INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/367

REPUBLIC OF KAZAKHSTAN

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

December 2022

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Republic of Kazakhstan, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis following discussions that ended on October 5, with the officials of Republic of Kazakhstan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 15, 2022.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues

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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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2022 Article IV Consultation with the Republic of Kazakhstan

FOR IMMEDIATE RELEASE

Washington, DC—December 14, 2022: The Executive Board of the International Monetary Fund (IMF) concluded the 2022 Article IV consultation[1] with the Republic of Kazakhstan and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

Russia's invasion of Ukraine has had modest impact on economic activity in Kazakhstan to date. Real GDP growth is projected to decline to 2.7 percent in 2022, from 4.3 percent in 2021, due mostly to temporary disruptions to oil production. Inflation has continued to rise to about 19 percent, reflecting global inflation, the depreciation of the tenge, and rapid wage and credit growth. High commodity prices have reinforced Kazakhstan's large fiscal and external buffers, with the current account expected to post a surplus of 3.1 percent of GDP in 2022, against a deficit of 4 percent in 2021. Kazakhstan's banking system is resilient and has coped well with the effects of the war, but rapid retail lending growth and increased concentration in the sector create potential vulnerabilities. The outlook remains subject to large uncertainty and downside risks from the war in Ukraine, especially regarding Kazakhstan's oil exports through Russia, while inflation pressures could reignite social tensions. On the positive side, high commodity prices could continue strengthening buffers, and Kazakhstan could benefit from the relocation of foreign firms.

The authorities took multiple actions to preserve stability and support the economy. A key macroeconomic policy challenge being to contain inflation, the National Bank of Kazakhstan has raised its policy rate by 700 basis points since mid-2021, and indicated that further tightening may be necessary. In addition, the government established temporary export restrictions of essential goods and controls of energy and utility prices. In response to social demands and following the outbreak of the war, the government adopted a revised budget significantly expanding public spending. Notwithstanding, given strong oil and non-oil revenues, fiscal balances are expected to improve substantially in 2022, while fiscal consolidation in the coming years would be supported by newly introduced fiscal rules. The authorities have proactively addressed financial sector risks from consumer credit growth and the indirect impact of international sanctions on Russia.

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[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.

[2] The Executive Board takes decisions under its lapse-of-time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

In 2022, the authorities announced a set of new governance and economic reforms which would address some of Kazakhstan's main development impediments. They relate in particular to limiting the concentration of presidential powers and increasing political representation, addressing governance and corruption vulnerabilities, reducing the role of the state in the economy, and supporting the development of small and medium enterprises. The authorities have also embarked on reforms of the tax code, the budget code, public procurement practices, the public-private partnerships law, and fiscal decentralization.

Executive Board Assessment[3]

In concluding the Article IV consultation with the Republic of Uzbekistan, Executive Directors endorsed the staff's appraisal as follows:
Facing multiple shocks, Kazakhstan's economy has slowed down and inflation has continued to accelerate. The post-COVID recovery has been hindered by a series of domestic and external shocks. Despite a limited impact of Russia's war in Ukraine so far, temporary disruptions in oil production have held back GDP growth. Reflecting pressures from global prices, currency depreciation, and rapid wage and credit growth, inflation and inflation expectations have surged well beyond the 4–6 percent target band.

Downside risks to the outlook have increased, even though Kazakhstan benefits from strong buffers. Expanded oil production should drive higher growth next year, and non-oil growth would converge to 3.5 percent in the medium term, subject to continued reform implementation. Inflation is expected to subside gradually, remaining above target through 2024. High commodity prices would be a positive factor for Kazakhstan, which benefits from low public debt, large official reserves, and exchange rate flexibility, but intensified spillovers from the war are the main near-term risk, especially if they exacerbate inflation pressures or durably affect oil exports through Russia.

Well-coordinated macro-financial policies and strong policy frameworks will be important to preserve stability and promote economic growth. Strong buffers and forceful policy responses have helped Kazakhstan weather multiple shocks in recent years, including spillovers from the war in Ukraine. Looking ahead, effective coordination between fiscal, monetary, and financial sector policies will remain essential to manage near- and long-term challenges.

Monetary policy should remain tight until inflation is contained and inflation expectations are anchored. Despite continued policy rate increases in recent months, further monetary policy tightening may be needed to rein in inflation and protect the most vulnerable. Administrative measures to contain inflation, such as price freezes or exports restrictions should be avoided. The authorities' continued commitment to exchange rate flexibility is commendable. The inflation targeting regime, which has served Kazakhstan well, should be further strengthened, including by phasing out the NBK's non-core mandates and ensuring its independence. The

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[3] 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 summing up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

upcoming introduction of a central bank digital currency could provide significant benefits and will require continued consideration of potential risks.

Continued gradual fiscal consolidation should help contain inflation and maintain buffers, while preserving essential social expenditures. The authorities are appropriately saving part of the current oil windfall and aiming to reach a non-oil fiscal balance of 6 percent of GDP by 2025. In addition to the ongoing strengthening of tax and customs administration, this will require increased non-oil revenues through reduced corporate exemptions, capital income taxation, higher VAT rates, and the introduction of progressive income taxation. There is also room to improve the effectiveness of public expenditure, including by leveraging digitalization to enhance the level and targeting of public support to the most vulnerable.

To strengthen fiscal policy implementation, a stronger institutional framework is desirable. The fiscal rules entering in effect next year could support a prudent and more counter-cyclical fiscal policy. To ensure their effectiveness, an independent fiscal council should be established, and proper escape clauses should be introduced, including to limit discretionary policy changes. More broadly, stronger public financial management will require incorporating quasi-fiscal activities in the fiscal accounts and improving public sector sectorization and budget classification. The introduction of statements on fiscal risks and long-term sustainability with the 2023 budget, as well as the government’s decision to conduct a Fiscal Transparency Evaluation, are welcome steps.

The banking sector has coped well with the fallout of international sanctions and ongoing progress in strengthening financial regulation and supervision is welcome. The ARDFM should continue coordinating with foreign regulators to avoid secondary sanctions. The recent introduction of regular asset quality reviews and supervisory stress tests are important steps towards establishing sound risk management practices and reducing risks of bank distress. In collaboration with the NBK, the ARDFM should monitor risks from rapid consumer lending growth and increased concentration in the banking sector and apply targeted prudential measures as warranted to preempt them. Finally, further strengthening the bank resolution framework will be important. The 2023 FSAP will be an opportunity to assess Kazakhstan’s financial stability framework.

Early policy action would help Kazakhstan meet its climate-related commitments. Kazakhstan’s large dependence on hydrocarbons will require phasing in important policy adjustments. A quick finalization of the government’s climate strategy should provide a clear roadmap towards compliance with the Paris Agreement targets in 2030 as well as the net zero emissions objective in 2060. This should include intermediate targets, specific actions to achieve them, and costing of investment needs. Fiscal policy will play a key role, including by gradually reducing large energy subsidies and introducing carbon taxation to provide adequate incentives, while raising revenue to finance the transition and support to affected vulnerable groups.

Sustaining long-term growth will require a greater role of the private sector, supported by improved public sector governance. Promoting greater private sector development will be critical to ensure economic diversification as the world moves towards a low-carbon economy.

This will require a reduced state footprint in the economy, including by following through on large SOE privatizations. Building on recent announcements, efforts to improve governance and strengthen the fight against corruption should be accelerated. Priorities in these areas include legal and institutional reforms to strengthen fiscal transparency, independence of anti-corruption institutions and the judiciary, and enhancing the AML/CFT framework and leveraging it to combat grand corruption, including through effective monitoring of politically exposed persons and increased beneficial ownership transparency.

Kazakhstan: Selected Economic Indicators, 2019-23

Population (2022): 19.2 million	Per capita GDP (2021, US$): 10,369
Quota: SDR 1,158.40 million	Literacy rate: 99.8% (2018)
Main export: crude oil, metals, minerals	Poverty rate: 5.2% (2021)
Key export markets: EU, China, Russia	

	2019 (act.)	2020 (act.)	2021 (act.)	2022 (proj.)	2023 (proj.)
Output					
Real GDP growth (%)	4.5	-2.5	4.3	2.7	4.2
Real oil	0.1	-4.7	-0.6	0.2	8.2
Real non-oil	5.9	-2.0	5.5	3.4	3.1
Crude oil and gas condensate production (million tons)	90.4	85.7	85.7	85.7	92.6
Employment					
Unemployment (%)	4.8	4.9	4.9	4.9	4.8
Prices					
Inflation (eop, %)	5.4	7.5	8.4	19.5	10.5
General government finances					
Revenue (% GDP)	19.7	17.5	17.1	22.1	21.5
Of which: oil revenue	6.9	3.4	5.3	8.8	7.9
Expenditures (% GDP)	20.3	24.6	22.1	22.6	21.8
Fiscal balance (% GDP)	-0.6	-7.1	-5.0	-0.5	-0.3
Non-oil fiscal balance (% GDP)	-7.5	-10.5	-10.3	-9.2	-8.3
Gross public debt (% GDP)	19.9	26.4	25.1	23.2	24.0

Money and credit					
Broad money (% change)	2.4	16.9	20.8	25.3	18.4
Credit to the private sector (% GDP)	5.5	5.3	24.4	23.3	19.4
NBK policy rate (%, eop)	9.25	9.0	9.75	…	…
Balance of payments					
Current account (% GDP)	-4.6	-4.4	-4.0	3.1	2.2
Net foreign direct investments (% GDP)	-3.3	-3.4	-1.0	-1.2	-1.1
NBK reserves (in months of next year's imports of goods and services)	7.5	8.7	7.7	7.8	8.5
NFRK assets (in percent of GDP)	34.0	34.3	28.1	26.3	27.3
External debt (% GDP)	87.8	96.2	83.6	71.5	64.2
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 2022 ARTICLE IV CONSULTATION

November 15, 2022

KEY ISSUES

Context. Inflation has surged to 18 percent while growth is projected to slow to 2.7 percent this year. High oil prices have strengthened fiscal and external buffers, while the revised budget increased public spending by 2½ percentage points of GDP to support activity. Subsidiaries of sanctioned Russian banks have exited the domestic market and regulatory compliance is being enhanced to avoid secondary sanctions. Risks to the outlook remain tilted to the downside, as adverse global conditions could lower oil prices and raise borrowing costs, while oil exports through Russian territory remain a major source of vulnerability. Accelerated economic diversification and private sector development are needed to attain sustainable and inclusive growth.

Key recommendations. The discussions focused on policies to navigate immediate challenges from inflation and external spillovers, and on structural reforms to tackle priorities related to climate change, governance, and the role of the state in the economy:

- *Monetary policy*. Inflation is yet to be contained and further monetary policy tightening may be warranted to anchor inflation expectations and protect the poor. The inflation targeting framework should be consolidated, including by strongly affirming the National Bank of Kazakhstan's independence.
- *Fiscal policy*. Prudent fiscal policy will help curb inflation and rebuild buffers. Medium-term fiscal consolidation should continue, together with targeted support to those most affected by high food prices. In the long term, fiscal policy will be a key driver of decarbonization.
- *Financial sector policy*. Prudential measures should preempt risks from rapid consumer lending growth and increased market concentration. The authorities should continue to strengthen the bank supervision and resolution frameworks.
- *Structural reforms*. The current context is an opportunity to accelerate reforms to improve public governance, reduce the role of the state in the economy, and address corruption vulnerabilities, including by better monitoring politically exposed persons and increasing beneficial ownership transparency. Rapid progress on climate policies is needed to meet Kazakhstan's 2030 commitments.

Approved By
Subir Lall (MCD) and Eugenio Cerutti (SPR)

Discussions took place in Almaty and Astana during September 22 – October 5, 2022. The team comprised N. Blancher (head), S. Arzoumanian, A. Hajdenberg, G. Impavido (MCD), J. Zhou (MCM), O. Basdevant (FAD) and T. Burjaliani (LEG, remotely). The mission met with Prime Minister Smailov, NBK Governor Pirmatov, Minister of National Economy Kuantyrov, Minister of Finance Zhamaubayev, other government officials, representatives from the private sector, the diplomatic community, and the media. M. Peter and M. Zhunusbekova (OED) attended some meetings. The mission was supported by O. Bissekeyeva and A. Badeyeva (local office), and L. Nigmatullina (IMF-HQ).

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CONTEXT

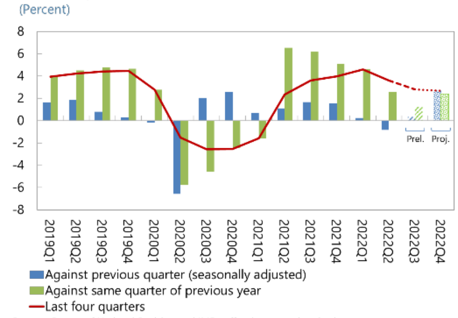
1. Kazakhstan's economy recovered from the COVID-19 crisis, but repeated shocks this year underscore the importance of well calibrated macroeconomic policies and economic transformation. Social unrest in January, Russia's war in Ukraine, accelerating inflation and tighter global financial conditions have clouded the outlook and risks for 2022 and beyond. Policy frameworks and public governance need to be enhanced to safeguard economic resilience. More broadly, in a low-carbon and fragmented world, sustainable growth will require greater economic diversification and private sector development.

2. The current juncture is an opportunity to accelerate reforms, building on recent announcements. In response to the recent unrest and economic shocks, president Tokayev announced important reforms in 2022. Constitutional amendments were adopted in June to reduce the concentration of presidential powers and increase political representation. Presidential and parliamentary elections will take place in late 2022 and early 2023, respectively, and could help secure political stability and policy continuity. On the economic front, the announcements emphasized reforms to support private sector development, reduce state intervention, and strengthen public governance.

RECENT DEVELOPMENTS

3. Economic activity has slowed in 2022 (Figure 1). The impact of the war in Ukraine on economic activity has been limited to date. GDP grew by 2.5 percent year-on-year (y-o-y) through October, down from 4.3 percent in 2021. The slowdown mainly reflects temporary disruptions in oil production. Domestic demand has been supported by a strong labor market, with real wages up by over 11 percent y-o-y, and elevated credit growth (26 percent y-o-y).

Quarterly GDP Growth
(Percent)



Sources: Bureau of National Statisitcs and IMF staff estimates and projections.

4. Strong oil and non-oil fiscal revenues have more than offset a large spending increase (Figure 2). As of September, revenues grew by 70 percent annually (177 percent for oil revenues and 27 percent for non-oil revenues) boosted by high prices of oil and metals. Fiscal spending increased by about 19 percent, with stronger growth in current spending and lagging public investment. As a result, the overall balance is expected to be close to zero in 2022, and the non-oil deficit to decline by about 1 percentage point of GDP to 9.3 percent of GDP.

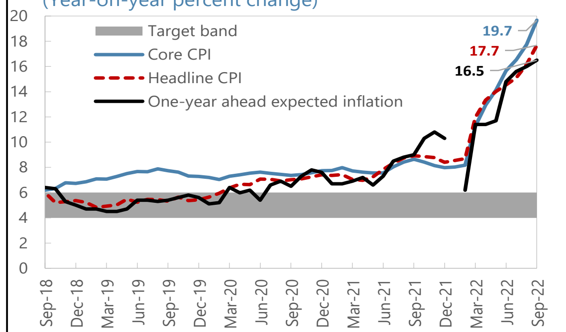
5. Inflation has continued to accelerate. In October, inflation rose to almost 19 percent, with inflation expectations exceeding 16 percent, well above the 4–6 percent target range of the National Bank of Kazakhstan (NBK). This surge was driven mainly by food prices reflecting global developments, the depreciation of the tenge (especially against the ruble), and rapid wage and consumer credit growth. The war in Ukraine also contributed to price pressures through disruptions to import supply chains from Russia, and higher rental prices associated with the inflow of Russian citizens. By contrast, fuel and utility price freezes have muted the pass-through from high energy prices

6. **High international commodity prices have strengthened the external current account.** It recorded a surplus of 2.4 percent of GDP through June—against a deficit of 4 percent in 2021 (Figure 3). However, this was offset by investment outflows, from both private investors and the National Fund of the Republic of Kazakhstan (NFRK). Together with FX interventions and falling gold prices, these led to lower official reserves. Since the onset of the war, the tenge has depreciated by about 13 percent against the US dollar and about 30 percent against the Russian ruble. At end-2021, the external position was assessed as moderately weaker than the level implied by economic fundamentals and desirable policies. Official reserves remain well above the IMF reserves adequacy measure (Annex II).

7. **The banking sector has coped well with the fallout of international sanctions against Russia, but some vulnerabilities have recently emerged** (Figure 4). The war triggered deposit withdrawals from sanctioned Russian bank subsidiaries (representing about 15 percent of total bank assets before the war). In coordination with the financial supervisor, two of these three subsidiaries were acquired by local entities (a private bank and state-owned holding company Baiterek), and the third was recapitalized and continues to operate. Overall, banks have high levels of capital, liquidity, and profitability, and deposit dollarization has declined further. However, rapid retail lending growth has resulted in rising household indebtedness, which the supervisor has started to address. The exit of Russian subsidiaries has raised concentration in the sector and could potentially reduce competition.

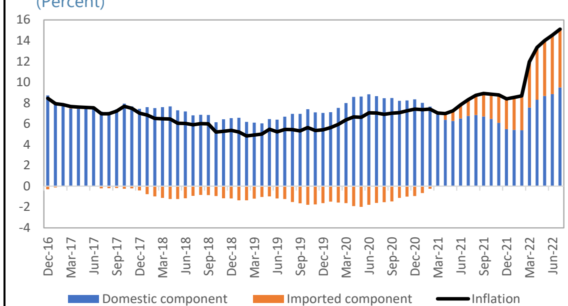
8. **The authorities took multiple actions to preserve stability and support the economy.**[1] The NBK has raised the policy rate by 700 bps since mid-2021 and intervened in the FX market to limit excessive

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



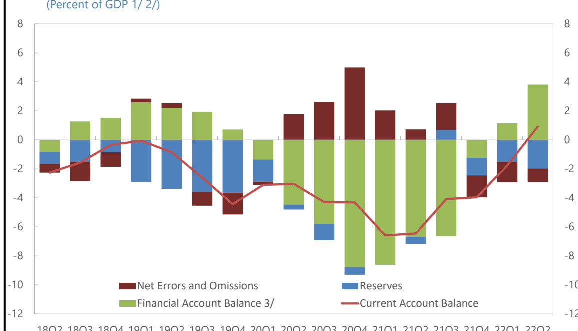
Sources: National authorities, Haver Analytics, and IMF staff estimates.

Domestic and Imported Contributions to Inflation 1/
(Percent)



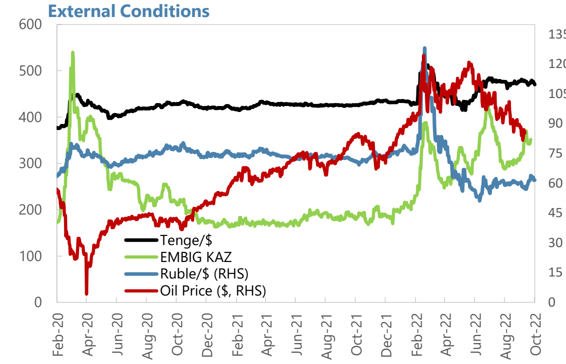
Sources: World Economic Outlook and IMF staff calculations.
1/ The imported component reflects the impact of global inflation on inflation

Current Account Financing
(Percent of GDP 1/ 2/)



Source: NBS and Haver data and Fund staff calculations.
1/ Data is annualized as the YTD sum of the last four quarters. 2/ a negative sign indicates net inflows. 3/ Including the capital account balance.

External Conditions



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

[1] See the 2021 Article IV report for more details on measures taken following the social unrest in January 2022.

exchange rate volatility. It restricted exports of physical foreign currency cash and gold, while the government subsidized tenge deposits to prevent increased dollarization. In the face of social demands and the outbreak of the war in Ukraine, the revised 2022 budget increased public spending by about 2½ percentage points of GDP, to be financed by higher oil revenues. To contain price pressures, the government temporarily restricted exports of several goods, extended fuel price freezes introduced in January, and adopted a moratorium on utility price increases.[2]

9. Despite announcements and some progress, overall reform implementation has been slow (Annex I). Progress has been made in public service digitalization and SOE reforms, including by streamlining Samruk-Kazyna's management and improving public procurement practices. The initial public offering (IPO) of a small stake in KazMunayGas was announced for late 2022, and large company IPOs are envisaged for 2023–25. Yet, the state footprint in the economy has expanded, including with the public acquisition of a foreign bank subsidiary and increased credit and price subsidies. Recent efforts to diversify export routes and reduce trade dependence on Russia will take time. The final adoption of a climate strategy was delayed. Reforms announced on September 1st focus on economic diversification, productivity and innovation, income distribution, digitalization, SME and human capital development, and the rule of law. Fiscal reforms were also announced (see below).

OUTLOOK AND RISKS

10. GDP growth is expected to recover over the medium term. Growth is projected at 2.7 percent in 2022 and 4.2 percent in 2023, assuming oil production normalizes in 2022:Q4 and the expanded Tengiz field becomes operational by end-2023. In the medium-term, non-oil GDP growth would stabilize around 3½ percent, in line with estimated potential output and assuming accelerated reform implementation.[3] Inflation would reach about 20 percent in 2022 and start declining in early 2023 but would remain above 6 percent until 2024. Boosted by oil exports, a current account surplus of 3.1 percent of GDP is expected in 2022, with a return to modest deficits in the medium term.

11. Risks to the outlook are tilted to the downside, even though Kazakhstan benefits from high commodity prices (Annex III). Aggravated spillovers from the war in Ukraine could lead to lower growth and higher inflation, potentially reigniting social tensions. Shocks to Russia's economy have historically had the strongest impact on Kazakhstan's growth (Box 1). Exports could be severely affected by a durable interruption of the Caspian Pipeline Consortium (CPC) pipeline, while adverse global conditions could lower oil prices and raise borrowing costs. Lingering effects from the COVID pandemic could also depress export demand from China. In the longer term, global decarbonization makes Kazakhstan's reliance on fossil fuels a key concern. On the upside, high commodity prices would continue to support substantial fiscal and external buffers. Kazakhstan could also benefit from the relocation of firms seeking to maintain a presence in the region.

[2] These restrictions included quotas on exports of wheat, wheat flour, sunflower seeds, and cattle, as well as bans on exports of sugar, sugar cane, gasoline, diesel, and coal (by road).

[3] See accompanying Selected Issues Paper providing updated estimates of potential growth.

Authorities' Views

12. The authorities broadly agreed with the assessment of the outlook and risks. They expected somewhat stronger growth in 2022. They concurred that high inflation is the most pressing challenge in the short term and viewed inflation expectations and external factors as its main driver. They expected inflation to come down gradually based on increases in the base rate and comprehensive measures adopted earlier this year. They highlighted ongoing efforts to diversify trade routes while noting that developments in Russia still impact the situation in Kazakhstan. Russia is expected to remain one of the biggest trading partners, although with a decreasing share in total trade turnover.

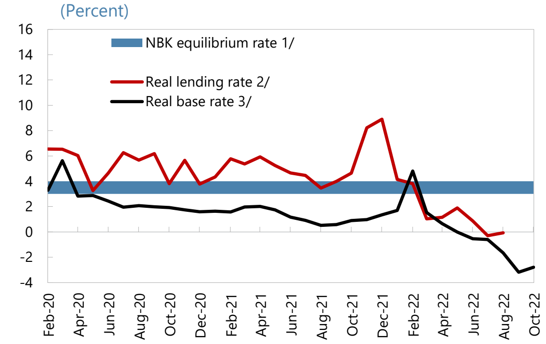
CALIBRATING MACRO-FINANCIAL POLICIES TO PRESERVE STABILITY

13. Coordinated macro-financial policies are needed to preserve stability and support economic growth. High inflation threatens the most vulnerable of the population and overall macroeconomic stability. Tight monetary policy is essential to anchor inflation expectations, while continued gradual fiscal consolidation and targeted prudential policies should lend a supporting hand. In addition, consistent communication from the government and the NBK is essential to guide public expectations.

A. Monetary Policy Stance

14. Further monetary tightening may be necessary to curb inflation. As noted, inflation and inflation expectations have continued increasing and, despite recent policy rate hikes, real lending rates have turned negative. Tighter monetary policy may be required to ensure that expectations are re-anchored and avoid adverse feedback among inflation, wages, and the exchange rate. While this may affect short-term growth, losing control of inflation and weakening the NBK's credibility would inflict much higher costs in the long term (Box 2). Finally, reliance on administrative measures to contain inflation (e.g., price freezes, state interventions in supply chains, or exports restrictions) should be curtailed.

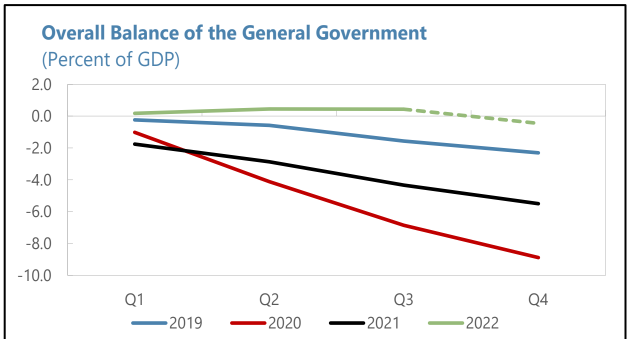
Monetary Policy Stance
(Percent)



Source: Haver Analytics.
1/ NBK financial stability report; 2/ Five year corporate lending rate minus headline CPI inflation; 3/ NBK base rate minus headline CPI inflation

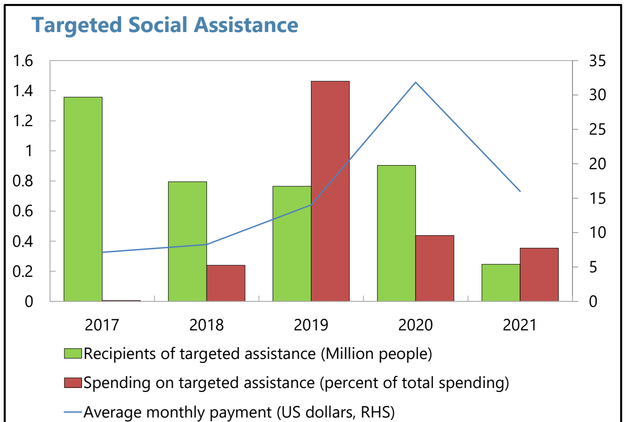
B. Fiscal Policy Stance

15. A significant part of this year's large revenue windfall is expected to be saved. Staff projects the 2022 overall balance at -0.5 percent of GDP, an improvement of 4½ percentage points of GDP relative to 2021. The non-oil (and structural non-oil) fiscal balance is expected to improve by about 1 percentage point of GDP. On the revenue side, the strong outturn reflects mainly stronger oil revenues (including due to the depreciation of the tenge), but also strong non-oil revenue performance, due in part to improved revenue administration and normalization of VAT refunds. Government spending execution has been slow relative to budget allocations, pointing to upside risks to the 2022 fiscal outturn.



Source: National authorities and staff projections.

16. Gradual fiscal consolidation should continue in 2023 while preserving essential social expenditures. With the output gap closed, fiscal restraint will be important to contain domestic demand and inflation. The draft 2023 budget entails slower spending growth as the new fiscal rules kick in.[4] Oil revenues are expected to moderate due to lower oil prices, while non-oil revenues would benefit from higher minerals extraction and tobacco excise taxes, and from further tax and customs digitalization. The overall balance is projected at zero, while the non-oil fiscal deficit would decline by 1.3 percentage point of GDP. Meanwhile, building on new digital platforms, there is substantial room to protect the poor from rising living costs through increased and targeted social spending, while reducing the reliance on price freezes and broad energy subsidies (Table 7).[5]



Sources: National authorities and Fund staff calculations.

C. Financial Sector Policy

17. Targeted prudential measures should help preempt financial sector risks and rein in rapid consumer credit growth. Available data point to a rapid rise in household indebtedness and financial distress.[6] While financial stability is not currently at risk, early and targeted policy action is needed to address pockets of vulnerability and avoid a more consequential weakening of bank asset quality. The authorities have already taken measures, including to improve debt-to-income ratio data and design individual plans for banks and microfinance institutions to cope with problem loans. Increasing risk weights for large loans is also being considered. In parallel, a market for distressed

[4] The new fiscal rule caps spending growth at the sum of average real GDP growth in the preceding 10 years and the mid-point of the inflation target. For 2023, the budget was prepared using the NBK's inflation forecast (8½ percent) rather than its target (5 percent). This still implies a decline of spending as a percent of non-oil GDP.

[5] The *Digital Family Map* is an integrated database containing socio-economic and financial information for all citizens. It was launched as a pilot on September 1st.

[6] About 1½ million borrowers have consumer loans that are past due for 90 days or more.

assets is being created, which will provide access to a greater pool of investors, help banks remove non-performing loans (NPL) from their balance sheets, and introduce consumer protection safeguards. Finally, a personal bankruptcy law is under preparation.

18. Continued action is needed to limit the indirect impact of international sanctions on Russia. The authorities have collaborated closely with foreign regulators and market participants in downsizing the subsidiaries of sanctioned Russian banks, maintaining CBR relationships and, more broadly, enhancing regulatory compliance. Domestic banks have stepped up efforts in this area, including by tightening requirements to open bank accounts from members of the Eurasian Economic Union. Looking ahead, potential risks from increased concentration and reduced competition in the banking sector should be monitored, and the state should swiftly divest from the recently acquired bank.

D. External Sector Measures

19. The authorities should refrain from introducing protectionist trade measures and price controls. Following social unrest and the war in Ukraine, such measures aimed to protect domestic supply and limit price rises for socially important goods. However, they tend to become counterproductive over time, as they undermine future production, encourage retaliation from trading partners, and may be difficult to reverse (e.g., fuel subsidies). Instead, the focus should be on targeting social spending toward those most affected by higher prices, reforming the agricultural sector, and investing and greening in the energy sector.

20. Capital Flow Management measures (CFM) should also be withdrawn (Annex II). Since 2020, administrative measures have been introduced to mitigate exchange rate pressures and avoid secondary sanctions. These measures constitute CFM under the IMF' *Institutional View on The Liberalization and Management of Capital Flows* and should be removed as Kazakhstan is not facing imminent crisis circumstances.

Authorities' Views

21. The authorities highlighted the challenge of balancing the fight against inflation, supporting economic activity, and protecting the most vulnerable. They agreed with the need for strong coordination among fiscal, monetary, and financial sector policies, while affirming their commitment to reining in inflation. They noted that implementation of the new fiscal rules will ensure continued improvement in the fiscal position. They also emphasized their commitment to avoid secondary sanctions, including by maintaining close collaboration with foreign regulators.

22. The authorities viewed some measures classified as CFM by the Fund as temporary and needed to cope with the fallout from recent shocks. These measures are motivated by unprecedented volatility and uncertainty in capital flows—which are aggravated by monetary policy normalization in advanced economies and the impact of the war in Ukraine. Similarly, temporary export restrictions and price controls were needed to ensure the supply of the domestic market and affordability of essential goods.

STRENGTHENING POLICY FRAMEWORKS FOR MEDIUM-TERM RESILIENCE

23. While Kazakhstan has strong buffers, macroeconomic management would also benefit from improved policy frameworks. Low debt levels, large official reserves, and exchange rate flexibility have provided significant policy space. Yet, risks from severe shocks and long-term challenges require flexible and well-coordinated policy frameworks.

A. Monetary Policy Framework

24. The move towards inflation targeting has served Kazakhstan well and efforts to consolidate the framework should continue. The NBK's credibility can be further strengthened and its *Monetary Policy Strategy 2030* lays out comprehensive reforms addressing key obstacles. Priorities are to phase out NBK's non-core and quasi-fiscal mandates (e.g., subsidized lending to SMEs), strengthen monetary and fiscal policy coordination, and protect the NBK's independence.

25. The introduction of a Central Bank Digital Currency (CBDC) can bring economic benefits. A digital tenge pilot is expected to be launched in late 2022, focusing, at least initially, on government transactions. A CBDC could expand the range and reach of financial services and help strengthen monetary transmission. Key risks include financial disintermediation and financial integrity and reputational risks for the NBK (e.g., unless effective AML/CFT and cyber security-related measures are implemented). The authorities have consulted extensively with the Fund and other partners, and their gradual and prudent approach bodes well for their ability to mitigate such risks.

B. Fiscal Policy Framework

26. The government's medium-term plan to reduce the fiscal deficit is welcome, and tax reforms should play an important role. The authorities plan to reduce the non-oil deficit to 6 percent of GDP by 2025 and 5 percent by 2030. Fiscal space would remain ample, with gross debt at about 30 percent of GDP and net assets at 4½ percent of GDP in 2027 (Annex IV).[7] There is significant scope to raise non-oil revenues. Besides further efforts to strengthen revenue administration, this could be achieved by broadening the revenue base (e.g., reducing corporate exemptions and taxing capital income), increasing VAT rates, and introducing progressive personal income taxation. The upcoming reforms of the tax code, budget code, public procurement, public-private partnerships, and fiscal decentralization are opportunities to accelerate these and other structural fiscal reforms.

27. Fiscal rules could be streamlined and stronger institutions are required to make them fully effective. The new expenditure rule should facilitate fiscal consolidation and counter-cyclicality, and the new rule on NFRK transfers could support the governments' focus on revenue constraints and tax reforms. However, the set of fiscal rules is unnecessarily complex, and a better

[7] Under an adverse scenario consisting of a two-year CPC pipeline closure, fiscal space would remain ample, with fiscal revenues declining by 3½ percent of GDP and public debt reaching 40 percent of GDP by 2027 (Annex IV).

defined medium-term sustainability objective would help anchor fiscal credibility.[8] In addition, to ensure the monitoring, enforcement, and effectiveness of these rules, an independent monitoring body should be created, and proper escape clauses introduced – including to limit discretionary interventions such as "targeted transfers" from the NFRK. Finally, enhanced public financial management is needed to support fiscal policy implementation, including by consolidating all quasi-fiscal activities in the fiscal accounts and budget process, and improving public sector sectorization and budget classification (see below).[9]

C. Financial Sector Policy Framework

28. A strong risk-based supervisory framework will promote sound risk management practices and limit risks of bank distress. The Agency for Regulation and Development of the Financial Market (ARDFM) has actively built capacity (with Fund technical assistance support) and introduced regular asset quality reviews and stress tests. Broader NPL measures (IFRS 9-based) would help assess bank soundness more accurately. The ARDFM should continue to upgrade regulations to avoid secondary sanctions, strengthen its collaboration with the NBK, and improve the bank resolution framework. The 2023 Financial Sector Assessment Program (FSAP) will be an opportunity to assess the financial stability framework. In recent years, Kazakhstan has made progress in addressing deficiencies identified earlier in its AML/CFT regime, which is currently being assessed against current FATF standards by the *Eurasian Group on Combatting Money Laundering and Financing of Terrorism* (EAG).[10]

Authorities' Views

29. The authorities agreed with staff's recommendations to strengthen policy frameworks. They concurred with the need to continue strengthening the inflation targeting regime and to terminate the NBK's subsidy schemes. They also pointed to the importance of modernizing the fiscal framework to support policymaking and economic growth. They looked forward to the upcoming FSAP as an opportunity to further enhance financial sector oversight.

TRANSFORMING INSTITUTIONS AND GOVERNANCE FOR LONG-TERM GROWTH AND INCLUSION

30. Economic transformation to diversify the economy and reduce the role of the state is a major long-term challenge. The current growth model will be unsustainable in the face of global decarbonization. The role of the state should be to support this transformation by strengthening

[8] For instance, there are limits on public debt and net external debt, but no articulation with what net public debt should be.

[9] Quasi-fiscal entities and activities have increased further recently, including the creation of a National Children's Fund or the Khalkyna Fund. See also recommendations in the 2021 Article IV report.

[10] Kazakhstan's AML/CFT framework was last assessed in 2011. In its report, the EAG noted that the main sources of criminal proceeds were crimes related to fraud and abuse of public office. It identified several deficiencies in the AML/CFT framework; notably with respect to customer due diligence and reporting of suspicious transactions.

public governance, improving the business environment, and following through on climate-related policy adjustments. At the same time, strong social safety nets will be key to protect the most vulnerable during the transition.

A. Economic Greening Challenge

31. The government's climate strategy should be finalized rapidly to meet Kazakhstan's 2030 commitments. Kazakhstan is among the largest greenhouse gas (GHG) emitters per capita, and the oil industry generates a large share of exports and fiscal revenues.[11] Significant investments are needed to adapt to climate change, meet the government's GHG emission targets (including net zero emissions by 2060), and protect vulnerable sectors and populations. The government's climate strategy has been delayed and should be finalized this year to provide a clear roadmap, including intermediate targets, specific actions to achieve them, and costing of investment needs.

32. Fiscal policy will have a key role in supporting economic decarbonization. The authorities will need to reduce substantial energy subsidies and introduce carbon taxation. These measures should be gradual, well-explained, and accompanied by targeted support to those most affected by energy price increases. A carbon tax would help finance needed public investments and social expenditures.

B. Improving Governance and Reducing Vulnerabilities to Corruption

33. Addressing governance- and corruption-related vulnerabilities would help make the economy more inclusive and private sector-based.[12] Lack of transparency and corruption issues are perceived as entrenched across sectors and public institutions and weaken the business environment. The authorities' anti-corruption strategy and recently announced reforms offer a window of opportunity for accelerated progress.

34. Rethinking the role of the state in the economy and strengthening public sector governance are key priorities (Box 3):

- *SOE restructuring*. The authorities plan to reduce the size of the SOE sector through the privatization of commercially operated SOEs. In addition to narrowing the roles and activities of SOEs, their financial oversight needs to be streamlined to better manage fiscal risks and enhance fiscal policy effectiveness.

- *Fiscal transparency*. The authorities introduced a *Fiscal Risks Statement* (FRS) and a *Long-Term Fiscal Sustainability Statement* as part of the 2023 budget and intend to broaden the coverage of future FRS to cover risks from SOEs and contingent liabilities, including from the financial sector. They are also about to conduct a Fiscal Transparency Evaluation. These steps, which benefit from IMF technical assistance, will support stronger public financial management and fiscal reforms.

[11] See the 2021 Article IV report and Selected Issues Paper.

[12] See *Concept of Anti-Corruption Policy of the Republic of Kazakhstan for 2022–26*.

- *Expenditure management*. The lack of transparent and competitive public procurement practices has been a source of vulnerability to corruption and inefficient public spending. The authorities are revising the procurement law and rolling out a digitalized platform for public procurement.

- *Revenue collection*. Good progress has been made on digitalization and the development of a risk-based approach to taxpayer compliance. As noted, the upcoming revision of the tax code is an opportunity to support tax reforms by disclosing tax expenditures, streamlining tax exemptions, and facilitating voluntary tax compliance.

35. Recent reform announcements are an opportunity to accelerate the fight against corruption (Annex V). In 2022, the President announced important steps toward political modernization, judicial reforms, and an increased role for civil society and the media. The anti-corruption strategy should be supported by further legal and institutional reforms. Rules on access to information and whistleblower protection should be upgraded. An effective asset disclosure system for public officials requires robust verification and sanction frameworks and the publication of disclosures. The independence of anti-corruption institutions and the judiciary need to be strengthened, including by limiting political influence on appointments and dismissals. The AML/CFT framework should be enhanced and leveraged to combat high-level corruption. In particular, the definition of politically exposed persons (PEPs) should be aligned with FATF standards, and beneficial ownership requirements should be enforced to prevent the misuse of legal entities and laundering of the proceeds of corruption and other crimes. Restricting the immunity from criminal liability enjoyed by certain categories of officials would also make the legal framework against high-level corruption more effective.

Authorities' Views

36. The authorities concurred with staff's assessment. They agreed with the recommendations to strengthen governance and combat corruption and intend to proceed with privatizations and deregulation to promote private sector development and economic diversification. They indicated that the government's climate strategy will be finalized in November, in time for the COP27 climate change conference. They agreed that higher energy prices are needed to attract investment and incentivize structural transformation.

STAFF APPRAISAL

37. Facing multiple shocks, Kazakhstan's economy has slowed down and inflation has continued to accelerate. The post-COVID recovery has been hindered by a series of domestic and external shocks. Despite a limited impact of Russia's war in Ukraine so far, temporary disruptions in oil production have held back GDP growth. Reflecting pressures from global prices, currency depreciation, and rapid wage and credit growth, inflation and inflation expectations have surged well beyond the 4–6 percent target band.

38. Downside risks to the outlook have increased, even though Kazakhstan benefits from strong buffers. Expanded oil production should drive higher growth next year, and non-oil growth would converge to 3.5 percent in the medium term, subject to continued reform implementation.

Inflation is expected to subside gradually, remaining above target through 2024. High commodity prices would be a positive factor for Kazakhstan, which benefits from low public debt, large official reserves, and exchange rate flexibility, but intensified spillovers from the war are the main near-term risk, especially if they exacerbate inflation pressures or durably affect oil exports through Russia.

39. Well-coordinated macro-financial policies and strong policy frameworks will be important to preserve stability and promote economic growth. Strong buffers and forceful policy responses have helped Kazakhstan weather multiple shocks in recent years, including spillovers from the war in Ukraine. Looking ahead, effective coordination between fiscal, monetary, and financial sector policies will remain essential to manage near- and long-term challenges.

40. Monetary policy should remain tight until inflation is contained and inflation expectations are anchored. Despite continued policy rate increases in recent months, further monetary policy tightening may be needed to rein in inflation and protect the most vulnerable. Administrative measures to contain inflation, such as price freezes or exports restrictions should be avoided. The authorities' continued commitment to exchange rate flexibility is commendable. The inflation targeting regime, which has served Kazakhstan well, should be further strengthened, including by phasing out the NBK's non-core mandates and ensuring its independence. The upcoming introduction of a central bank digital currency could provide significant benefits and will require continued consideration of potential risks.

41. Continued gradual fiscal consolidation should help contain inflation and maintain buffers, while preserving essential social expenditures. The authorities are appropriately saving part of the current oil windfall and aiming to reach a non-oil fiscal balance of 6 percent of GDP by 2025. In addition to the ongoing strengthening of tax and customs administration, this will require increased non-oil revenues through reduced corporate exemptions, capital income taxation, higher VAT rates, and the introduction of progressive income taxation. There is also room to improve the effectiveness of public expenditure, including by leveraging digitalization to enhance the level and targeting of public support to the most vulnerable.

42. To strengthen fiscal policy implementation, a stronger institutional framework is desirable. The fiscal rules entering in effect next year could support a prudent and more counter-cyclical fiscal policy. To ensure their effectiveness, an independent fiscal council should be established, and proper escape clauses should be introduced, including to limit discretionary policy changes. More broadly, stronger public financial management will require incorporating quasi-fiscal activities in the fiscal accounts and improving public sector sectorization and budget classification. The introduction of statements on fiscal risks and long-term sustainability with the 2023 budget, as well as the government's decision to conduct a Fiscal Transparency Evaluation, are welcome steps.

43. The banking sector has coped well with the fallout of international sanctions and ongoing progress in strengthening financial regulation and supervision is welcome. The ARDFM should continue coordinating with foreign regulators to avoid secondary sanctions. The recent introduction of regular asset quality reviews and supervisory stress tests are important steps towards establishing sound risk management practices and reducing risks of bank distress. In collaboration with the NBK, the ARDFM should monitor risks from rapid consumer lending growth and increased concentration in the banking sector and apply targeted prudential measures as warranted to preempt them. Finally, further strengthening the bank resolution framework will be important. The 2023 FSAP will be an opportunity to assess Kazakhstan's financial stability framework.

44. Early policy action would help Kazakhstan meet its climate-related commitments. Kazakhstan's large dependence on hydrocarbons will require phasing in important policy adjustments. A quick finalization of the government's climate strategy should provide a clear roadmap towards compliance with the Paris Agreement targets in 2030 as well as the net zero emissions objective in 2060. This should include intermediate targets, specific actions to achieve them, and costing of investment needs. Fiscal policy will play a key role, including by gradually reducing large energy subsidies and introducing carbon taxation to provide adequate incentives, while raising revenue to finance the transition and support to affected vulnerable groups.

45. Sustaining long-term growth will require a greater role of the private sector, supported by improved public sector governance. Promoting greater private sector development will be critical to ensure economic diversification as the world moves towards a low-carbon economy. This will require a reduced state footprint in the economy, including by following through on large SOE privatizations. Building on recent announcements, efforts to improve governance and strengthen the fight against corruption should be accelerated. Priorities in these areas include legal and institutional reforms to strengthen fiscal transparency, independence of anti-corruption institutions and the judiciary, and enhancing the AML/CFT framework and leveraging it to combat grand corruption, including through effective monitoring of politically exposed persons and increased beneficial ownership transparency.

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

Box 1. Spillovers from the War in Ukraine [1/]

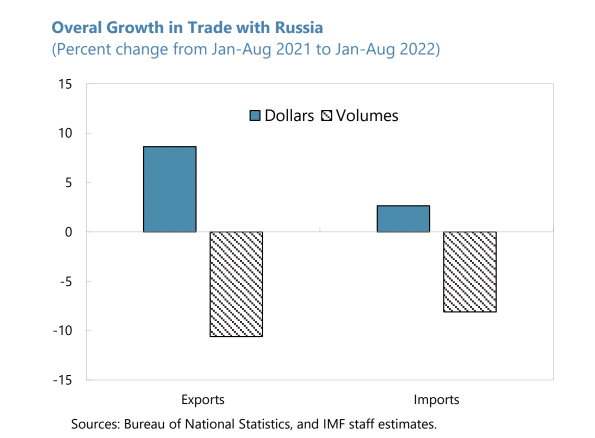
Economic spillovers from Russia into Kazakhstan have typically been important and primarily transmitted through trade channels. So far, the overall impact of the war in Ukraine and international sanctions on Russia has been modest but risks remain elevated. Kazakhstan's resilience to external shocks can be further strengthened, including through greater trade diversification and improved public governance.

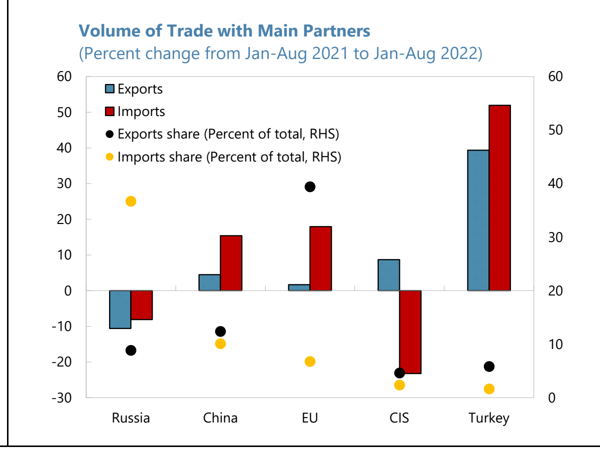
Shocks to growth in Russia have a sizable impact on Kazakhstan. They are transmitted primarily through trade and play a dominant role in driving cyclical output fluctuations compared to global factors. Estimates suggest that all other things equal, Russia's projected slowdown in 2023 could reduce Kazakhstan's annual real GDP growth by 0.8 percentage point. Thus far, the impact of shocks has been mitigated by strong external and fiscal buffers.[2]

Financial market volatility has been contained since the war started. The Tenge initially appreciated against the ruble and depreciated against the dollar, but later depreciated sharply against the ruble. Sovereign spreads have widened modestly and stock prices have partially recovered from an initial steep fall.

Immigration from Russia has picked up. More than 200,000 Russian citizens entered Kazakhstan since the start of the war, but about 150,000 have left and new inflows have recently slowed. Yet, this has put pressure on rental prices (up 20 percent since July). There are reports of foreign firms considering relocating from Russia to Kazakhstan.

There are signs that the composition of Kazakhstan's trade may be shifting. This year, trade volumes between Russia and Kazakhstan have contracted sharply. There are also indications of trade diversion, as volumes traded with other partners have increased since the start of the war in Ukraine.





Going forward, the authorities' efforts to diversify trading partners and improve public governance should help reduce Kazakhstan's vulnerability to external shocks. Greater partner diversification would dampen the effect of Russia's cyclical downturns on Kazakhstan's exports and economic activity. Improved public governance also reduces the impact of external shocks by limiting the widening of risk premia.

1/ See accompanying Selected Issues Paper.

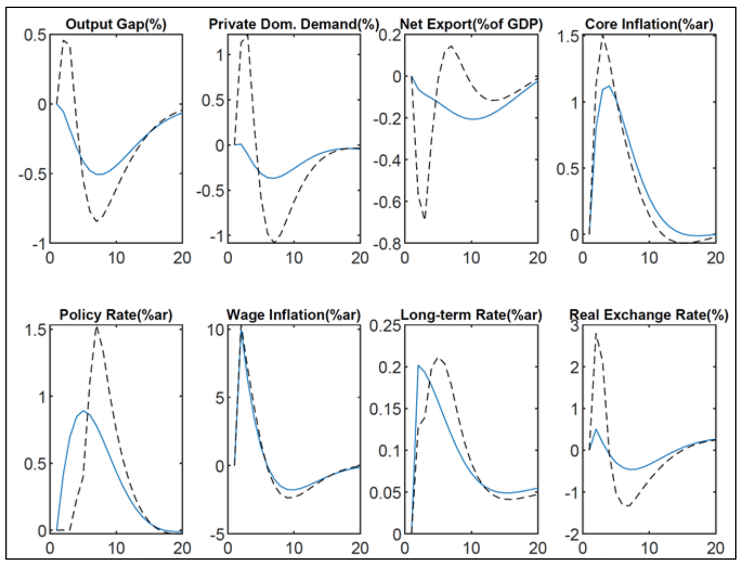
2/ See Annex II.

Box 2. Reducing Inflation Through Decisive Monetary Policy Action

Monetary policy in Kazakhstan has been based on an inflation targeting (IT) regime since 2015, with a headline inflation target band of 4–6 percent. Headline inflation was brought down to the middle of the band in 2019 but rose to almost 19 percent in October 2022, with one-year-ahead expectations exceeding 16 percent. Anchoring inflation expectations to improve policy tradeoffs is particularly important for Kazakhstan, where depreciation shocks are more inflationary and persistent than in most other emerging economies.

Following the onset of the war in Ukraine, the NBK has raised the policy rate, including by 150 bps in October 2022. This latter hike has brought the policy rate within the range of what the staff's model-based estimate suggested as necessary to reduce inflation in the coming months. Nonetheless, there remains significant inflation risks, including from rapid wage increases (about 25 percent y-o-y as of June 2022) and uncertainty related to the war in Ukraine and the global outlook, which could impact oil prices and the Kazakh economy significantly.

Further monetary policy tightening may be needed to keep inflation in check and preserve monetary policy credibility. Delayed policy action could require larger policy rate hikes later at higher output cost, in line with cross-country empirical evidence (e.g., Bordo and Levy 2022). To illustrate, the analysis compared two policy responses to a 10 percent domestic wage increase that leads to higher inflation: a decisive response (solid line) and a response delayed by 6 months (dash line).[1/] The results suggest that in the latter scenario, the required rate hikes are almost twice as high as in the former. Moreover, key macroeconomic variables are more volatile under the delayed policy action.

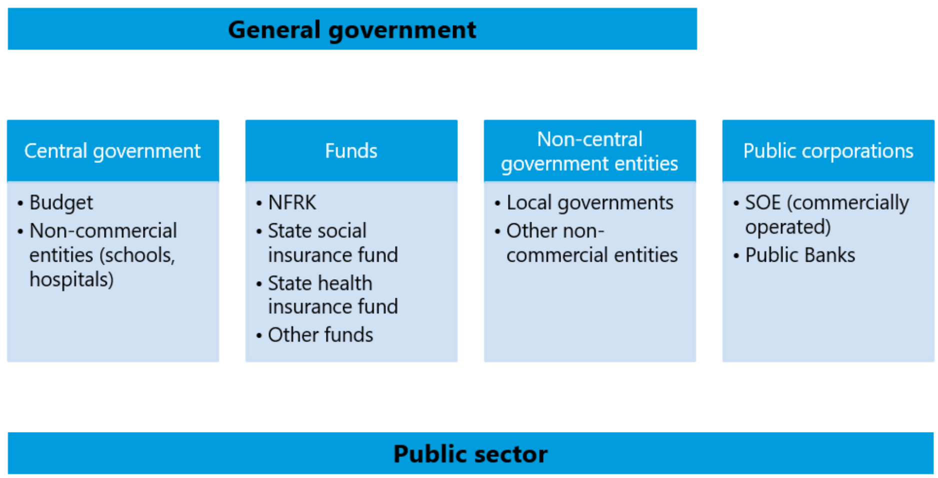


1/ See the 2021 Article IV report and Selected Issues Paper.

Box 3. Strengthening Fiscal Governance

Fiscal governance could be strengthened in several areas. The structure of the public sector is complex, with multiple non-central government entities having (quasi-)fiscal roles, including a large SOE sector and various ad hoc and discretionary funds. This hampers public transparency and weakens fiscal accountability, in turn affecting public and market confidence in government operations.

Delineating the Public Sector



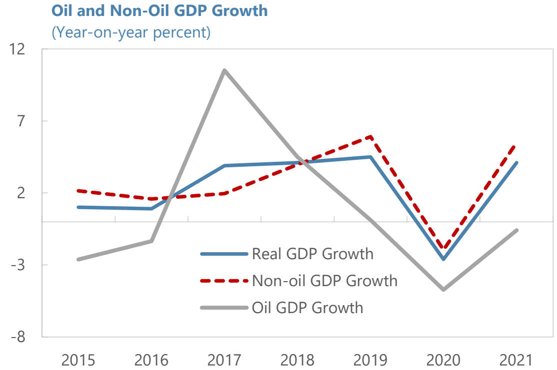
A more streamlined and rules-based decision process would reinforce budget credibility. The risk of diluting fiscal responsibilities could be remedied through a simpler oversight structure of non-central government entities, to ensure greater government control of fiscal policy, including fiscal risk management. Improved governance and transparency should inform the revision of the budget code currently underway and guide engagement with civil society and the private sector on needed structural fiscal reforms.

Such improvements would also support government effectiveness and fiscal policymaking. In particular, they would enhance the conduct of fiscal policy by facilitating the assessment and management of the fiscal stance and fiscal risks. This would also help build consensus around key reforms to adjust the role of the state and taxation, including to secure fiscal space to support economic diversification and decarbonization.

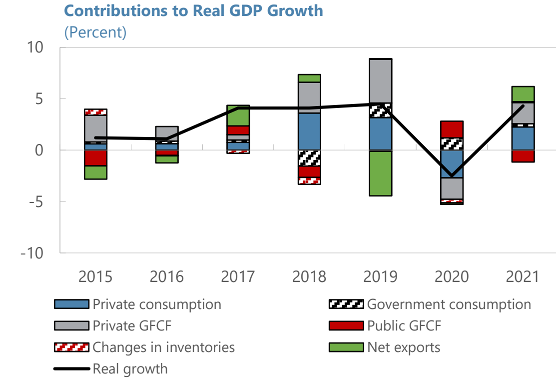
The authorities are addressing some of the above challenges. Privatizations should resume soon, and future fiscal risks statements are expected to integrate risks from SOEs and public-private partnerships. The authorities are also moving forward with the digitalization of tax administration, and the public procurement regime and tax code are being revised, including to streamline tax exemptions and support voluntary tax compliance. They have requested a Fiscal Transparency Evaluation (FTE) by the IMF.

Figure 1. Kazakhstan: Real Sector Developments

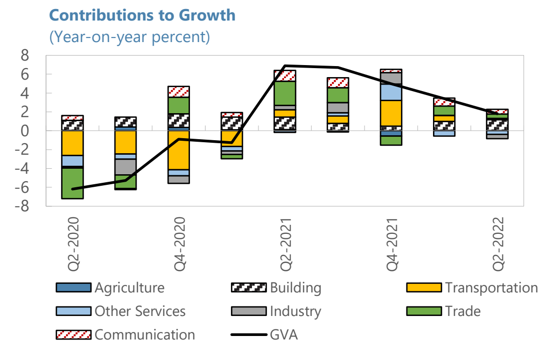
The economy rebounded in 2021, after the COVID crisis, led by the non-oil sector.



Most demand components contributed to the recovery.

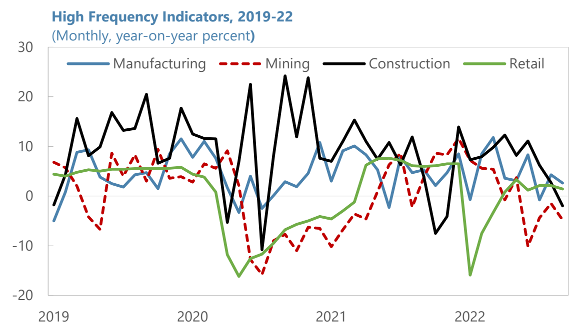


From the supply side, services played a key role, followed by manufacturing and construction.

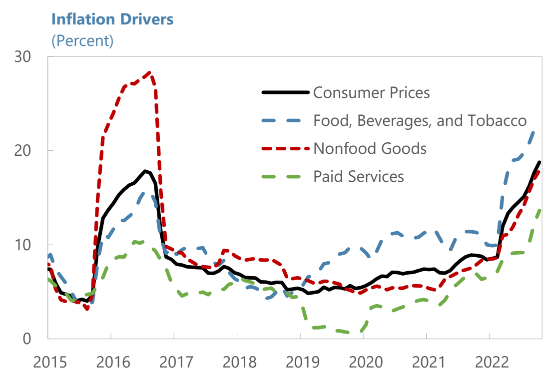


Note: GVA stands for Gross Value Added.

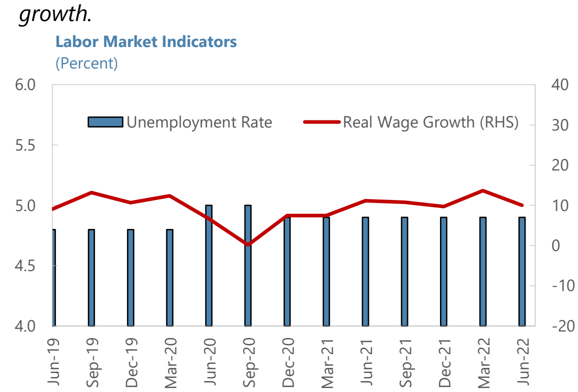
In the first half of 2022, activity slowed across sectors.



Inflation has escalated since the outbreak of the war in Ukraine.



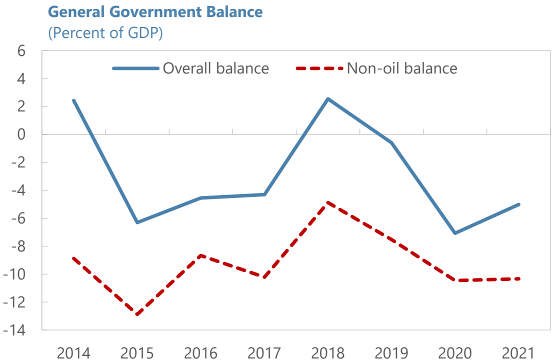
Unemployment has remained stable, with strong wage growth.



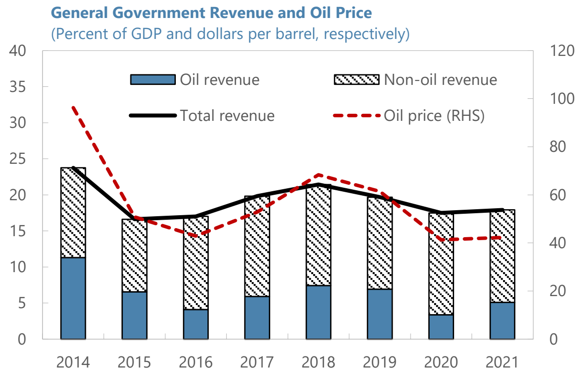
Sources: National authorities, Haver Analytics, and IMF staff estimates.

Figure 2. Kazakhstan: Fiscal Sector Developments

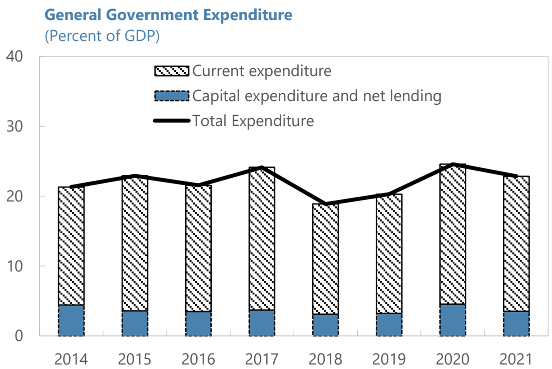
Fiscal balances improved modestly in 2021.



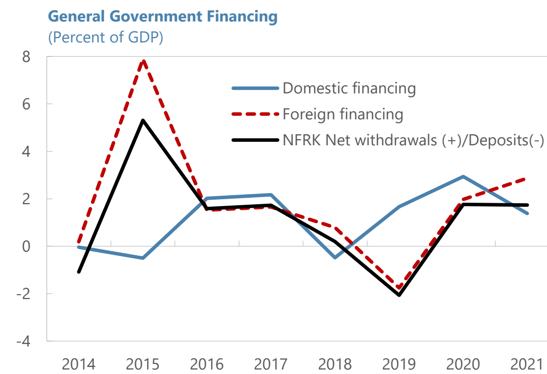
Revenues were stable.



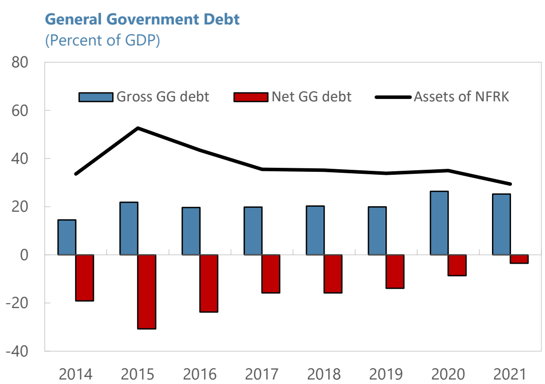
Spending contracted marginally.



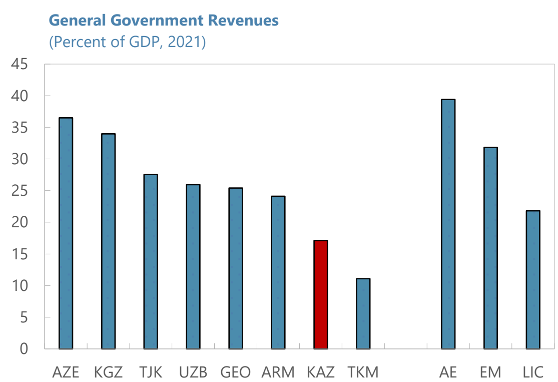
The share of foreign financing increased, reflecting withdrawals from the NFRK.



Net debt continued to decline, with reduced NFRK assets.



Revenue levels are low by international standards.

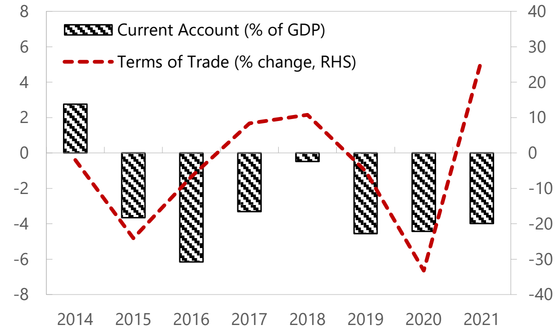


Sources: National Authorities, IMF World Economic Outlook, and IMF staff estimates.

Figure 3. Kazakhstan: External Sector Developments

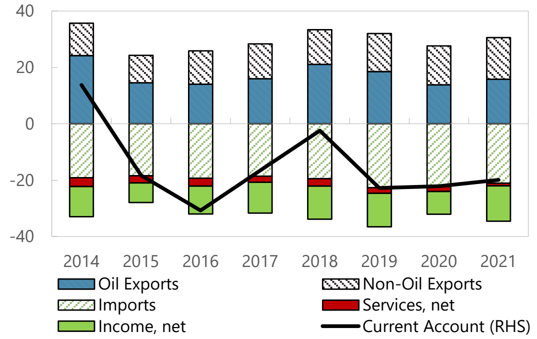
Improving terms of trade have supported the current account…

Current Account and Terms of Trade



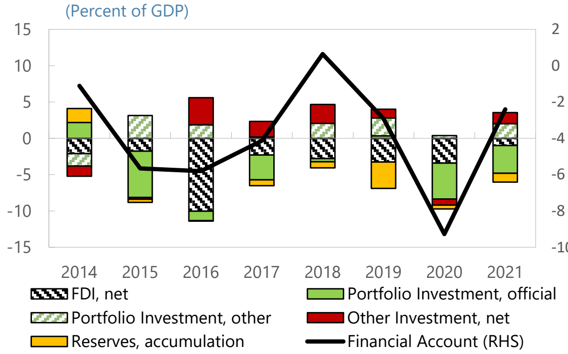
…with higher oil exports, reduced income payments and lower imports.

Current Account Balance
(Percent of GDP)



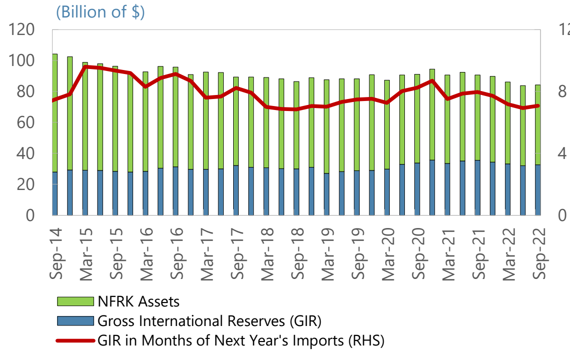
Significant portfolio inflows reflected government and NFRK operations.

Financial Account Balance
(Percent of GDP)



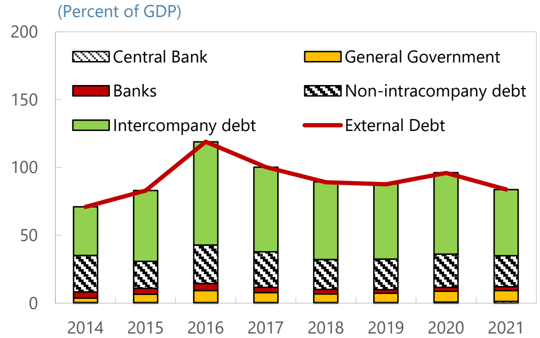
Gross international reserves remain at about 8 months of imports.

Gross International Reserves (GIR)
(Billion of $)



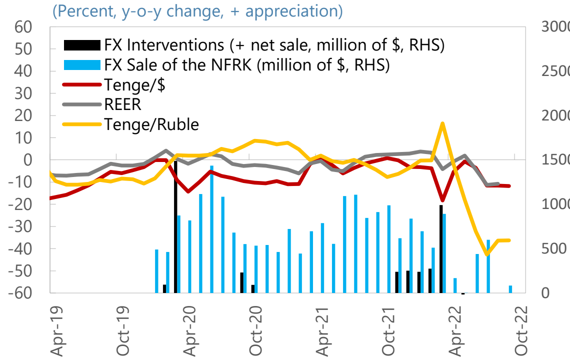
External debt decreased slightly as a percentage of GDP – most of it being intercompany debt.

External Debt
(Percent of GDP)



In 2022, the tenge depreciated against the US$ and Ruble.

Exchange Rate
(Percent, y-o-y change, + appreciation)

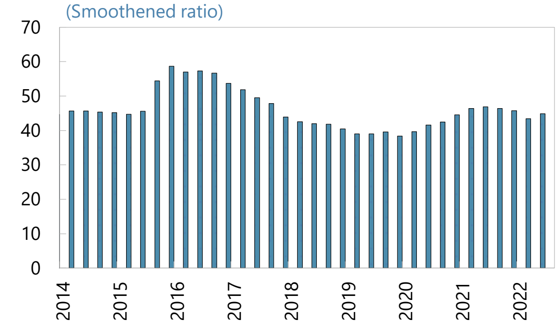


Sources: National authorities, Haver Analytics, Bloomberg, and IMF staff calculations.

Figure 4. Kazakhstan: Banking Sector Developments

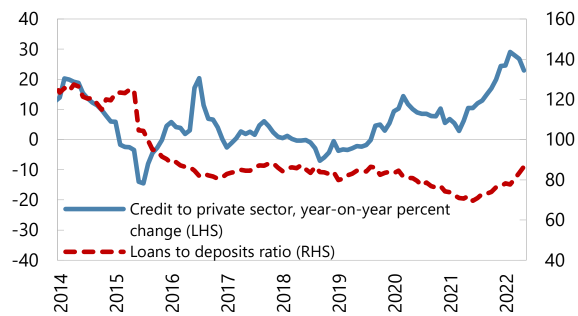
Bank assets have been stable in recent years…

Bank Assets to GDP
(Smoothened ratio)



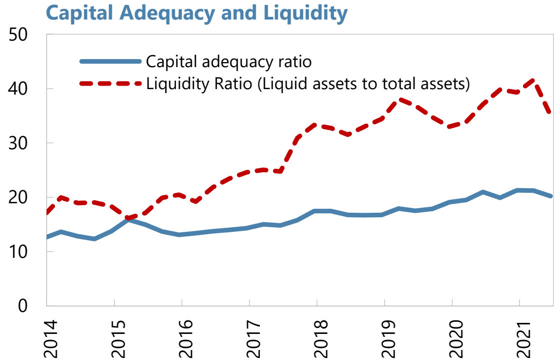
…leading to an increase in the loan-to-deposits ratio…

Credit Growth and Loan to Deposits Ratio



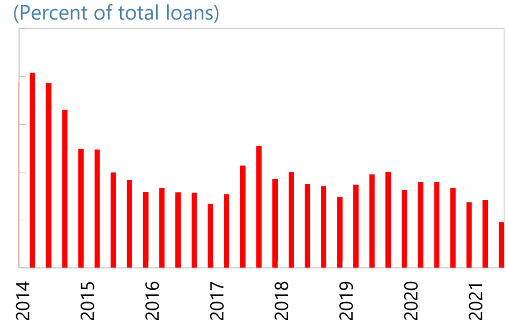
…and improved capital and liquidity ratios…

Capital Adequacy and Liquidity



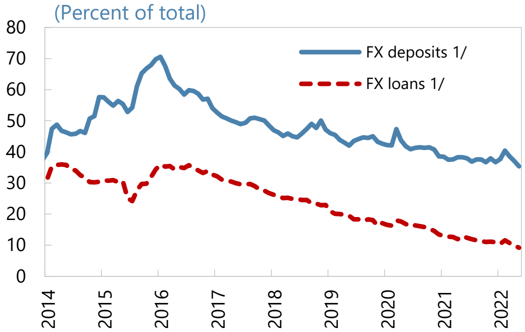
…as NPL ratios declined.

Non-Performing Loans
(Percent of total loans)



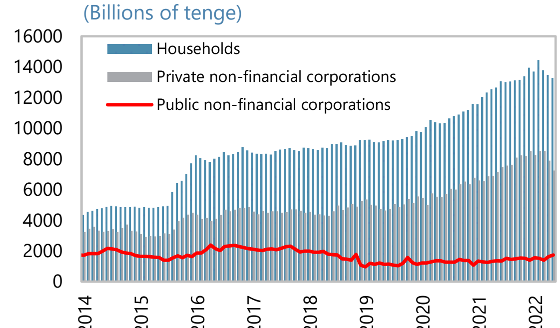
Both asset and liability dollarization have decreased …

FX Deposits and Loans
(Percent of total)



…and private sector deposits have stabilized.

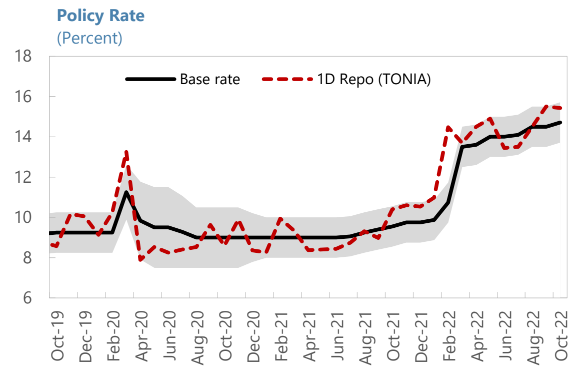
Deposits
(Billions of tenge)



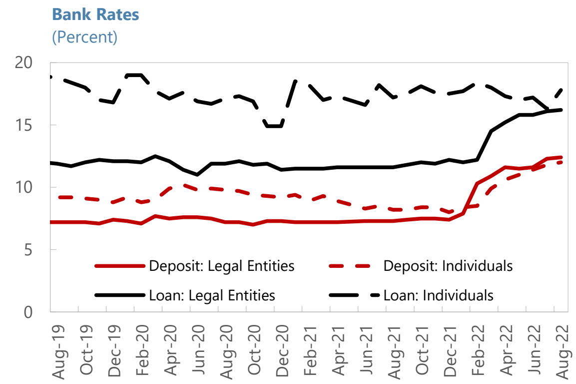
Sources: National authorities, GFSR, and IMF staff estimates.
1/ Accounting for exchange rate valuation effects.

Figure 5. Kazakhstan: Monetary Sector Developments

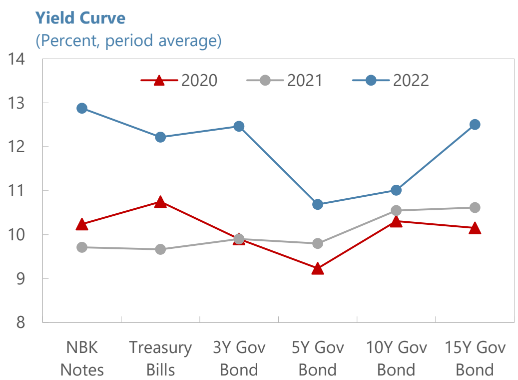
The NBK has raised the policy rate further in 2022….



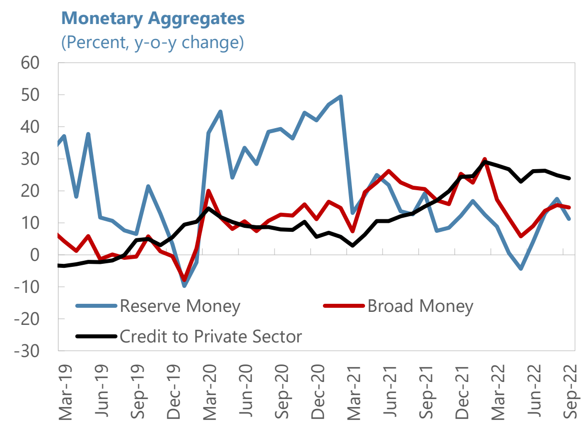
… and bank rates have increased on average.



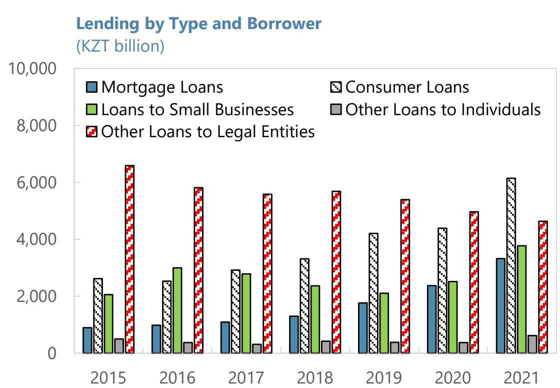
Government securities markets remain segmented.



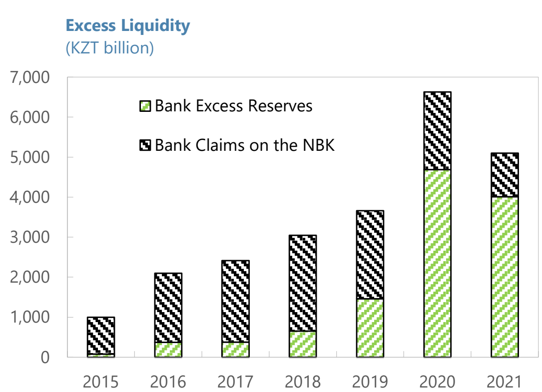
Monetary expansion slowed in 2022.



Consumer lending accelerated in 2021.



Banks have accumulated significant excess liquidity.

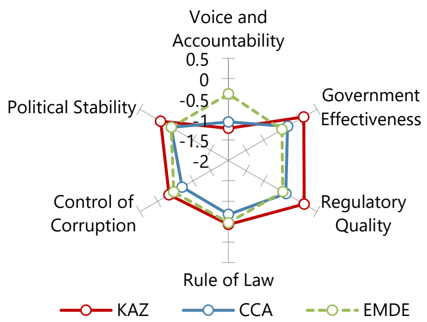


Sources: National authorities, Haver Analytics, Bloomberg, and IMF staff calculations.

Figure 6. Kazakhstan: Business Environment and Governance

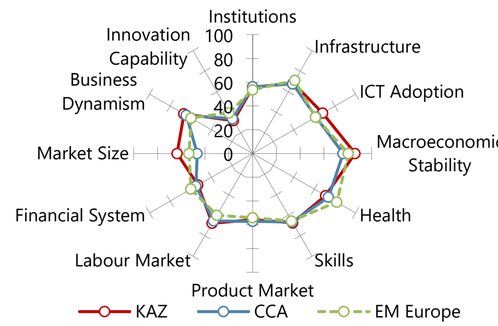
Improvements to the business environment and governance have put Kazakhstan on par or above peers on many aspects.

Worldwide Governance Indicators
(Score, higher = better)



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

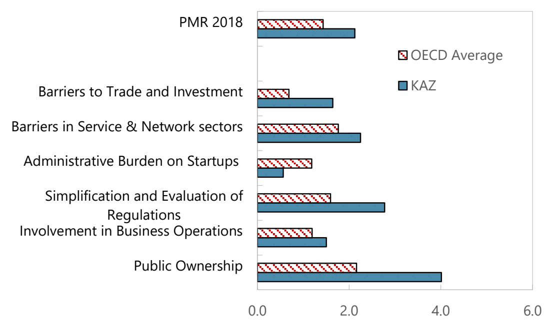
Global Competitiveness Index
(Score of 0-100, where 100 is best)



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...

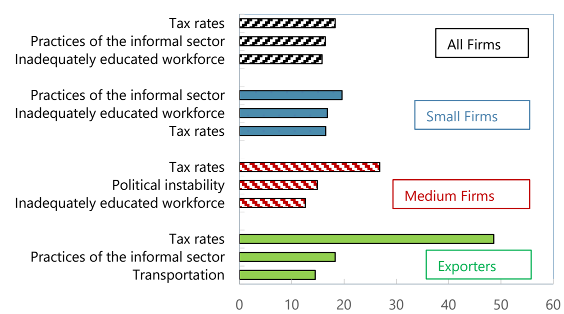
Product Market Regulation, 2018



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

...and businesses continue to face various obstacles.

Top 3 Biggest Obstacles, 2019
(In percent of surveyed firms)



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

Table 1. Kazakhstan: Selected Economic Indicators, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Projections					
	(Annual percent change, unless otherwise indicated)								
Output and prices									
Real GDP	4.5	-2.5	4.3	2.7	4.2	4.4	3.4	1.7	2.7
Real oil	0.1	-4.7	-0.6	0.2	8.2	8.1	3.2	-4.4	-0.2
Real non-oil	5.9	-2.0	5.5	3.4	3.1	3.3	3.5	3.5	3.5
Contributions to GDP growth (percent)									
Private consumption	3.2	-2.8	2.2	0.8	3.4	2.0	0.9	1.2	1.3
Government consumption	1.4	1.2	0.3	1.1	0.0	-0.1	0.2	0.2	0.4
Gross fixed capital formation	4.2	-0.8	0.1	0.8	1.0	0.8	1.1	1.0	1.1
Net Exports	-4.3	-0.1	1.5	0.0	-0.3	1.7	1.3	-0.7	-0.1
Consumer price index (end-of-period)	5.4	7.5	8.4	19.5	10.5	6.3	5.5	5.5	5.0
Consumer price index (average)	5.2	6.8	8.0	14.8	13.6	7.7	6.0	5.5	5.3
GDP deflator	7.6	4.3	14.1	20.1	11.7	7.3	5.3	5.1	5.3
Unemployment rate (average, percent)	4.8	4.9	4.9	4.9	4.8	4.8	4.8	4.8	4.8
	(In percent of GDP)								
Saving and Investment									
Gross national savings	23.1	24.4	22.2	27.9	26.2	24.8	23.9	22.9	22.4
Gross domestic investment	27.6	28.8	26.2	24.8	24.0	23.8	23.7	24.1	24.1
	(In percent of GDP)								
General government fiscal accounts									
Revenues and grants	19.7	17.5	17.1	22.1	21.5	20.9	20.3	19.8	19.7
of which: Oil revenues	6.9	3.4	5.3	8.8	7.9	7.2	6.4	5.6	5.3
Expenditures and net lending	20.3	24.6	22.1	22.6	21.8	20.8	20.6	20.8	20.9
Overall fiscal balance	-0.6	-7.1	-5.0	-0.5	-0.3	0.1	-0.3	-1.0	-1.2
Non-oil fiscal balance	-7.5	-10.5	-10.3	-9.2	-8.3	-7.1	-6.7	-6.6	-6.4
Statistical discrepancy	-0.7	-2.1	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-0.1	4.9	4.3	0.5	0.3	-0.1	0.3	1.0	1.2
Domestic financing, net	1.7	2.9	1.4	2.0	3.3	3.5	4.3	4.2	4.1
Foreign financing, net	-1.8	2.0	2.9	-1.6	-2.9	-3.6	-4.1	-3.2	-2.9
of which: NFRK withdrawal (+) / accumulation (-), net	-2.1	1.8	1.7	-1.6	-3.0	-3.5	-3.4	-2.9	-2.8
Gross public debt	19.9	26.4	25.1	23.2	24.0	25.3	27.2	29.5	31.4
Net public debt	-14.0	-8.0	-3.0	-3.1	-3.3	-4.6	-5.0	-4.7	-4.6
	(Annual percent change, unless otherwise indicated)								
Monetary accounts									
Reserve money	3.6	41.8	12.1	20.3	16.5	14.1	8.4	2.4	4.4
Broad money	2.4	16.9	20.8	25.3	18.4	14.1	9.8	7.3	8.0
Credit to the private sector	5.5	5.3	24.4	23.3	19.4	15.0	12.9	11.9	14.2
NBK policy rate (eop; percent)	9.25	9.0	9.75	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)								
Balance of Payments									
Current account balance	-4.6	-4.4	-4.0	3.1	2.2	1.0	0.2	-1.1	-1.7
Trade balance	9.4	5.4	9.5	18.0	15.9	14.5	13.5	11.0	9.9
Exports of goods and services (annual percentage change)	-1.8	-20.6	26.3	38.7	-0.4	-1.9	-0.7	-5.9	-2.2
of which: Oil exports	-11.2	-29.4	31.2	56.5	-4.0	2.4	-1.5	-9.4	-3.5
Imports of goods and services (annual percentage change)	11.9	-12.0	6.4	8.7	3.5	0.3	1.2	0.5	0.9
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance 1/	0.7	-8.7	-1.2	2.4	1.0	1.2	0.7	-0.7	-1.8
Gross international reserves (in billions of US dollars)	29.0	35.6	34.4	36.2	39.3	39.1	38.1	37.3	37.9
Gross international reserves (in months of imports)	7.5	8.7	7.7	7.8	8.5	8.3	8.1	7.8	7.8
External debt	87.8	96.2	83.6	71.5	64.2	59.8	56.0	53.9	52.8
NFRK assets	34.0	34.3	28.1	26.3	27.3	29.8	32.2	34.2	35.9
Exchange rates									
Tenge per U.S. dollar (end of period)	381.2	420.7	431.7	...	...	...	...	...	...
Exchange rate (tenge per Russian rubles; eop)	5.4	5.3	5.2						
Real effective exchange rate (eop, percent change) (+ appreciation)	-4.9	-0.5	-1.4	...	...	...	...	...	...
Memorandum items:									
Nominal GDP (in billions of tenge)	69,533	70,649	83,952	103,568	120,551	134,982	146,994	157,129	169,977
Nominal GDP (in billions of U.S. dollars)	181.7	171.1	197.1	...	...	...	...	...	...
Output gap (in percent of potential GDP)	3.4	-1.4	0.2	0.0	0.3	0.6	0.3	0.0	0.0
Crude oil and gas condensate production (million tons) 2/	90.4	85.7	85.7	85.7	92.6	100.0	103.2	98.8	98.6
Oil price (in U.S. dollars per barrel)	61.2	41.8	69.4	98.2	85.5	80.2	76.2	73.3	71.0

Sources: Kazakhstani authorities and Fund staff estimates and projections.
1/ Excluding reserve movements.
2/ Based on a conversion factor of 7.5 barrels of oil per ton.

Table 2. Kazakhstan: Balance of Payments, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Projections					
				(In billions of USD)					
Current Account Balance	**-8.3**	**-7.6**	**-7.9**	**7.1**	**5.3**	**2.6**	**0.5**	**-3.0**	**-4.6**
Trade Balance	17.0	9.2	18.8	40.5	38.5	36.5	35.2	29.6	27.4
Exports of Goods (f.o.b.), 1/	58.2	47.3	60.3	85.1	84.1	82.7	81.8	76.7	74.9
o/w Oil Exports	33.6	23.7	31.1	48.7	46.7	47.8	47.1	42.7	41.2
Imports of Goods (f.o.b.) 2/	41.1	38.1	41.6	44.6	45.6	46.2	46.6	47.1	47.5
Service Balance 3/ 4/	-3.7	-3.1	-1.8	-2.3	-2.5	-2.4	-2.5	-2.4	-2.6
Primary Income Balance	-22.7	-15.1	-24.2	-30.4	-29.8	-30.5	-31.2	-29.2	-28.4
Secondary Income Balance	1.1	1.3	-0.6	-0.8	-0.9	-0.9	-1.0	-1.0	-1.1
Capital Account Balance	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Financial Account Balance 5/ 6/	**1.3**	**-15.0**	**-2.4**	**5.5**	**2.5**	**3.0**	**1.8**	**-2.0**	**-5.0**
Direct Investment, net	-5.9	-5.9	-1.9	-2.7	-2.8	-2.9	-3.2	-3.5	-3.9
Net Acquisition of Financial Assets 7/	-2.2	1.4	2.7	2.0	2.3	2.2	2.3	2.2	2.2
Net Incurrence of Liabilities 7/	3.7	7.2	4.6	4.7	5.1	5.1	5.5	5.7	6.1
Portfolio Investment, net	5.1	-7.7	-3.6	0.2	-3.4	-3.0	-3.0	-3.9	-4.0
Financial Derivatives, net 8/	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Investment, net 9/	2.2	-1.4	3.0	7.9	8.5	8.8	7.8	5.4	2.8
Net Error and Omissions	**2.7**	**-8.5**	**2.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**6.6**	**0.9**	**2.4**	**-1.8**	**-3.1**	**0.2**	**1.0**	**0.8**	**-0.7**
				(In percent of GDP)					
Current Account Balance	**-4.6**	**-4.4**	**-4.0**	**3.1**	**2.2**	**1.0**	**0.2**	**-1.1**	**-1.7**
Trade Balance	9.4	5.4	9.5	18.0	15.9	14.5	13.5	11.0	9.9
Exports of Goods (f.o.b.), 1/	32.0	27.7	30.6	37.9	34.7	32.8	31.4	28.6	27.1
o/w Oil Exports	18.5	13.9	15.8	21.7	19.2	19.0	18.1	15.9	14.9
Imports of Goods (f.o.b.) 2/	22.6	22.2	21.1	19.9	18.8	18.3	17.9	17.5	17.2
Service Balance 3/ 4/	-2.0	-1.8	-0.9	-1.0	-1.0	-1.0	-0.9	-0.9	-0.9
Primary Income Balance	-12.5	-8.8	-12.3	-13.5	-12.3	-12.1	-12.0	-10.9	-10.3
Secondary Income Balance	0.6	0.8	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	-0.4
Capital Account Balance	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Financial Account Balance 5/ 6/	**0.7**	**-8.7**	**-1.2**	**2.4**	**1.0**	**1.2**	**0.7**	**-0.7**	**-1.8**
Direct Investment, net	-3.3	-3.4	-1.0	-1.2	-1.1	-1.2	-1.2	-1.3	-1.4
Net Acquisition of Financial Assets 7/	-1.2	0.8	1.4	0.9	1.0	0.9	0.9	0.8	0.8
Net Incurrence of Liabilities 7/	2.1	4.2	2.3	2.1	2.1	2.0	2.1	2.1	2.2
Portfolio Investment, net	2.8	-4.5	-1.8	0.1	-1.4	-1.2	-1.1	-1.5	-1.5
Financial Derivatives, net 8/	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment, net 9/	1.2	-0.8	1.5	3.5	3.5	3.5	3.0	2.0	1.0
Net Error and Omissions	**1.5**	**-5.0**	**1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**3.6**	**0.5**	**1.2**	**-0.8**	**-1.3**	**0.1**	**0.4**	**0.3**	**-0.2**
Memorandum items									
Terms of Trade (Unit)	129.0	86.2	109.1	136.0	132.0	122.5	115.4	111.1	108.2
Real Effective Exchange Rate	74.2	73.8	72.8	...	...	...	...	...	...
Reserves Assets (GIR, USD billion)	29.0	35.6	34.4	36.2	39.3	39.1	38.1	37.3	37.9
Percent of EM ARA Metric (Percent)	165.2	197.1	160.4	160.1	177.9	181.2	179.7	177.5	175.7
In months of next year imports of G&S (Units)	7.5	8.7	7.7	7.8	8.5	8.3	8.1	7.8	N.A.
Nominal GDP (USD billion)	181.7	171.1	197.1	...	...	...	...	...	...

Sources: National Bank of Kazakhstan and IMF staff estimates and projections.
1/ Includes net merchanting, excludes goods for processing and repairs.
2/ Excludes goods for processing and repairs.
3/ Includes processing fees (manufacturing services) and repairs on goods; excludes merchanting credits.
4/ Includes processing fees and repairs on goods; excludes merchanting debits.
5/ Excluding reserve movements.
6/ In BPM6, a negative signs indicates inflows into the country.
7/ Includes reinvested earnings.
8/ Other than reserves and employee stock options.
9/ Loans, deposits, insurance, pensions, trade credits, SDR allocations with Fund Record, and other accounts receivable/payable.

Table 3. Kazakhstan: Net International Investment Position, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Projections					
				(In billions of USD)					
Net International Investment Position	**-66.0**	**-72.1**	**-77.0**	**-69.7**	**-64.1**	**-61.3**	**-60.5**	**-63.3**	**-67.7**
Assets	159.3	161.1	167.9	176.7	182.8	186.8	190.0	192.7	197.3
Liabilities	225.3	233.2	244.9	246.4	247.0	248.1	250.5	256.0	265.0
Direct Investment, net 1/	-136.9	-138.2	-137.0	-139.7	-142.5	-145.4	-148.6	-152.2	-156.0
Assets	27.4	29.0	32.1	34.1	36.4	38.6	40.9	43.1	45.3
Liabilities	164.3	167.2	169.1	173.8	178.9	184.0	189.5	195.2	201.4
Portfolio Investment, net	49.6	41.9	37.9	38.2	34.8	31.8	28.9	24.9	20.9
Official, net	52.3	46.2	41.3	41.6	39.7	38.5	37.3	35.5	34.0
Non-Official, net	-2.7	-4.3	-3.4	-3.4	-4.9	-6.7	-8.5	-10.6	-13.1
Financial Derivatives, net 2/	0.0	0.0	-0.1	0.1	0.2	0.3	0.4	0.5	0.6
Other Investment, net 3/	-7.7	-11.5	-12.2	-4.3	4.1	13.0	20.8	26.2	28.9
Official, net	-4.0	-4.5	-6.2	-5.2	-4.0	-2.6	-1.5	-0.8	-0.7
Non-Official, net	-3.7	-7.0	-6.0	0.9	8.1	15.6	22.3	27.0	29.6
Reserves Assets (GIR)	29.0	35.6	34.4	36.2	39.3	39.1	38.1	37.3	37.9
Gold 4/	18.9	23.6	23.5	23.8	23.8	24.5	25.2	25.6	26.0
Reserve assets, Special Drawing Rights	0.5	0.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Reserve Position in IMF	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other	9.3	11.3	8.5	10.0	13.2	12.2	10.5	9.3	9.6
o/w Currency and Deposits	4.1	5.6	3.3	3.9	5.2	4.8	4.1	3.7	3.8
o/w Debt Securities	5.2	5.6	5.1	6.0	7.9	7.3	6.3	5.6	5.8
				(In percent of GDP)					
Net International Investment Position	**-36.3**	**-42.2**	**-39.1**	**-31.0**	**-26.4**	**-24.3**	**-23.2**	**-23.6**	**-24.5**
Assets	87.7	94.1	85.2	78.7	75.3	74.2	72.8	71.8	71.4
Liabilities	124.0	136.3	124.2	109.7	101.7	98.6	96.0	95.3	95.8
Direct Investment, net 1/	-75.4	-80.8	-69.5	-62.2	-58.7	-57.8	-57.0	-56.7	-56.4
Assets	15.1	17.0	16.3	15.2	15.0	15.3	15.7	16.0	16.4
Liabilities	90.5	97.7	85.8	77.4	73.7	73.1	72.6	72.7	72.8
Portfolio Investment, net	27.3	24.5	19.2	17.0	14.3	12.6	11.1	9.3	7.6
Official, net	28.8	27.0	21.0	18.5	16.3	15.3	14.3	13.2	12.3
Non-Official, net	-1.5	-2.5	-1.7	-1.5	-2.0	-2.6	-3.2	-4.0	-4.7
Financial Derivatives, net 2/	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2
Other Investment, net 3/	-4.2	-6.7	-6.2	-1.9	1.7	5.1	8.0	9.7	10.5
Official, net	-2.2	-2.6	-3.1	-2.3	-1.6	-1.0	-0.6	-0.3	-0.2
Non-Official, net	-2.0	-4.1	-3.1	0.4	3.3	6.2	8.5	10.0	10.7
Reserves Assets (GIR)	15.9	20.8	17.4	16.1	16.2	15.5	14.6	13.9	13.7
Gold 4/	10.4	13.8	11.9	10.6	9.8	9.7	9.7	9.6	9.4
Reserve assets, Special Drawing Rights	0.3	0.3	1.0	0.9	0.8	0.8	0.8	0.8	0.7
Reserve Position in IMF	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	5.1	6.6	4.3	4.5	5.4	4.9	4.0	3.5	3.5
o/w Currency and Deposits	2.2	3.3	1.7	1.8	2.1	1.9	1.6	1.4	1.4
o/w Debt Securities	2.9	3.3	2.6	2.7	3.3	2.9	2.4	2.1	2.1
Memorandum items									
Nominal GDP (USD billion)	181.7	171.1	197.1	…	…	…	…	…	…

Sources: National Bank of Kazakhstan and IMF staff estimates and projections.
1/ Includes reinvested earnings.
2/ Other than reserves and employee stock options.
3/ Loans, deposits, insurance, pensions, trade credits, SDR allocations with Fund Record, and other accounts receivable/payable.
4/ Includes monetary gold and bullions.

Table 4. Kazakhstan: Financial Soundness Indicators of the Banking Sector, 2019–2022:Q2

	2019	2020	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2
Capital adequacy				(In percent)				
Regulatory Capital to Risk-Weighted Assets	24.2	27.0	26.8	25.2	24.9	23.4	22.8	19.8
Regulatory Tier 1 Capital to Risk-Weighted Assets	19.1	21.3	21.3	20.2	20.3	19.3	18.9	16.4
Regulatory Tier 1 Capital to Assets	12.8	11.8	11.7	11.2	11.6	11.4	11.6	10.9
Asset quality								
Non-performing Loans to Total Gross Loans	8.1	6.9	7.1	4.8	4.3	3.3	3.6	3.6
Provisions as percent of NPL	80.2	77.7	78.2	77.6	75.2	75.6	77.1	76.2
Non-performing Loans Net of Provisions to Capital	5.3	5.0	5.0	3.6	3.7	3.1	3.1	3.5
Large Exposures to Capital	118.5	110.6	106.9	121.5	100.3	100.7	101.8	105.2
Earnings and profitability								
Return on Assets	3.7	8.5	3.9	6.4	8.3	10.3	4.3	4.5
Return on Equity	25.2	57.2	28.3	48.2	61.4	75.8	31.3	31.3
Interest Margin to Gross Income	48.9	48.9	58.4	57.1	57.6	57.7	52.5	66.7
Trading Income to Total Income	2.5	5.7	7.5	7.5	7.3	7.3	19.6	-0.5
Non-interest Expenses to Gross Income	36.1	38.5	41.9	39.8	39.2	39.6	35.8	42.0
Personnel Expenses to Non-interest Expenses	31.2	28.3	31.5	31.4	31.0	30.5	31.5	32.3
Liquidity								
Liquid Assets to Total Assets (Liquid Asset Ratio)	33.0	39.3	41.6	35.1	33.4	30.3	29.8	28.4
Liquid Assets to Short Term Liabilities	95.9	103.6	106.1	95.6	63.2	50.5	52.6	45.6
Foreign-Currency-Denominated Loans to Total Loans	16.9	13.7	13.2	13.2	12.5	11.3	11.0	10.5
Foreign-Currency-Denominated Liabilities to Total Liabilities	38.0	35.4	34.0	34.4	33.7	32.6	37.0	37.7
Customer Deposits to Total (Non-interbank) Loans	122.4	137.2	145.1	146.8	139.3	129.5	126.3	124.6
Sensitivity to market risk								
Gross Asset Position in Financial Derivatives to Capital	6.0	2.9	2.7	3.7	1.9	1.7	7.7	6.3
Gross Liability Position in Financial Derivatives to Capital	6.5	2.5	2.4	3.4	1.6	1.4	2.6	6.6
Net Open Position in Foreign Exchange to Capital	1.6	0.3	1.5	1.3	1.8	2.0	0.4	-23.2

Source: IMF Financial Soundness Indicators (FSI) database.

Table 5. Kazakhstan: Monetary Accounts, 2019–27

				Projections					
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
				(In billions of tenge)					
Monetary Survey									
Net Foreign Assets	13,370	16,671	17,150	20,243	23,841	25,203	25,878	26,358	27,672
Net Domestic Assets	8,429	8,704	13,476	17,997	21,355	26,310	30,628	34,223	37,738
o/w Credit to the private sector 1/	14,784	15,574	19,379	23,898	28,524	32,793	37,019	41,418	47,286
Broad money	21,322	24,918	30,099	37,713	44,669	50,986	55,979	60,053	64,882
Nonliquid liabilities	477	458	527	527	527	527	527	527	527
Central Bank									
Net foreign assets 2/	11,552	15,360	15,381	18,061	21,301	22,358	22,780	23,046	24,089
o/w Net international reserves 2/	10,740	14,443	13,752	16,432	19,671	20,729	21,151	21,417	22,460
Net domestic assets 2/	-4,230	-4,972	-3,903	-4,340	-5,380	-4,291	-3,235	-3,040	-3,222
Reserve money	6,893	9,778	10,958	13,182	15,358	17,526	18,998	19,456	20,322
o/w Currency in circulation	2,688	3,250	3,452	4,094	4,814	5,557	5,992	6,341	6,725
o/w Liabilities to banks	3,163	5,989	6,087	7,598	8,917	10,052	10,998	11,013	11,530
Demand deposits	1,042	538	1,419	1,489	1,626	1,918	2,009	2,102	2,067
Other liquid liabilities	421	579	471	490	513	491	498	501	497
Other Depository Corporations (ODCs)									
Net foreign assets	1,818	1,311	1,769	2,183	2,541	2,845	3,098	3,312	3,582
Net domestic assets	16,210	20,088	23,921	30,473	36,286	41,384	45,649	49,110	53,374
Domestic credit	21,877	26,835	30,434	38,056	42,992	48,318	52,723	56,015	60,345
o/w Credit to the private sector 1/	14,740	15,557	19,346	23,867	28,497	32,763	36,989	41,388	47,256
Other items, net	-5,667	-6,747	-6,513	-7,583	-6,706	-6,934	-7,074	-6,905	-6,971
Banks' liabilities	18,028	21,399	25,690	32,656	38,827	44,229	48,747	52,422	56,956
o/w deposits	17,559	20,972	25,212	32,178	38,349	43,751	48,269	51,943	56,478
					(Annual growth rate, in percent)				
Monetary Survey									
Net Foreign Assets	0.3	24.7	2.9	18.0	17.8	5.7	2.7	1.9	5.0
Net Domestic Assets	6.1	3.3	54.8	33.5	18.7	23.2	16.4	11.7	10.3
o/w ODC credit to the private sector 1/	5.5	5.5	24.4	23.4	19.4	15.0	12.9	11.9	14.2
Broad money	2.4	16.9	20.8	25.3	18.4	14.1	9.8	7.3	8.0
Central Bank Survey									
Net foreign assets 2/	-5.5	33.0	0.1	17.4	17.9	5.0	1.9	1.2	4.5
Net domestic assets 2/	4.9	-17.6	21.5	-11.2	-24.0	20.2	24.6	6.0	-6.0
Reserve money	3.6	41.8	12.1	20.3	16.5	14.1	8.4	2.4	4.4
Memorandum items:									
Exchange rate KZT/USD (eop)	381.2	420.7	431.7	...	...	...	...	...	...
Exchange rate KZT/USD (period average)	382.7	413.0	425.9	...	...	...	...	...	...
Velocity of broad money	3.3	2.8	2.8	2.7	2.7	2.6	2.6	2.6	2.6
Money multiplier	3.1	2.5	2.7	2.9	2.9	2.9	2.9	3.1	3.2
ODC credit to the private sector (percent of GDP)	21.2	22.0	23.0	23.0	23.6	24.3	25.2	26.3	27.8

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, 2019–27 1/

(In billions of tenge)

				Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total revenue	13,683	12,370	14,359	22,897	25,918	28,191	29,890	31,044	33,516
Tax revenue	12,054	9,926	13,329	21,578	24,235	26,249	27,686	28,568	30,745
Oil 2/	4,817	2,395	4,478	9,111	9,581	9,739	9,456	8,757	8,944
Non-oil	7,236	7,530	8,851	12,467	14,655	16,510	18,229	19,811	21,801
Personal income tax	876	930	1,134	1,458	1,657	1,823	1,982	2,152	2,360
Corporate income tax	3,218	2,482	3,797	6,253	6,994	7,589	7,954	8,285	8,887
Social tax	697	727	841	988	1,121	1,232	1,337	1,448	1,586
Value added tax	2,693	2,533	2,808	4,197	4,834	5,538	6,285	6,837	7,653
Excise taxes	343	433	468	720	880	1,055	1,167	1,289	1,418
Property tax	396	369	421	479	551	611	666	724	790
Taxes on international trade	1,563	929	1,483	2,192	2,100	2,211	2,390	2,388	2,508
Receipts from use of natural resources	2,149	1,430	2,265	5,142	5,924	5,997	5,695	5,219	5,297
Other taxes	119	94	111	150	173	193	210	227	246
Nontax revenue 3/	1,630	2,444	855	1,087	1,415	1,645	1,881	2,124	2,387
of which: Interest and dividend income	815	1,222	521	622	890	1,064	1,247	1,435	1,636
Total expenditure and net lending	14,101	17,365	18,562	23,366	26,337	28,082	30,286	32,618	35,499
Total expenditure	13,703	16,976	18,114	22,852	25,740	27,413	29,558	31,839	34,657
Current expenditure	11,860	14,153	15,692	19,775	22,487	24,031	25,875	27,902	30,398
Wages	1,850	2,397	2,896	3,683	4,360	4,602	4,912	5,251	5,680
Goods and services	2,658	3,250	3,389	3,870	4,505	4,909	5,199	5,557	6,012
Current transfers	1,042	1,447	1,797	1,929	2,323	2,415	2,437	2,532	2,739
Other Current Expenditures	1,251	1,143	1,091	2,562	1,807	1,619	1,763	1,884	2,038
Interest payment	679	767	1,029	1,339	1,932	2,314	2,746	3,252	3,732
Capital expenditure	1,843	2,822	2,422	3,077	3,253	3,382	3,683	3,937	4,258
Net lending	398	389	448	513	597	669	728	779	842
Overall balance	-418	-4,995	-4,204	-468	-419	109	-397	-1,573	-1,983
Statistical discrepancy	-466	-1,505	-601	0	0	0	0	0	0
Financing	-48	3,490	3,603	468	419	-109	397	1,573	1,983
Domestic financing, net	1,155	2,074	1,157	2,108	3,928	4,688	6,333	6,531	6,930
Foreign financing, net	-1,225	1,393	2,411	-1,675	-3,543	-4,831	-5,972	-4,992	-4,982
of which: NFRK withdrawal (+) / accumulation (-), net 4/	-1,441	1,243	1,456	-1,705	-3,635	-4,669	-5,017	-4,586	-4,687
Memorandum items:									
Non-oil balance	-5,235	-7,391	-8,682	-9,580	-10,000	-9,630	-9,853	-10,331	-10,927
Primary balance	-553.6	-5,449.8	-3,695.6	248.8	622.6	1,359.0	1,102.1	243.0	113.0
Structural Balance	-869	-4,824	-4,232	-468	-497	-59	-486	-1,573	-1,983
Structural Non-oil Balance	-5,489	-7,222	-8,719	-9,585	-10,012	-9,687	-9,916	-10,364	-11,147
NFRK assets (in billions U.S. dollars)	61.8	58.7	55.3	59.0	66.3	75.0	84.0	91.8	99.4
Nominal GDP	69,533	70,649	83,952	103,568	120,551	134,982	146,994	157,129	169,977

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/Includes also capital revenue

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, 2019–27 1/

(In percent of GDP, unless otherwise specified)

				Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total revenue	19.7	17.5	17.1	22.1	21.5	20.9	20.3	19.8	19.7
Tax revenue	17.3	14.0	15.9	20.8	20.1	19.4	18.8	18.2	18.1
Oil 2/	6.9	3.4	5.3	8.8	7.9	7.2	6.4	5.6	5.3
Non-oil	10.4	10.7	10.5	12.0	12.2	12.2	12.4	12.6	12.8
Personal income tax	1.3	1.3	1.4	1.4	1.4	1.4	1.3	1.4	1.4
Corporate income tax	4.6	3.5	4.5	6.0	5.8	5.6	5.4	5.3	5.2
Social tax	1.0	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9
Value added tax	3.9	3.6	3.3	4.1	4.0	4.1	4.3	4.4	4.5
Excise taxes	0.5	0.6	0.6	0.7	0.7	0.8	0.8	0.8	0.8
Property tax	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Taxes on international trade	2.2	1.3	1.8	2.1	1.7	1.6	1.6	1.5	1.5
Receipts from use of natural resources	3.1	2.0	2.7	5.0	4.9	4.4	3.9	3.3	3.1
Other taxes	3.9	3.6	3.3	4.1	4.0	4.1	4.3	4.4	4.5
Nontax revenue 3/	2.3	3.5	1.0	1.0	1.2	1.2	1.3	1.4	1.4
of which: Interest and dividend income	1.2	1.7	0.6	0.6	0.7	0.8	0.8	0.9	1.0
Total expenditure and net lending	20.3	24.6	22.1	22.6	21.8	20.8	20.6	20.8	20.9
Total expenditure	19.7	24.0	21.6	22.1	21.4	20.3	20.1	20.3	20.4
Current expenditure	17.1	20.0	18.7	19.1	18.7	17.8	17.6	17.8	17.9
Wages	2.7	3.4	3.4	3.6	3.6	3.4	3.3	3.3	3.3
Goods and services	3.8	4.6	4.0	3.7	3.7	3.6	3.5	3.5	3.5
Current transfers	1.5	2.0	2.1	1.9	1.9	1.8	1.7	1.6	1.6
Other Current Expenditures	1.8	1.6	1.3	2.5	1.5	1.2	1.2	1.2	1.2
Interest payment	1.0	1.1	1.2	1.3	1.6	1.7	1.9	2.1	2.2
Capital expenditure	2.7	4.0	2.9	3.0	2.7	2.5	2.5	2.5	2.5
Net lending	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Overall balance	-0.6	-7.1	-5.0	-0.5	-0.3	0.1	-0.3	-1.0	-1.2
Statistical discrepancy	-0.7	-2.1	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-0.1	4.9	4.3	0.5	0.3	-0.1	0.3	1.0	1.2
Domestic financing, net	1.7	2.9	1.4	2.0	3.3	3.5	4.3	4.2	4.1
Foreign financing, net	-1.8	2.0	2.9	-1.6	-2.9	-3.6	-4.1	-3.2	-2.9
of which: NFRK withdrawal (+) / accumulation (-), net 4/	-2.1	1.8	1.7	-1.6	-3.0	-3.5	-3.4	-2.9	-2.8
Memorandum items:									
Non-oil balance	-7.5	-10.5	-10.3	-9.2	-8.3	-7.1	-6.7	-6.6	-6.4
Non-oil balance (in percent of non-oil GDP)	-9.5	-12.9	-12.9	-11.4	-10.4	-9.0	-8.4	-8.1	-7.9
Non-oil revenues (in percent of non-oil GDP)	16.2	17.3	14.6	16.4	16.9	17.2	17.5	17.6	17.8
Primary balance	-0.8	-7.7	-4.4	0.2	0.5	1.0	0.7	0.2	0.1
Structural Balance	-1.3	-6.8	-5.0	-0.5	-0.4	0.0	-0.3	-1.0	-1.2
Structural Non-oil Balance	-7.9	-10.2	-10.4	-9.3	-8.3	-7.2	-6.7	-6.6	-6.6
Gross public debt	19.9	26.4	25.1	23.2	24.0	25.3	27.2	29.5	31.4
NFRK assets	34.0	34.3	28.1	26.3	27.3	29.8	32.2	34.2	35.9
Net public debt	-14.0	-8.0	-3.0	-3.1	-3.3	-4.6	-5.0	-4.7	-4.6

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 7. 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.

Annex I. Implementation of the 2021 Article IV Recommendations

Recommendations	Current Status
Fiscal Policy	
Accommodative fiscal policy supported the post-COVID recovery, and some fiscal stimulus remains warranted considering recent shocks. Buffers should be rebuilt through gradual medium-term consolidation.	The revised 2022 budget incorporates a substantial expansion of current expenditure to support the economy and boost social spending. The authorities are implementing gradual fiscal consolidation.
A simple set of fiscal rules would best serve the authorities' goals to safeguard sustainability and intergenerational equity, and to promote countercyclical policy.	Two new fiscal rules have been introduced: a cap on growth, and a cap on NFRK transfers to the government. This will help to contain deficits and improve countercyclicality. Previous rules remain in place, implying that the framework remains complex.
Monetary Policy	
The authorities should continue the transition to full-fledged inflation targeting, while enhancing transparency and the National Bank of Kazakhstan's (NBK) independence, by eliminating the NBK's quasi-fiscal activities. The survey on inflation expectation should be expanded to include longer time horizons.	The NBK continues its transition to a full-fledged inflation targeting regime and remains committed to exchange rate flexibility. Inflation expectations data are still only available at a short horizon. The NBK has not yet exited from quasi-fiscal activities (e.g., subsidized credit to SMEs).
Financial Sector Policy	
Further progress in strengthening the risk-based supervisory and bank resolution frameworks is needed.	Banking supervision has been strengthened significantly, benefiting from IMF TA support. The bank resolution framework still needs to be strengthened, including to provide the necessary tools to deal with systemic bank failures and stronger legal protection to ARDFM staff.
Risks from fast-growing consumer lending and potential bank liquidity pressures should be carefully monitored.	The supervisory authority is increasing its monitoring of fast-growing consumer lending and has introduced some measures to address risks.
Structural Reforms	
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.	Reforms announced in September 2022 address governance and corruption vulnerabilities, the state footprint, and the business environment. Actual implementation remains a key priority. The strategy to meet commitments under the Paris Agreement and to reach carbon neutrality has been delayed and is expected to be finalized by end-2022.

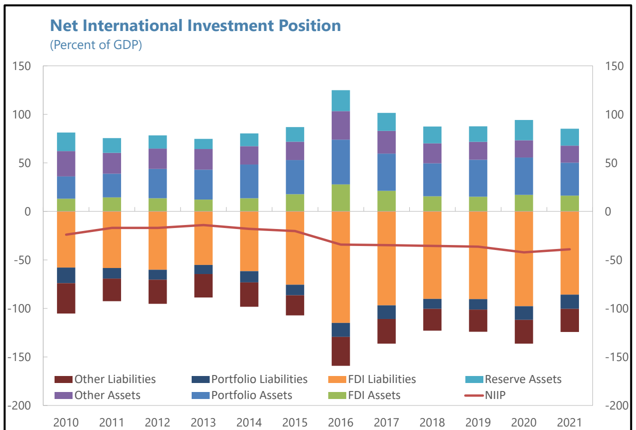
Annex II. External Sector Assessment

Overall Assessment: *Staff assesses Kazakhstan's external position in 2021 as moderately weaker than the level implied by economic fundamentals and desirable policies. In the first three quarters of 2021, increasing oil prices and gradually recovering global demand have improved the country's external position. In 2021Q4, the financial account registered net outflows causing a large loss of reserves. However, this was assessed as a one off: in 2022H1, with continued oil price increases, FDIs and portfolio flows reverted to trend.*

Potential Policy Responses: *The current account balance is projected to improve to 3.1 percent of GDP in 2022 and deteriorate over the medium term due to higher imports of manufactured and intermediate goods and lower oil prices. Fiscal consolidation will need to continue to support the external balance. Over the longer term, structural reforms to boost export competitiveness, promote diversification away from oil, and increase FDI in non-extractive sectors, would help mitigate structural weaknesses in the external position.*

Foreign Assets and Liabilities

Background. Since Kazakhstan shifted to a flexible exchange rate regime in 2015, its negative net international investment position (NIIP) has gradually widened, reflecting a surge of FDI and, to a lesser extent, portfolio investment inflows. The NIIP reached US$77 billion in 2021, almost double the size in 2015. Over the medium term, the NIIP is projected to gradually improve, mainly due to reduced FDI inflows.



Source: NBS data and Haver data.

Assessment. Kazakhstan has large gross external liabilities – about 124 percent of GDP. However, over 70 percent of them are related to foreign direct investment, including in the natural resource sector. The public sector is a net creditor. Overall, risks to external sustainability are limited.

2021 (% GDP)	NIIP: -39	Assets: 85	Portf. Assets: 34	Liabilities: 124	Portf. Liab.: 15

Current Account

Background. The current account balance improved to minus 4 percent of GDP in 2021 (from minus 4.4 percent of GDP in 2020), benefiting from higher oil and other commodity prices. In the same year, the trade surplus doubled on the back of a 31 percent increase in oil exports, a 24 percent increase in non-oil exports (due to favorable prices for metals, wheat, and other raw materials), and a 7 percent increase in imports. This improvement was partly offset by a large deterioration of the income balance, driven by income repatriation by foreign investors in the extractive sector. In the short term, the current account balance is projected to improve considerably because of higher prices of oil and raw materials. Over the long term, the current account is projected to deteriorate gradually as the value of manufactured and intermediate goods imports outpaces the value of oil exports.

Assessment. Staff assesses Kazakhstan's external position in 2021 as moderately weaker than the level implied by economic fundamentals and desirable policies. The CA model of the IMF's EBA-lite framework estimates a cyclically adjusted current account norm of minus 2 percent of GDP. The cyclically adjusted balance stood at minus 3.4 percent of GDP, implying a gap of about minus 1.4 percent of GDP and a REER gap of 6.2 percent (using standard export and import elasticities). The current account gap reflects a policy gap of 2 percent, mostly arising from low public health expenditure, financial deepening, and somewhat weaker fiscal stance, for given fundamentals and desirable policies.

EBA-lite Model Results, 2021

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-4.0**	
Cyclical contributions (from model) (-)	-0.5	
COVID-19 adjustor (-) 2/	0.1	
Natural disasters and conflicts (-)	-0.2	
Adjusted CA	**-3.4**	
CA Norm (from model) 3/	**-2.0**	
Adjusted CA Norm	**-2.0**	
CA Gap	**-1.4**	**5.2**
o/w Relative policy gap	2.0	
Elasticity	-0.23	
REER Gap (in percent)	**6.2**	**-23.0**

1/ Based on the EBA-lite 3.0 methodology

2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism.

2/ Cyclically adjusted, including multilateral consistency adjustments.

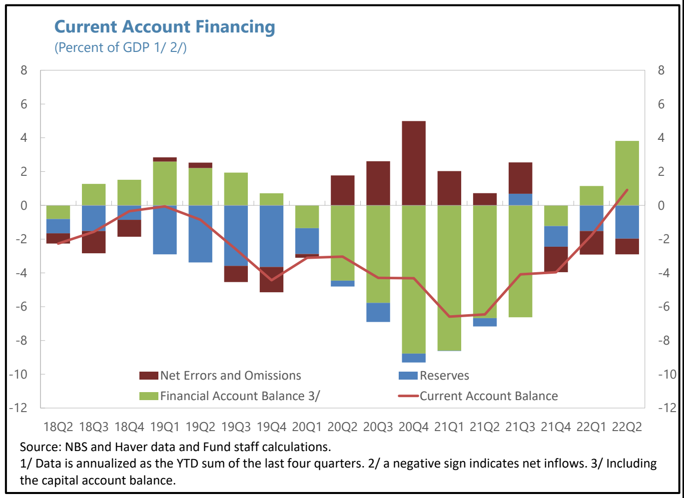
Real Exchange Rate

Background. The real effective exchange rate (REER) appreciated by about 1½ percent in 2021 (eop) as oil price 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 large undervaluation of about 23 percent. However, the IREER result is strongly influenced by demographic variables for which Kazakhstan is an outlier relative to the rest of the world. Kazakhstan receives much lower remittances and has much lower dependency ratio and life expectancy than the world average. Everything else equal, the first factor contributes to REER undervaluation by reducing (everything else equal) the availability of external financing while the second and third factors contribute to REER undervaluation by implying higher aggregate saving than the world average. These factors alone explain about 16 percentage points of the predicted IREER 23 percent undervaluation. Consequently, staff bases its assessment solely on the CA model.

Capital and Financial Accounts: Flows and Policy Measures

Background. Kazakhstan saw large capital outflows in 2021 reflecting a 40 percent reduction in FDI inflows, a 100 percent increase in FDI outflows, and a halving of portfolio net inflows year-on-year. As a result, Kazakhstan lost about US$2.3 billion in official reserves (about 1.2 percent of GDP). This situation should improve in 2022 as the country records a large current account surplus. To mitigate exchange rate pressures and, more recently, to limit the risk of secondary sanctions from the war in Ukraine, the authorities: (i) halved the daily cap on foreign currency that a legal entity may purchase unrelated to foreign currency obligations (from US$100,000 to US$50,000); (ii) required SOEs to sell part of their FX export proceeds; and (iii) prohibited physical exports of FX cash above the equivalent of US$10,000 and of more than 100g of gold (in 2022) – electronic cross-border FX transfers remain unaffected by this measure, limiting its impact on capital flows.

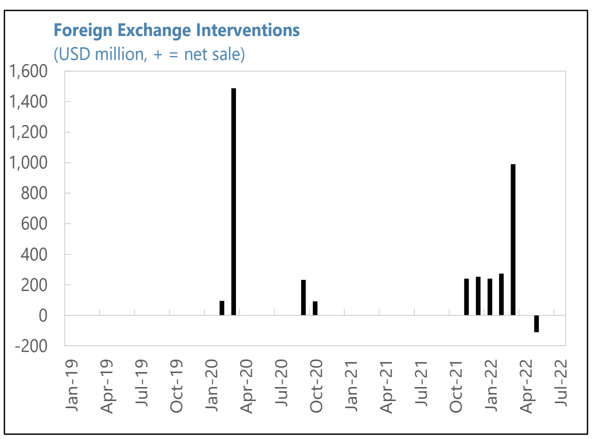


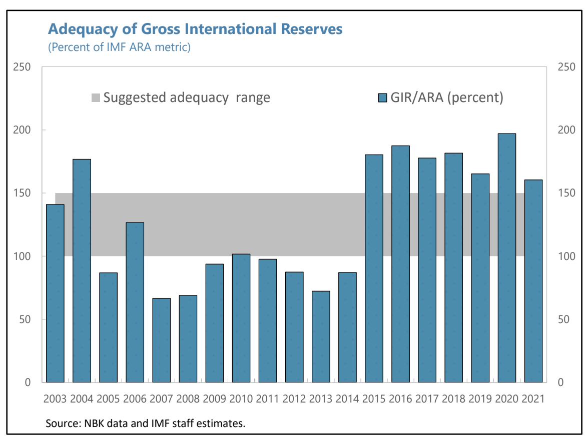
Assessment. All three of the above measures are assessed as capital flow management measures (CFM) under the Institutional View on Liberalization and Management of Capital Flows. Their temporary adoption was justified as part of a policy response to an imminent crisis at the time of the initial COVID shocks, and more recently by the risk of secondary sanctions associated from the war in Ukraine. With crisis conditions abating, they should be phased out.

FX Intervention and Reserves Level

Background. At the end of 2021, official reserves stood at US$34 billion, covering about 8 months of projected next-year's imports of goods and services, 120 percent of portfolio investment liabilities, and 50 percent of broad money. About 70 percent of reserve assets are in gold. Strong gold prices are among the factors that pushed up reserves in 2021 despite FXIs at the onset of the pandemic. The NBK also intervened at the onset of the war in Ukraine, exchanging US$1.4 billion of reserves in 2022, but stopped intervening since May 2022.

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 about US$53 billion, provide an additional buffer.





Annex III. Risk Assessment Matrix[1]

Source of Risk and Relative Likelihood	Expected Impact	Policy Response
Conjunctural Risks		
High **Intensifying spillovers from Russia's war on Ukraine.** Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility.	Medium Trade disruptions could affect exports from Kazakhstan. A sustained closure of the CPC pipeline would affect the fiscal and external accounts. High oil prices would support Kazakhstan's buffers. Migration flows could add to inflation pressures.	Save oil revenue windfalls. Strengthen implementation of the medium-term fiscal framework. Diversify export routes. Allow the exchange rate to adjust to potential pressures, use buffers to smooth short-term volatility.
Medium **Local COVID-19 outbreaks.** New outbreaks, including the emergence of more contagious vaccine-resistant variants, force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress.	Low A resurgence of the pandemic could result in lower exports and dent domestic demand. A global slowdown could lead to lower FDI inflows.	Ensure adequate supply of vaccines. Strengthen social safety net. Use buffers to provide stimulus, if needed.
Medium **Abrupt global slowdown or recession.** Sharp tightening of global financial conditions could lead to higher risk premia, and fiscal pressures, capital outflows, sudden stops, and debt and financial crises across EMDEs.	Medium A global slowdown could result in lower commodity prices and volume of trade.	Allow the exchange rate to adjust; if needed, use buffers to smooth volatility.
High **Commodity price shocks.** A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	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 **Deepening geo-economic fragmentation and geopolitical tensions.** Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing	High Global fragmentation could negatively affect Kazakhstan's through lower trade and FDI inflows.	Accelerate the structural transformation to support economic diversification and potential growth. Strengthen social safety nets.

[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
of international monetary and financial system, and lower potential growth.		
High **Systemic social unrest.** Rising inflation and worsening inequality amplify social unrest and political instability, causing capital outflows, slowing growth, and giving rise to economically damaging populist policies (e.g., preserving fossil fuel subsidies).	High High inflation could re-ignite the social tensions that came to the surface in January of 2022. This would impact economic activity and could trigger fiscally costly responses.	Strengthen social safety nets. Accelerate structural reforms, including anti-corruption reforms, to promote inclusive growth. Strengthen the inflation-targeting framework.
Medium **Cyberthreats.** Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability and disrupt economic activities.	Medium Cyberattacks could disrupt the payment system, which relies on electronic means to a large extent.	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.** More frequent natural disasters deal severe damage to infrastructure and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth	Medium/Low Kazakhstan's agricultural sector could suffer from higher incidence of droughts.	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, decreased investors' confidence, low level of competition, lack of diversification and high vulnerability to external shocks.	Implement fiscal framework. Step up structural reforms, including privatizations (IPOs of Samruk Kazyna's largest assets as planned). Improve public sector transparency and accountability.
High **De-anchoring of inflation expectations and stagflation**	Medium Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral. NBK tightens monetary policy more than envisaged weakening demand. This could lead to stagflation	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—Baseline Scenario

(In percent of GDP unless otherwise indicated)

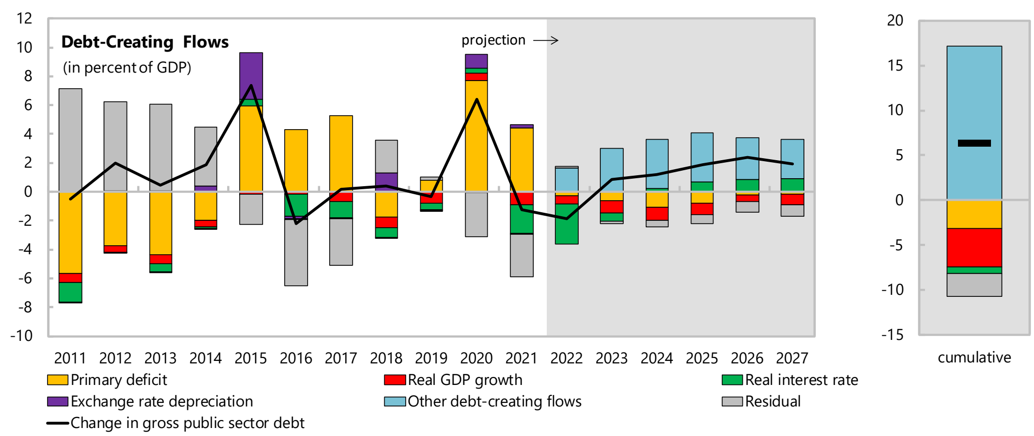
Debt, Economic and Market Indicators 1/

	Actual			Projections					
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	16.8	26.4	25.1	23.3	24.1	25.3	27.2	29.5	31.5
Of which: guarantees	0.7	1.3	1.4	1.2	1.0	0.9	0.8	0.8	0.7
Public gross financing needs	0.4	8.6	6.3	1.8	2.1	2.2	3.0	3.2	3.5
Net public debt	-18.4	-8.6	-3.3	-3.9	-4.6	-5.4	-5.8	-5.4	-4.7
Public debt (in percent of potential GDP)	16.9	26.0	25.2	23.3	24.2	25.5	27.3	29.5	31.5
Real GDP growth (in percent)	4.1	-2.6	4.1	2.7	4.2	4.4	3.4	1.7	2.7
Inflation (GDP deflator, in percent)	9.4	4.3	14.1	20.0	10.8	7.0	5.2	4.9	4.9
Nominal GDP growth (in percent)	13.9	1.6	18.8	23.2	15.4	11.7	8.8	6.7	7.7
Effective interest rate (in percent) 2/	5.4	5.9	5.8	6.7	8.4	8.3	8.3	8.4	8.3

As of October 31, 2022		
Sovereign Spreads		
EMBIG (bp)		323
5Y CDS (bp)		265
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 8/
Change in gross public sector debt	1.0	6.4	-1.3	-1.8	0.8	1.2	1.9	2.4	1.9	6.4	2.9
Identified debt-creating flows	-0.7	9.5	1.7	-2.0	1.0	1.6	2.5	3.1	2.8	9.0	
Primary deficit	-0.1	7.7	4.4	-0.3	-0.6	-1.1	-0.8	-0.2	-0.2	-3.1	
Primary (noninterest) revenue and grants	20.8	15.8	16.5	21.5	20.9	20.1	19.5	18.9	18.8	119.8	
Primary (noninterest) expenditure	20.6	23.5	20.9	21.3	20.2	19.1	18.7	18.7	18.7	116.7	
Automatic debt dynamics 3/	-0.6	1.8	-2.6	-3.4	-1.4	-0.7	-0.1	0.4	0.1	-5.0	
Interest rate/growth differential 4/	-1.1	0.8	-2.9	-3.4	-1.4	-0.7	-0.1	0.4	0.1	-5.0	
Of which: real interest rate	-0.6	0.3	-2.0	-2.8	-0.6	0.2	0.7	0.9	0.9	-0.7	
Of which: real GDP growth	-0.5	0.5	-0.9	-0.5	-0.8	-0.9	-0.8	-0.4	-0.7	-4.3	
Exchange rate depreciation 5/	0.5	1.0	0.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	1.6	3.0	3.4	3.4	2.9	2.8	17.1	
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 6/	0.0	0.0	0.0	1.7	3.0	3.5	3.4	2.9	2.8	17.3	
Residual, including asset changes 7/	1.8	-3.1	-3.0	0.2	-0.2	-0.4	-0.6	-0.7	-0.8	-2.6	



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

3/ 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).

4/ 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.

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

6/ 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.

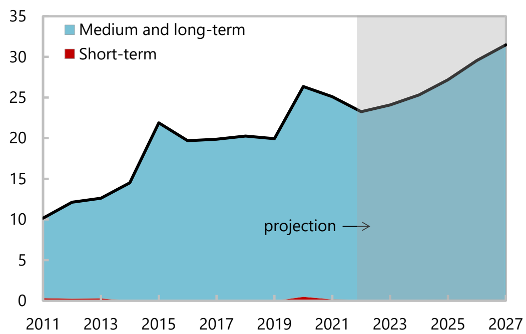
7/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

8/ 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.

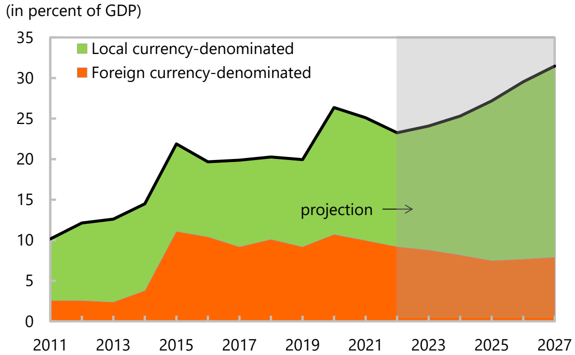
Figure 2. Kazakhstan: Public Debt Sustainability Analysis—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



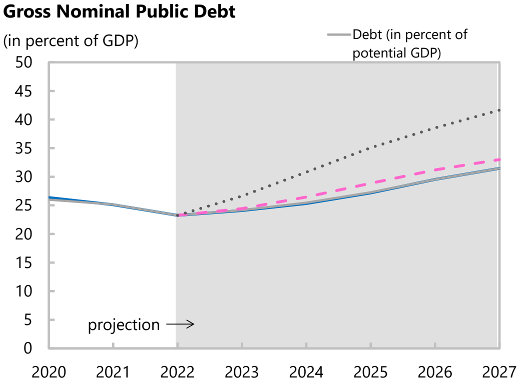
By Currency
(in percent of GDP)



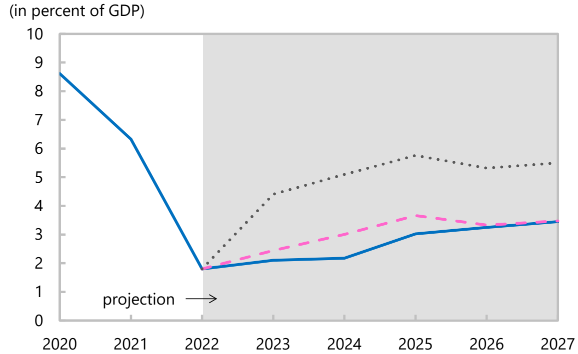
Alternative Scenarios

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	2.7	4.2	4.4	3.4	1.7	2.7
Inflation	20.0	10.8	7.0	5.2	4.9	4.9
Primary Balance	0.3	0.6	1.1	0.8	0.2	0.2
Effective interest rate	6.7	8.4	8.3	8.3	8.4	8.3
Constant Primary Balance Scenario						
Real GDP growth	2.7	4.2	4.4	3.4	1.7	2.7
Inflation	20.0	10.8	7.0	5.2	4.9	4.9
Primary Balance	0.3	0.3	0.3	0.3	0.3	0.3
Effective interest rate	6.7	8.4	8.4	8.3	8.4	8.2

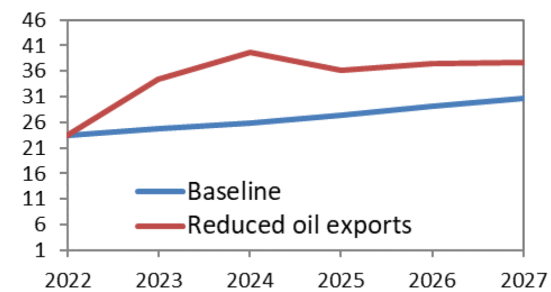
Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	2.7	3.1	3.1	3.1	3.1	3.1
Inflation	20.0	10.8	7.0	5.2	4.9	4.9
Primary Balance	0.3	-1.7	-1.7	-1.7	-1.7	-1.7
Effective interest rate	6.7	8.4	8.0	7.4	7.0	6.5

Source: IMF staff.

Alternative Scenario: Closure of the CPC Pipeline

1. **An alternative scenario combining reduced oil exports, lower growth and higher financing costs, suggests that debt would increase but fiscal space would remain ample.** The scenario assumes that the CPC pipeline remains closed during 2023 and 2024, resulting in a reduction of oil production of 70 percent relative to the baseline (only a small part of the oil exports being rerouted). GDP growth is assumed to be 10 percentage points below the baseline, the exchange rate depreciates by 50 percent, and interest rates rise by 360 basis points. Fiscal revenues decline by 3½ percent of GDP, while spending is assumed to remain constant as a share of GDP. Under these circumstances, public debt at end 2027 would climb to 40 percent of GDP, compared to 31 percent of GDP in the baseline.

Alternative Scenario: Public Debt
(Percent of GDP)



Sources: Kazakhstani authorites and IMF staff projections.

Kazakhstan: External Sustainability, 2017–27
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	**100.4**	**89.4**	**87.8**	**96.2**	**83.6**			**71.5**	**64.2**	**59.6**	**56.0**	**54.2**	**53.9**	**-0.5**
2 Change in external debt	-18.7	-11.0	-1.6	8.3	-12.6			-12.1	-7.3	-4.5	-3.6	-1.8	-0.3	
3 Identified external debt-creating flows (4+8+9)	-20.1	-8.5	-0.1	5.9	-9.7			-6.5	-6.3	-5.3	-3.9	-1.6	-1.7	
4 Current account deficit, excluding interest payments	0.1	-3.8	0.4	0.9	1.2			-6.8	-4.9	-3.6	-2.7	-1.2	-0.6	
5 Deficit in balance of goods and services	-7.6	-11.3	-7.4	-3.6	-8.6			-17.0	-14.8	-13.5	-12.6	-10.2	-9.2	
6 Exports	32.3	37.4	36.3	30.6	33.6			40.8	37.6	35.5	34.1	31.4	30.2	
7 Imports	24.6	26.2	28.9	27.0	25.0			23.8	22.8	22.0	21.6	21.2	21.0	
8 Net non-debt creating capital inflows (negative)	-2.3	-1.9	-3.5	-3.9	-1.0			-1.4	-1.4	-1.6	-1.7	-1.7	-1.9	
9 Automatic debt dynamics 1/	-17.8	-2.8	3.0	9.0	-9.9			1.7	-0.1	-0.1	0.5	1.4	0.8	
10 Contribution from nominal interest rate	3.2	4.2	4.1	3.6	2.8			3.7	2.7	2.6	2.5	2.3	2.3	
11 Contribution from real GDP growth	-3.8	-3.8	-4.0	2.4	-3.4			-2.0	-2.8	-2.7	-2.0	-0.9	-1.4	
12 Contribution from price and exchange rate changes 2/	-17.3	-3.2	2.8	3.0	-9.3			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	1.4	-2.5	-1.5	2.4	-2.8			-5.6	-1.0	0.8	0.2	-0.2	1.3	
External debt-to-exports ratio (in percent)	311.3	238.8	242.0	314.2	249.1			175.0	170.5	167.9	164.3	173.0	178.6	
Gross external financing need (in billions of US dollars) 4/	17.7	14.5	23.0	23.9	27.3			14.5	15.2	16.9	18.0	20.7	21.9	
in percent of GDP	10.6	8.1	12.7	14.0	13.8	10-Year	10-Year	6.5	6.3	6.7	6.9	7.8	8.1	
Scenario with key variables at their historical averages 5/								**71.5**	**70.5**	**68.4**	**65.9**	**63.3**	**61.3**	**-2.2**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	3.9	4.1	4.5	-2.6	4.1	3.1	2.6	2.7	4.2	4.4	3.4	1.7	2.7	
GDP deflator in US dollars (change in percent)	16.9	3.3	-3.1	-3.3	10.7	-1.9	13.2	10.9	3.8	-0.5	-0.1	0.6	-1.1	
Nominal external interest rate (in percent)	3.3	4.5	4.7	3.8	3.4	3.4	0.8	5.0	4.1	4.1	4.4	4.2	4.2	
Growth of exports (US dollar terms, in percent)	29.4	24.8	-1.8	-20.6	26.3	-0.5	22.7	38.7	-0.4	-1.9	-0.7	-5.9	-2.2	
Growth of imports (US dollar terms, in percent)	12.9	14.3	11.9	-12.0	6.4	0.6	14.7	8.7	3.5	0.3	1.2	0.5	0.9	
Current account balance, excluding interest payments	-0.1	3.8	-0.4	-0.9	-1.2	0.7	2.4	6.8	4.9	3.6	2.7	1.2	0.6	
Net non-debt creating capital inflows	2.3	1.9	3.5	3.9	1.0	3.5	2.6	1.4	1.4	1.6	1.7	1.7	1.9	

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.

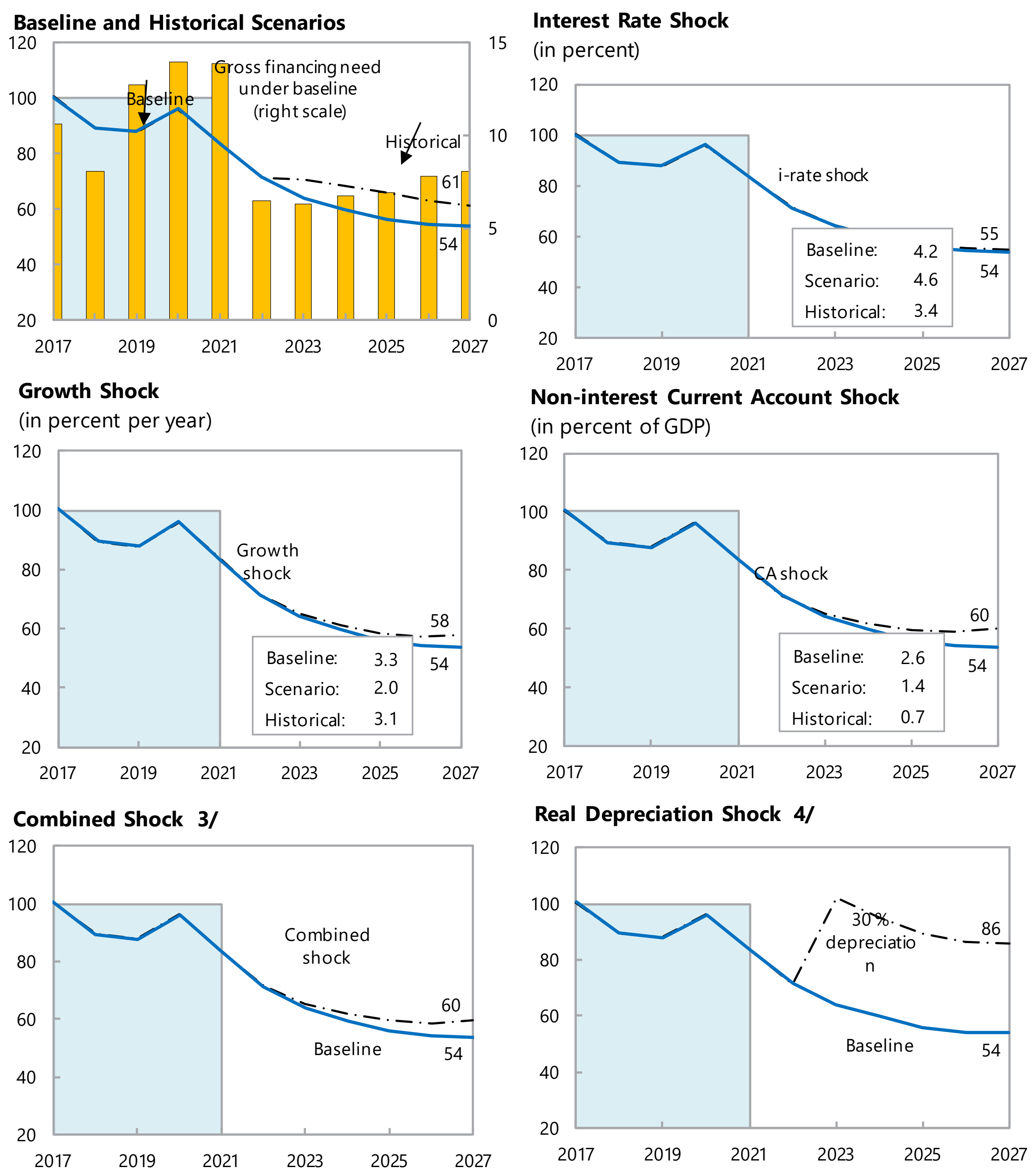
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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/

(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.

Annex V. Anti-Corruption and Rule of Law

Recent anti-corruption efforts have focused on addressing administrative corruption, while less emphasis was put on addressing risks from corruption at high levels of government (grand corruption). Renewed focus by the authorities on strengthening anti-corruption and the rule of law as well as the prioritization of transparency, accountability, and public engagement in the Concept of the Anti-Corruption Policy for 2022-2026 are welcome. Recognizing the significance of effective anti-corruption frameworks, the authorities plan to introduce conflict of interest, whistleblower protection and asset recovery legislation. Concrete reforms should follow to address significant shortcomings in criminalization of bribery and money laundering, definition of PEPs, effectiveness of asset disclosure system for public officials, and independence of key anti-corruption institutions and the judiciary.

A. Effectiveness of Anti-Corruption Legal and Institutional Frameworks

1. **Corruption across economic sectors and public institutions remains a serious problem.**[1] Characterizing corruption is complicated by the limited comprehensive analysis, transparency, and oversight by civil society and independent media. This also impedes the assessment of corruption risks in the large extractive sector. According to the *Corruption Perception Index* by Transparency International, the public perception of corruption improved and reached a historic high score of 38/100 in 2020 but dropped to 37/100 in 2021 (versus an average of 34 for the CCA).[2] The majority of corruption cases are recorded in the police, state-run hospitals and clinics, land management authorities, state-run kindergartens, and higher education institutions.

2. **The authorities continue to upgrade the anti-corruption legal framework, but significant shortcomings remain.** Important legislative changes related to asset recovery, whistleblower protection, conflict of interest in public service and administrative liability of legal persons are being developed. Criminalization of bribery and money laundering offences, and definition of PEPs fall short of international standards. Insufficient legal frameworks can diminish the effectiveness of anti-corruption efforts.

3. **Restrictive rules on public access to information undermine transparency and accountability**. There is a strong statutory presumption against public access to information and the implementation of the existing framework is further limited by the lack of effective independent control over enforcement, agency-level processes for managing requests, and liability for violations by public officials. Information officers are being appointed or designated but practice is inconsistent as is the awareness of the officers.

4. **A strong whistleblower protection system, when enforced effectively, can improve the prevention of corruption.** Currently, the legal protection applies only to individuals who report on a corruption-related crime and participate in the criminal proceedings as a complainant or a witness. The criminal procedural legislation does not recognize an anonymous report as a basis for opening

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[1] E.g., see recently-published first report of the Group of States against Corruption (GRECO) on Kazakhstan.

[2] The *Corruption Perception Index* measures perception of corruption in the public sector by experts and the business community. The score follows a 0-100 scale (a higher score reflecting a lower perception of corruption).

an investigation. Administrative liability for reporting false information on corruption can discourage the reporting and create opportunities for retaliation

5. Broad immunity from criminal liability for certain category of top officials, MPs, senior judges, and prosecutors severely diminishes the effectiveness of the legal framework against risks of grand corruption. The legal provisions on specific procedures on arrest/investigation/ prosecution of top officials go beyond the functional immunity that is necessary for the performance of official duties during the term of office. As part of the announced reforms, it is essential to ensure that immunity from investigation, prosecution or adjudication of corruption offences does not amount to a disproportionate privilege and promote impunity.

6. The anti-money laundering framework can be leveraged to combat grand corruption. The existing legal definition of PEPs does not cover certain officials with prominent public functions, such as senior executives of state-owned enterprises (SOEs), important political party officials, and their family members and associates. Information on Beneficial Ownership (BO) of legal persons and arrangements, including in the large extractive industry, is not always collected and disclosed.[3] The lack of effective monitoring of PEPs and limited BO transparency may facilitate the laundering of proceeds from corruption and other crimes.

7. The current asset disclosure system for public officials is not effectively enforced and does not ensure transparency and accountability. The asset disclosure is based on tax reporting and applies to incomplete categories of public officials at political, central, and local levels. Asset disclosure declarations are not published and the mechanisms for meaningful verification of disclosed information and sanctioning for violations are inadequate.

8. The autonomy of anti-corruption institutions responsible for implementing the legal framework is limited. The President directly appoints or plays a decisive role in the appointment and dismissal of all leading positions in anti-corruption bodies, including the Anti-Corruption Agency, judiciary, prosecution, and law enforcement. The far-reaching presidential powers extend to approving the structural organization, number of staff and operational regulations of these key institutions, rendering the system vulnerable to undue influence.

B. Rule of Law: Enforcement of Contracts and Protection of Property Rights

9. The legal framework recognizes and provides protection of property rights and contract enforcement, but implementation should be improved. Land ownership right is exercised by the State on behalf of the people of Kazakhstan, with private ownership allowed under certain conditions. High transaction costs, risks of corruption in land administration and an uncertain legal framework limit the effectiveness of property rights protection. The 2021 legislative changes introduce important initiatives to improve land management, including the required publication of information on agricultural land through the Automated Information System of the State Land Cadaster. Lack of clarity in division of functions between heads of local authorities (i.e., Akims) and the Land

[3] As noted, Kazakhstan's AML/CFT regime, which includes the rules on BO transparency, is currently being assessed by the *Eurasian Group on Combatting Money Laundering and Financing of Terrorism* (EAG).

Commissions increases corruption vulnerabilities. The efficiency of land dispute resolution is negatively affected by the perception of limited independence and integrity of the judicial system.

10. The effectiveness of contract enforcement is limited by a perceived limited independence and integrity of the judiciary. The legal framework related to the judiciary has been recently upgraded by improving the process for selection of judicial candidates, adopting the Judicial Ethics Code and introducing the judicial performance assessment. Numerous reform initiatives are announced to simplify administration of justice, including by promoting of use of mediation and reconciliation in commercial cases, and complete the process of automation of courts to facilitate access to justice. Further reforms should address structural governance weaknesses, such as insufficient de jure and de facto guarantees of judicial independence, the excessive role of political bodies in the appointment and dismissal of judges, and the need to transform the High Judicial Council into a fully autonomous and effective institution.

C. Recommendations

11. Successful anti-corruption and rule of law reforms require comprehensive legislation, an effective institutional framework and broad stakeholder participation in policymaking and monitoring. To translate the anti-corruption and rule of law policies into impact-driven results, the authorities should consider the following measures:

- Continue upgrading the anti-corruption legal framework in line with international standards and best practices, including recommendations made by the Council of Europe's GRECO and OECD Anti-Corruption Network, and enhance implementation.
- Revise the asset disclosure system for public officials in line with international best practice (especially the G20 High Level Principles on Asset Disclosure by Public Officials) and ensure their vigorous enforcement. Introduce and enforce an effective mechanism for monitoring of the accuracy of disclosed information and make the asset disclosure declarations public.
- Revise the definition of Politically Exposed Person to include national officials with prominent public functions, senior executives of SOEs and other quasi-state sector entities, important political party officials, and their family members and close associates.
- Ensure collection and publication of Beneficial Ownership information, especially in relation to entities operating in the extractive industry.
- Revise the rules on immunity from criminal investigation/prosecution/arrest to exclude any undue privilege against liability for corruption.
- Strengthen the institutional and operational autonomy of anti-corruption institutions and limit the role of the executive in appointment and dismissal of key officials, deciding on structural organization, number of staff and operational regulations.
- Accelerate the judicial reforms and take measures to eliminate, as much as possible, the political influence over appointment and dismissal of judges and prosecutors.
- Continue to strengthen the protection of property rights by reducing bureaucratic obstacles and addressing corruption risks in land management.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 15, 2022

Prepared By

The Middle East and Central Asia Department
(In consultation with other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of October 26, 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	1,464.38	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 April 11, 2022 (see IMF Country Report No. 22/113).

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 was assessed against the AML/CFT standard, the Financial Action Task Force (FATF) 40+9 Recommendations in 2010. 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 relevant 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 identified several deficiencies in the country's AML/CFT framework, notably with respect to customer due diligence and reporting of suspicious transactions. The country is making progress in addressing these deficiencies, as noted in follow-up reports adopted by the EAG. An assessment of the country's AML/CFT regime against the current FATF standards, and its effectiveness is currently being conducted by the EAG.

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 and its official opening is expected for the Spring of 2023. 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 2017.

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. April 2018: Management of distressed assets.
2. April 2018: Foreign exchange operations.

3. 2018–19: Forecasting and Policy Analysis System.
4. September 2020: Risk-Based Supervision.
5. November 2020–January 2021: Risk-Based Supervision Pillar 2 Implementation.
6. January–April 2021: Capacity Development Plan of CCAMTAC in Central Bank Policy and Operations.
7. April–May 2021: Risk-Based Supervision Recovery Plans and Interest Rate Risk.
8. July–September 2021: Risk-Based Supervision Pillar 2 Liquidity.
9. July–October 2021: Strengthening Cybersecurity in Financial Institutions.
10. December 2021: Bank Stress Testing.
11. January 2022: Quarterly Projection Model.
12. February 2022: Debt Management.
13. February 2022: Risk-Based Supervision for Securities Markets
14. February 2022: Central Bank Risk Management
15. August 2022: Forensic Supervision

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. April-May 2019: Accrual budgeting.
2. September 2019: Improving Tax Compliance Risk Management.
3. May-August 2020: Assessing Macro-Fiscal Risks and State-Owned Enterprises.
4. November-December 2020: Accrual Budgeting and First Prospective Consolidated Financial Statements.
5. November 2021: Accrual Budgeting.
6. February-March 2022: Fiscal Risks Management.
7. June 2022: Fiscal Risks

Institute for Capacity Development

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

Statistics

1. 2017–18: National accounts statistics.
2. April 2018: Government finance statistics.
3. September 2019: Government finance statistics.
4. January 2021: Government finance statistics.
5. August–September 2021: National accounts statistics.
6. November 2021: Price statistics.
7. November 2021: Government finance statistics and public sector debt statistics.
8. May/June 2022: National accounts statistics
9. July 2022: Price statistics
10. October 2022: National accounts statistics
11. October 2022: Government finance statistics and public sector debt statistics.

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 October 2022)

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. 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. The NBS publishes only year-to-date GDP growth rates rather than levels. 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. Additional progress has also been made in developing institutional sector accounts, in particular, in enhancing financial accounts across all sectors,
Price statistics: Kazakhstan compiles consumer, producer, and import/export prices indices. Work is in progress on using new data sources such as web scrapped data and scanner data in the CPI for particular groups of products. Experimental calculations to introduce updated sources is targeted by January 2024. Development of regional weights is planned by 2023.
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 annual database to include both the National Fund of the Republic of Kazakhstan, State Social Insurance Fund, and the Compulsory Health Insurance Fund; including the Problem Loan Fund and the Victim Compensation Fund in progress. 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.

<table>
<tr><td colspan="2">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 series of the Financial Access Survey (FAS) including mobile and internet banking series, and 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).</td></tr>
<tr><td colspan="2">Financial sector surveillance: Kazakhstan participates in the IMF's Coordinated Direct Investment Survey (CDIS) and Coordinated Portfolio Investment Survey (CPIS). The country reports 33 financial soundness indicators (FSIs) based on the 2019 (new) FSI Compilation Guide for posting on the IMF's FSI website on a quarterly basis—13 of the 17 core FSIs and 8 of the 12 additional FSIs for deposit takers, a core FSI on residential real estate prices, and 11 additional FSIs for other sectors and markets (three FSIs for OFCs, two FSIs for nonfinancial corporations, two FSIs for households, and three FSIs for real estate markets). The timeliness of FSI data reporting needs improvement.</td></tr>
<tr><td colspan="2">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). The 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.</td></tr>
<tr><th colspan="2">II. Data Standards and Quality</th></tr>
<tr><td>Kazakhstan subscribes to the Special Data Dissemination Standard (SDDS) since March 2003, and publishes the data on its National Summary Data Page.</td><td>Data ROSC published in 2008.</td></tr>
</table>

Kazakhstan: Table of Common Indicators Required for Surveillance

(As of October 26, 2022)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	10/26/2022	10/26/2022	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep/2022	10/11/2022	M	M	M
Reserve/Base Money	Sep/2022	10/11/2022	M	M	M
Broad Money	Sep/2022	10/11/2022	M	M	M
Central Bank Balance Sheet	Sep/2022	10/11/2022	M	M	M
Consolidated Balance Sheet of the Banking System	Sep/2022	10/11/2022	M	M	M
Interest Rates[2]	Sep/2022	10/11/2022	M	M	M
Consumer Price Index	Jan/2022	2/1/2022	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	2022Q2	10/12/2022	M	M	M
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	2022Q2	10/6/2022	Q	Q	Q
Exports and Imports of Goods and Services	2022Q2	10/6/2022	Q	Q	Q
GDP/GNP	2021Q4	2/15/2022	Q	Q	Q
Gross External Debt	2021Q3	1/11/2022	Q	Q	Q
International Investment Position[6]	2022Q2	10/5/2022	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).