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REPUBLIC OF KAZAKHSTAN

February 2024

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF KAZAKHSTAN

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 2023 Article IV consultation with Republic of Kazakhstan, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 31, 2024, consideration of the staff report that concluded the Article IV consultation with Republic of Kazakhstan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 31, 2024, following discussions that ended on November 21, 2023, 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 January 16, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Republic of Kazakhstan.

The documents listed below will be separately released.

Selected Issues
Financial System Stability Assessment

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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PRESS RELEASE

PR24/42

IMF Executive Board Concludes the 2023 Article IV Consultation with the Republic of Kazakhstan

FOR IMMEDIATE RELEASE

Washington, DC— February 7, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the 2023 Article IV consultation[1] with the Republic of Kazakhstan.

In 2024, Kazakhstan's economic growth is expected to slow to 3.1 percent, mostly due to delays in expanding the Tengiz oil field, while inflation, which is still well above the authorities' target, would continue to decline. A current account deficit of 3.9 percent of GDP is projected for 2024, and the banking sector should remain sound amid easing financial conditions. In the medium-term, non-oil GDP growth would stabilize at around 3½ percent, and inflation would ease gradually to reach 5 percent by 2026–27, assuming accelerated reform implementation. `

Risks to the outlook remain tilted to the downside and include: delayed reform implementation; oil price declines, further delays in the Tengiz field expansion, and disruptions to oil exports through the Caspian Pipeline Consortium (CPC) pipeline; slow growth in trading partners; spillovers from the war in Ukraine and geo-economic fragmentation; and, increased social tensions. Upside risks include accelerated reform implementation, higher oil prices, and higher-than-expected foreign investment in new sectors.

The authorities have continued their efforts to secure macroeconomic stability. The National Bank of Kazakhstan maintained tight monetary policy throughout 2023. The authorities remain committed to medium-term fiscal consolidation and have undertaken significant efforts to increase trade diversification and address governance and corruption vulnerabilities. A recently adopted climate strategy prioritizes the development of renewable energy sources to help reduce carbon emissions from currently high levels. With slow structural reform implementation in recent years, the state's footprint in the economy remains large.

According to the recently completed Financial Sector Assessment Program (FSAP), the banking system appears well-capitalized in aggregate. Kazakhstan is exposed to transition risk from domestic and global climate policies. Banking supervision has become more risk-based, but related party transactions remain challenging to monitor and consolidated supervision is still incomplete.
Finally, there remain gaps in the financial safety nets and crisis management arrangements.

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

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They positively noted Kazakhstan's economic resilience in the face of multiple external shocks and welcomed the strong growth in 2023. Noting that risks to the outlook are tilted to the downside, Directors called for continued prudent macroeconomic policies and accelerated implementation of structural reforms to maintain strong and resilient growth.

Directors welcomed the authorities' commitment to fiscal consolidation which would support disinflation and help preserve buffers. They underscored that the planned introduction of new tax and budget codes is an opportunity to enhance non-oil revenues and public financial management. Directors also welcomed the reinstatement of the fiscal rules in 2024 and stressed that the rules should be simplified and better enforced, including through the creation of an independent fiscal council and stronger escape clauses. Swift implementation of the recommendations from the recent Fiscal Transparency Evaluation would enhance public data quality.

Directors welcomed the declining trend of inflation. They urged the National Bank of Kazakhstan (NBK) to continue to maintain a cautious and data dependent approach by keeping monetary policy tight until inflation is close to target and inflation expectations are well anchored. Directors also recommended strengthening the credibility and effectiveness of the monetary policy framework, including by improving the NBK's governance and independence. They encouraged a careful analysis of the macro-financial implications and governance requirements of the Digital Tenge before its full public launch.

Reflecting the findings from the recently completed Financial Sector Assessment Program (FSAP), Directors welcomed the overall soundness of the financial sector and progress in risk-based supervision. They supported the FSAP's recommendations to continue strengthening financial resilience and policy frameworks. Efforts could focus on closing data gaps, upgrading the bank resolution and crisis management framework, and reinforcing the independence, powers, and resources of the resolution authority, supported by capacity development.

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

Directors encouraged the authorities to accelerate structural reforms to boost competitiveness, promote diversification and sustain stronger long-term economic growth. Key priorities include downsizing the state footprint in the economy and improving public sector governance, reducing corruption-related vulnerabilities, addressing infrastructure gaps and removing trade distortions.

Directors emphasized the importance of accelerating reforms to strengthen climate resilience and meet the authorities' carbon emission targets by 2030. They also called for close monitoring of climate-related risks in the financial sector.

Kazakhstan: Selected Economic Indicators, 2021–25

	2021	2022	2023 (est.)	2024 (proj.)	2025 (proj.)
Output					
Real GDP growth (%)	4.3	3.2	4.8	3.1	5.7
Real oil	-0.6	-1.7	7.1	0.1	14.4
Real non-oil	5.5	4.7	4.2	3.9	3.4
Crude oil and gas condensate production (million tons)	85.7	84.2	90.0	90.3	103.0
Employment					
Unemployment (%)	4.9	4.9	4.8	4.8	4.8
Prices					
Inflation (%, eop)	8.4	20.3	9.8	7.7	6.2
General government finances					
Revenue (% GDP)	17.1	21.8	23.1	20.7	20.6
Oil revenue	4.3	8.0	6.4	5.3	5.4
Non-oil revenue	12.9	13.8	16.7	15.4	15.1
Expenditures (% GDP)	22.1	21.7	22.9	21.8	21.5
Fiscal balance (% GDP)	-5.0	0.1	0.1	-1.2	-0.9
Non-oil fiscal balance (% GDP)	-9.3	-7.9	-6.3	-6.4	-6.4
Gross public debt (% GDP)	25.1	23.5	22.7	23.0	25.1
Net public debt (% GDP)	-3.0	-1.2	-1.0	-0.4	-0.1
Money and credit					
Broad money (% change)	20.8	13.9	16.4	17.3	14.0
Credit to the private sector (% GDP)	24.4	21.5	17.0	18.2	16.7
NBK policy rate (%, eop)	9.8	16.8	15.8	…	…
Balance of payments					
Current account (% GDP)	-1.4	3.1	-3.5	-3.9	-2.3
Net foreign direct investments (% GDP)	-1.0	-3.6	-3.4	-3.3	-3.6
NBK reserves (in months of next year's imports of G&S)	6.9	5.9	6.0	5.8	5.9
NFRK assets (% of GDP)	28.1	24.7	23.7	23.4	25.2
External debt (% GDP)	83.3	71.7	65.6	61.7	58.7
Exchange rate					
Exchange rate (y-o-y percent change; Tenge per U.S. dollar; eop)	2.6	6.8	-1.6	…	…

Sources: Kazakhstani authorities and Fund staff estimates and projections.

REPUBLIC OF KAZAKHSTAN

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

January 16, 2024

KEY ISSUES

Context. Growth is estimated to have reached 4.8 percent in 2023 and is projected to slow to 3.1 percent in 2024. Inflation declined to 9.8 percent in 2023, still well above the National Bank of Kazakhstan (NBK)'s target of 5 percent. Risks to the outlook are tilted to the downside. The state's footprint in the economy remains large and structural reform implementation has been slow in recent years. Despite strong buffers, the economy needs to be better prepared for future shocks in both the short term (e.g., from war spillovers, inflation, and global economic and financial conditions) and the medium term (e.g., from geo-economic fragmentation, climate events, and global decarbonization).

Recommendations. To improve macroeconomic management and raise medium-term economic growth prospects, reform priorities are to strengthen economic institutions and limit discretionary interventions across policy areas:

- *Monetary policy*. With many uncertainties affecting the short-term outlook, monetary policy should remain tight until inflation is closer to target and inflation expectations are re-anchored. To support this, there is significant room to further strengthen the NBK's independence and the effectiveness and credibility of monetary policy.
- *Fiscal policy*. Stronger public sector governance, a more rules-based policy framework, and greater institutional capacity to underpin fiscal projections, will be key to increase the effectiveness of fiscal policy and support the credibility of medium-term fiscal consolidation plans.
- *Financial sector*. Building on recent progress, stronger financial supervision and more effective crisis management and bank resolution frameworks require greater independence, legal protection, and resources for the Agency for Regulation and Development of the Financial Market (ARDFM), as well as clearer mandates of, and inter-agency collaboration among, the ARDFM and other relevant public entities.
- *Structural reforms* are essential to advance Kazakhstan's transition to a fully-fledged market economy and promote a more vibrant private sector that will lead future job creation and economic diversification and growth. Priorities are to reduce and refocus state interventions, move to more rules-based institutional frameworks, and continue improving the business environment, including by strengthening the rule of law, especially property rights, contract enforcement, and investor protection.

Approved By	
Subir Lall (MCD) and Fabian Bornhorst (SPR)	Discussions took place in Almaty and Astana during November 8-21, 2023. The team comprised N. Blancher (head), A. Hajdenberg, G. Impavido (MCD), A. Zdzienicka (MCM), and D. Yao (LEG, remotely). The mission met with Prime Minister Smailov, Deputy Prime Minister and Minister of Finance Zhamaubayev, National Bank of Kazakhstan Governor Suleimenov, Minister of National Economy Kuantyrov, Chairperson of the Agency for Regulation and Development of the Financial Market Abylkassymova, other government officials, and representatives from international financial institutions, the private sector, diplomatic community, and media. P. Grippa (MCM, FSAP mission chief) and M. Zhunusbekova (OED) attended some of the meetings. The mission was supported by O. Bissekeyeva (local office), S. Arzoumanian, and M. Orihuela (HQ).

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Glossary

AIFC	Astana International Financial Center
AML/CFT	Anti Money Laundering/Combating the Financing of Terrorism
ARA	Assessing Reserve Adequacy
ARDFM	Agency for Regulation and Development of the Financial Market
CBDC	Central Bank Digital Currency
CCA	Caucasus and Central Asia
CCAMTAC	Caucasus, Central Asia, and Mongolia Technical Assistance Center
CFM	Capital Flow Management Measure
CIT	Corporate Income Tax
CPC	Caspian Pipeline Consortium
DT	Digital Tenge
FAD	Fiscal Affairs Department, IMF
FSAP	Financial Sector Assessment Program
FTE	Fiscal Transparency Evaluation
FX	Foreign Currency
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GIR	Gross International Reserves
IMF	International Monetary Fund
IT	Information Technology
KDIF	Deposit Insurance Guarantee Fund
LEG	Legal Department, IMF
MCM	Monetary and Capital Markets Department, IMF
MNE	Ministry of National Economy
MOF	Ministry of Finance
NBK	National Bank of Kazakhstan
NDC	Nationally Determined Contributions
NFRK	National Fund of the Republic of Kazakhstan
PIT	Personal Income Tax
PFM	Public Finance Management
REER	Real Effective Exchange Rate
SDR	Special Drawing Rights
SIP	Selected Issues Paper
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
STA	Statistics Department, IMF
TA	Technical Assistance
TSA	Targeted Social Assistance
VAT	Value Added Tax
WB	World Bank

CONTEXT

1. **Kazakhstan needs to squarely position itself to withstand future short-term shocks and longer-term structural changes**. Strong buffers and policy responses helped manage multiple shocks in recent years. However, the external environment will remain highly uncertain in both the short term (e.g., due to spillovers from Russia's war in Ukraine, inflation, and global economic and financial conditions) and the medium term (e.g., due to geo-economic fragmentation, climate events, and global decarbonization).

2. **Political stability provides an opportunity for economic reforms**. Recent political reforms, as well as parliamentary and presidential elections in late 2022 and early 2023, could usher in a period of sustained political stability conducive to accelerated economic reforms and structural transformation of Kazakhstan's economy.

3. **Stronger institutions and a more vibrant private sector will be key to reach the authorities' goals of higher, more resilient, and greener growth.** To make Kazakhstan's macro-financial policy frameworks more effective and advance its transition to a more market-based and diversified economy, a range of reforms need to be implemented decisively. An overarching priority remains to improve public governance and reduce widespread and often discretionary state interventions in the economy, which weaken macroeconomic management and growth prospects.

RECENT DEVELOPMENTS

4. **Economic growth is estimated to have reached 4.8 percent in 2023** (Figure 1, Table 1). To date, the impact of the war in Ukraine on economic activity has been limited: Kazakhstan has experienced limited immigration of skilled labor and relocation of foreign firms; the resolution of sanctioned Russian bank subsidiaries; some capital outflows and exchange rate volatility; and changing trade patterns (see below). In 2023, growth was driven by both oil and non-oil sectors (e.g., construction, trade, and communications), as well as by private and public consumption and investment. Real wage growth stabilized following sharp increases in previous years. Strong credit growth (about 20 percent), especially for households and SMEs, supported activity.

5. **In 2023, the fiscal stance is estimated to have been contractionary due to very strong non-oil revenues** (Figure 2). Spending grew by 1.2 percent of GDP (including infrastructure and social expenditures related to the elections) as fiscal rules were suspended, while revenues increased by 1.3 percent of GDP. Oil revenues declined by 1.4 percent of GDP in line with lower oil prices, but non-oil tax revenues rose by 1.7 percent of

Selected Fiscal Indicators
(In percent of GDP)

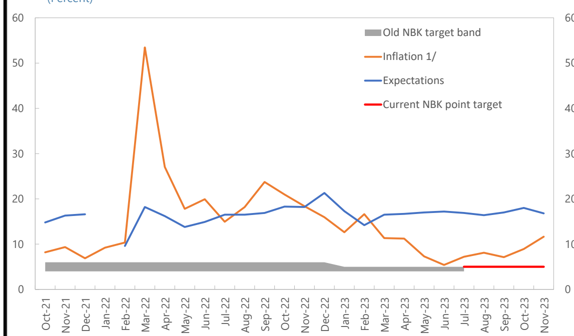
	2022	Projections 2023	Projections 2024
Total revenue	21.8	23.1	20.7
Oil	8.0	6.4	5.3
Non-oil	13.8	16.7	15.4
of which extraordinary dividend	...	1.1	...
Total expenditure and net lending	21.7	22.9	21.8
Overall balance	0.1	0.2	-1.2
Structural overall balance	0.1	-1.1	-1.2
Non-oil balance	-7.9	-6.3	-6.4
Structural non-oil balance	-8.1	-7.7	-6.7
Fiscal stance 1/	1.2	0.4	1.0

1/ Defined as the change in the structural non-oil balance

GDP, driven by personal income and social taxes (reflecting rapid wage growth) and VAT revenues (given strong imports, retail sales, and lower refunds). Revenues were boosted by an extraordinary dividend from state-owned enterprises (SOEs) of over 1 percent of GDP.[1] As a result, the overall fiscal balance is estimated to have remained close to zero in 2023, but the structural non-oil balance (which excludes the one-off SOE dividend) improved by about ½ percent of GDP.

6. **Inflation fell in 2023, but inflation expectations have drifted up**. Between February and December, inflation decreased from 21 to 9.8 percent, due to a large base effect, lower food prices, exchange rate appreciation, and monetary policy tightening. However, seasonally adjusted monthly inflation has accelerated since June, driven largely by the impact of domestic energy and utility price increases. Furthermore, one year-ahead inflation expectations have remained high and increased from 14 to 16.4 percent between February and December.[2]

Inflation and Expectations
(Percent)



Source: NBK and IMF staff estimates.
1/ Annualized MoM Seasonally Adjusted CPI inflation.

7. **The policy rate was reduced by 100 bps to 15.75 percent between August and November 2023** (Figure 5). The inflation target was adjusted in July (to 5 percent, from the previous 3-4 percent range), and the NBK Governor was unexpectedly dismissed in September. These events may have contributed to persistently high inflation expectations, although the new Governor took rapid steps to communicate and reassure market participants that monetary policy would not be loosened prematurely. Kazakhstan's central bank digital currency, the Digital Tenge (DT), was officially introduced in November, and is expected to be fully operationalized by 2025.[3]

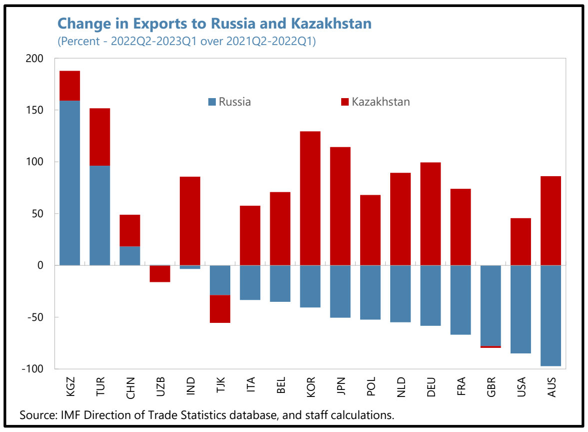
8. **A current account deficit of 3.5 percent of GDP is estimated for 2023, amid changing trade patterns** (Figure 4). The deterioration of the external position was driven by lower oil prices and high import volumes, consistent with strong domestic demand and real effective exchange rate (REER) appreciation (about 11 percent in the first three quarters of 2023). Based on preliminary data, the external position is assessed as moderately weaker than what is implied by economic fundamentals and desirable policies in 2023 (Annex II). A structural break in trade flows has been observed since the war in Ukraine started, with several partner countries reducing their exports to

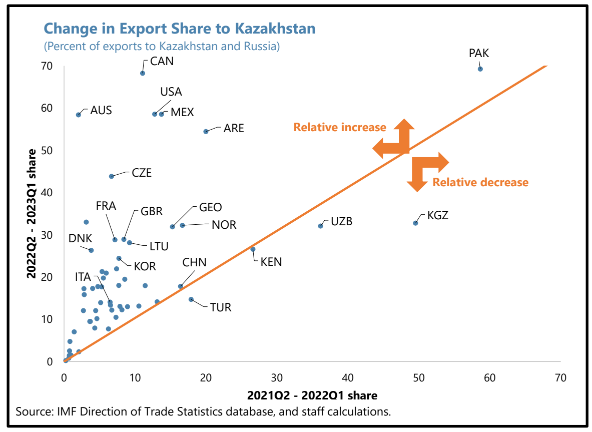
[1] The National Fund of the Republic of Kazakhstan (NFRK) purchased a 20 percent stake in KazMunayGas, with proceeds from the sale transferred to the government by the state holding company Samruk-Kazyna.

[2] 2023 Selected Issues Paper: *Drivers of Inflation*.

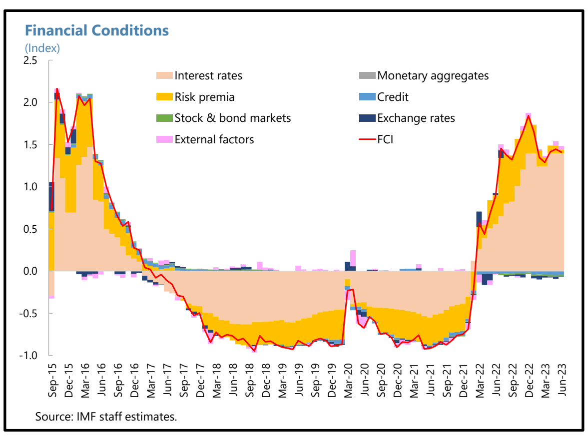
[3] 2023 Selected Issues Paper: *The Kazakhstan Digital Tenge Project*. The DT should be available for offline and cross-border transactions once remaining technical issues are addressed based on initial experience (including with respect to the desired level of anonymity, feasibility of unlimited offline transactions and low-cost payments, and needed legal and regulatory amendments).

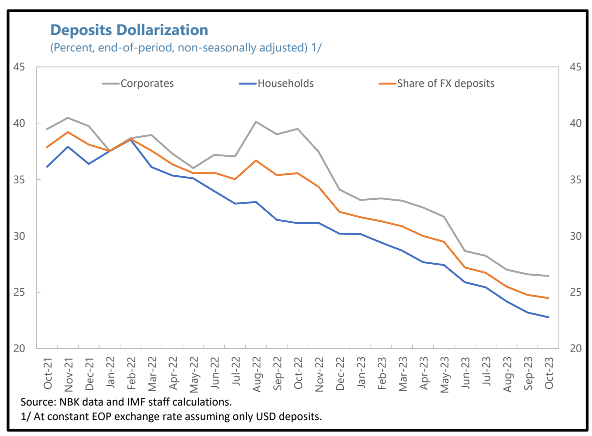
Russia and increasing them to Kazakhstan.[4] Russia's shares in Kazakhstan's imports and exports have decreased by about 30 percent and increased by about 40 percent, respectively.





9. The financial sector remains sound amid easing financial conditions, but there are sources of vulnerability (Figure 3). In early 2023, banks reported strong average capitalization (20 percent), profitability (4 percent return on assets), and liquidity (large excess reserves in local and foreign currency held at the NBK), and the sector appears broadly resilient to adverse scenarios. However, there is significant heterogeneity among banks, and while household indebtedness is limited in aggregate, rapid consumer lending growth can become a significant source of credit risk for some of them. In addition, related party transactions and FX liquidity exposures also require close monitoring.[5] Financial conditions started to ease in 2023H1 due to lower risk premia but remain constrained by tight monetary policy. De-dollarization continued in 2023, with the shares of FX loans and deposits decreasing to 8 and 25 percent of total, respectively.





[4] The Kyrgyz Republic, Türkiye, and China increased their exports to both Russia and Kazakhstan.

[5] FSAP stress tests indicate that bank capitalization would remain robust under adverse scenarios, with larger risks for some smaller banks, while deposit concentration increases liquidity risks in some banks. Some non-financial corporations are exposed to potential FX refinancing risks given their high share of external borrowing.

10. Structural reform implementation has been slow (Annex I). The state's footprint in the economy is still large and has increased in some areas, with only marginal progress on privatization, additional subsidies (especially for small and medium enterprises), and continued trade restrictions (Box 1). Significant efforts are being undertaken to diversify export partners and routes since the war in Ukraine started. With the adoption of a climate policy strategy in 2023, the development of renewable sources of electricity is becoming a higher priority and domestic energy tariffs have started to increase—an important step in reducing the large domestic energy subsidies.

Box 1. Measuring the State's Footprint

The Kazakhstani authorities generally measure the state's footprint in the economy by the share of SOE's value-added in GDP. This measure considers only quasi-government entities where the state's direct or indirect ownership exceeds 50 percent. It was estimated at 14½ percent of GDP at the end of 2021, close to the government's objective of 14 percent of GDP by 2025.[1/]

However, the state's footprint in the economy is multifaceted and difficult to quantify. For instance, a range of state interventions, including through discretionary channels, can weaken economic management institutions, contribute to an uneven playing field for businesses, distort competition, and discourage private investment. These interventions include, among others, the dominance of SOEs in key sectors, price regulations, the provision of subsidies, and trade restrictions. The OECD's Product Market Regulation (PMR) scores capture several of these elements. Kazakhstan's scores are well below the OECD average, especially in the areas of public ownership and impact on competition, but relatively stronger in areas such as licensing and permits.[2/] More specifically:

- **State ownership**. The government controls the biggest company in most network sectors (gas, electricity, rail, air, and water transport) and is present in a range of manufacturing and financial service sectors. The main public sector holding company, Samruk-Kazyna (SK), controls assets equivalent to 50 percent of GDP and, similarly, Baiterek controls 12 percent of GDP.[3/] Together with weak SOE governance, this undermines competition and economic efficiency, including by diminishing Kazakhstan's attractiveness and openness to foreign investors, but also by impeding the effective allocation of resources in the economy.
- **Direct subsidies** are pervasive in the economy, notably in the agricultural sector and in financial markets. Baiterek's subsidiaries Otbasy, KazAgro and DAMU dominate the mortgage, agricultural, and SME lending markets through subsidized lending. Subsidized loans are also provided by the NBK.[4/]
- **Price regulations**. With energy and utility prices set below cost recovery, the stock of capital has eroded for many utility companies, affecting service quality, and generating a fiscal burden.
- **Trade restrictions**. To control domestic prices and ensure domestic supply, the government imposes restrictions on exports of agricultural goods and fuels, including quotas, bans, and exports duties.

1/ IMF (2023), *Fiscal Transparency Evaluation.*
2/ OECD (2023), *Insights on the Business Climate in Kazakhstan.*
3/ IMF (2021), *State-Owned Enterprises in Middle East, North Africa, and Central Asia: Size, Costs, and Challenges.*
4/ World Bank (2023), *Reforming Kazakhstan's National Financial Holding for Development Effectiveness and Market Creation.*

OUTLOOK AND RISKS

11. GDP growth is expected to moderate in 2024, with inflation and financial conditions easing gradually. Growth is projected at 3.1 percent in 2024, reflecting stable oil production given the deferred expansion of the Tengiz oil field. Over the medium term, non-oil growth would stabilize around its estimated potential of 3–3.5 percent, assuming accelerated reform implementation.[6] With robust demand and rising fuel and utility prices, inflation would decline gradually to around 7½ percent in 2024 and to the 5 percent target by 2026–27, and financial conditions would thus ease further over this period. The external current account is projected to record a deficit of 3.9 percent of GDP in 2024 and remain in deficit in the medium term.

12. Risks are tilted to the downside (Annex III). Downside risks include adverse spillovers from the war in Ukraine and geopolitical fragmentation. Secondary sanction risks could impact trade, supply chains and foreign investor confidence, and may rise going forward if the number of sanctioned good categories increases. Additional risks include sustained disruptions to oil exports through the Caspian Pipeline Consortium (CPC) pipeline,[7] slower growth of trading partners, oil price declines, and further delays in the Tengiz field expansion. Inflation pressures could require tighter monetary policy, while social tensions may resurface and lead the authorities to postpone fiscal consolidation or reforms. In the longer term, use of the Digital Tenge may have unintended macro-financial implications (e.g., for cross-border capital flow volatility), and risks from climate events and global decarbonization could have a negative impact on infrastructure and the financial system. Upside risks include higher oil prices and higher-than-expected foreign investment in new sectors (e.g., critical minerals, green energy, or information technologies).

Authorities' Views

13. The authorities expected that strong investment will drive faster economic growth and broadly agreed with the main risks to the outlook. They concurred that potential growth had slowed down recently but were confident that strong public sector investment and plans to accelerate the development of the SME sector will help raise it in the coming years. To limit secondary sanction risks, the authorities are keen to continue to cooperate with international counterparts and to further strengthen regulatory compliance, including based on improved risk-based supervision of financial entities and on the amended AML/CFT Law.

[6] 2022 Selected Issues Paper: *Revisiting Trend Output Growth.*

[7] 2023 Selected Issues Paper: *Economic Impact of Oil Exports Disruptions*.

STRENGHTHENING MACRO-FINANCIAL POLICY FRAMEWORKS

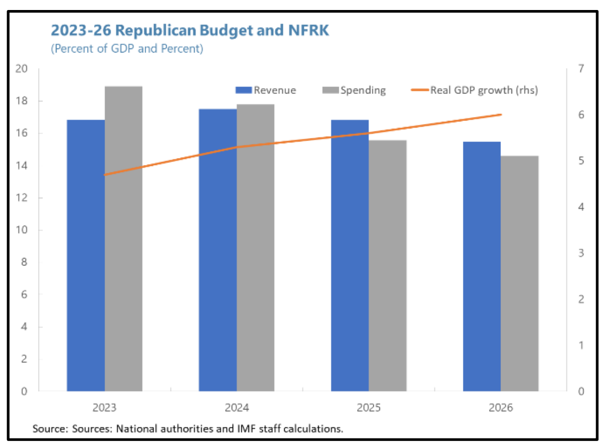
A. Monetary Policy

14. Monetary policy should remain tight until inflation is close to target and inflation expectations are well anchored. Despite the 100 bps reduction in the policy rate since August, monetary policy is expected to remain tight until end 2024. Accordingly, and with lower external inflation pressures, simulations conducted by the NBK and IMF staff suggest that inflation should continue to decline in 2024 and beyond. However, substantial risks will require calibrating monetary policy in a prudent, data-dependent manner in the period ahead, as inflation is still well above the NBK's 5 percent target, inflation expectations are elevated, the near-term economic outlook is uncertain, and domestic energy and utility prices should increase further in the coming months.[8]

15. Strengthening the NBK's independence would support monetary policy credibility and disinflation. The NBK has recently improved the transparency of monetary policy, including through better communication and monthly inflation data dissemination. Yet, monetary policy transmission remains relatively weak, and the effectiveness and credibility of monetary policy would benefit from further efforts to bring the NBK's governance framework closer to best international practices. In particular, priorities are to fully eliminate the NBK's subsidized lending programs, avoid perceptions of political influence on the policy rate, and increase the personal independence of senior NBK officials.[9]

B. Fiscal Policy

16. The government's commitment to medium-term fiscal consolidation is welcome and should be based on more realistic macro-fiscal projections. With negative net public debt, Kazakhstan has substantial fiscal space and sovereign risk is low. In 2024, the fiscal stance is expected to remain contractionary: based on the adopted budget, the structural non-oil balance would improve by about 1 percentage point of GDP.[10] The authorities plan to reduce the non-oil deficit to 5 percent of GDP by 2030, which would



[8] IMF (2021) *Shocks and Monetary Policy Transmission in Kazakhstan: Empirical Findings from an Estimated DSGE Model.*

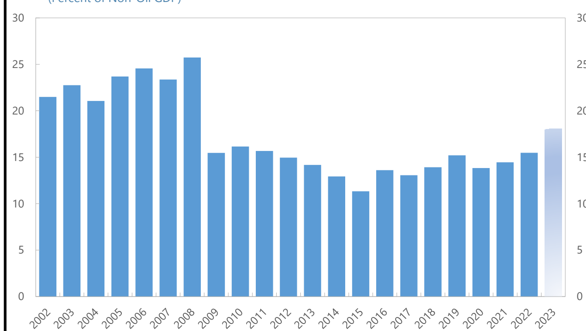
[9] There is strong theoretical and empirical evidence that a high degree of central bank independence is associated with lower levels and variability of inflation that do not increase output variability and employment losses.

[10] The structural balance excludes the above mentioned one-off non-tax revenue of over 1 percent of GDP in 2023.

support disinflation and preserve buffers. However, this is predicated on projected growth levels of about 6 percent and on sharply decreasing public spending in the coming years. These projections appear optimistic and should reflect concrete measures that have yet to be articulated. Staff projections assume a more gradual spending adjustment from 2025 onwards, implying a slower improvement of the non-oil balance, which would still keep public debt at moderate levels (Annex IV).[11]

17. Reaching the authorities' medium-term fiscal objectives will require enhanced revenue mobilization. The current tax reform proposal envisages increased tax revenues, progressivity, and compliance (through simpler digitalized processes), including a higher VAT rate (which is comparatively low at present) and the introduction of progressive personal income taxation. This reform should also be an opportunity to (i) reduce distortive exemptions and incentives, especially for corporate income tax (CIT),[12] (ii) streamline special business tax regimes to only two; and (iii) strengthen the taxation of tobacco, motor vehicles and alcohol products.

Non-Oil Tax Revenues
(Percent of Non-Oil GDP)



Sources: National authorities and IMF staff calculations and projections.
Non-oil tax revenue computed as tax revenue minus receipts of the NFRK and the export duty on oil exports, and other minor technical adjustments.

18. Stronger public financial management (PFM) institutions would help strengthen fiscal policy accountability and credibility. The new budget code coming into effect in 2024 will help modernize and simplify budget processes, including by granting more autonomy to spending units and introducing results-based budgeting. Implementing the recommendations from the recent *Fiscal Transparency Evaluation* (FTE) remains a priority to better align public sector data with international standards.[13] Other areas for improvement include reporting on quasi-fiscal activities, enhancing fiscal risk statements, and increasing transparency in the natural resources sector. Finally, the authorities announced that fiscal rules will be reinstated in 2024, but these rules need to be simplified, and better enforced through the creation of an independent fiscal council and reliance on strong escape clauses to limit discretionary measures (including transfers from the National Fund of the Republic of Kazakhstan (NFRK).

[11] With discussions of the new tax code still ongoing, staff projections do not incorporate tax policy changes.

[12] Differentiating CIT rates across sectors could be both distortive and complicated to administer. To target excess profits, taxation of returns on capital above a certain threshold (for all sectors) could be put in place instead.

[13] 2022 Article IV report, Box 3.

C. Financial Sector Policy

19. The 2023 Financial Sector Assessment Program (FSAP) identified key reforms to enhance the financial sector's resilience and policy framework.[14] Priorities are to upgrade the crisis management and bank resolution frameworks, as well as institutional capacity and arrangements for financial sector oversight and interagency collaboration (Annex V):

- ***Crisis management***. Kazakhstan's crisis management and bank resolution framework should be revised to limit risks to financial stability and potential fiscal costs from banking crises. In particular, the independence of the resolution authority (ARDFM) and its resolution tools and powers should be strengthened, and the resources and capacity it needs to use them effectively should be secured. More broadly, all relevant stakeholders (including the ARDFM, NBK, Deposit Insurance Guarantee Fund, and ministries of Finance and National Economy) should be prepared to address future financial sector crises as effectively and smoothly as possible.

- ***Financial sector oversight***. Significant progress has been achieved in implementing risk-based supervision to ensure banking soundness. Going forward, greater independence, legal protection, and resources for the ARDFM and its staff are needed to support risk monitoring, including on a consolidated basis and with respect to related party transactions. In addition, upgrading the macroprudential policy framework requires closing data gaps and broadening the scope of top-down stress testing.

- ***Institutional responsibilities***. To improve policy effectiveness, the financial oversight and crisis resolution mandates of the ARDFM and other public entities (including the NBK, MOF, and MNE), as well as the modalities of their collaboration, should be clearly delineated and implemented. Expanding the range of AIFC's activities with residents would raise risks of financial spillovers and regulatory fragmentation, and appropriate safeguards should be introduced ex-ante to limit these risks.

D. External Sector

20. Distortionary trade restrictions and Capital Flow Management measures (CFM) should be removed. Current trade restrictions relate mainly to agricultural goods, fuel, and coal, and are implemented for import substitution, inflation management, or self-sufficiency purposes. International experience shows that these measures are likely to be ineffective, exacerbate disruptions and volatility in global markets, encourage retaliation from trading partners, and discourage private sector investment. As such, they should be progressively removed by replacing bans with time-bound price-based measures. Also, they should not substitute for other reforms (e.g., agricultural modernization) or for targeted and temporary cash transfers to vulnerable households. Since Kazakhstan no longer faces imminent crisis risks, all CFMs introduced since 2020

[14] *Kazakhstan - 2023 Financial System Stability Assessment* (FSSA).

should be phased out, and the recent decision to set at zero the requirement for SOEs to sell their FX export proceeds is welcome (Annex II).

Authorities' Views

21. The authorities reaffirmed their commitment to disinflation and macroeconomic policy prudence. They agreed that monetary policy should not be relaxed prematurely and that its effectiveness needs strengthening, including by protecting the NBK's independence. They stressed that fiscal rules and medium-term targets embedded in the *Concept for Public Finance* will guide fiscal policy between 2024-30, and that upcoming tax reforms will allow to reduce reliance on transfers from the NFRK. A roadmap to implement the FTE recommendations is being prepared.

22. The authorities broadly agreed with the FSAP recommendations. In response, they are preparing a comprehensive action plan to further improve the financial sector policy framework. They agreed on the need to develop appropriate legal frameworks and practices, for which capacity development support from the IMF and other partners will be required. On the external front, the authorities did not see a need to remove the remaining CFMs.

STRUCTURAL REFORMS TO MANAGE LONG-TERM TRANSITIONS

23. Structural reforms can bring about substantial gains toward higher and more resilient economic growth, including by helping to diversify Kazakhstan's economy and better address long-term climate-related challenges. Cross-country analysis suggests that, in Kazakhstan, governance and regulatory reforms, reducing state ownership in the economy, liberalizing product, labor and financial markets, and easing trade and foreign exchange restrictions, could raise output growth by up to 5 percentage points over time.[15]

A. Rethinking the Role of the State to Foster Private Sector-Led Growth

24. Reducing and refocusing the role of the state in the economy is a top priority. The range of state interventions in Kazakhstan is broad, complex, and difficult to quantify, encompassing state ownership (with heavy SOE presence in key economic sectors) and other activities that distort competition. In September 2023, the President announced that privatizations would accelerate in 2024.[16] A strategy to roll back recently increased and pervasive subsidy programs and impediments to Kazakhstan's market transition should be implemented to promote private sector development. Structural reforms should also address obstacles to efficient labor

[15] IMF (2023), *Paving the Way to More Resilient, Inclusive, and Greener Economies in the Caucasus and Central Asia*, IMF Departmental Paper, Washington, DC.

[16] The recent initial public offering of 3 percent of KazMunayGas' shares constitutes only marginal progress.

allocation, productivity, and skill mismatches, as well as the removal of tariffs and price controls that discourage investment, including foreign direct investment (FDI).

25. SME financial inclusion and development would benefit from more targeted public interventions. The government's footprint in the financial sector has increased on multiple fronts, including through widespread subsidized lending to support SME credit. Effectively promoting financial inclusion, especially for small firms, requires reducing state interventions and refocusing them on partial credit guarantees, increased credit information quality, and strengthened insolvency frameworks. In this regard, the recent introduction of a personal insolvency framework is an important step to address the large volume of household problem loans, and further legal amendments have been identified, with IMF TA support, to increase the impact of this reform.

26. Further efforts to address governance and corruption-related vulnerabilities are needed (Figure 6). High-level corruption hampers sustainable economic development. Progress has been made in addressing administrative corruption, including in relation to unjustified enrichment, conflicts of interest, bribery offences, protection for whistleblowers, judicial budget independence, and qualification criteria for judges. However, further reforms should: address grand corruption; ensure effective implementation of anti-corruption laws; strengthen the transparency and accountability of the asset disclosure system; exclude any undue privilege against liability for corruption; protect the institutional and operational autonomy of anti-corruption institutions; and, continue ensuring judicial independence and integrity and protection of property rights, digitalization, and state monitoring.[17] In addition to implementing the authorities' action plan in these areas, further improvements to Kazakhstan's AML/CFT framework will be needed.[18]

27. The authorities have undertaken important efforts to support trade diversification since the start of the war in Ukraine. Progress is underway to upgrade transport infrastructure, including East-West connectivity, and to diversify export routes by addressing key bottlenecks, especially through increased access to oil pipelines across the Caspian Sea. In parallel, new trade agreements have been signed with several partner countries in Europe and the Middle East.

B. Promoting Economic Greening

28. Progress is being made to reduce greenhouse gas emissions and increase resilience to climate change shocks. The recently initiated increases in domestic energy and utility tariffs will help reduce carbon emissions (from current high levels), generate public revenues (including to finance investments in renewable energy sources or strengthen social safety nets) and, more

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[17] 2022 Article IV report, Annex V; IMF (2023), *Paving the Way to More Resilient, Inclusive, and Greener Economies in the Caucasus and Central Asia*, IMF Departmental Paper, Washington, DC.; and IMF (2021) *State-Owned Enterprises in Middle East, North Africa, and Central Asia: Size, Costs, and Challenges*, IMF Departmental Paper, (Washington, DC).

[18] The 2023 assessment by the *Eurasian Group on Combating Money Laundering and Financing of Terrorism* found Kazakhstan's AML/CFT framework substantially effective in many areas, with improvements needed to raise the understanding of ML/TF risks, tighten market entry controls, expand controls of financial institutions, and strengthen the risk-based allocation of supervisory resources. See 2023 *Financial System Stability Assessment* (FSSA).

broadly, support Kazakhstan's transition to a low-carbon global economy.[19] The introduction of a single purchase mechanism for electricity and upgrades to the electricity distribution network will also contribute to increase resilience to climate change shocks.

29. However, current policies may not suffice to meet Kazakhstan's carbon emission targets by 2030 (a reduction of 15 percent relative to 1990). Current climate-related reforms (e.g., regarding renewable energy, energy efficiency standards, and energy prices) need to be accelerated to prepare the country for its climate transition, while water resources management also needs significant improvement.[20] The 2023 FSAP also points to large risks exposures to climate-related transition risks in the financial sector, and identifies several steps to enhance institutional preparedness, including through enhanced inter-agency collaboration.

C. Protecting the Most Vulnerable

30. Ongoing improvements to social safety nets will help mitigate the potential social costs of economic shocks and transformations (Table 7, Box 2). Poverty levels in Kazakhstan are comparatively low, but there is room to strengthen the targeting of social spending, including for informal workers, and the monitoring of social program outcomes, especially on education.[21] This will be particularly important considering the social costs of high inflation and medium-term economic transitions, and to reduce reliance on price controls and energy subsidies. The recent increases in social spending, adoption of a new Social Code, and development of digital platforms (e.g., the digital family card) are key opportunities for further progress in this area, as they should help streamline poorly targeted programs and expand the level of income support through more effective means testing. In addition, starting in 2025, the poverty line will be defined in relation to the median income, helping to further enhance social protection.

Authorities' Views

31. The authorities are committed to structural reforms and the promotion of private sector development. They noted that a pipeline exists for the privatization of several entities in the years ahead and that the state footprint in the economy should be reduced to about 14 percent of GDP by 2025. They also indicated that they have adopted a new climate strategy in 2023, updated their NDC targets for the COP28, and will continue to invest in joint ventures for the development of renewable energies and water savings technologies.

[19] 2021 Selected Issues Paper: *Climate Change and Structural Transformation*.

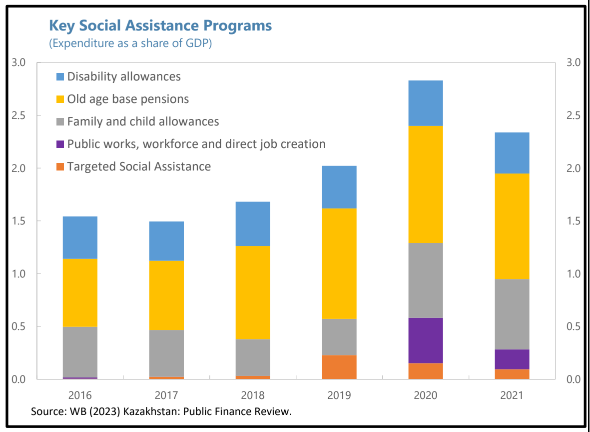
[20] IMF (2023), *Paving the Way to More Resilient, Inclusive, and Greener Economies in the Caucasus and Central Asia*, IMF Departmental Paper, Washington, DC.; and World Bank (2022), *Kazakhstan–Country Climate and Development Report*, (Washington, DC).

[21] World Bank (2023): *Kazakhstan: Strengthening Public Finance for Inclusive and Resilient Growth*.

Box 2. Social Safety Nets[1/]

Kazakhstan spends around 2.5 percent of GDP on comprehensive social assistance programs, compared with 1.8 percent of GDP on average for peer (upper middle-income) countries. Kazakhstan has two types of social assistance programs. First, specific categories of people receive support such as old-aged pensioners, families with many children, and people with disabilities. Second, there are means-tested programs, including targeted social assistance (TSA) to guarantee a minimum income, and a housing allowance program to provide support to households spending more than 10 percent of their budget on utilities. Social programs are financed by the central government (through direct transfers or subsidies), except for housing allowances which are financed by local governments.

Overall, Kazakhstan's social assistance system is progressive. Four-fifths of the poorest ten percent of the population are covered by at least one type of social program, with 49 percent of benefits going to the poorest 20 percent. The adequacy of benefits, measured as a share of the mean social assistance transfer amount in the total income of beneficiaries, stood at 20.6 percent in 2021, above the average for Europe and Central Asia (17 percent). TSA is notably progressive, as more than 85 percent of benefits go to the poorest 20 percent of the population. However, the size of TSA is relatively low compared with other social assistance programs. Other programs, notably child benefits, have sizeable non-poor beneficiaries, with leakages estimated at 35 percent.



Improving social program design can help further strengthen targeting and coverage, especially considering the benefits of digitalization and emerging challenges from climate change. The recent adoption of the Social Code and rollout of the Digital Family Card (supported by a unified social protection registry) are expected to improve the targeting of social assistance to the poorest by proactively identifying vulnerable households. As the housing allowance program is expected to compensate poor households from planned adjustments to electricity and heating tariffs, financing and operational capacity should be strengthened to allow for rapid expansion. Extending digitalization and interoperability of social programs to the local level could bring about efficiency gains. Given increasing risks from climate change (e.g., droughts), vulnerability mapping to climate risks could improve the targeting of the Digital Family Card, while TSA coverage could be increased by reviewing the eligibility threshold. Extending means-testing to select child and family benefits could reduce errors of inclusion and free up additional resources for TSA. Finally, regular reviews of social programs and outcomes would help further enhance them going forward.

1/ WB (2023): *Kazakhstan: Strengthening Public Finance for Inclusive and Resilient Growth.*

STAFF APPRAISAL

32. Kazakhstan's recent economic growth has been strong, and disinflation is underway. The impact of the war in Ukraine has been limited and robust GDP growth has been driven by both the oil and non-oil sectors. Inflation declined substantially in 2023 but is still above target, and inflation expectations are not well anchored. Based on preliminary data, the external position in 2023 is assessed as moderately weaker than implied by fundamentals and desirable policies.

33. Risks to the outlook are tilted to the downside. They include slower growth of trading partners, higher-than-expected global inflation, a worsening of geopolitical tensions and fragmentation, and secondary sanctions. Domestically, further delays in expanding the Tengiz oil field or stalled structural reforms, or a resurgence of inflation pressures and social tensions, could weaken growth prospects. Long-term risks from climate events and global decarbonization could have a negative impact on infrastructure and the financial system. Upside risks include accelerated reform implementation, higher oil prices, and stronger foreign investment in new sectors.

34. It will be important to keep monetary policy tight in the period ahead and to further enhance its credibility. Monetary policy should not be eased prematurely, i.e., until inflation is close to target and inflation expectations are well anchored. Building on recent progress in improving monetary policy transparency, the credibility and effectiveness of monetary policy should be strengthened by improving the NBK's governance framework, including by fully eliminating the NBK's subsidized lending programs, avoiding perceptions of political influence on the policy rate, and increasing the personal independence of senior NBK officials.

35. Fiscal consolidation should support disinflation and help preserve buffers, and a more rules-based fiscal policy framework is desirable. Kazakhstan retains substantial fiscal space and sovereign risk is low. The authorities' plans to reinstate fiscal rules in 2024 are welcome. These rules should be simplified and better enforced through the creation of an independent fiscal council and stronger escape clauses to limit discretionary spending. Together with improved public sector data quality and macro-fiscal projections, this would help reinforce the accountability, predictability, and credibility of fiscal policy. The introduction of new tax and budget codes is an opportunity to make further progress in these areas and to enhance non-oil revenues in support of the authorities' medium-term fiscal objectives.

36. In order to preserve banking soundness and reduce contingent fiscal liabilities, stronger supervision and crisis resolution frameworks are needed. As a priority, the independence of the resolution authority (ARDFM) should be reinforced, its resolution tools and powers should be strengthened, and its resources and capacity to use them effectively should be secured. In addition, the capacity and roles of all relevant stakeholders (including the ARDFM, NBK, KDIF, and ministries of Finance and National Economy), and the modalities of their collaboration, should be upgraded, clearly delineated and implemented, in order to limit future macro-financial risks.

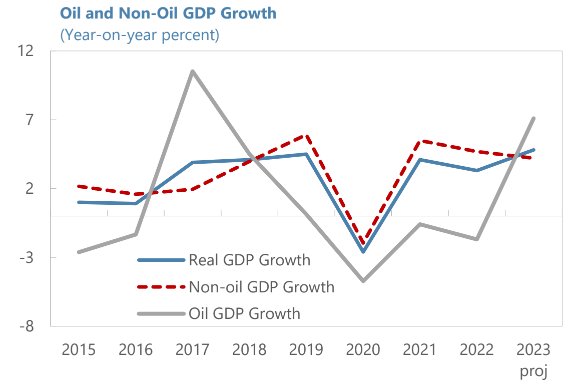
37. Refocusing the role of the state and moving to more rules-based institutions are top priorities to bolster private sector development and economic growth. Downsizing the state's footprint in the economy would help promote competition, and the announced acceleration of privatizations in 2024 is encouraging. Reforms to strengthen public governance and reduce corruption-related vulnerabilities should also be prioritized as they can deliver substantial growth benefits. Trade restrictions that distort global markets should be progressively removed by replacing bans with time-bound price-based measures. More broadly, raising productivity and economic diversification requires addressing obstacles to efficient labor allocation, productivity, and skill mismatches, and further upgrading transport and trade infrastructure.

38. Ongoing reforms to prepare for the climate transition are welcome and should be accelerated. The adoption of a national policy strategy for carbon neutrality in early 2023 and planned increases in domestic energy prices will help reduce carbon emissions from current high levels, generate public revenues, and support Kazakhstan's transition to a low-carbon global economy. Reforms should accelerate to meet the government's carbon emission targets by 2030 and its objectives of increasing domestic energy efficiency standards and further developing renewable energy sources. Exposures to climate-related risks in the financial sector will need to be monitored and managed.

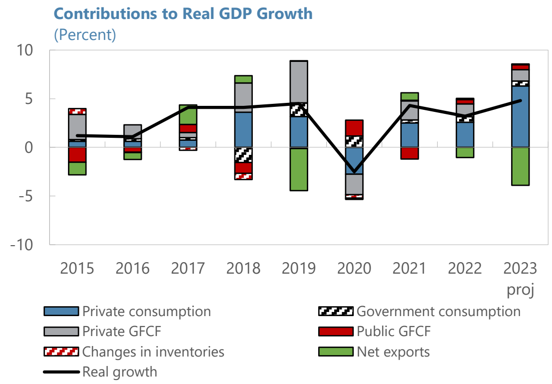
39. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Kazakhstan: Economic Developments

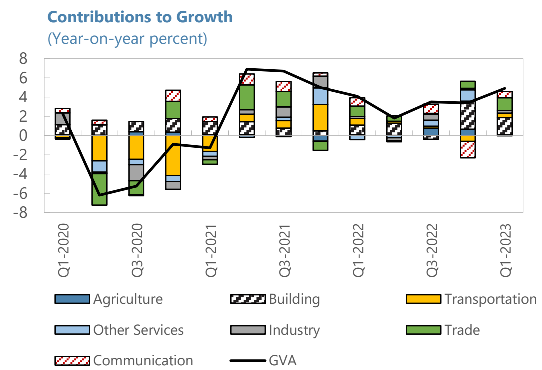
Growth was strong in 2023, …



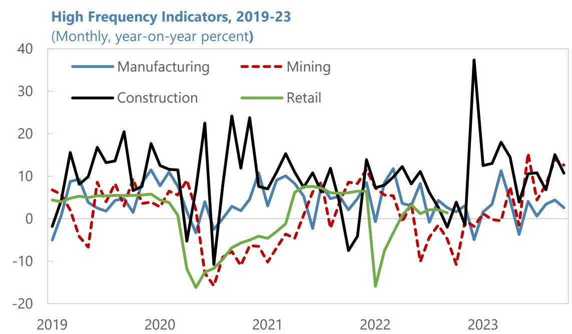
… driven by domestic demand, …



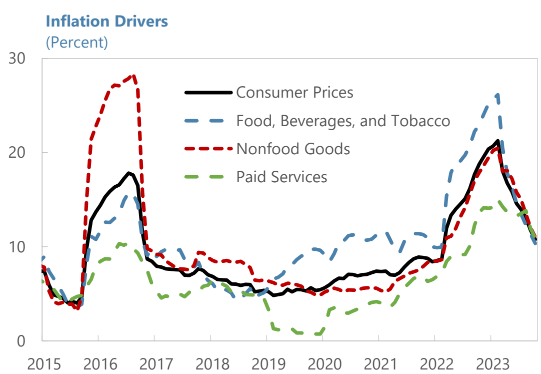
… and, on the supply side, by construction, manufacturing, and services sectors.



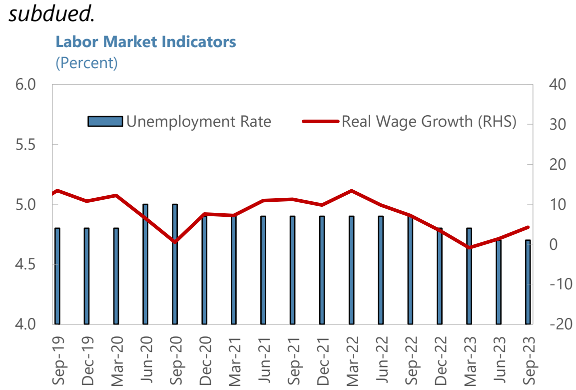
High frequency indicators have been consistently strong.



Inflation has declined sharply …



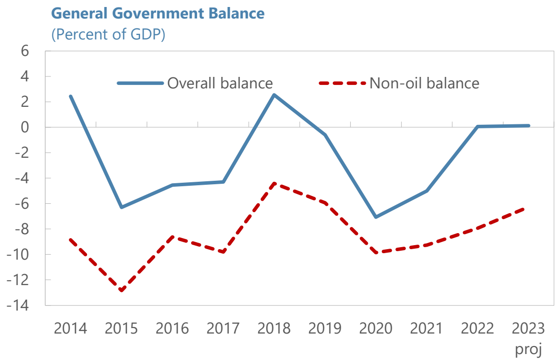
… while unemployment remained stable and wage growth subdued.



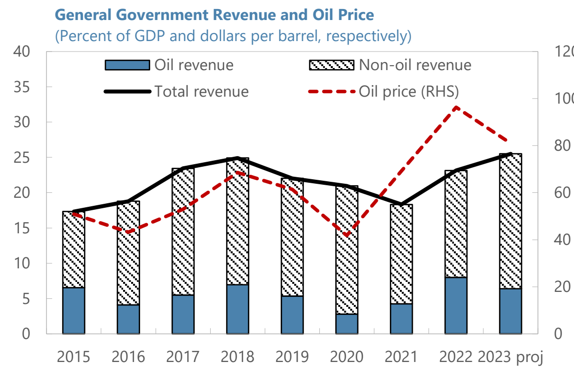
Sources: National authorities, Haver Analytics, and IMF staff estimates.

Figure 2. Kazakhstan: Fiscal Sector Developments

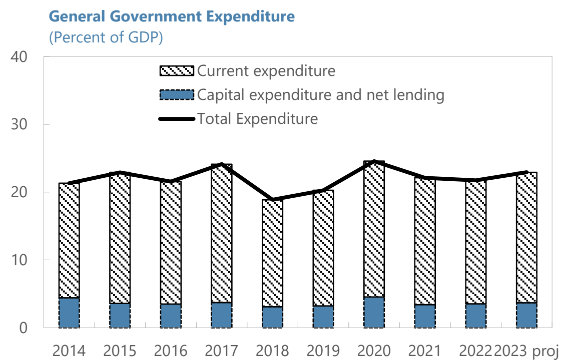
The overall balance remained unchanged in 2023, while the non-oil balance improved.



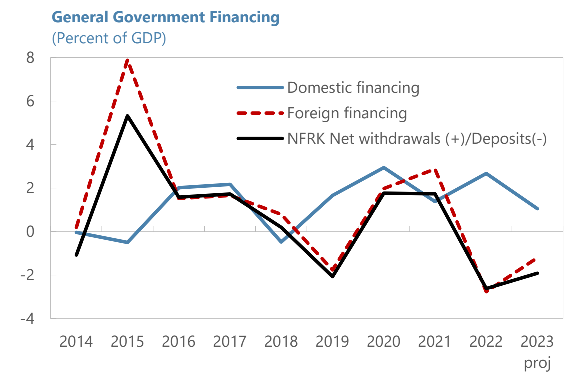
Non-oil revenues were strong but oil revenue declined.



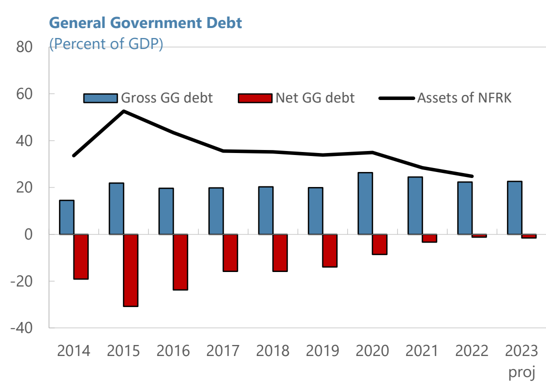
Public spending increased in 2023.



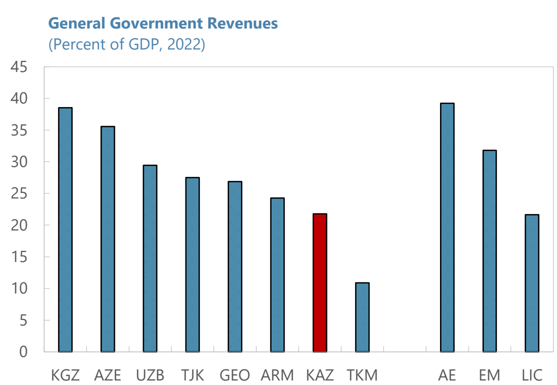
The government continued to rely on domestic financing.



Debt levels are comfortable.



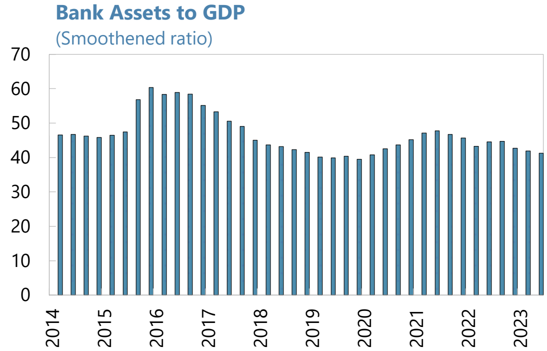
Revenues are comparatively low.



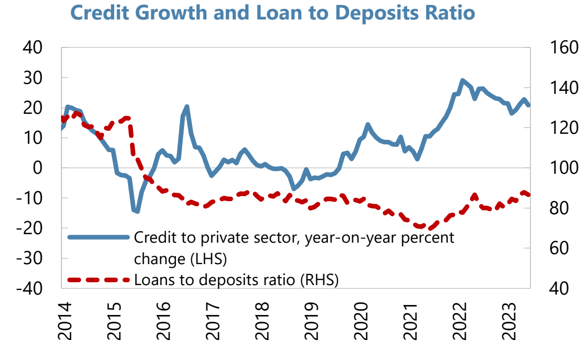
Sources: National Authorities, IMF World Economic Outlook, and IMF staff estimates.

Figure 3. Kazakhstan: Banking Sector Developments

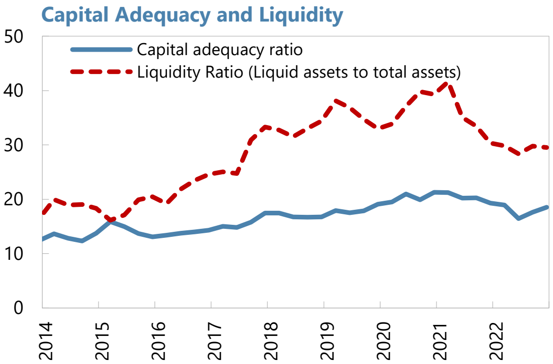
Bank assets have been stable in recent years, …



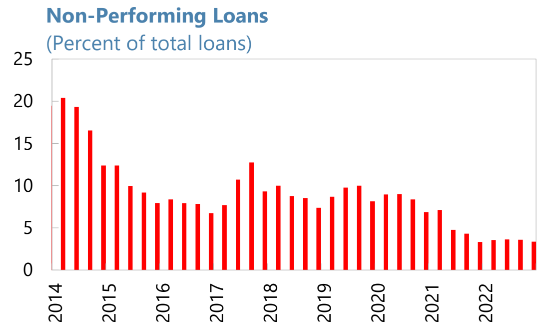
… with a slow increase in loan-to-deposit ratios, …



… stable capital and liquidity ratios, …

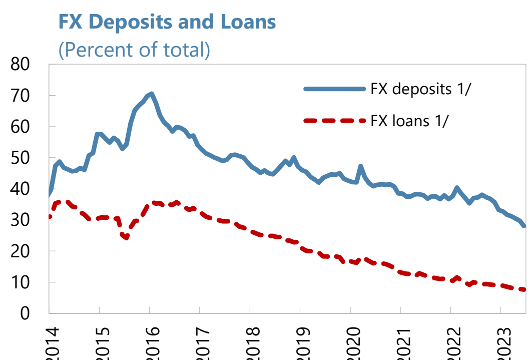


… and low NPL ratios.

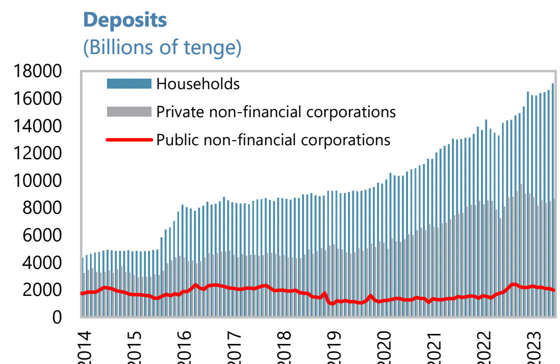


Note: Defined as 90 days past due.

Both asset and liability dollarization are declining …



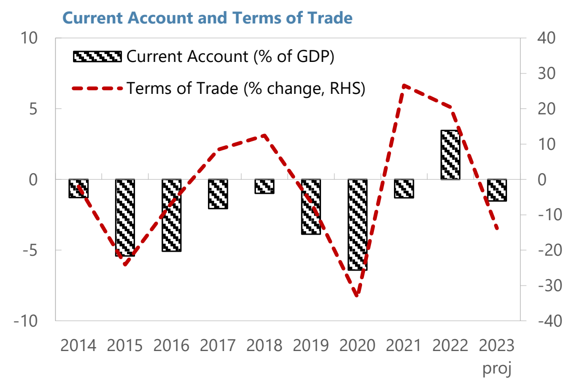
… and private sector deposits continue to rise.



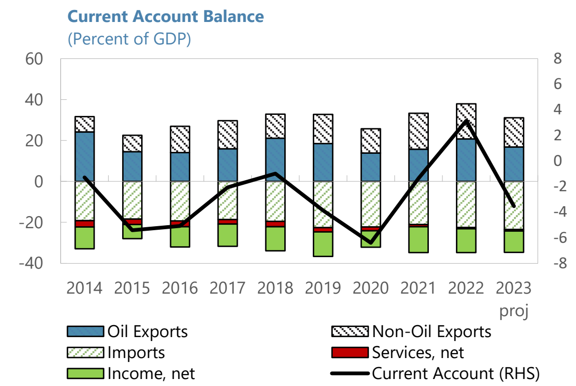
Sources: Kazakhstani authorities, GFSR, and IMF staff estimates.
1/ Accounting for exchange rate valuation effects.

Figure 4. Kazakhstan: External Sector Developments

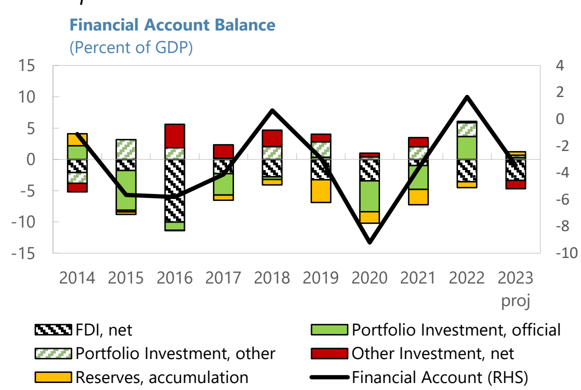
The current account has reversed into deficit in 2023....



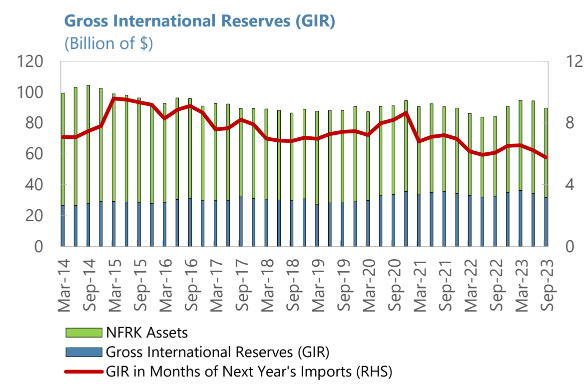
... with both lower exports and higher imports.



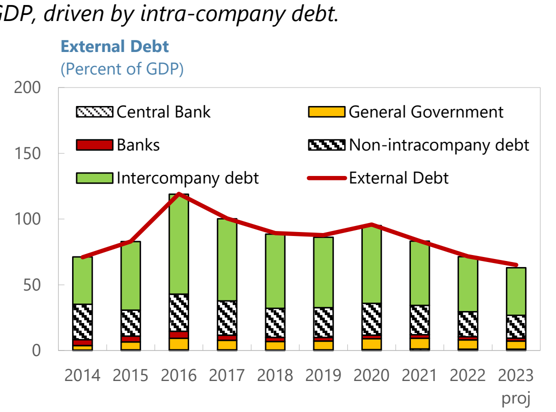
Significant portfolio outflows reflected government and NFRK operations.



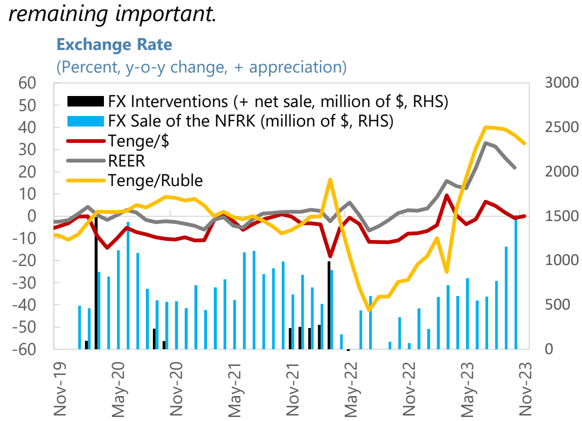
International reserves remain at about 6 months of imports.



External debt continues to decrease as a percentage of GDP, driven by intra-company debt.



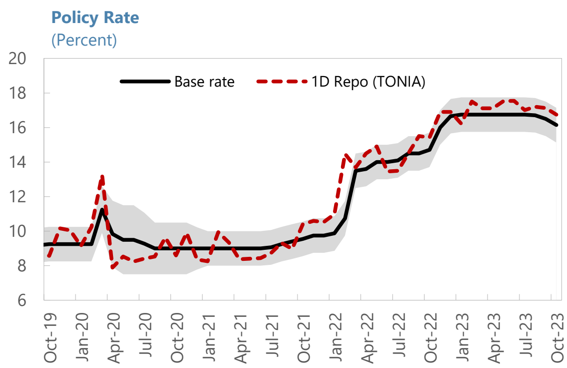
The REER appreciated in 2023, with NFRK sales of FX remaining important.



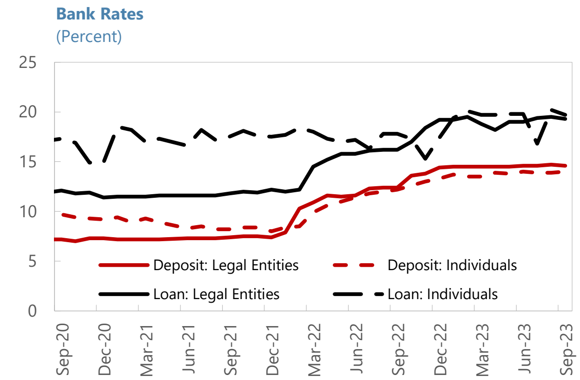
Sources: National authorities, Haver Analytics, Bloomberg, and IMF staff calculation.

Figure 5. Kazakhstan: Monetary Sector Developments

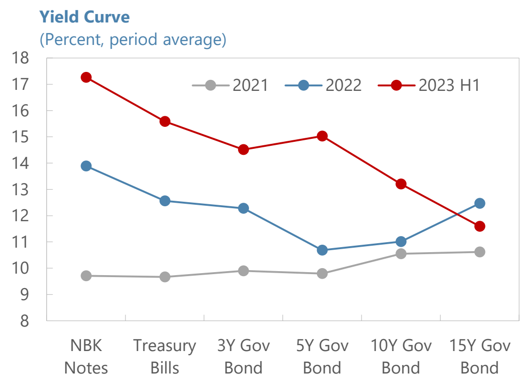
The NBK raised the policy rate at the end of 2022 and started lowering it in late 2023, …



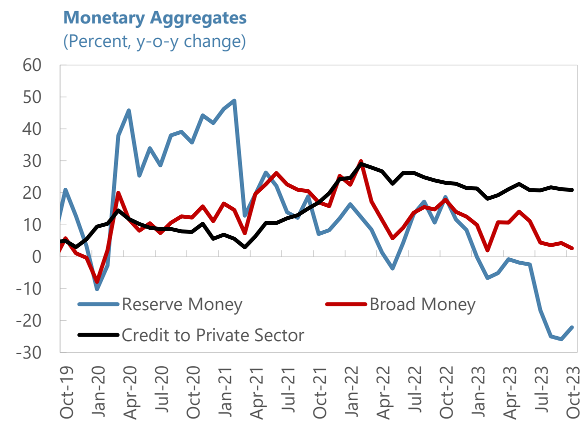
… and bank rates increased as a consequence.



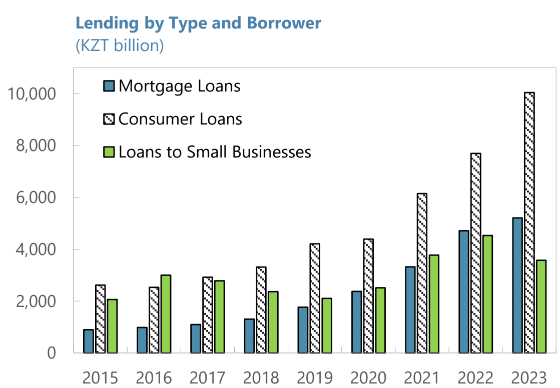
Government securities markets are incomplete and segmented.



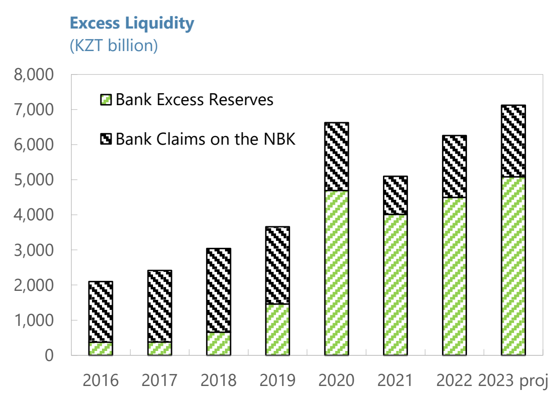
The growth of monetary aggregates decreased, driven by reserve money.



Consumer lending grew rapidly until 2023 while corporate loans decreased.



Banks continue to hold large excess liquidity.

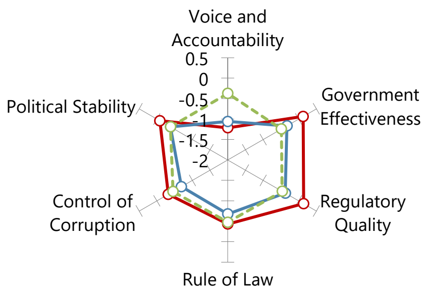


Sources: National authorities, Haver Analytics, Bloomberg, and IMF staff calculation.

Figure 6. Kazakhstan: Business Environment and Governance

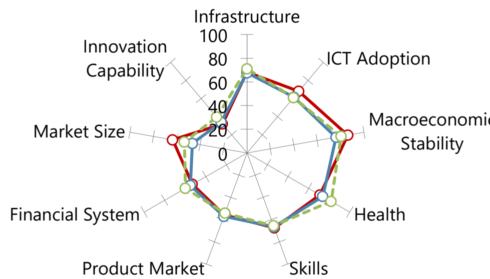
Improvements to the business environment and governance have put Kazakhstan on par or above peers on many aspects.

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.

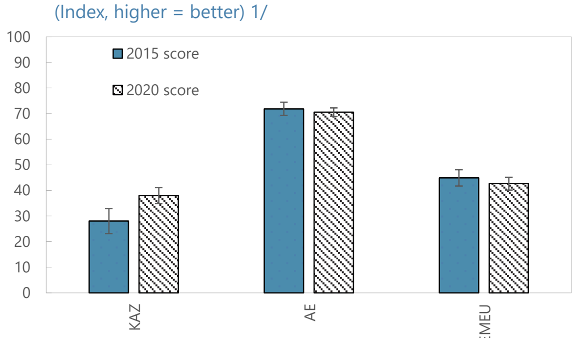
Global Competitiveness Index
(Score of 0-100, where 100 is best)



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, corruption perception remains high…

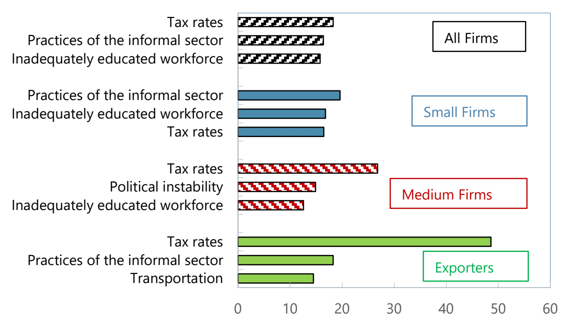
Corruption Perceptions
(Index, higher = better) 1/



Source: Transparency International, and IMF staff estimates.
1/ Vertical error bars capture the standard errors.

…and businesses continue to face various obstacles.

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



Sources: Kauffman, Krayy, and Mastruzzi (2011), World Bank Global Competitiveness Indicators, OECD 2018 PMR database, the World Bank Enterprise Survey, and IMF staff calculation.

Table 1. Kazakhstan: Selected Economic Indicators, 2021–28

	2021	2022	2023	2024	2025	2026	2027	2028
			Projections					
	(Annual percent change, unless otherwise indicated)							
Output and prices								
Real GDP	4.3	3.2	4.8	3.1	5.7	2.2	3.6	2.3
Real oil	-0.6	-1.7	7.1	0.1	14.4	-2.0	4.0	-2.0
Real non-oil	5.5	4.7	4.2	3.9	3.4	3.4	3.5	3.5
Contributions to GDP growth (percent)								
Private consumption	2.6	2.6	6.4	2.9	1.6	0.8	0.6	0.5
Government consumption	0.3	0.6	0.5	0.2	0.3	0.2	0.5	0.4
Gross fixed capital formation	0.4	1.2	1.8	1.1	1.4	1.1	1.3	1.2
Net Exports	0.8	-1.0	-3.9	-1.1	2.4	0.1	1.2	0.3
Consumer price index (end-of-period)	8.4	20.3	9.8	7.7	6.2	5.5	5.1	5.1
Consumer price index (average)	8.0	15.0	14.6	8.7	6.9	5.9	5.2	5.1
GDP deflator	14.1	19.7	7.8	12.3	6.1	5.8	5.6	5.2
Unemployment rate (average, percent)	4.9	4.9	4.8	4.8	4.8	4.8	4.8	4.8
	(In percent of GDP)							
Saving and Investment								
Gross national savings	25.2	27.3	21.1	19.8	21.1	21.0	20.8	20.4
Gross domestic investment	26.5	24.1	24.6	23.7	23.5	24.3	24.2	24.4
	(In percent of GDP)							
General government fiscal accounts								
Revenues and grants	17.1	21.8	23.1	20.7	20.6	20.2	20.0	19.7
Oil revenues	4.3	8.0	6.4	5.3	5.4	4.9	4.7	4.2
Non-oil revenues 1/	12.9	13.8	16.7	15.4	15.1	15.3	15.4	15.5
Expenditures and net lending	22.1	21.7	22.9	21.8	21.5	21.4	21.5	21.6
Overall fiscal balance	-5.0	0.1	0.1	-1.2	-0.9	-1.2	-1.5	-1.9
Non-oil fiscal balance	-9.3	-7.9	-6.3	-6.4	-6.4	-6.1	-6.1	-6.1
Statistical discrepancy	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	4.3	-0.1	-0.1	1.2	0.9	1.2	1.5	1.9
Domestic financing, net	1.4	2.7	1.0	2.9	4.3	3.8	3.8	3.6
Foreign financing, net	2.9	-2.8	-1.2	-1.8	-3.3	-2.6	-2.3	-1.8
of which: NFRK withdrawal (+) / accumulation (-), net	1.7	-2.6	-1.9	-1.9	-3.3	-3.1	-2.9	-2.6
Gross public debt	25.1	23.5	22.7	23.0	25.1	27.7	29.8	32.4
Net public debt	-3.0	-1.2	-1.0	-0.4	-0.1	0.4	1.3	2.5
	(Annual percent change, unless otherwise indicated)							
Monetary accounts								
Reserve money	12.1	8.4	14.9	17.3	13.8	4.8	6.8	5.5
Broad money	20.8	13.9	16.4	17.3	14.0	9.2	9.6	8.2
Credit to the private sector	24.4	21.5	17.0	18.2	16.7	13.1	14.4	12.6
NBK policy rate (eop; percent)	9.8	16.8	...	...	...	...	...	...
Balance of Payments								
Current account balance	-1.4	3.1	-3.5	-3.9	-2.3	-3.3	-3.4	-3.9
Trade balance	12.3	15.5	7.6	6.3	7.4	6.3	6.0	5.3
Exports of goods and services (annual percentage change)	45.6	30.5	-5.4	0.3	8.9	-1.4	1.7	-0.3
of which: Oil exports	31.2	50.9	-8.3	-3.5	15.6	-6.7	0.9	-5.7
Imports of goods and services (annual percentage change)	6.7	21.3	18.1	2.7	4.3	1.8	1.4	1.8
Capital account balance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Financial account balance 2/	-1.3	2.6	-4.0	-4.1	-2.6	-3.5	-3.5	-4.0
Gross international reserves (in billions of US dollars)	34.4	35.1	36.5	37.1	38.2	38.9	39.3	39.7
Gross international reserves (in months of imports)	6.9	5.9	6.0	5.8	5.9	5.9	5.9	5.9
External debt	83.3	71.7	65.6	61.7	58.7	58.3	56.5	55.9
NFRK assets	28.1	24.7	23.7	23.4	25.2	27.2	28.5	29.9
Exchange rates								
Tenge per U.S. dollar (end of period)	431.7	461.0	...	...	...	...	...	...
Exchange rate (tenge per Russian rubles; eop)	5.2	5.1						
Real effective exchange rate (eop, percent change) (+ appreciation)	-1.3	0.4	...	...	...	...	...	...
Memorandum items:								
Nominal GDP (in billions of tenge)	83,952	103,766	117,265	135,806	152,180	164,539	180,072	193,856
Nominal GDP (in billions of U.S. dollars)	197.1	225.5	...	...	...	...	...	...
Output gap (in percent of potential GDP)	0.2	0.0	0.7	1.0	0.5	0.2	0.0	0.0
Crude oil and gas condensate production (million tons) 3/	85.7	84.2	90.0	90.3	103.0	101.0	105.0	103.0
Oil price (in U.S. dollars per barrel)	69.2	96.4	80.5	79.9	76.0	72.7	69.9	67.5

Sources: Kazakhstani authorities and Fund staff estimates and projections.
1/ Non-oil revenue in 2023 includes a one-off dividend from Samruk-Kazyna of 1.1 percent of GDP from the sale of shares to the NFRK.
2/ Excluding reserve movements.
3/ Based on a conversion factor of 7.5 barrels of oil per ton.

Table 2. Kazakhstan: Balance of Payments, 2021–28

	2021	2022	2023	2024	2025	2026	2027	2028
			Projections					
			(In billions of USD)					
Current Account Balance	**-2.7**	**7.1**	**-9.0**	**-11.1**	**-7.0**	**-10.4**	**-11.4**	**-13.8**
Trade Balance	24.2	35.0	19.4	17.7	22.5	19.8	20.2	18.5
Exports of Goods (f.o.b.) 1/	65.8	85.6	79.4	79.4	87.0	85.3	86.5	85.9
o/w Oil Exports	31.1	46.9	43.0	41.5	48.0	44.8	45.2	42.6
Imports of Goods (f.o.b.) 2/	41.6	50.6	60.0	61.7	64.5	65.5	66.3	67.4
Service Balance 3/ 4/	-2.1	-1.6	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Primary Income Balance	-24.2	-25.5	-25.4	-25.7	-26.3	-26.9	-28.3	-28.9
Secondary Income Balance	-0.6	-0.8	-1.1	-1.2	-1.3	-1.3	-1.4	-1.5
Capital Account Balance	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Financial Account Balance 5/ 6/	**-2.5**	**5.9**	**-10.2**	**-11.4**	**-7.8**	**-10.9**	**-11.6**	**-14.0**
Direct Investment, net	-1.9	-8.0	-8.6	-9.3	-10.8	-10.9	-11.6	-12.0
Net Acquisition of Financial Assets 7/	2.7	-3.1	-2.0	-2.1	-2.5	-2.3	-2.4	-2.4
Net Incurrence of Liabilities 7/	4.6	4.9	6.6	7.2	8.3	8.6	9.2	9.6
Portfolio Investment, net	-3.6	13.2	1.8	1.0	5.0	3.9	2.4	0.7
Financial Derivatives, net 8/	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Other Investment, net 9/	2.9	0.5	-3.4	-3.2	-2.1	-3.9	-2.5	-2.8
Net Error and Omissions	**-4.8**	**-3.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**4.8**	**2.2**	**-1.4**	**-0.6**	**-1.1**	**-0.7**	**-0.4**	**-0.4**
			(In percent of GDP)					
Current Account Balance	**-1.4**	**3.1**	**-3.5**	**-3.9**	**-2.3**	**-3.3**	**-3.4**	**-3.9**
Trade Balance	12.3	15.5	7.6	6.3	7.4	6.3	6.0	5.3
Exports of Goods (f.o.b.) 1/	33.4	38.0	31.1	28.2	28.8	27.0	25.8	24.5
o/w Oil Exports	15.8	20.8	16.8	14.7	15.9	14.2	13.5	12.2
Imports of Goods (f.o.b.) 2/	21.1	22.4	23.5	21.9	21.3	20.8	19.8	19.2
Service Balance 3/ 4/	-1.1	-0.7	-0.8	-0.7	-0.6	-0.6	-0.6	-0.6
Primary Income Balance	-12.3	-11.3	-9.9	-9.1	-8.7	-8.5	-8.4	-8.3
Secondary Income Balance	-0.3	-0.4	-0.4	-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**
Financial Account Balance 5/ 6/	**-1.3**	**2.6**	**-4.0**	**-4.1**	**-2.6**	**-3.5**	**-3.5**	**-4.0**
Direct Investment, net	-1.0	-3.6	-3.4	-3.3	-3.6	-3.5	-3.5	-3.4
Net Acquisition of Financial Assets 7/	1.4	-1.4	-0.8	-0.7	-0.8	-0.7	-0.7	-0.7
Net Incurrence of Liabilities 7/	2.3	2.2	2.6	2.6	2.7	2.7	2.7	2.7
Portfolio Investment, net	-1.8	5.9	0.7	0.3	1.7	1.2	0.7	0.2
Financial Derivatives, net 8/	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other Investment, net 9/	1.5	0.2	-1.3	-1.1	-0.7	-1.2	-0.8	-0.8
Net Error and Omissions	**-2.4**	**-1.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**2.4**	**1.0**	**-0.5**	**-0.2**	**-0.4**	**-0.2**	**-0.1**	**-0.1**
Memorandum items								
Terms of Trade (Unit)	108.9	131.1	113.1	113.3	109.2	105.2	101.8	98.8
Real Effective Exchange Rate	73.4	73.7	…	…	…	…	…	…
Reserves Assets (GIR, USD billion)	34.4	35.1	36.5	37.1	38.2	38.9	39.3	39.7
Percent of EM ARA Metric (Percent)	160.1	157.0	149.4	138.3	129.2	121.1	113.0	106.0
In months of next year imports of G&S (Units)	6.9	5.9	6.0	5.8	5.9	5.9	5.9	N.A.
Nominal GDP (USD billion)	197.1	225.5	…	…	…	…	…	…

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, 2021-28

			Projections					
	2021	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
			(In billions of USD)					
Net International Investment Position	**-77.1**	**-67.3**	**-76.1**	**-86.9**	**-93.7**	**-103.9**	**-115.0**	**-128.6**
Assets	167.3	174.8	184.0	192.7	206.5	220.4	233.1	244.6
Liabilities	244.4	242.1	260.1	279.7	300.2	324.3	348.1	373.2
Direct Investment, net 1/	-137.2	-137.5	-146.1	-155.4	-166.2	-177.2	-188.8	-200.7
Assets	32.1	31.8	29.8	27.7	25.2	22.9	20.5	18.1
Liabilities	169.3	169.3	175.9	183.1	191.4	200.1	209.3	218.9
Portfolio Investment, net	37.9	50.9	52.7	53.6	58.7	62.5	65.0	65.7
Official, net	41.3	45.6	46.4	46.7	51.6	55.9	59.5	62.2
Non-Official, net	-3.4	5.3	6.2	6.9	7.1	6.6	5.4	3.5
Financial Derivatives, net 2/	0.0	0.0	0.1	0.2	0.3	0.4	0.5	0.6
Other Investment, net 3/	-12.2	-15.8	-19.2	-22.4	-24.5	-28.5	-31.0	-33.8
Official, net	-6.2	-6.7	-7.8	-9.0	-10.0	-11.4	-12.6	-13.7
Non-Official, net	-6.0	-9.1	-11.3	-13.4	-14.5	-17.0	-18.4	-20.1
Reserves Assets (GIR)	34.4	35.1	36.5	37.1	38.2	38.9	39.3	39.7
Gold 4/	23.5	20.5	21.9	22.5	23.6	24.3	24.7	25.1
Reserve assets, Special Drawing Rights	2.0	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
Other	8.5	12.4	12.4	12.4	12.4	12.4	12.4	12.4
o/w Currency and Deposits	3.3	4.4	4.4	4.4	4.4	4.4	4.4	4.4
o/w Debt Securities	5.1	7.9	7.9	7.9	7.9	7.9	7.9	7.9
			(In percent of GDP)					
Net International Investment Position	**-39.1**	**-29.8**	**-29.8**	**-30.8**	**-31.0**	**-32.9**	**-34.3**	**-36.7**
Assets	84.9	77.5	72.0	68.3	68.3	69.9	69.6	69.8
Liabilities	124.0	107.3	101.8	99.1	99.3	102.8	103.9	106.5
Direct Investment, net 1/	-69.6	-61.0	-57.2	-55.1	-55.0	-56.2	-56.4	-57.3
Assets	16.3	14.1	11.7	9.8	8.3	7.3	6.1	5.2
Liabilities	85.9	75.1	68.8	64.9	63.3	63.4	62.5	62.5
Portfolio Investment, net	19.3	22.6	20.6	19.0	19.4	19.8	19.4	18.8
Official, net	21.0	20.2	18.2	16.6	17.1	17.7	17.8	17.8
Non-Official, net	-1.7	2.3	2.4	2.4	2.3	2.1	1.6	1.0
Financial Derivatives, net 2/	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2
Other Investment, net 3/	-6.2	-7.0	-7.5	-7.9	-8.1	-9.0	-9.3	-9.7
Official, net	-3.1	-3.0	-3.1	-3.2	-3.3	-3.6	-3.7	-3.9
Non-Official, net	-3.0	-4.0	-4.4	-4.7	-4.8	-5.4	-5.5	-5.7
Reserves Assets (GIR)	17.4	15.6	14.3	13.1	12.6	12.3	11.7	11.3
Gold 4/	11.9	9.1	8.6	8.0	7.8	7.7	7.4	7.2
Reserve assets, Special Drawing Rights	1.0	0.9	0.8	0.7	0.6	0.6	0.6	0.6
Reserve Position in IMF	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	4.3	5.5	4.8	4.4	4.1	3.9	3.7	3.5
o/w Currency and Deposits	1.7	2.0	1.7	1.6	1.5	1.4	1.3	1.3
o/w Debt Securities	2.6	3.5	3.1	2.8	2.6	2.5	2.4	2.3
Memorandum items								
Nominal GDP (USD billion)	197.1	225.5	…	…	…	…	…	…

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, 2020–2022

	2020	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4
Capital adequacy			(In percent)						
Regulatory Capital to Risk-Weighted Assets	27.0	26.8	25.2	24.9	23.4	22.8	19.8	20.9	21.7
Regulatory Tier 1 Capital to Risk-Weighted Assets	21.3	21.3	20.2	20.3	19.3	18.9	16.4	17.6	18.6
Regulatory Tier 1 Capital to Assets	11.8	11.7	11.2	11.6	11.4	11.6	10.9	11.3	11.1
Asset quality									
Non-performing Loans to Total Gross Loans 1/	6.9	7.1	4.8	4.3	3.3	3.6	3.6	3.6	3.4
Provisions as percent of NPL	77.7	78.2	77.6	75.2	75.6	77.1	76.2	72.8	76.9
Non-performing Loans Net of Provisions to Capital	5.0	5.0	3.6	3.7	3.1	3.1	3.5	3.8	3.2
Large Exposures to Capital	110.6	104.0	102.5	97.6	98.0	99.1	102.6	91.1	93.6
Earnings and profitability									
Return on Assets	3.1	3.9	4.4	4.1	4.2	4.3	2.4	3.6	4.2
Return on Equity	19.3	28.3	32.6	29.9	30.6	31.3	15.5	25.7	30.7
Interest Margin to Gross Income	45.5	58.4	58.1	58.1	57.7	52.5	76.0	66.2	61.5
Trading Income to Total Income	1.9	7.5	7.7	7.1	7.2	19.6	-13.9	2.4	9.9
Non-interest Expenses to Gross Income	44.7	42.0	39.9	38.5	40.3	35.8	46.1	37.0	35.4
Personnel Expenses to Non-interest Expenses	23.5	31.5	31.3	30.7	29.8	31.5	32.7	31.0	31.1
Liquidity									
Liquid Assets to Total Assets (Liquid Asset Ratio)	39.3	41.6	35.1	33.4	30.3	29.8	28.4	29.8	29.5
Liquid Assets to Short Term Liabilities	103.6	106.1	95.6	63.2	50.5	53.2	45.6	48.6	47.0
Foreign-Currency-Denominated Loans to Total Loans	13.7	13.3	13.2	12.5	11.3	11.0	10.6	10.0	9.9
Foreign-Currency-Denominated Liabilities to Total Liabilities	35.4	34.0	34.4	33.7	32.6	37.0	37.7	36.2	33.9
Customer Deposits to Total (Non-interbank) Loans	137.6	145.4	147.1	139.6	129.8	126.6	124.9	132.7	131.1
Sensitivity to market risk									
Gross Asset Position in Financial Derivatives to Capital	2.9	2.7	3.7	1.9	1.7	7.7	6.3	2.8	1.5
Gross Liability Position in Financial Derivatives to Capital	2.5	2.4	3.4	1.6	1.4	2.6	6.6	4.1	1.5
Net Open Position in Foreign Exchange to Capital	0.3	1.5	1.3	1.8	2.0	0.4	-23.2	-16.2	0.5

Source: IMF Financial Soundness Indicators (FSI) database.

1/ Non-performing loans are defined as 90 days past due.

Table 5. Kazakhstan: Monetary Accounts, 2021–28

	2021	2022	2023	2024	2025	2026	2027	2028
			Projections					
			(In billions of tenge)					
Monetary Survey								
Net Foreign Assets	17,150	17,720	18,868	20,076	21,506	22,685	23,585	24,574
Net Domestic Assets	13,476	17,163	21,634	27,323	32,439	36,146	40,816	45,056
o/w Credit to the private sector 1/	19,379	23,549	27,541	32,567	37,993	42,963	49,164	55,381
Broad money	30,099	34,296	39,915	46,811	53,357	58,244	63,813	69,042
Nonliquid liabilities	527	587	587	587	587	587	587	587
Central Bank								
Net foreign assets 2/	15,381	16,910	17,952	19,020	20,317	21,400	22,178	23,059
o/w Net international reserves 2/	13,752	15,168	16,210	17,278	18,574	19,657	20,436	21,317
Net domestic assets 2/	-3,903	-4,619	-3,765	-2,504	-1,602	-1,783	-1,265	-1,027
Reserve money	10,958	11,874	13,647	16,014	18,228	19,107	20,414	21,534
o/w Currency in circulation	3,452	3,824	4,365	5,186	6,025	6,714	7,575	8,407
o/w Liabilities to banks	6,087	6,702	7,644	8,863	10,029	9,959	10,516	10,759
Demand deposits	1,419	1,348	1,638	1,965	2,174	2,435	2,323	2,368
Other liquid liabilities	471	340	463	425	409	432	422	421
Other Depository Corporations (ODCs)								
Net foreign assets	1,769	810	916	1,055	1,189	1,285	1,407	1,514
Net domestic assets	23,921	28,947	33,572	39,319	44,800	48,701	53,514	57,860
Domestic credit	30,434	36,739	40,727	46,662	52,230	56,011	60,875	65,227
o/w Credit to the private sector 1/	19,346	23,513	27,512	32,534	37,961	42,932	49,132	55,349
Other items, net	-6,513	-7,792	-7,155	-7,343	-7,430	-7,309	-7,361	-7,367
Banks' liabilities	25,690	29,758	34,488	40,374	45,990	49,987	54,921	59,374
o/w deposits	25,212	29,248	33,978	39,864	45,479	49,476	54,411	58,864
			(Annual growth rate, in percent)					
Monetary Survey								
Net Foreign Assets	2.9	3.3	6.5	6.4	7.1	5.5	4.0	4.2
Net Domestic Assets	54.8	27.4	26.0	26.3	18.7	11.4	12.9	10.4
o/w ODC credit to the private sector 1/	24.4	21.5	17.0	18.3	16.7	13.1	14.4	12.7
Broad money	20.8	13.9	16.4	17.3	14.0	9.2	9.6	8.2
Central Bank Survey								
Net foreign assets 2/	0.1	9.9	6.2	5.9	6.8	5.3	3.6	4.0
Net domestic assets 2/	21.5	-18.3	18.5	33.5	36.0	-11.3	29.1	18.8
Reserve money	12.1	8.4	14.9	17.3	13.8	4.8	6.8	5.5
Memorandum items:								
Exchange rate KZT/USD (eop)	431.7	461.0	…	…	…	…	…	…
Exchange rate KZT/USD (period average)	425.9	460.1	…	…	…	…	…	…
Velocity of broad money	2.8	3.0	2.9	2.9	2.9	2.8	2.8	2.8
Money multiplier	2.7	2.9	2.9	2.9	2.9	3.0	3.1	3.2
ODC credit to the private sector (percent of GDP)	23.0	22.7	23.5	24.0	24.9	26.1	27.3	28.6

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, 2021–28 1/

(In billions of tenge)

			Projections					
	2021	2022	2023	2024	2025	2026	2027	2028
Total revenue	14,359	22,630	27,051	28,080	31,276	33,309	36,049	38,271
Tax revenue	13,329	21,242	24,192	26,164	29,143	30,892	33,339	35,254
Oil 2/	3,571	8,301	7,504	7,142	8,238	8,067	8,378	8,207
Non-oil	9,759	12,941	16,687	19,022	20,905	22,826	24,961	27,047
Personal income tax	1,134	1,500	2,040	2,299	2,547	2,785	3,074	3,294
Corporate income tax	3,797	6,229	6,903	7,448	8,250	8,719	9,377	9,920
Social tax	841	1,035	1,393	1,562	1,731	1,887	2,079	2,223
Value added tax	2,808	4,226	5,285	6,169	6,765	7,399	8,089	8,808
Excise taxes	468	757	823	1,024	1,132	1,229	1,351	1,466
Property tax	421	455	504	588	645	706	772	840
Taxes on international trade	1,483	2,027	2,147	2,078	2,458	2,529	2,688	2,750
Receipts from use of natural resources	2,265	4,861	4,926	4,797	5,395	5,399	5,647	5,670
Other taxes	111	152	171	199	220	240	262	284
Nontax revenue 3/	1,029	1,388	2,860	1,916	2,133	2,417	2,710	3,016
of which: Interest and dividend income	521	602	676	884	1,001	1,179	1,357	1,543
Total expenditure and net lending	18,562	22,568	26,899	29,664	32,712	35,253	38,704	41,897
Total expenditure	18,114	21,826	26,160	28,808	31,753	34,216	37,569	40,676
Current expenditure	15,692	18,909	22,597	24,961	27,441	29,555	32,467	35,184
Wages	3,122	3,843	4,651	5,192	5,601	6,055	6,627	7,134
Goods and services	3,389	4,064	4,668	5,115	5,580	6,033	6,603	7,108
Current transfers	6,743	7,577	9,149	10,416	11,398	12,097	13,239	14,252
Other Current Expenditures	1,409	2,068	2,144	2,075	2,326	2,514	2,752	2,962
Interest payment	1,029	1,358	1,985	2,163	2,537	2,855	3,247	3,727
Capital expenditure	2,422	2,916	3,563	3,848	4,312	4,662	5,102	5,492
Net lending	448	742	739	856	959	1,037	1,135	1,222
Overall balance	-4,204	62	152	-1,584	-1,436	-1,944	-2,655	-3,627
Statistical discrepancy	-601	0	0	0	0	0	0	0
Financing	3,603	-62	-152	1,584	1,436	1,944	2,655	3,627
Domestic financing, net	1,157	2,770	1,230	3,991	6,471	6,251	6,811	7,062
Foreign financing, net	2,411	-2,864	-1,415	-2,440	-5,068	-4,339	-4,188	-3,468
of which: NFRK withdrawal (+) / accumulation (-), net 4/	1,456	-2,722	-2,246	-2,633	-5,068	-5,063	-5,219	-5,059
Memorandum items:								
Non-oil balance	-7,774	-8,239	-7,352	-8,726	-9,674	-10,011	-11,033	-11,834
Primary balance	-3,695.6	817.7	1,460.7	-306.2	99.8	-268.3	-765.3	-1,443.7
Structural Balance	-4,232	62	-36	-1,862	-1,576	-1,994	-2,655	-3,627
Structural Non-oil Balance	-7,767	-8,399	-8,989	-9,150	-10,104	-10,434	-11,487	-12,317
NFRK assets (in billions U.S. dollars)	55.3	55.7	60.6	66.1	76.2	85.9	95.6	104.7
Nominal GDP	83,952	103,766	117,265	135,806	152,180	164,539	180,072	193,856

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. In 2023, it includes the equivalent of 1.1 percent of GDP from a one-off dividend from Samruk Kazyna due to the sale of shares to the NFRK.
4/ National Fund of the Republic of Kazakhstan. Classified under external financing as most of the assets are external.

Table 6b. Kazakhstan: General Government Fiscal Operations, 2021–28 1/

(In percent of GDP, unless otherwise specified)

			Projections					
	2021	2022	2023	2024	2025	2026	2027	2028
Total revenue	17.1	21.8	23.1	20.7	20.6	20.2	20.0	19.7
Tax revenue	15.9	20.5	20.6	19.3	19.2	18.8	18.5	18.2
Oil 2/	4.3	8.0	6.4	5.3	5.4	4.9	4.7	4.2
Non-oil	11.6	12.5	14.2	14.0	13.7	13.9	13.9	14.0
Personal income tax	1.4	1.4	1.7	1.7	1.7	1.7	1.7	1.7
Corporate income tax	4.5	6.0	5.9	5.5	5.4	5.3	5.2	5.1
Social tax	1.0	1.0	1.2	1.2	1.1	1.1	1.2	1.1
Value added tax	3.3	4.1	4.5	4.5	4.4	4.5	4.5	4.5
Excise taxes	0.6	0.7	0.7	0.8	0.7	0.7	0.8	0.8
Property tax	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Taxes on international trade	1.8	2.0	1.8	1.5	1.6	1.5	1.5	1.4
Receipts from use of natural resources	2.7	4.7	4.2	3.5	3.5	3.3	3.1	2.9
Other taxes	3.3	4.1	4.5	4.5	4.4	4.5	4.5	4.5
Nontax revenue 3/	1.2	1.3	2.4	1.4	1.4	1.5	1.5	1.6
of which: Interest and dividend income	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.8
Total expenditure and net lending	22.1	21.7	22.9	21.8	21.5	21.4	21.5	21.6
Total expenditure	21.6	21.0	22.3	21.2	20.9	20.8	20.9	21.0
Current expenditure	18.7	18.2	19.3	18.4	18.0	18.0	18.0	18.1
Wages	3.7	3.7	4.0	3.8	3.7	3.7	3.7	3.7
Goods and services	4.0	3.9	4.0	3.8	3.7	3.7	3.7	3.7
Current transfers	8.0	7.3	7.8	7.7	7.5	7.4	7.4	7.4
Other Current Expenditures	1.7	2.0	1.8	1.5	1.5	1.5	1.5	1.5
Interest payment	1.2	1.3	1.7	1.6	1.7	1.7	1.8	1.9
Capital expenditure	2.9	2.8	3.0	2.8	2.8	2.8	2.8	2.8
Net lending	0.5	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Overall balance	-5.0	0.1	0.1	-1.2	-0.9	-1.2	-1.5	-1.9
Statistical discrepancy	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	4.3	-0.1	-0.1	1.2	0.9	1.2	1.5	1.9
Domestic financing, net	1.4	2.7	1.0	2.9	4.3	3.8	3.8	3.6
Foreign financing, net	2.9	-2.8	-1.2	-1.8	-3.3	-2.6	-2.3	-1.8
of which: NFRK withdrawal (+) / accumulation (-), net 4/	1.7	-2.6	-1.9	-1.9	-3.3	-3.1	-2.9	-2.6
Memorandum items:								
Non-oil balance	-9.3	-7.9	-6.3	-6.4	-6.4	-6.1	-6.1	-6.1
Non-oil balance (in percent of non-oil GDP)	-11.5	-9.9	-7.8	-8.0	-8.0	-7.6	-7.7	-7.6
Non-oil revenues (in percent of non-oil GDP)	16.0	17.1	20.8	19.1	19.2	19.2	19.2	19.2
Primary balance	-4.4	0.8	1.2	-0.2	0.1	-0.2	-0.4	-0.7
Structural Balance	-5.0	0.1	0.0	-1.4	-1.0	-1.2	-1.5	-1.9
Structural Non-oil Balance	-9.3	-8.1	-7.7	-6.7	-6.6	-6.3	-6.4	-6.4
Gross public debt	25.1	23.5	22.7	23.0	25.1	27.7	29.8	32.4
NFRK assets	28.1	24.7	23.7	23.4	25.2	27.2	28.5	29.9
Net public debt	-3.0	-1.2	-1.0	-0.4	-0.1	0.4	1.3	2.5

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/ In 2023, it includes the equivalent of 1.1 percent of GDP from a one-off dividend from Samruk Kazyna due to the sale of shares to 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 2022 Article IV Recommendations

Recommendations	Current Status
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.	The 2023 budget led to an expansion of current expenditure that was inconsistent with recently adopted fiscal rules. The authorities explained the suspension of the fiscal rules by the need to meet social spending needs. They plan to reinstate fiscal rules in 2024 and to reduce the non-oil deficit to 5 percent of GDP in the medium term.
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.	The authorities increased the base rate towards the end of 2022 and have maintained a tight monetary policy stance since then – despite reducing the base rate by 100 bps at end 2023. The authorities have improved their monetary policy communication and adjusted the inflation target to a 5 percent point target over the medium term. Strengthening the NBK's independence remains a priority.
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.	The banking sector is resilient, but further progress is needed to address remaining vulnerabilities and prepare for future economic and financial shocks. The 2023 FSAP identified a range of reform priorities, including as regards the resources and independence of the supervisory agency, and the inadequacy of the current bank resolution framework.
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 strengthening the transparency and competitiveness of public procurement practices, better monitoring politically exposed persons, and increasing beneficial ownership transparency. Rapid progress on climate policies is needed to meet Kazakhstan's 2030 commitments.	Progress on structural reforms remains elusive. Few of the economic reforms announced in 2022 are being implemented, while the state footprint in the economy has increased further in recent years. Only marginal progress has been achieved on the privatization front. A positive step was the adoption of a climate policy strategy in early 2023, which will help accelerate the development of renewable energy sources, while significant efforts are underway to increase domestic energy and utility prices and to diversify export routes, in particular through the Caspian Sea.

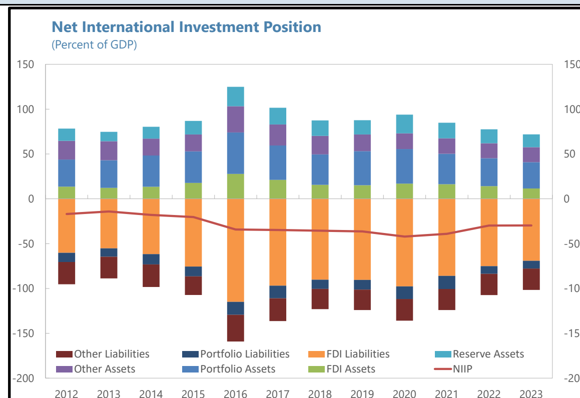
Annex II. External Sector Assessment

Overall Assessment*: Based on preliminary data, the external position in 2023 is assessed as moderately weaker than the level implied by economic fundamentals and desirable policies. During the year, lower oil and commodity prices and rapidly increasing imports worsened the country's external position. Reflecting the negative current account balance, the financial account registered net inflows.*

Potential Policy Responses*: Addressing Kazakhstan's policy gaps (e.g., by boosting health spending) would reduce imbalances and help bring its external position in line with fundamentals and desirable policies. Over the longer term, the current account is projected to deteriorate on the back of declining oil revenues. In that context, structural reforms to boost export competitiveness, promote diversification away from oil, 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 tended to widen, reflecting a surge of FDI and, to a lesser extent, portfolio investment inflows. In 2023, the NIIP is estimated to have reached minus US$76 billion (30 percent of GDP). It is projected to increase to about 40 percent of GDP over the medium term.



Source: NBS data and Haver data.

Assessment. Kazakhstan has large gross external liabilities – equivalent to 102 percent of 2023 GDP. About 70 percent of them are related to foreign direct investment, the majority of which is represented by intercompany loans. The public sector is a net creditor. Overall, risks to external sustainability are limited.

2023 (% GDP)	NIIP: -30	Assets: 72	Portf. Assets: 29	Liabilities: 102	Portf. Liab.: 9

Current Account

Background. In 2023, the current account (CA) balance is estimated to have turned into a deficit of 3.5 percent of GDP (against a surplus of 3.1 percent of GDP in 2022), due to lower oil and commodity prices and high import volumes. The trade surplus is estimated to have decreased by 50 percent on the back of an 8 percent decrease in oil exports, a 14 percent increase in non-oil exports (due to favorable prices for metals, wheat, and other raw materials), and a 19 percent increase in imports. The primary income balance is estimated to have remained constant in nominal terms, with investors in the extractive industry repatriating lower dividends. In the medium term, the current account balance is projected to deteriorate with the value of imports of manufactured and intermediate goods outpacing the value of oil exports.

Assessment. For 2023, the CA model of the IMF EBA-lite framework estimates a (multilaterally consistent) cyclically adjusted current account norm of minus 2.2 percent of GDP. The cyclically adjusted balance stood at minus 3.6 percent of GDP, implying a gap of about minus 1.4 percentage points. The model identifies a positive policy gap of 4.3 percent of GDP, indicating that the CA gap would be substantially more negative if policy settings were at their desirable levels. The policy gap mostly arises from low public health expenditure and financial deepening.

Kazakhstan: EBA-lite Model Results, 2023

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-3.5**	
Cyclical contributions (from model) (-)	0.1	
Additional temporary/statistical factors (-) 2/	0.0	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	-3.6	
CA Norm (from model) 3/	**-2.2**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-2.2**	
CA Gap	**-1.4**	**2.8**
o/w Relative policy gap	4.3	
Elasticity	-0.2	
REER Gap (in percent)	**6.0**	**-12.4**

1/ Based on the EBA-lite 3.0 methodology.
2/ No additional cyclical adjustment applied.
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. In 2023Q3, the real effective exchange rate (REER) had appreciated by about 11 percent (YTD) due to a large appreciation of the Tenge vis-à-vis the Russian ruble and Chinese yuan.

Assessment. The REER model identifies gap of 6 percent (using standard exports and imports elasticities) and a large undervaluation of about 12 percent. Given the better fit of the CA model, Staff bases its assessment solely on the CA model.

Capital and Financial Accounts: Flows and Policy Measures

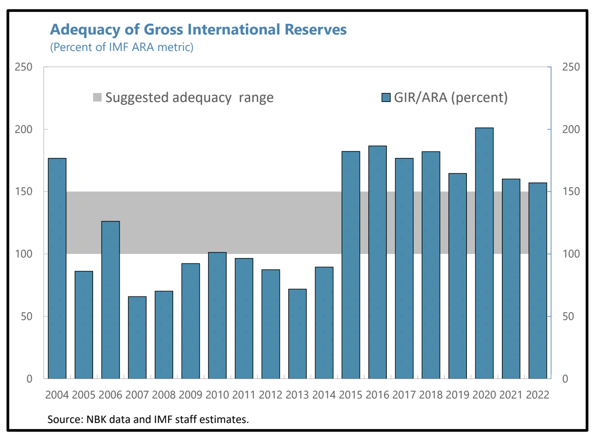
Background. Together with a large current account deficit, Kazakhstan saw large capital inflows in 2023, driven by estimated net FDI inflows of 3.8 percent of GDP, and other investment balances broadly offsetting net portfolio outflows of about 1 percent of GDP. In recent years, the authorities took several regulatory measures assessed as capital flow management measures (CFM) to mitigate exchange rate pressures and (more recently) limit the risk of secondary sanctions from the war in Ukraine. They halved the daily cap on foreign currency that a resident legal entity may purchase unrelated to foreign currency obligations (from US$100,000 to US$50,000) and prohibited physical exports of FX above the equivalent of US$10,000 and of more than 100g of gold (except for NBK operations and certain other transactions). Electronic cross-border transfers of FX remain unaffected by this second measure, limiting its impact on capital flows. In August 2023, the requirement for SOEs to sell part of their FX export proceeds was reduced to zero.

Assessment. The above regulatory measures (the daily cap on FX purchases unrelated to FX obligations, and restrictions on physical exports of FX) continue to be assessed as CFMs under the IMF's *Institutional View on Liberalization and Management of Capital Flows*. The adoption of these measures was part of a policy response to an imminent crisis at the time of the initial COVID shocks and more recently when the war in Ukraine started. With imminent crisis conditions having abated, they should be phased out.

FX Intervention and Reserves Level

Background. At the end of 2023, reserves were estimated at about US$36 billion, covering about 6 months of projected next-year's imports of goods and services, 178 percent of short-term external debt, 164 percent of portfolio investment liabilities, and 43 percent of broad money. About 60 percent of reserve assets are in gold. Strong gold prices are among the factors that pushed up reserves in 2023. The NBK has not intervened in the FX market since May 2022.

Assessment. Based on the IMF's Assessing Reserve Adequacy (ARA) metric, gross reserves exceed the adequacy range for a country with a floating exchange rate. For 2023, they are projected to be slightly above the recommended 100–150 percent range for commodity exporters. The assets of the NFRK (US$58 billion or about 30 percent of GDP in September 2023) provide an additional buffer.



Annex III. Risk Assessment Matrix[1]

Risks	Likelihood	Expected Impact	Policy Response
Conjunctural risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	**High**	**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.
Social discontent. High inflation, real income loss, and spillovers from crises in other countries (including migration) worsen inequality, trigger social unrest, and give rise to financing pressures and detrimental populist policies. This exacerbates imbalances, slows growth, and triggers market repricing.	**Medium**	**High** High inflation could re-ignite social tensions. This would impact economic activity and could trigger fiscally costly responses.	Strengthen the inflation-targeting framework and social safety nets. Accelerate structural reforms, including anti-corruption reforms, to promote inclusive growth.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs.	**Medium**	**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.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	**High**	**High** High oil prices would help build external and fiscal buffers. A sharp drop in oil prices would have opposite effects and could affect the financial sector through the impact on 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.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Risks	Likelihood	Expected Impact	Policy Response
Structural risks			
Deepening geoeconomic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High**	**High** Increased geo-economic fragmentation would increase risks of secondary sanctions, disruption of traditional trade routes, and inflation pressures	Accelerate reforms and efforts to promote economic and trade diversification) and attract FDI. Strengthen policies and regulatory compliance against risks of secondary sanctions.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets ecosystems) or misuse of AI technologies trigger financial and economic instability.	**Medium**	**Medium** Cyberattacks could disrupt the payment system, which relies on electronic means to a large extent.	Provide monetary and fiscal support as needed. Accelerate efforts to enhance cyber-security.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium**	**Medium/Low** Kazakhstan could further face escalating natural disasters such as droughts, heatwaves, floods, mudflows, and landslides, causing land degradation, infrastructure damage, and loss of life.	Accelerate actions to advance the green transformation, including to foster mitigation and adaptation, and cushion the transition. Utilize fiscal buffers, if needed.
Disorderly energy transition. Disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	**Medium**	**Medium/Low** Kazakhstan's infrastructure could be negatively impacted. The financial system also has large risk exposures to climate change.	Accelerate actions to increase the use of renewable sources of energy and foster economic diversification. Utilize fiscal buffers to cushion the transition, if needed.

Risks	Likelihood	Expected Impact	Policy Response
Country specific risks			
Fiscal slippages, slowdown of reforms, and delays in privatization	Medium	**Medium** Loosening fiscal policy, decreased investor confidence, low level of competition, lack of diversification and high vulnerability to external shocks.	Implement medium term fiscal framework, strengthen fiscal rules, and improve public sector transparency and accountability. Accelerate structural reforms, including privatizations.
Loss of monetary policy credibility.	High	**High** Loss of monetary policy credibility would endanger macroeconomic stability.	Keep monetary policy tight until inflation is clearly on downward trend and expectations are re-anchored. Strengthen the NBK's independence.

Annex IV. Sovereign Risk and Debt Sustainability Assessment

Figure 1. Kazakhstan: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Low	The overall risk of sovereign stress is low, reflecting low levels of vulnerability at all horizons.
Near term 1/			
Medium term	Moderate	Low	Medium-term risks are assessed as low given low debt levels and large asset buffers at the NFRK.
Fanchart	High	…	
GFN	Low	…	
Stress test	Comm. Prices, FX rate,	…	
Long term	…	Low	Long-term risks are low given the strong fiscal position at present and the authorities' commitment to fiscal prudence. Global transition away from fossil fuels is the main source of risk.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA summary assessment

Commentary: Kazakhstan has low debt, large financial assets accumulated at the NFRK, and fiscal deficits are expected to remain moderate over the medium term. The large buffers can support periods of fiscal deficits, if needed. The projected debt increase reflects the government's decision to simultaneously increase the assets accumulated at the NFRK. The assessment of low debt and financing risks over the medium term and long term, together with the results from the stress scenarios, lead to the final assessment of low risk.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Kazakhstan: Debt Coverage and Disclosures

Comments

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
	chosen			

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

CPS	NFPS	GG: expected	CG		Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	Not applicable
CPS	NFPS	GG: expected	CG	2	Extra budgetary funds (EBFs)	Yes	
CPS	NFPS	GG: expected	CG	3	Social security funds (SSFs)	Yes	
CPS	NFPS	GG: expected		4	State governments	No	
CPS	NFPS	GG: expected		5	Local governments	Yes	
CPS	NFPS			6	Public nonfinancial corporations	No	
CPS				7	Central bank	No	
CPS				8	Other public financial corporations	No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
chosen	chosen	chosen	missing	missing

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
	chosen	chosen		

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
	chosen

Color code: chosen coverage; Missing from recommended coverage; Not applicable

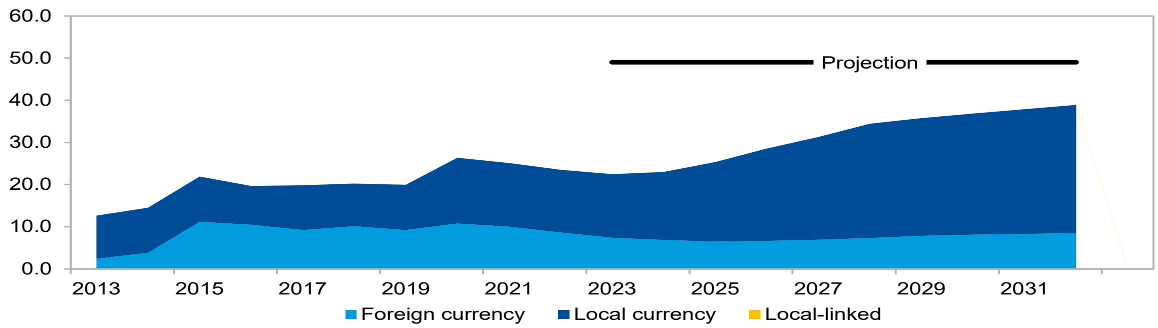
Reporting on intra-government debt holdings

					Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
CPS	NFPS	GG: expected	CG	2	Extra-budget. funds									0
CPS	NFPS	GG: expected	CG	3	Social security funds									0
CPS	NFPS	GG: expected		4	State govt.									0
CPS	NFPS	GG: expected		5	Local govt.									0
CPS	NFPS			6	Nonfin pub. corp.									0
CPS				7	Central bank									0
CPS				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

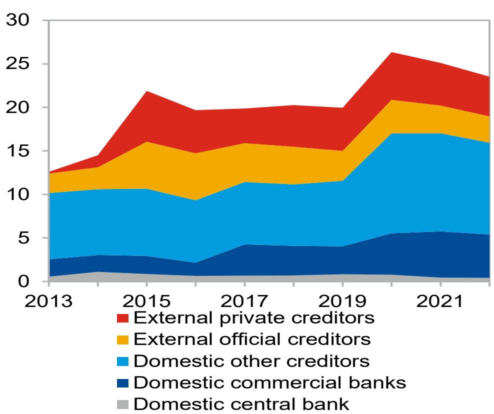
Figure 3. Kazakhstan: Public Debt Structure Indicators

Debt by currency (percent of GDP)



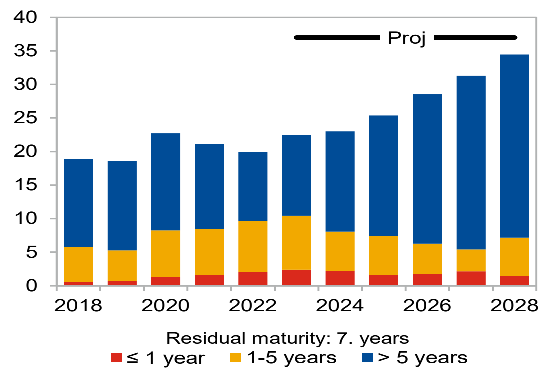
Note: The perimeter shown is general government.

Public debt by holder (percent of GDP)



Note: The perimeter shown is general government.

Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

Public debt by governing law, 2022

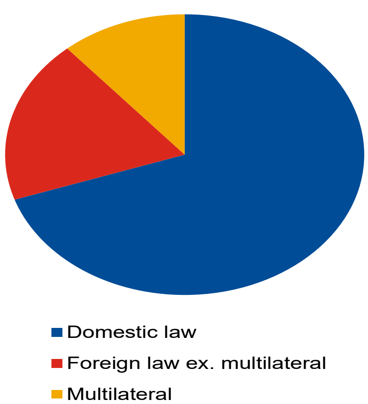
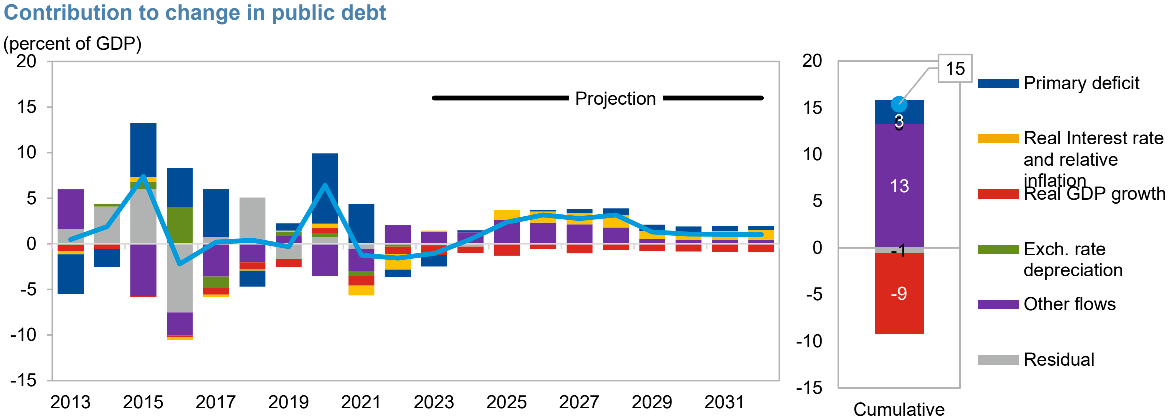


Figure 4. Kazakhstan: Baseline Scenario

(Percent of GDP unless indicated otherwise)

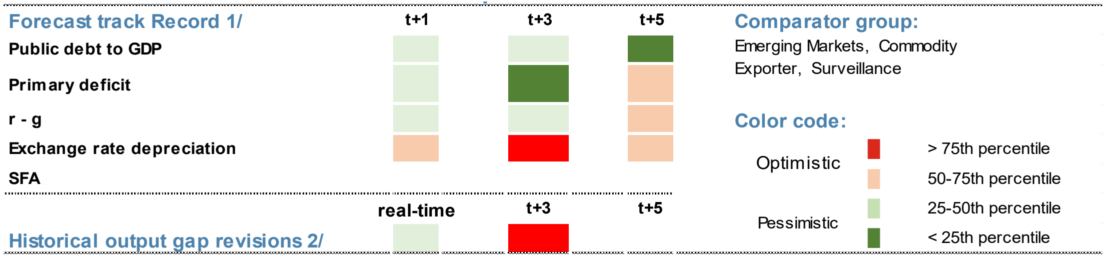
	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	23.5	22.5	23.0	25.4	28.5	31.3	34.5	35.8	36.8	37.9	38.9
Change in public debt	-1.6	-1.0	0.5	2.4	3.2	2.8	3.2	1.3	1.1	1.0	1.0
Contribution of identified flows	-1.6	-0.9	0.8	2.4	3.2	2.8	3.2	1.3	1.1	1.0	1.0
Primary deficit	-0.8	-1.2	0.2	-0.1	0.2	0.4	0.7	0.7	0.6	0.5	0.4
Noninterest revenues	21.2	22.5	20.0	19.9	19.5	19.3	18.9	19.0	19.1	19.2	19.3
Noninterest expenditures	20.4	21.2	20.3	19.8	19.7	19.7	19.7	19.7	19.7	19.7	19.7
Automatic debt dynamics	-2.8	-0.9	-0.7	-0.2	0.7	0.3	0.6	0.1	0.0	0.1	0.1
Real interest rate and relative inflation	-1.7	0.1	0.0	1.0	1.2	1.3	1.3	0.9	0.9	1.0	1.1
Real interest rate	-2.7	-0.2	-0.6	0.8	1.0	1.0	1.1	0.7	0.7	0.7	0.8
Relative inflation	1.0	0.3	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Real growth rate	-0.8	-1.1	-0.7	-1.2	-0.5	-1.0	-0.7 .	-0.8	-0.8	-0.9	-0.9
Real exchange rate	-0.3	…	…	…	…	…	… .	…	…	…	…
Other identified flows	2.0	1.3	1.3	2.7	2.3	2.1	1.8	0.5	0.4	0.4	0.4
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.6	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Other transactions	2.6	1.9	1.9	3.3	3.1	2.9	2.6	1.3	1.3	1.3	1.3
Contribution of residual	0.0	-0.2	-0.3	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Gross financing needs	1.5	1.8	3.4	3.1	3.1	3.6	4.5	3.6	3.0	3.1	3.0
of which: debt service	2.8	3.6	3.8	3.8	3.7	3.9	4.5	3.7	3.2	3.4	3.4
Local currency	2.4	1.7	1.9	1.9	2.6	3.2	3.7	3.6	3.0	3.2	3.2
Foreign currency	0.4	1.9	1.9	1.9	1.1	0.8	0.8	0.2	0.2	0.2	0.2
Memo:											
Real GDP growth (percent)	3.3	4.8	3.1	5.7	2.2	3.6	2.3	2.4	2.4	2.5	2.5
Inflation (GDP deflator; percent)	19.7	7.8	12.3	6.1	5.8	5.6	5.2	5.1	5.1	5.1	5.1
Nominal GDP growth (percent)	23.6	13.0	15.8	12.1	8.1	9.4	7.7	7.6	7.7	7.7	7.7
Effective interest rate (percent)	6.4	7.0	9.1	9.9	10.0	9.6	9.1	7.2	7.1	7.3	7.5

Contribution to change in public debt

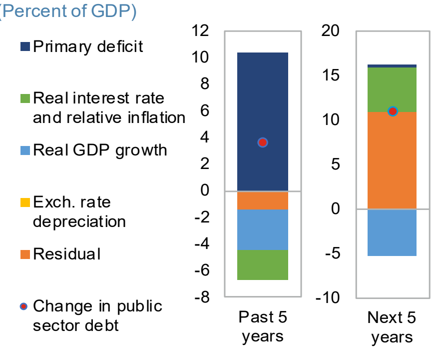


Staff commentary: Public debt is projected to rise moderately over the forecast horizon, with part of this rise offset by a simultaneous increase in the size of assets accumulated at the NFRK (seen in the chart as "Other Flows". Overall net public debt is expected to remain below 10 percent of GDP.

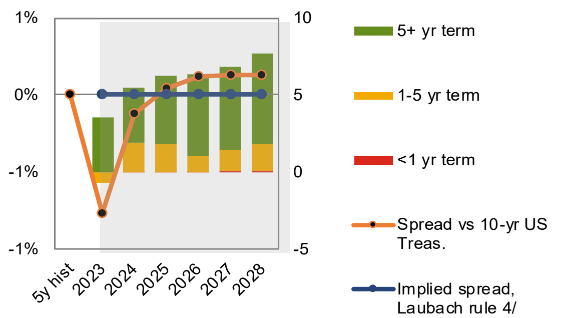
Figure 5. Kazakhstan: Realism of Baseline Assumptions



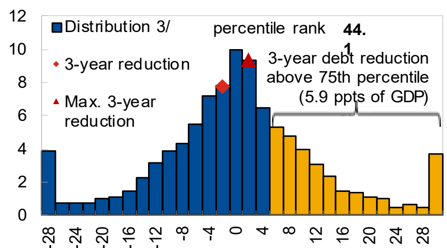
Public Debt Creating Flows
(Percent of GDP)



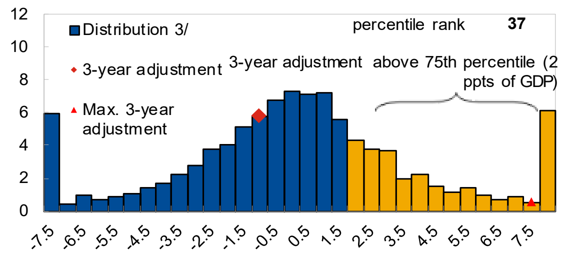
Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



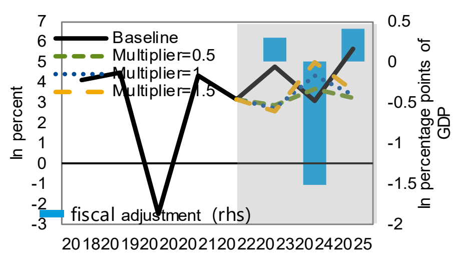
3-Year Debt Reduction
(Percent of GDP)



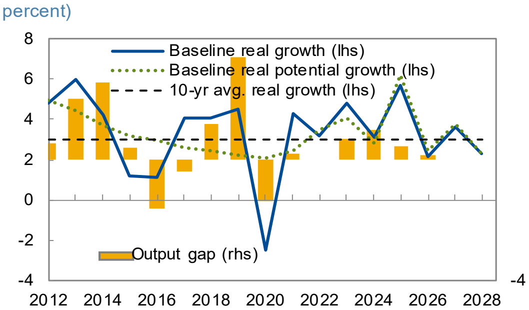
3-Year Adjustment in Cyclically-Adjusted Primary Balance (percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS)



Real GDP Growth
(in percent)



Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

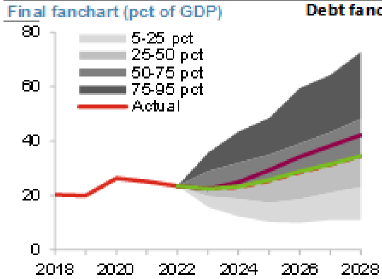
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Commentary: The realism analysis does not point to major concerns. Past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within norms.

Figure 6. Kazakhstan: Medium-Term Risk Assessment

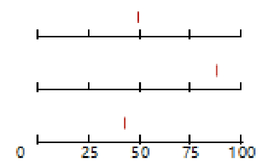
	Value	Contrib 1/	Percentile in peer group 2/

Final fanchart (pct of GDP)

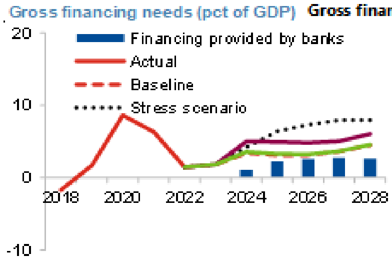


Debt fanchart module

	Value	Contrib 1/
Fanchart width *(percent of GDP)*	61.8	0.9
Probability of debt non-stabilizaiton *(percent)*	100.0	0.8
Terminal debt-to-GDP x institutions index	19.8	0.4
Debt fanchart index (DFI)		2.2
Risk signal: 3/		High

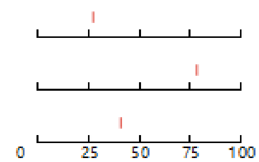


Gross financing needs (pct of GDP)



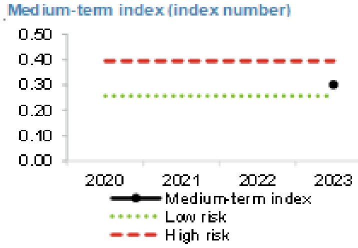
Gross financing needs (GFN) module

	Value	Contrib 1/
Average baseline GFN *(percent of GDP)*	3.3	1.1
Banks' claims on the gen govt *(pct bank assets)*	10.1	3.3
Chg. In banks' claims in stress *(pct banks' assets)*	5.9	2.0
GFN financeability index (GFI)		6.4
Risk signal: 4/		Low



Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term index (index number)



Medium-term risk analysis

	Value	Norm. Value	Weight	Contribution
Debt fanchart index	2.17	0.48	0.50	0.24
GFN finaceability index	6.35	0.12	0.50	0.06
Medium-term index		0.3		
Risk signal: 5/		Moderate		
Final assessment:		Low		

Prob. of missed crisis, 2023-2028, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 27.3 pct.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex V. Selected FSAP Recommendations

Systemic Risk Analysis
Develop liquidity stress testing and monitor LCR in significant foreign currencies to better understand the risks associated with potential liquidity drain from the system
Collect granular data on interest-sensitive assets and liabilities by maturity/repricing ladder to enhance the monitoring of interest rate risk in the banking book and to perform cash-flow analysis to complement liquidity stress testing
Banking Supervision and Regulation
Enshrine ARDFM's independence in the law, including the authority to decide its organizational structure, strengthen budgetary resources, and enhance legal protection of staff when defending their actions in faithful discharge of duties
Identify and quantify related party lending transactions, and revise the legal framework to eliminate exemptions and apply the arm's length principle in relation to problem assets transactions between parent banks and asset management companies
Extend the application of prudential standards at the consolidated level and strengthen the requirements for risk management across banking groups
Strengthen the effectiveness of risk-based AML/CFT supervision of financial institutions, by ensuring adequate supervisory resources and technology, and reinforcing the primary responsibility of financial institutions in addressing ML/TF risks
Macroprudential Policy Framework
Amend legislation to clarify roles and responsibilities of the NBK and ARDFM on macroprudential policies and update the Memorandum of Understanding on Financial Stability issues to strengthen inter-agency cooperation
Financial Safety Net and Crisis Preparedness
Revise the resolution and liquidation decision-making processes to strengthen the ARDFM's operational independence, subject to robust transparency and accountability, and strengthen its staffing and resourcing; expand and clarify the rules for the injection of capital into bridge banks during episodes of systemic risk
The law should specify the forms and mechanisms of state participation in the resolution of insolvent banks (e.g.: bridge banks) tightening the conditions for the use of public resources
Ensure that there is in place a general architecture of intra- and interagency contingency plans (even bilateral), establish MoUs, and engage in financial crisis-simulation exercises to test the plans; enhance legal protection of staff when defending their actions in faithful discharge of duties
Revise the process of LOLR collateral supervision and prepositioning of eligible nonmarketable assets (ARDFM); refine the methodology for valuation of non-marketable assets haircut (NBK); ensure that the government indemnifies NBK in case LoLR is granted to prevent severe systemic disruption, subject to a clarification of the circumstances under which that would be justified (MoF, MNE)
Climate Change, State Footprint, and Capital Market Development
Join network for greening the financial system (GFS) especially the workstreams on supervision, scenario design and analysis and monetary policy. Strengthen coordination between financial regulators and ministries and develop an interagency working group on climate finance and climate risk analysis, also to improve and harmonize data (including energy, emissions, and environmental data) for assessing transition and physical risks
Develop a strategy to reduce the state footprint in the financial sector by explicitly focusing on additionality, private capital mobilization, and market creation. In particular, reduce government support programs involving financial instruments, and create a unified system for their more effective design, monitoring, and evaluation
Design a predictable and consistent benchmark issuance program by selecting standard benchmark tenors, supported by liability management operations

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 16, 2024

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

CONTENTS

RELATIONS WITH THE FUND

(As of December 31, 2023)

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	1,470.31	101.13

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

Overdue Obligations and Projected Payments to Fund[1/] (SDR million; based on existing use of resources and present holdings of SDRs):

	2024	2025	2026	2027
Principal				
Charges/Interest	0.02	0.02	0.02	0.02
Total	0.02	0.02	0.02	0.02

1/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): 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 multiple currency practices and 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 December 14, 2022 (see IMF Country Report No. 22/367).

FSAP Participation and ROSCS:

Kazakhstan first participated in the Financial Sector Assessment Program (FSAP) in 2000. FSAP updates were conducted in 2004, 2008, 2014, and 2023. A fiscal transparency ROSC report was published in 2003, and a report on the update of the data ROSC was published in 2008. The 2023 FSAP reflects the main findings of the most recent AML/CFT assessment.

AML/CFT Assessment:

Kazakhstan's AML/CFT framework has been assessed against the AML/CFT standard, the Financial Action Task Force (FATF) 40+9 Recommendations. The evaluation was conducted by the Eurasian Group on money laundering and financing of terrorism (EAG), the FATF-style regional body of which Kazakhstan is a member. The final mutual evaluation report, adopted in 2011, indicated that the main sources of criminal proceeds in Kazakhstan were crimes related to fraud and abuse of public office. The evaluators found that Kazakhstan had a relatively comprehensive AML/CFT framework, but deficiencies remained, notably with respect to customer due diligence and reporting of suspicious transactions. Kazakhstan is tentatively scheduled to undergo its next AML/CFT assessment by the EAG in 2022.

Technical Assistance and Training:

Kazakhstan has received IMF TA and training in all key economic policy areas during 1993–2023. 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 officially opened in 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.
16. September 2023: FXI modelling.
17. November 2023: Conglomerate 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.
8. October 2022 Technical Assistance Report-Government Finance Statistics.
9. February 2023: Fiscal risks.
10. February 2023: Fiscal Transparency Evaluation.
11. June 2023: Fiscal Risks.
12. June 2023: Tax policy diagnosis.
13. July 2023: Compliance Risk Management.
14. September 2023: Diagnosis of the extractive sector.
15. October 2023: Fiscal Transparency Evaluation Follow-up

Institute for Capacity Development

1. October–November 2021: Forecasting Performance of Quarterly Projection Model of the NBK.
2. November–December 2023. Quarterly Projection Model of the NBK.

Statistics

16. 2017–18: National accounts statistics.
17. April 2018: Government finance statistics.
18. September 2019: Government finance statistics.
19. January 2021: Government finance statistics.
20. August–September 2021: National accounts statistics.
21. November 2021: Price statistics.
22. November 2021: Government finance statistics and public sector debt statistics.
23. July 2022: National accounts statistics.
24. July 2022: Price statistics.
25. October 2022: National accounts (GDP).
26. April 2023: National accounts (GDP).

27. November 2023: Government Financial Statistics.

28. November 2023: National accounts (GDP).

29. December 2023: Price 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 December 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance, but it has important shortcomings including regarding national account (especially, GDP) and public sector statistics which are not in line with international guidelines as described in the IMF Government Finance Statistics Manual 2014. Additional work is needed to classify quasi-government entities as market or nonmarket units under government's control and bridge relevant source data with GFS classifications. Progress is also needed to improve balance of payments data.
National accounts: Considerable progress has been made in improving the statistical infrastructure and making the coverage of the business register more comprehensive. Annual estimates of the oil and gas sector are compiled and disseminated following international standards, but only in Russian. The BNS compiles quarterly GDP, but on a cumulative—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. Progress continues to be made on both issues. However, publication of discrete quarterly GDP estimates has been delayed due to issues with source data quality, and is scheduled for release in the second quarter of 2024. Furthermore, the BNS compiles annual, nominal supply and use tables (SUT), though annual nominal GDP estimates are not revised in line with the SUT results, resulting in two different nominal GDP values being published on the BNS website. Staff's analysis is based on GDP computed from the production side. CCAMTAC continues to provide TA to resolve outstanding issues in these areas. Weaknesses in the presentation of national accounts data constrain staff's analysis (e.g., related to the drivers of GDP growth and analysis requiring quarterly data).
Price statistics: Kazakhstan compiles consumer, producer, and import/export prices indices. The BNS is progressing toward the introduction of scanner data and web-scraped data for selected products and outlets in the official CPI.
Government finance statistics (GFS): 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 *Government Finance Statistics Manual 2014 (GFSM 2014)*. The authorities have expanded coverage of consolidated general government data reported for the IMF Government Finance Statistics annual database to include both flows and balance sheet positions of the National Fund of the Republic of Kazakhstan, State Social Insurance Fund, the Compulsory Health Insurance Fund, and the Victim Compensation Fund; the Education Infrastructure Support Fund for FY2022 will be added starting 2024. The annual GFS also include the balance sheet positions of the Republican Government. The consolidated balance sheet for local governments is compiled on an annual basis for internal use only. Additional work is required to improve the sector classification of quasi-

government entities. Statistics on the broader public sector (including public enterprises) are not available. Classification of transactions does not fully comply with the *GFSM 2014*. The policy for revisions to fiscal statistics needs to be established, including the disclosure of explanations for each major revisions and bridge table between old and new time series. An example of revisions is the MoF's decision to exclude the Problem Loan Fund from previously reported fiscal statistics for 2020 because the Fund is not included in the definition of the consolidated budget in line with the Budget Code – even though it is part of general government according to the *GFSM 2014*. Lack of presentation of fiscal data in line with international standards complicates the policy dialogue with the authorities, cross-country comparisons, and hinders the assessment of the fiscal stance.	
Monetary statistics: The National Bank of Kazakhstan (NBK) reports the Standardized Report Forms (SRFs) 1SR for the central bank, 2SR for other depository corporations, and 4SR for other financial corporations on a monthly basis for publication in the IMF's *International Financial Statistics (IFS)* with a lag of about one month. Following IMF TA, the NBK developed a framework for compiling SRF 4SR for other financial corporations (OFCs) and started publishing quarterly data from March 2015. While good progress has been made on data compilation and dissemination, more efforts are needed to address remaining inconsistencies in the reporting of inter-bank positions, which are due to the lack of information on the counterpart sector for certain transactions. Kazakhstan reports data on several indicators of the Financial Access Survey (FAS) including mobile and internet banking, microfinance institutions (MFIs), 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.	
Financial sector surveillance: The country reports 37 financial soundness indicators (FSIs) based on the list of FSIs recommended in the 2019 *Financial Soundness Indicators Compilation Guide (FSI Guide)* for posting on the IMF's FSI website on a quarterly basis. This list of reported FSIs comprises—thirteen core FSIs, ten additional FSIs for deposit takers, one core FSI for real estate markets, and thirteen additional FSIs for other sectors (two FSIs for OFCs, five FSIs for nonfinancial corporations, three FSIs for households, and three FSIs for real estate markets). The last FSI data available on the FSI website are as of December 2022.	
External sector statistics: 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). 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 IMF team uses NBK data as published through Haver. The authorities are cooperating with relevant agencies in the ECU partner countries to resolve these problems.	
II. Data Standards and Quality	
Kazakhstan has subscribed to the Special Data Dissemination Standard (SDDS) since March 2003.	Data ROSC published in 2008.

Kazakhstan: Table of Common Indicators Required for Surveillance

(As of December 08, 2023)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	10/2023	11/09/2023	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct/2023	9/11/2023	M	M	M
Reserve/Base Money	Oct/2023	11/09/2023	M	M	M
Broad Money	Oct/2023	11/27/2023	M	M	M
Central Bank Balance Sheet	Oct/2023	11/27/2023	M	M	M
Consolidated Balance Sheet of the Banking System	Oct/2023	11/27/2023	M	M	M
Interest Rates[2]	Oct/2023	11/09/2023	M	M	M
Consumer Price Index	Nov/2023	12/1/2023	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	Oct, 2023	11/28/2023	M/Q	M/Q	M/Q
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	Oct 2023	11/28/2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Oct 2023	11/1/2023	M	M	M
External Current Account Balance	Q2/2023	5/10/2023	Q	Q	Q
Exports and Imports of Goods and Services	Q2/2023	5/10/2023	Q	Q	Q
GDP/GNP	Q3/2023	11/15/2023	Q	Q	Q
Gross External Debt	Q2/2023	10/10/2023	Q	Q	Q
International Investment Position[6]	Q2/2023	10/10/2023	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).

Statement by Mr. Peter and Ms. Zhunusbekova on Republic of Kazakhstan
January 31, 2024

On behalf of our Kazakh authorities, we thank staff for the constructive discussions during the Article IV and FSAP missions, the comprehensive reports, as well as the insightful Selected Issues paper. The Kazakh authorities broadly share staff's assessment of the current economic challenges and take note of the policy recommendations, which are in line with the authorities' policy agenda.

Economic developments and outlook

Kazakhstan's economy demonstrated resilience in the face of recent shocks. Economic growth reached 5.1 percent in 2023, according to the authorities. Growth, supported by investment, was observed across all sectors of the economy, including construction, trade, telecommunications, transportation, mining, and manufacturing, except for the agricultural sector. The labor market remained tight, with the unemployment rate at 4.7 percent in the third quarter of 2023.

Inflationary pressures receded in 2023. Annual inflation has decreased from 21.3 percent in February 2023 to 9.8 percent in December 2023, reflecting the monetary policy implemented by the National Bank of Kazakhstan (NBK), the weakening of external inflationary pressures, and government measures. However, while core and seasonally adjusted inflation indicators have stabilized in recent months, they remain above the inflation target of 5 percent.

The country's international reserves increased by 9.5 percent to USD 95.9 billion in 2023. They are composed of gold and foreign exchange assets of the National Bank (USD 35.9 billion) and the National Fund (USD 60 billion).

The authorities are more optimistic than staff about economic growth in the short and medium term. For 2024, for instance, their forecast for GDP growth is 5.3 percent. The authorities consider this growth rate as feasible, thanks to positive dynamics in all key sectors of the economy, especially in the non-raw materials sector. The implementation of the government's multi-year Industrialization Map, a nationwide pool of around 1,000 investment projects worth 32 trillion tenge (USD 71 billion), will continue in 2024 with a focus on the implementation of 326 projects worth 3.8 trillion tenge (USD 8.4 billion). The accelerated development of the SME sector will also make a significant contribution to economic growth. In 2024, the government plans to attract no less than USD 25 billion in foreign direct investment. The six-month delay in the expansion of the Tengiz oil field expansion project is not expected to cause significant losses to the economy in 2024.

Monetary policy

Over the past two years, NBK has responded in a timely manner to rising inflation. Given the gradual decline in inflation in 2023 amid weakening external inflationary pressures, the Monetary Policy Committee of the NBK decided in November 2023 to reduce the policy rate to 15.75 percent and to 15.25 percent on January 22, 2024.

The authorities agree with staff that achieving the 5 percent inflation target requires maintaining adequately tight monetary conditions. However, they also emphasize that further decisions on the policy rate will continue to be data-dependent. The next scheduled decision of the Monetary Policy Committee will be announced on February 23, 2024.

Fiscal policy

A new budget code was approved in the first reading by parliament on December 27, 2023. It enhances the accountability and transparency of public spending by requiring the publication of budget data and introducing fiscal management tools, including budgetary rules with the adoption of "block-budgeting" and an emphasis on achieving results. The code also introduces restrictions on the allocation of targeted transfers, thereby contributing to a countercyclical fiscal policy. In particular, targeted transfers from the National Fund will only be used for emergency projects or national infrastructure initiatives. Furthermore, the code introduces a provision for transferring additional tax revenues and expenditures to the local level, along with the establishment of minimum basic standards to ensure equal access to essential goods and services.

Structural reforms

The Kazakh authorities are committed to continuing the implementation of structural reforms, with particular emphasis on further improving the business and investment climate, supporting SMEs, reducing the state's role in the economy, increasing diversification, and strengthening human capital. Specifically, the authorities are working to establish high value-added clusters. The government has also drafted a new tax code to reset the relationship between the state and business, aiming to strike an appropriate balance between creating favorable conditions for investors and maintaining the necessary level of budget revenues. The new budget code will play an important role in this effort, as will the new laws on public procurement and public-private partnerships, which will ensure transparency in public procurement and create a basis for economic development.

Financial sector

Kazakhstan's financial system is bank-dominated. It is supervised by the Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market (Agency). The 2023 regular asset quality review of 11 leading banks, whose combined assets account for

84 percent of the banking system, confirmed that the level of capital adequacy as of January 1, 2023, significantly exceeded the regulatory minimum.

The temporary easing of prudential measures for SME and syndicated loan exposures, initially introduced to support corporate lending during the Covid-19 pandemic, expired at the end of 2023. From January 2024, the risk weights for SME and syndicated loans have been aligned with Basel requirements.

The Kazakh authorities welcome the FSAP's assessment of the implementation of the Basel Core Principles for Effective Banking Supervision (BCP) in Kazakhstan and broadly agree with its conclusions. Significant improvements have been made in strengthening the supervisory mandate through the introduction of risk-based supervision. Some of the recommendations were already in the implementation phase as part of the realization of the Concept for the Development of the Financial Sector of Kazakhstan, which was approved by the President in September 2022. Since then, the Agency has been working to align consolidated supervision with the Basel Standards. By December 2023, the Agency has developed regulatory legal acts on key prudential standards as well as risk management and corporate governance systems at the consolidated level, which will become effective in 2024.

The work on changes to the legislation for the resolution of insolvent banks has started in 2023. The Agency has requested IMF technical assistance to develop legislative amendments to improve the efficiency of the resolution mechanism for insolvent banks, to define the roles and responsibilities of the different stakeholders, to specify the forms and mechanisms for the use of public funds, and to tighten underlying conditions. Moreover, the authorities have requested technical assistance to develop playbooks to further operationalize the crisis management framework.

Digital tenge

The Digital Tenge (DT) project started in 2021, when the NBK began to explore the possibility of a central bank digital currency (CBDC). At the end of 2022, it was decided to implement the DT in three phases until the end of 2025.

On November 15, 2023, the first stage was officially started. Together with Almaty City Akimat and Kazpost JSC, a pilot project of "digital vouchers" for free meals in schools was launched. In addition, together with Visa, Mastercard and four commercial banks, the world's first CBDC bank cards linked to DT accounts were introduced. Such cards can provide the user with the ability to spend and withdraw cash, and to conduct transactions in DT anywhere in the world.

The NBK will move the DT project forward along three main verticals: business processes, regulation, and technology.