduce the level of non-oil deficit to 5.0 percent of GDP or less by 2030.

Kazakhstan enjoys a strong government balance sheet, supported by a low debt burden, high debt affordability, and sizable reserves held in foreign assets, which provide a significant buffer against external shocks. The twin-shock from the COVID crisis and low oil prices resulted in a moderate drawdown of fiscal buffers in 2020. However, the authorities expect the buffers to strengthen over the next two years as the economy rebounds thanks to higher oil prices.

The 2022 budget will be revised to accommodate greater social spending, but the authorities are not altering the targeted republican budget deficit, which is set at 3.3 percent of GDP, owing to higher than previously budgeted energy revenues, new measures to increase revenues, and better expenditure management.

Financial Sector
The financial sector remained sound and resilient during the pandemic crisis. The banking sector has a large margin of safety and stability thanks to the authorities' efforts aimed at improving the legislative framework for bank resolution and addressing problematic loans accumulated in 2020 and 2021. Over the past two years, the Agency for Regulation and Development of Financial Market (ARDFM), the agency in charge of financial oversight, has revoked the licenses of five banks, and problem loans in the amount of 1.3 trillion tenge have been written off. The banks created provisions for loan losses in the amount of 554 billion tenge, and the shareholders carried out additional capitalization in the amount of 128 billion tenge.

By clearing the sector of toxic assets, banks now have a significant capital and liquidity cushion that allows them to absorb potential external economic shocks. The assets of the banking system in Kazakhstan at the beginning of 2022 amounted to 37.6 trillion tenge. In the first two months of this year, customer deposits have increased by 2.3 percent (26.6 trillion tenge). Lending to the economy slowed down slightly due to the negative impact of the events of this past January and the current geopolitical uncertainty.

Within the full-scale of the Supervisory Review and Evaluation Process (SREP), in 2021, the ARDFM conducted an assessment of banks under the SREP methodology. The assessment confirmed the financial sustainability of the banking sector and the availability of sufficient capital and liquidity reserves, including for covering potential losses from a possible deterioration in the economic situation.

Since 2021, the ARDFM has started working on the integration of tools and supervisory stress testing recommended by the Asset Quality Review into the SREP supervisory model. The application of new elements for review on an annual basis will qualitatively improve the SREP methodology and allow for the assessment of the capital adequacy of banks in terms of existing risks as well as future risks.

Structural reforms
The Kazakh authorities are aiming to continue to implement structural reforms, with a special emphasis on further improving the business and investment climate, supporting the SME sector,
reducing the state's role in the economy, increasing economic diversification, and strengthening human capital.

This year, President Tokayev announced several important institutional reforms aimed at stimulating the structural transformation of the economy. In particular, the New Economic Policy (NEP) was introduced. The key focus of the NEP will be on strengthening the rule of law, stimulating fair competition, and further reducing the share of the state in the economy.

Moreover, the NEP will reduce the administrative barriers for businesses, improve the tax system, and reform the public procurement system.

The Agency for Strategic Planning and Reforms (ASPR) will oversee the implementation of the NEP, with the objective aimed at creating conditions for the development of a market economy with a social orientation.

To improve the business climate, the authorities have initiated a revision of the Government's support to SMEs. They intend to reform the largest quasi-state holding (Samruk-Kazyna), improve privatization policy processes, and make the agriculture subsidy system more efficient and transparent.

In his recent address to the nation, President Tokayev announced important constitutional reforms, including the reform of the powers of the President and Parliament, the improvement of the electoral system and modernization of the electoral processes. Within the scope of the reform are also: i) the development of a party system, and ii) the decentralization of the local governance system. Overall, these reforms will put in place the right institutional settings for introducing qualitative changes in the structure of the economy in terms of increasing the role of entrepreneurship and private initiatives.