March 2000

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Republic of Kazakhstan: Selected Issues and Statistical Appendix

This Selected Issues and Statistical Appendix report on Republic of Kazakhstan was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Republic of Kazakhstan or the Executive Board of the IMF.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

Selected Issues and Statistical Appendix

Prepared by a staff team consisting of Julian Berengaut (head), Dominique Desruelle, Richard Stern, Sepideh Khazai (all EU2), Istvan Szekely (FAD), Michael Andrews (MAE), and Patrick Njoroge (PDR)

Approved by European II Department

June 29, 1999

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Basic Data

Social and demographic indicators (1998)

Area (km^2)	2,717,300
Population (thousands)	15,672
Life expectancy at birth (1996–98)	67
Infant mortality rate (per 1,000 births) (1998)	14.2
Hospital beds (per 10,000 inhabitants) (1998)	99.8

Economic Indicators

	1994	1995	1996	1997	1998
		(In billions of Tenge)			
Nominal GDP	424	1,014	1,416	1,672	1,748
		(Percentage changes)			
Real GDP	-12.6	-8.2	0.5	1.7	-2.5
End-year inflation	1,160	60.4	28.6	11.3	1.9
		(In millions of U.S. dollars)			
Trade balance	-920	-222	-326	-275	-801
External current account balance	-905	-518	-750	-803	-1,248
External current account balance (in percent of GDP)	-8.6	-3.1	-3.6	-3.6	-5.7
Gross official reserves (in months of imports) 1/	3.2	3.2	3.1	3.1	3.1
		(In percent of GDP)			
Government budget					
Revenue 2/	18.5	17.2	13.8	13.4	13.9
Expenditure 3/	25.9	19.9	18.6	20.3	21.9
Balance 2/	-7.5	-2.7	-4.7	-7.0	-8.0
Of which: Financing from the banking system	3.4	1.0	-0.3	0.9	0.7
		(Percentage changes)			
Reserve money	...	91.8	17.6	42.2	-23.8
Broad money	...	106.1	13.8	32.3	-15.4
Velocity of broad money (actual level) 4/	13.0	10.6	12.5	10.6	12.1

1/ Goods and nonfactor services.
2/ Excluding privatization receipts.
3/ Includes net surplus of extrabudgetary funds and quasi-fiscal operations for 1994–97.
4/ Annualized quarterly GDP/end-period broad money (including foreign currency deposits).

I. Introduction

1. This report is made of three parts. The first, which consists of Section II, provides information on recent economic developments in Kazakhstan. The second, which encompasses Sections III to V, considers three issues of particular interest at this time in Kazakhstan, namely intergovernmental fiscal relations, the state of the financial sector, and the magnitude of the external shocks that hit Kazakhstan in 1998. The third is a statistical appendix.

II. Recent Economic Developments[1]

A. Introduction

2. Following a sharp fall in output during the early transition period, the Kazakh economy started to recover in mid-1996. This positive trend was confirmed in 1997. At the start of 1998, expectations were that output growth would not merely continue but even accelerate. In the event, the economic situation in 1998 turned out radically different from expectations, as Kazakhstan was hit by a series of large external shocks. This chapter provides information on the magnitude of the shocks felt by Kazakhstan, describes the policy approach taken by the Kazakh authorities in response to these shocks, and summarizes developments in the real, monetary, fiscal, and external sectors in 1998 and the first quarter of 1999. It also contains a brief account of recent progress on structural reforms.

B. Magnitude of External Shocks

3. Kazakhstan was affected by four major shocks in 1998: a fall in the prices of oil and other primary commodities, a sharp real depreciation of the Russian ruble, turmoil in emerging markets, and a severe drought.

4. During 1998, the price of oil on international markets fell by nearly 40 percent while prices of nonferrous metals declined by between 20 and 40 percent. Given that these products represent nearly 60 percent of Kazakhstan's exports, its terms of trade fell substantially. As shown below, between the fourth quarter of 1997 and the fourth quarter of 1998, the decline in the terms of trade is estimated to amount to 14 percent.[2]

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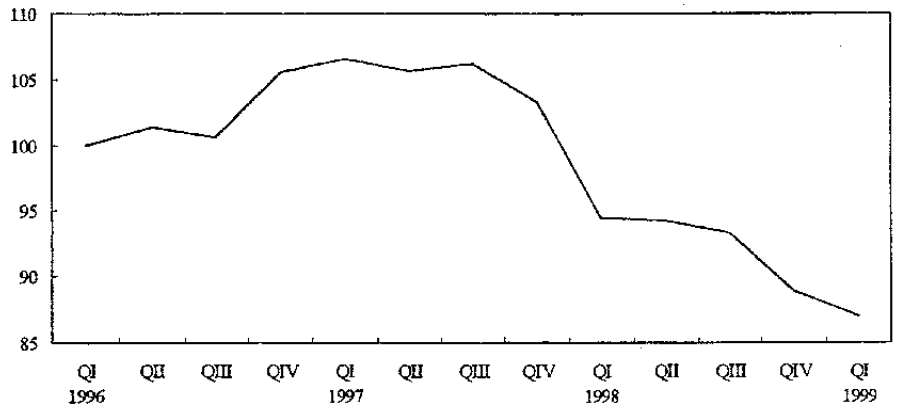
[1] Written by Dominique Desruelle

[2] See Section V for details on the computation of terms-of-trade and real effective exchange rate series.

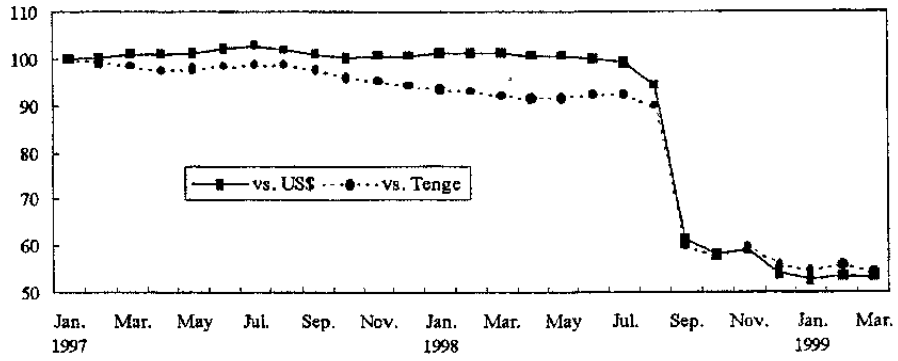
Figure 1. Kazakhstan: Terms of Trade, 1996-99
(1996 QI = 100)



Sources: Kazakh authorities, and Fund staff estimates.

5. The Russian ruble depreciated sharply in August 1998 and continued to slide against the U.S. dollar in subsequent months. Consequently, even though inflation picked up in Russia, the Russian currency has experienced a persistent real depreciation vis-à-vis the U.S. dollar since the summer of 1998. In turn, compared to the pre-August 1998 level, the ruble's real depreciation vis-à-vis the Kazakh tenge remained between 40 and 50 percent until the tenge's crawling peg with the U.S. dollar was abandoned in early April 1999.

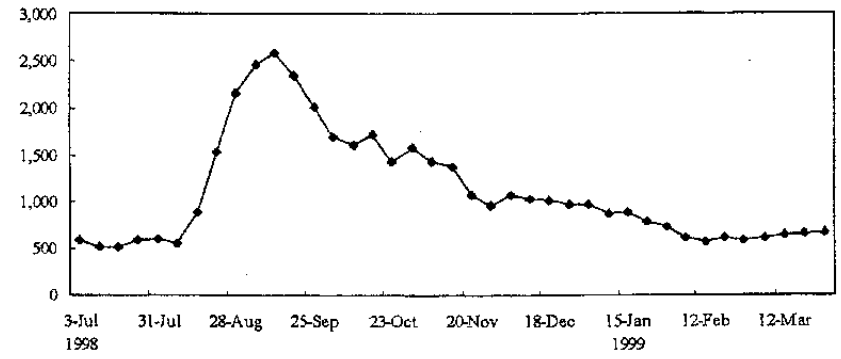
Figure 2. Kazakhstan: Real Exchange Rate of the Russian Ruble, 1997-99
(January 1997 = 100)



Sources: *International Financial Statistics*; and Fund staff estimates

6. The crises in Russia and Asian countries led financial market participants to re-evaluate their emerging market portfolios. As a result, the premium on Eurobonds issued by Kazakhstan jumped in the middle of 1998 and Kazakh borrowers found themselves effectively cut-off from international financial markets. In particular, Kazakh banks' access to credit lines from foreign banks was curtailed.

Figure 3. Kazakhstan: 2002 Eurobond Spread, July 1998 - March 1999
(In basis points)



Source: Bloomberg

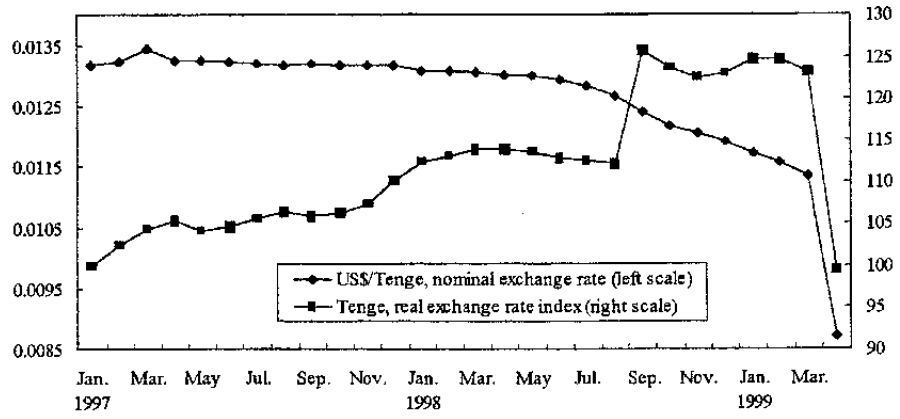
7. Lastly, Kazakhstan, a major grain producer in the CIS, suffered from a severe drought during the summer of 1998. These weather conditions largely contributed to a fall in average grain yield of about one-third between 1997 and 1998 and a decline in grain harvest of more than 40 percent.

C. Policy Responses

8. In the months following these series of shocks, the Kazakh authorities responded to the changed economic environment by a gradual adjustment of monetary, fiscal, and exchange rate policies. At the same time, they decided to maintain the existing crawling peg with the U.S. dollar. This reaction was primarily dictated by prevailing uncertainties as to the magnitude and duration of the shocks. It also reflected concerns that, at the time when economic agents were vividly aware of economic events in Russia, a dramatic shift in macroeconomic policies might generate panic among the public and trigger a full-scale exchange and financial crisis.

9. The monthly rate of nominal depreciation of the Tenge vis-à-vis the U.S. dollar, which averaged ¼ percent during the months of January to May 1998, increased between June and August 1998 and then fluctuated between 1 and 2 percent from September 1998 till March 1999.

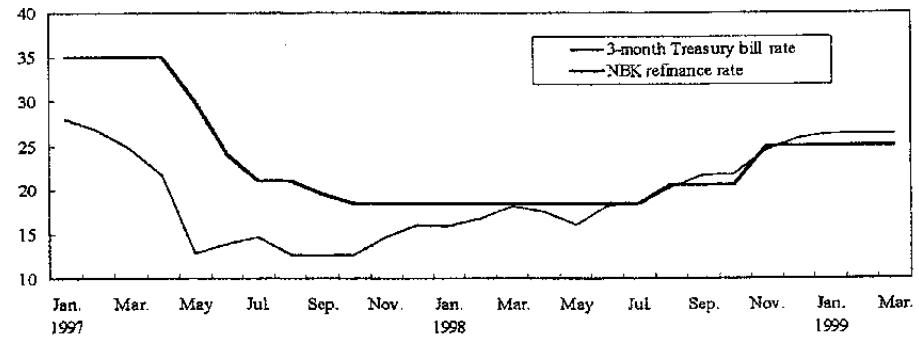
Figure 4. Kazakhstan: Nominal and Real Effective Exchange Rates, 1997-99



Sources: INS notification system; and staff estimates

10. To support the crawling peg with the U.S. dollar, the National Bank of Kazakhstan increased interest rates. The NBK refinance rate was increased twice in 1998, first in August from 18½ to 20½ percent and then in November to 25 percent. At the same time, market-determined interest rates on treasury bills and NBK notes steadily rose during 1998. By the end of the year, they stood at around 26 percent.

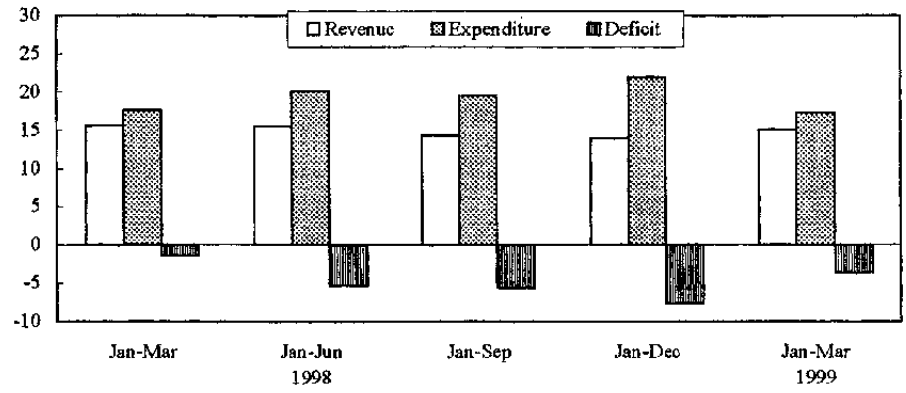
Figure 5. Kazakhstan: Interest Rates, 1997-99
(In percent)



Source: Kazakh authorities

11. Fiscal policy was tightened in the middle of 1998 in order to adjust to the loss of access to international financial markets and to limit the need for domestic bank financing. This stance was thus designed to provide support to monetary and exchange rate policies. However, toward the end of the year, in the period immediately preceding the presidential elections, public expenditure surged. As a result, the general government deficit for 1998 reached nearly 8 percent of GDP. In the first quarter of 1999, the cash fiscal stance was very tight, as actual expenditure were made to match poor revenue flows and limited financing from privatization and external sources.

Figure 6. Kazakhstan: Operations of the General Government, 1998-99
(In percent of GDP)



Sources: Kazakh authorities; and staff estimates

12. As time went by, it became apparent that the policy strategy adopted in mid-1998 to deal with the large external shocks was not yielding the desired results. Consequently, in early April 1999, the government of Kazakhstan and the National Bank of Kazakhstan jointly announced the adoption of a freely floating exchange rate policy instead of the previous crawl. In accompaniment to this policy switch, in the first days of June, a second revised government budget was presented to parliament, which forecast a general government deficit of T126 billion (treating privatization revenue as a financing item), equivalent to 7 percent of forecast GDP in 1999.

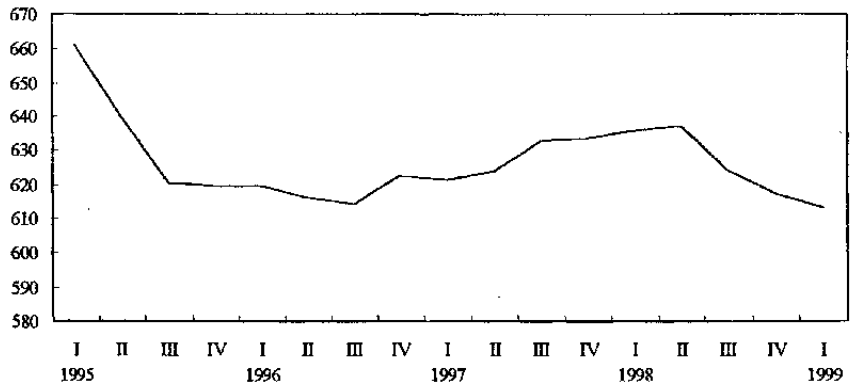
D. Macroeconomic Outcome

Output and prices

13. Levels of production and prices were severely affected by the impact of the fall in terms of trade on domestic income, the effect of the real appreciation of the tenge on competitiveness, the rise in interest rates and the reduced access to foreign financing, as well as by the direct consequences of the drought. GDP growth, which has resumed in late 1996 following the sharp fall of output experienced in the early transition period came to an abrupt end in the third quarter of 1998. The fall in output continued in the fourth quarter of 1998 and the first quarter of 1999.

14. The sectors that fared the worst in 1998 were agriculture and industry, which experienced output falls of 19 and 5½ percent, respectively. Conversely, output of the construction sector, which was boosted by work on the new capital city, increased by 11 percent.

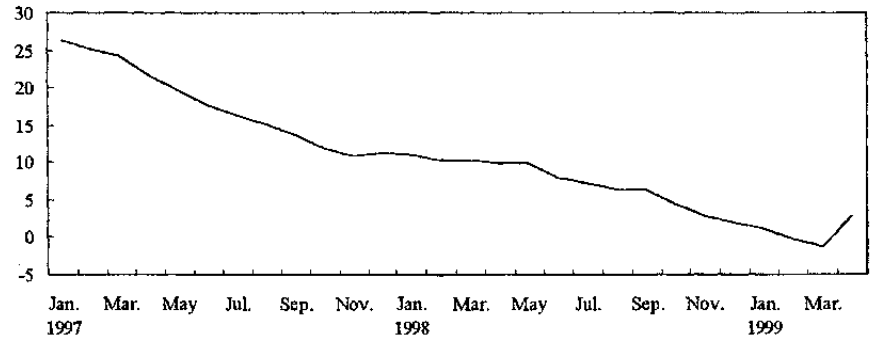
Figure 7. Kazakhstan: Real GDP, 1995-99
(Four quarter moving average at constant 1994 QIV prices; in billions of Tenge)



Sources: Kazakh authorities; and staff estimates

15. Inflation has been steadily falling for a number of years. The decline of inflation accelerated in September 1998 on account of sharply lower import prices. The influence of the real appreciation of the currency on domestic prices continued until the exchange regime switch in early April 1999. In March 1999, the consumer and producer price indices respectively stood 1 and 8 percent below their March 1998 levels. Inflation rebounded immediately following the depreciation of the tenge but price pressures appeared to abate by the end of April 1999.

Figure 8. Kazakhstan: Consumer Price Inflation, 1997-99
(Percent change over previous twelve months)



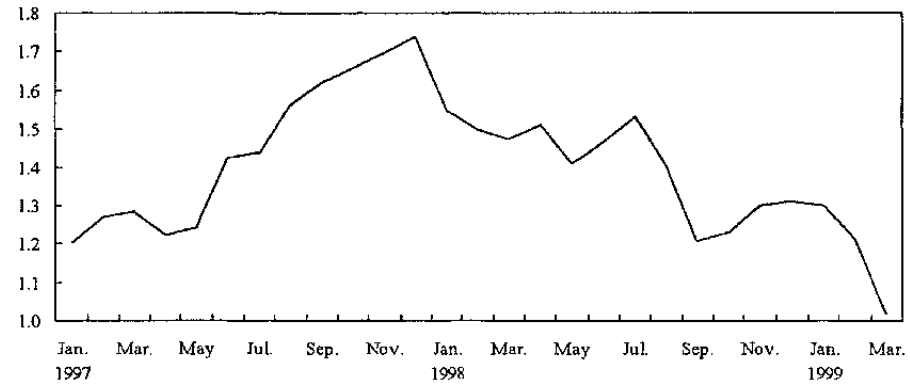
Sources: Kazakh authorities

Monetary Developments

16. In 1998 and the first quarter of 1999, domestic money markets were repeatedly affected by market participants' concerns about the future direction of exchange rate policy. Turmoil in Asian financial markets, the August 1998 crisis in Russia, and ultimately domestic political factors led to repeated bouts of pressure in Kazakhstan's foreign exchange market.

17. Initially, the NBK responded to these pressures by intervening in the foreign exchange market. In the second half of 1998, as described above, it complemented this approach with a progressive tightening of monetary policy. In the event, it proved impossible to quench all foreign market pressures. The widespread rumors at end 1998 that the currency would be devalued immediately following the presidential elections, scheduled for early January 1999, may have played a significant part in this outcome. Consequently, the NBK's intervention in the foreign exchange market continued at a significant pace through the end of March 1999, resulting in a significant loss of international reserves.

Figure 9. Kazakhstan: Net International Reserves of the NBK, 1997-99
(In billions of U.S. dollars)



Sources: Kazakh authorities

18. Pressures in the foreign exchange market were one manifestation of an ongoing process of currency substitution and, more generally, of demonetization. In parallel with the increase in demand for foreign currency, demand for domestic currency and banking assets fell. Reserve money fell by 11 percent between end-June and end-December 1998 and by another 20 percent between end-December 1998 and end-March 1999. Broad money declined by 3 percent between end-June and end-December 1998 and by another 14 percent between end-December 1998 and end-March 1999. Concomitantly, money velocity, which had been falling since the second quarter of 1997 on a seasonally adjusted basis, started to rise in the third quarter of 1998. It stood at 11.3 in the first quarter of 1999 compared to 10 in the first quarter of 1998 (Figure 10).

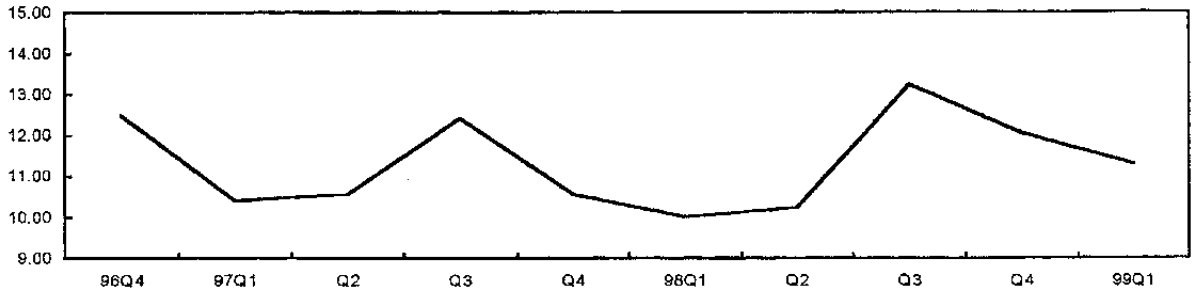
Fiscal Developments

19. The original 1998 budget of the general government envisaged revenue of nearly 14 percent of GDP, expenditure of close to 21 percent of GDP, and a deficit of 7 percent of GDP.[3] Compared to 1997, most of the increase in the deficit was on account of the cost of the pension reform. About half of the deficit was expected to be financed from foreign borrowing, a quarter from privatization revenue, and the remainder from domestic borrowing. Revenue targets were based on the implementation of some tax rate increases and better tax administration. Expenditure savings were expected in the area of public administration, provision of health and education services, and subsidies to enterprises.

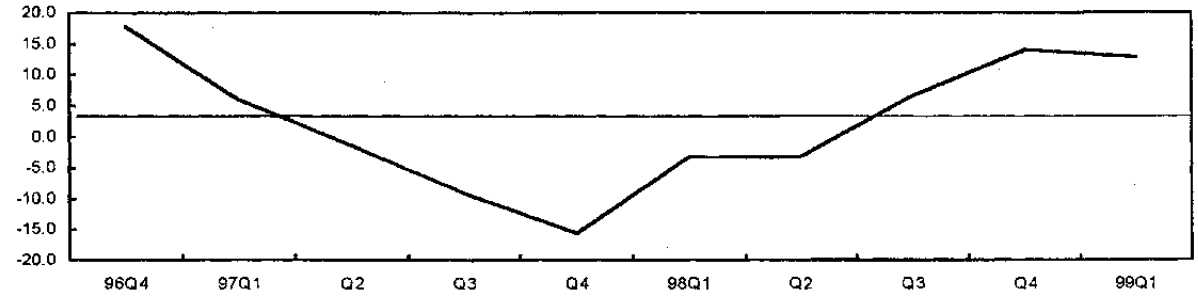
[3] These figures exclude activities of extra-budgetary funds. In addition, throughout this section, revenue figures do not include privatization receipts, which are treated as a financing item.

Figure 10. Kazakhstan: Monetary Indicators, 1996-99

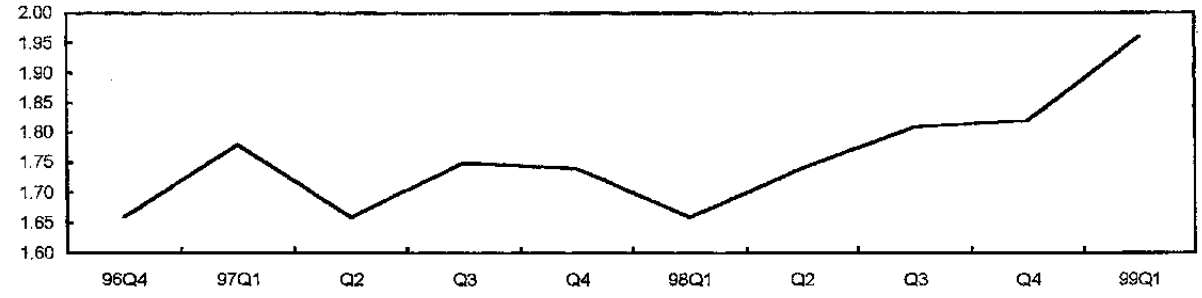
Broad Money Velocity



Broad Money Velocity
(Percentage change from year earlier)



Money Multiplier



Sources: Kazakh authorities; and staff estimates.

20. In the summer of 1998, in light of external developments, it became apparent that the budget could not be implemented as initially envisaged. First, following a downward revision to the GDP forecast for the year as a whole, revenue projections had to be scaled down. Second, the impact of the crisis in several emerging countries made it necessary to postpone any borrowing on international financial markets. Third, domestic demand for government paper was shrinking, as expectations of a currency devaluation grew.

21. Faced with these developments, the Kazakh government found it necessary to aim for a lower deficit target, which was set at 6½ percent of GDP (excluding privatization receipts from revenue). Given the desire not to increase the tax burden in difficult economic circumstances, this entailed a significant reduction in expenditure. The prudent release of expenditure appropriations in the first half of 1998 was a basis of this fiscal adjustment in the third quarter of 1998.

22. In the event, the financing constraint turned out to be less tight than envisaged during the summer of 1998. Foreign financing from official creditors, particularly multilateral development banks, substituted for part of the financing that could not be obtained from private creditors. More importantly, in quantitative terms, a large privatization operation was completed in the fall of 1998, which boosted privatization receipts in 1998 to over 4 percent of GDP compared to an earlier forecast of 2½ percent of GDP. Thus, despite the fall in revenue, the government was able to finance a surge in expenditure in the last weeks of 1998, which resulted in an overall deficit of 7¾ percent of GDP.

23. Despite the relaxation of the financing constraint in late 1998 and the sharp increase in expenditure, arrears on government expenditure grew toward the end of the year, a reversal from the trend seen earlier in the year. They reached T 33 billion at end-December 1998 compared to T 28½ billion at end-June 1998 and T 34 billion at end-December 1997.

24. The 1999 government budget was initially adopted by parliament in December 1998. It was subsequently revised in late March. The government presented further revisions to parliament on June 1. The initial 1999 budget envisaged revenue of T 366 billion, expenditure of T 471 billion, and a deficit of T 105 billion.[4] Early in 1999 it became clear that the macroeconomic assumptions on which this budget was based were too optimistic and that the budget would have to be revised. The revised budget adopted by parliament in late March included changes to the personal income tax, the transportation tax, and the land tax, as well as a shift of expenditure from the republican to local budgets. It forecast revenue of T 364 billion, expenditure of T 490 billion, and a deficit of T 126 billion.

[4] These figures include the operations of the former extra-budgetary funds that were brought into the budget starting on January 1, 1999.

Table 1. Kazakhstan: Financial Operations of the General Government, 1998

	Original budget		Revised budget		Outcome 1/	
	(in billions of Tenge)	(in percent of GDP)	(in billions of Tenge)	(in percent of GDP)	(in billions of Tenge)	(in percent of GDP)
Revenue	263	13.7	244	13.9	243	13.9
Expenditure 2/	416	21.7	358	20.5	377	21.6
Deficit	154	8.0	114	6.6	134	7.7
Domestic financing	36	1.9	11	0.6	12	0.7
Foreign financing	73	3.8	51	2.9	47	2.7
Privatization revenue	45	2.4	53	3.0	75	4.3
Memorandum item:						
GDP	1,914		1,751		1,721	

Sources: Kazakh authorities and staff estimates

1/ On a cash basis.
2/ Includes statistical discrepancy.

25. Fiscal developments in the first four months of 1999 proved much less favorable than envisaged in the revised budget projections. Tax revenue during this period amounted to T 72½ billion, an amount equivalent to 22 percent of the revised annual tax revenue forecast. By comparison, tax revenue in the first four months of 1998 accounted for 35 percent of 1998 tax receipts. Financing was essentially limited to two large privatization operations. Consequently, expenditures were severely constrained, which resulted in a further accumulation of expenditure arrears, including arrears on pensions and wages. The second budget revision presented to parliament in early June was drawn on the basis of this outcome and of revised macroeconomic assumptions resulting from the devaluation of the tenge. Compared to the first revised budget, revenue and expenditure are forecast to be slightly lower while the deficit target is left unchanged at T 126 billion.

External developments

26. The current account deficit widened from 3.6 percent of GDP in 1997 to 5.7 percent of GDP in 1998 mainly owing to the sharp deterioration in Kazakhstan's terms of trade (see above). Toward the end of 1998, the substantial real appreciation of the tenge was also a contributing factor in enlarging the current account deficit.

27. Oil exports, which represent more than one-fourth of all exports of goods, remained approximately constant in dollar terms between 1997 and 1998, as the fall in the unit price was compensated by an increase in export volume. Conversely, non-oil exports fell by more

than 20 percent over the same period. Reductions in non-oil exports' unit value and volume accounted for this decline in approximately equal proportions.

28. Imports declined between 1997 and 1998 by 8 percent, due to a reduction in the average import price of around 3 percent and a decline in the volume of imports attributable to the slowdown of economic activity.

29. The current account deficit was entirely financed from foreign direct investment and medium and long-term loans. Owing to the large scale of privatization, foreign direct investment totaled US$1.1 billion in 1998, a figure only slightly below the level reached in 1997. Net disbursements of medium and long-term loans remained at the same level in 1998 as in 1997, as higher disbursements from multilateral institutions compensated lower disbursements from bilateral and private sources.

30. Taking into account migrants' capital transfers, outflows of short-term capital, and errors and omissions, the overall balance of payments was negative. As mentioned earlier, the NBK's net international reserves fell by US$420 million during 1998.

E. Structural Reforms

31. Structural reforms proceeded largely as planned in 1998 and early 1999. For the most part, the deterioration in the external environment did not affect the direction or pace of these reforms. One exception was privatization of very large enterprises (the "Blue Chip" program) where conditions in international financial markets adversely affected the state's ability to sell them.

Private Sector Development

Privatization

32. The objectives of the 1998 privatization program, with the exception of the "Blue Chip" component, were more than fulfilled as privatization operations yielded revenues of T 75 billion to the State budget, T 30 billion above the initial forecast.

33. The largest privatization in 1998 was the sale of a part of State holdings in the Caspian seashelf oil exploration consortium (OKIOC), which yielded $500 million. Revenue from privatization of oil sector assets was also significant in the first quarter of 1999, when the terms of a previously concluded contract were complied with leading to a payment of US$200 million by a major foreign oil company.

34. Privatization of small and medium-sized companies continued in 1998 and the first quarter of 1999, both through placement of shares in the stock exchange and cash auctions.

35. Preparations for the sale of blocks of shares in large enterprises included in the "Blue Chip" program continued in 1998 and early 1999. After contracts were signed with managers for flotation of shares in 4 "Blue Chip" companies in April 1998, tenders were launched for the management of the placement of shares in 4 other "Blue Chip" companies in late 1998. However, the actual flotation of shares in these companies was postponed owing to poor conditions in international financial markets. It is expected that such placements could start in late 1999 and be completed by end-2000. The precise timing of these operations will depend on market conditions.

36. In addition to the eight companies mentioned above, preparations are being made for the sales of 30 percent of shares in Kazakhtelekom to a strategic investor. This operation could be finalized by the end of 1999.

37. A decree issued on April 12, 1999 divided the enterprises owned by the State into local and republican entities. The ownership of enterprises classified as local has been transferred to local governments, which are now be responsible for their privatization

Land reform

38. Considerable progress has been made in the transformation of the agricultural sector since the start of the transition process, as indicated by the creation of more than 90,000 private farms out of 2,500 kolkhozs and sovkhozs. Nevertheless, the sector remains affected by significant problems. With the aim of developing further a market-based agricultural sector, a draft law on private ownership of land has been submitted to parliament. If adopted, its main effect would be to transform existing rights to cultivate land into full private ownership rights.

Deregulation

39. In March 1999, a number of activities formerly exclusively performed by state organizations were opened to the private sector. These include the provision of services in areas such as veterinary practice, industrial safety, standardization and certification of products and services, fire safety, and architecture and urban planning. It is expected that the deregulation of these activities will foster competition among private businesses for the provision of these services.

Bankruptcy

40. Amendments to the bankruptcy law were adopted in June 1998, which, inter alia, extended the application of the law to agricultural enterprises.

Fiscal System

Transparency

41. The 1999 Budget Law introduced important changes to the fiscal system, which contributed to increasing its transparency. The major extra-budgetary funds, including the social insurance fund, the compulsory medical insurance fund, the employment promotion fund, and the road fund, were eliminated. The various payroll contributions that funded these extra-budgetary funds were consolidated into one payroll tax accruing to the state budget. The "New Capital" fund, which had been created to help finance the construction of Astana, was abolished on January 1, 1999.

Fiscal federalism

42. A revised Budget System Law was adopted in early 1999, whose principal objective was to provide a systemic foundation for financial relations between the republican and local governments. In particular, this statute specifies the allocation of tax revenue and the distribution of expenditure responsibility among different government levels.[5]

Tax administration

43. Several initiatives were taken in 1998 and the first quarter of 1999 to strengthen tax administration. The Ministry of State Revenue was created in October 1998, which united under one structure the former Tax Committee, Tax Police and Customs Committee. Self-assessment for filing and payment of VAT was introduced. A computer-assisted monitoring program covering the largest 100 taxpayers was set up. Tax identification numbers and social identification codes used for individual contributions to pension funds were unified, which should permit cross checks of income tax payments and pension contributions for compliance purposes.

Budget implementation

44. The Civil Code was amended in 1998 to prevent budgetary organizations from entering into contracts without budget appropriations. Efforts are under way to extend the Treasury system to local governments, which should facilitate control over expenditure commitments.

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[5] See Section III for a detailed discussion of intergovernmental fiscal relations in Kazakhstan.

Social Safety Net

45. Major changes to the social safety net were introduced at the time of the adoption of the 1999 state budget.

46. A complex system of in-kind benefits, which, as of December 1998, concerned 47 categories of recipients and 202 types of discounts, was converted into a single cash benefit, the Special State Allowance. This allowance will be paid to 14 categories of persons, principally war veterans, disabled persons, mothers with many children, and large families, from the republican budget.

47. Responsibility for the provision of social assistance (so-called "material benefits"), birth and burial benefits, and unemployment assistance was transferred to local governments. Their level will be subject to the availability of financial resources at the local level. The unemployment benefit previously provided from the republican budget was eliminated. This decision was taken in part in response to the widespread fraud that was thought to affect the administration of this benefit. At the same time, employment offices were transformed into labor exchanges with a view to emphasize active labor market programs. Spending on placement services and public work programs will be at the charge of local governments.

48. Responsibility for payment of sick leave and maternity leave was transferred from the republican budget to employers. This decision was taken to eliminate the existing misuse of sick leave by enterprises.

49. Pensions under the former pay-as-you go system were capped at T 13, 400 per month. The minimum pension was raised to T 3,000 per month on December 1, 1998. An indexation rule for pensions has been adopted, which provides for quarterly adjustment of the share of pension payments equal to the minimum pension.

Pension Reform

50. The new pension system, based on individual pension accounts, was launched on January 1, 1998. As of April 1999, more than 3 million individuals, comprising most of the formal employment sector, contributed to accounts in fourteen pension funds, 13 of which were private.

51. The second semester of 1998 and the first months of 1999 saw a rapid development of private pension funds. The share of assets held by private pension funds grew from 14 percent at end-June 1998 to 27 percent at end-January 1999. In March 1999, more than 30 percent of new contributions went to private pension funds.

52. Improvements to the new pension system continue to be made. The pension law was amended in early 1999. These amendments clarified the ownership of pension assets, ensuring that individual accounts were the sole property of contributors and that they could not be sequestered in case of bankruptcy or dissolution of the fund. Regulatory agencies

started to take stronger actions. One pension fund and one asset management company were temporarily suspended. Licensing standards were strengthened. Rules for the public dissemination of information on the operations of pension funds were improved. Regulatory agency started to publish pension funds' monthly rates of return. Individual financial statements have been, or will soon be, issued to all contributors.

Public Sector

Scope

53. The scope of the budgetary sphere was revised in late 1998. Budgetary organizations have been re-defined as entities that are created by the government (as opposed to individual ministries, as was the case earlier) and that are fully funded from budgetary sources. All other organizations that had previously received budgetary funds have been transformed into state or private enterprises. These organizations will be able to provide budget-financed goods and services on the basis of contracts. They will also be able to sell their output to private consumers. As a result of the redefinition of the budgetary sphere, about 30, 000 employees of newly formed non-budgetary state-owned enterprises have been taken out of the state budget payroll.

Civil Service

54. An Agency for Civil Service Reforms was created in 1998 to spearhead reform of the civil service.

55. A civil service census was completed in September 1998. This information will prove useful in devising plans for rationalization of the civil service. As a first step, the number of civil servants was reduced by 16 percent at the start of 1999.

56. Current reform efforts are concentrated on devising proposals for amending the Law on Civil Service. The desired objectives of the legislative changes under consideration are the establishment of a clear separation between political and career appointments, the definition of merit-based rules for appointment to, and progression in, the civil service, and protection of career appointees from summary dismissal.

Provision of health services

57. The system for provision and payment of health care services was radically changed on January 1, 1999.

58. Medical services have been divided into two categories. The first category consists of a guaranteed package of medical services, which is available to the population free of charge. The second category is made of services rendered for a fee at the charge of the patient. In addition to these two types of medical services, a limited number of health programs are financed directly from the republican budget. They include special tuberculosis, hepatitis, and cancer programs, as well as vaccination campaigns.

59. Most health organizations have been, or are in the process of being, transformed into non-budgetary state enterprises. Only a limited number of specialized institutions will remain budgetary organizations. Health organizations that provide services included in the guaranteed package are reimbursed for expenses by local Centers for Payment of Medical Services, which in turn receive their funding from local governments. All expenditures on the guaranteed package of medical services are the responsibility of local budgets. Local budgets will specify a minimum level of spending on such services, based on population size and other factors.

60. It is expected that this reform will help put priority on provision of primary health care and outpatient services, leading to further reductions in the number of hospital beds and rationalization of health care providers.

Provision of education services

61. Important changes are also contemplated in the provision of education services.

62. An amended Law on Education was examined by parliament in the spring of 1999. Under this draft statute, primary and secondary education would remain the sole responsibility of the State, as specified in the constitution. Primary and secondary education are financed by local budgets. As is the case for spending on basic health services, local budgets specify a minimum level of spending on primary and secondary education, which is based on the number of pupils as well as other considerations. Schools are budgetary organizations. However, as an exception to the general practice, they are entitled to receive funds from other sources than the budget, like corporate sponsors and parents.

63. Institutions of higher education are expected to be transformed into non-budgetary state enterprises. It is envisaged that support to new students would depend upon their areas of study and their scholarly merit: some would receive grants, some would be entitled to loans, and others would have to cover the cost of tuition and room and board personally. Students already in the higher education system would continue to receive grants.

Banking Sector

64. Efforts to restructure the financial sector continued in 1998.[6]

65. The number of banks fell further during 1998 from 82 at the start of the year to 71 at the end. Three new licenses were issued to subsidiaries of foreign banks. Fourteen banks were closed due to removals of license, mergers, or other reasons.

66. Progress was made toward the implementation of strict prudential norms. At the end of 1998, thirteen banks were in conformity with the tougher prudential standards elaborated in 1996. Other banks have until the end of 2000 to come into full compliance with these standards. In the meantime, they must meet progressively tougher interim requirements. In parallel, the NBK put in place a strengthened program of banking supervision: in 1998, 41 comprehensive on-site and 8 limited scope compliance examinations were conducted.

Trade and exchange rate policies

67. The import tariff schedule was modified in July 1998. The average weighted tariff was lowered to slightly less than 9 percent and the number of tariffs in excess of 20 percent was cut by more than half.

68. Negotiations on accession to the WTO continued in 1998. A third session of the WTO's working group on Kazakhstan's entry and a second round of bilateral negotiations with current WTO members took place during the year.

69. In the latter part of 1998 and early 1999, following the tenge's sizeable real appreciation, protectionist pressures grew, which led to the imposition of several trade restrictions. On January 11, 1999, a six-month bilaterally agreed ban on the imports of certain food products from Russia came into force. In early March, 200 percent tariffs was imposed on certain imports for the Kyrgyz Republic and Uzbekistan, mostly food products, spirits, and tobacco.

70. A 50 percent surrender requirement on export proceeds was introduced on April 5, 1999, at the time of the floating of the exchange rate.

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[6] See Section IV for a detailed description of Kazakhstan's financial sector.

III. INTERGOVERNMENTAL FISCAL RELATIONS[7]

A. Introduction

71. One of the major achievements of structural reforms in the area of public finance in Kazakhstan was the adoption in the spring of 1999 of a new Budget System Law. This law defined a stable revenue sharing assignment for local governments, making public finances at the local level more transparent and less exposed to volatile political forces. It also specified the expenditure assignment for local governments. Both of these are important steps toward a well-functioning system of intergovernmental fiscal relations. The new law, however, did not bring about major changes concerning sub-national borrowing and intergovernmental fiscal transfers. In particular, it failed to establish transparent and stable mechanisms for horizontal and vertical equilization and it did not set rules for sub-national borrowing that would promote fiscal responsibility at the local government level.

72. The analytical part of the chapter focuses on those two aspects of intergovernmental fiscal relations where the new budget system law brought about major changes, namely, the expenditure assignment of local governments and the revenue sharing arrangement between central and local governments. It concentrates on analyzing regional disparities in the tax base assigned to local governments and in the amount of fiscal resources available to them, as well as the differences in spending patterns and the disparities in spending on certain local budget programs across oblasts in Kazakhstan. It covers the period 1996-1999. It thus complements a recently published World Bank Country Study (see World Bank, 1997) that covered the early transition period up to 1995.

73. The investigation of disparities among oblasts in the tax base for taxes assigned to, or shared by, local governments can help in drawing conclusions about the stability of the present arrangement and in pinpointing potential difficulties that may be encountered in the future. The analysis of regional differences in spending patterns and disparities among oblasts in the level of per capita spending on three major budget programs of local government—education, health and social security and welfare—can give some insights into the actual functioning of the budgetary system and the impact of revenue sharing mechanisms on the spending pattern of local governments.

74. The rest of the chapter is organized as follows. Section B gives a description of the institutional structure of government and the expenditure and revenue arrangements between central and local government. Section C concentrates on the expenditure assignment of local governments and presents an analysis of the expenditure pattern at the local government level and the disparities in per capita spending among oblasts. Section D deals with the revenue sharing arrangement between central and local governments and analyzes the extent of

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[7]Written by István P.Székely

disparities in per capita tax collection among oblasts. Section E turns to the issue of intergovernmental transfers and analyzes the nature and functioning of horizontal and vertical equilization. Section F discusses borrowing at the sub-national level. Finally, Section G summarizes the findings made in this chapter including an overall evaluation of the current system of intergovernmental fiscal relations. It also draws some conclusions concerning the likely direction of future reforms of intergovernmental fiscal relations in Kazakhstan and suggests the problems that such reforms will have to deal with.

B. Stylized Facts

Structure of government

75. Kazakhstan is a unitary state, with a highly centralized administrative structure. The first tier of administration is the Republican administration, with the government as the head of executive bodies. The government is responsible for preparing and presenting the republican (central government) budget to the Parliament, and for implementing the budget approved by Parliament.

76. There are two tiers of territorial administration, the *oblast* level (14 oblasts and 2 national cities)[8] and the *rayon* level (159 rural rayons and 84 towns of oblast importance). According to the constitution, local public administration is exercised by local representative and executive bodies (Article 85). The local elected representative bodies, the maslikhats, approve the local budget and the report on its execution.

77. Local executive bodies are parts of a unified system of executive bodies. They ensure the implementation of nationwide policies, taking into consideration the interest and development needs of their territory (Article 87). Each territorial administration tier reports to the next upper tier. A local administration is headed by an *akim*, who is the representative of the president and the government of the republic. Akims of the oblasts, major cities and the capital are appointed by the president; akims of the lower levels of administration are appointed by the senior akims; and akims can be released from office by the president at will (Article 87, paragraph 4).

78. The akim's office (local administration) prepares the local budget and is responsible for its execution. Drafts of decisions of maslikhats "envisioning a reduction of local budgetary revenues or an increase of local budgetary expenditures" may be submitted for consideration only with the prior approval of the akim (Article 88, paragraph 2). As it will be discussed below, the draft oblast budgets are in practice prepared by the Ministry of Finance, in co-operation with line ministries. Akims' offices get involved in the budgetary process only after the transfers between republican and local governments and the oblast-level spending floors on priority budget programs —education and health at present—have been established. The akims have the

[8] In what follows, these will be referred to as oblasts, making no distinctions between the oblasts and the two national cities, unless it is required by our analysis.

right to modify the draft budget, but these transfers and spending floors cannot be changed and the local budgets should be balanced (see also the section on subnational borrowing).

Characteristics of the oblasts

79. At present, there are 14 oblasts in Kazakhstan and two national cities, Almaty and Astana. On average, the population of an oblast (including the two national cities) is just below 1 million inhabitants and its territory is 170 thousand square kilometers, which corresponds to the size of Uruguay (Table 2). The largest oblast, South Kazakhstan, has over 2 million inhabitants, the smallest oblast, the city of Astana, the capital city, has 280 thousand inhabitants. The Northern oblasts have rapidly declining population.[9] Their combined population fell by 7.5 percent during the last three years. In some oblasts (Akmola and North Kazakhstan), the population decline exceeded 10 percent during that period. Conversely, the Southern oblasts experienced on average a population growth of 2.5 percent between 1996 and 1999.[10] On average, an oblast contains 10 rayons and 5 towns. The average size of population in a rayon is around 64 thousand people.

80. Per capita GDP was US$1,451 in Kazakhstan in 1997. In the richest oblast, in the city of Almaty, it reached US$4,654, that is a level which was close to the per capita income level in lead transition economies, such as Hungary or the Czech Republic, while in the poorest oblast, East Kazakhstan, it was US$488, a figure close to the income level in the poorest least developed countries and only slightly more than one tenth of the per capita income level in the city of Almaty.[11] As Table 2 indicates, Almaty is an outlier, with a per capita GDP which is more than 50 percent higher than that of the second richest oblast. If one removes Almaty and East Kazakhstan (the poorest oblast), the ratio of per capita GDP of the richest and the poorest oblasts in the remaining sample drops to 5.5.[12] Nonetheless, as indicated in

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[9] Akmola, East Kazakhstan, Karaganda, Kostanai, Pavlodar, and North Kazakhstan.

[10] Atyrau, Kzyl-Orda, South Kazakhstan, and the city of Almaty.

[11] These are nominal figures calculated at market exchange rates. They are not meant to indicate either the relative level of development, or standards of living in the countries and oblasts mentioned here. These numbers serve the sole purpose of indicating the extent of differences in per capita incomes across oblasts within Kazakhstan.

[12] In what follows, this approach will be used to deal with possible outliers. The tables on oblast level expenditure and tax revenue numbers will show the values of three indicators in this respect, the ratio of the highest to the lowest values (a) in the entire sample, called highest-to-lowest 1; (b) in the sample from which the highest and lowest values are removed, called highest-to-lowest 2, and finally (c) in the sample from which the second highest and second lowest values are also removed, called highest-to-lowest 3. Large differences among the values of these indicators will be a sign of outliers.

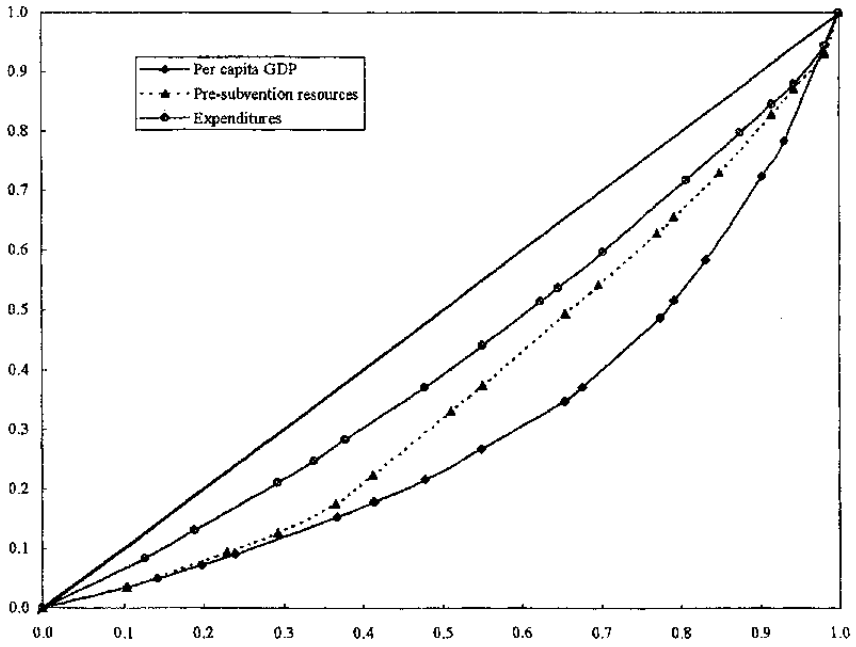
Table 2. Kazakhstan: Main Characteristics of Oblasts in Kazakhstan, 1996-99

Oblasts	Territory (thousand sq. km)	Population 1999	Population density	Share in total population	Change in population 1996-99, (1996=100)	Per capita GDP in USD 1997	Number of rayons	Number of towns	Average size of local government (thousand people)
Akmola	121.4	583.3	4.8	3.8	89.6	528	14	7	27.8
Aktyubinsk	300.6	718.9	2.4	4.6	98.0	782	12	7	37.8
Almaty oblast	223.9	1,614.8	7.2	10.4	98.2	1,112	16	10	62.1
Atyrau	118.6	458.7	3.9	3.0	101.8	2,925	7	1	57.3
East Kazakhstan	283.3	1,612.3	5.7	10.4	95.5	488	14	10	67.2
Zhambyl	144.3	999.6	6.9	6.4	99.0	839	10	4	71.4
West Kazakhstan	151.3	641.8	4.2	4.1	97.6	619	12	2	45.8
Karaganda	428.0	1,507.4	3.5	9.7	94.3	1,711	9	11	75.4
Kzyl-Orda	226.0	621.3	2.7	4.0	102.6	2,508	7	3	62.1
Kostani	196.0	1,083.4	5.5	7.0	91.3	2,852	16	5	51.6
Mangystau	165.6	350.0	2.1	2.3	105.6	1,569	4	3	50.0
Pavlodar	124.8	854.2	6.8	5.5	93.8	617	10	3	65.7
North Kazakhstan	123.2	1,082.4	8.8	7.0	89.5	1,050	16	8	45.1
South Kazakhstan	117.3	2,017.9	17.2	13.0	102.4	711	12	8	100.9
Almaty city	0.3	1,080.5	0.0	7.0	101.8	4,654	0.0	1	1,080.5
Astana city	0.3	280.5	0.0	1.8	100.6	2,431	0.0	1	280.5
Total	2,724.9	15,507.0	5.7	100.0	97.0	1,451	159	84	63.8

Sources: Kazakh authorities; and Fund staff estimates.

Figure 11,[13] the degree of inequality in per capita GDP across oblasts is very high.

Figure 11. Kazakhstan: Inequality in Income, Tax Base, and Expenditures Among Oblast, 1998



Sources: Kazakh authorities; and Fund staff estimates.

Expenditures of central and local governments

81. Consolidated general government expenditures, including expenditures by extrabudgetary funds prior to 1999, amounted to 26.5 percent of GDP in 1997 and

[13] The measurement of inequality in this chapter is done based on the so-called Lorenz curves for the indicators under investigation. In producing these figures, observations for the oblasts are first reordered in increasing order of the per capita indicator. Then the cumulative distributions of the revenue (or expenditure) concerned and that of population are calculated and are plotted as a scatter diagram. The main diagonal in the figure indicates the perfectly uniform distribution, that is, the case in which per capita spending (or revenue) is the same in each oblast. Deviation from this line is interpreted as inequality. The further away a curve is form this line, the higher the degree of inequality. Starting from the South-West corner of the figure, the n-th data point shows the cumulative (combined) share of the first n oblasts (with the lowest per capita spending or revenue in the category of spending or revenue concerned) in the total spending by oblasts (on the vertical axis) and the share of these oblasts in total population (on the horizontal axis). The value of the Gini coefficient is two time the size of the territory beneath the curve.

23.9 percent in 1998 (see Table3). In the revised budget for 1999, general government expenditures are projected at 26.5 percent of GDP. The share of combined local government expenditures in GDP was 9.1 percent in 1998. In the past five years, it has gradually increased from around 8 percent in the mid-nineties. The increase was driven by the gradually evolving expenditure assignment, in particular by the increasing responsibilities of local governments in the area of social security and welfare.

Revenues of central and local governments

Consolidated general government revenues, excluding official grants from abroad but including the revenues of extrabudgetary funds, equaled 19.2 percent of GDP in 1997 and 17.4 percent by 1998 (see Table 4). The 1999 revised budget is built on a total revenue projection of over 20 percent of GDP. In recent years, the revenue base of the general government continued to decline, continuing the trend observed since the break-up of the Soviet Union.[14] Revenues of local governments amounted to around 6.5 percent of GDP in recent years without transfers from the central government,. Given the expenditure assignment of local governments described below, the revenue sharing arrangement made it necessary to transfer over 2 percent of GDP from the central government budget to the local budgets in 1998. The revenue sharing assignment, which was ushered by the recently adopted Budget System Law, is estimated to have raised local government revenue before transfers to between 8.5 or 9 percent of GDP. Under this new arrangement, the revenue base for local governments appears to be broadly in line with their expenditure assignments. Given the very limited capacity to borrow of local governments, post-transfer revenues of local governments have been in line with their expenditure levels.

C. Expenditure Assignment

Description of the present arrangement

82. The expenditure assignment for central government set out in the new Budget System Law mostly follows the classical arrangement. Thus it defines foreign policy activities, defense, law enforcement at the central government level, legal justice administration, migration issues, state pension payments, fundamental and applied research, extraction of mineral resources, construction, maintenance and operation of the national road network and servicing of the state debt as the responsibility of the central government. It also defines in broad terms the responsibilities of the central government in areas where responsibilities are shared between central and local governments, such as education, health care, emergency relief, law enforcement, environmental protection and agriculture, and culture and sport.

[14] See Table 2 in World Bank, 1997, p. xii.

Table 3. Kazakhstan: Public Expenditure at the Different Levels of Government, 1996-99
(Percent of GDP)

	1997				1998				1999 Revised budget		
	Republican	Local	State	Extrabudg.	Republican	Local	State	Extrabudg.	Republican	Local	State
General public services	1.4	0.3	1.7	0.0	1.4	0.4	1.8	0.0	1.6	0.2	1.8
Defense	0.9	0.1	1.1	0.0	0.9	0.2	1.1	0.0	0.8	0.1	1.0
Law and order	1.3	0.4	1.7	0.0	1.3	0.4	1.8	0.0	1.4	0.4	1.8
Education	0.8	3.5	4.3	0.0	0.8	3.1	3.9	0.0	0.8	3.1	3.9
Health	0.4	1.7	2.1	0.5	0.4	1.0	1.5	0.5	0.5	2.6	3.1
Social security and welfare	0.5	1.1	1.6	6.6	0.5	2.6	3.1	2.2	8.3	1.3	9.6
Housing and utilities	0.0	0.3	0.3	0.0	0.0	0.2	0.2	0.0	0.0	0.2	0.2
Culture and sports	0.4	0.3	0.6	0.0	0.4	0.3	0.7	0.0	0.2	0.5	0.7
Energy	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture, forestry and fishing	0.5	0.1	0.6	0.0	0.3	0.1	0.3	0.0	0.5	0.0	0.5
Research and development	0.2	0.1	0.3	0.0	0.0	0.1	0.1	0.0	0.2	0.0	0.2
Transport and communication	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.6	0.7	0.4	1.1
Other economic affairs	1.2	0.5	1.7	0.0	0.9	0.5	1.4	0.0	0.8	0.6	1.3
Miscellaneous	2.6	0.0	2.7	0.0	4.1	0.0	4.1	0.0	1.2	0.0	1.2
Total	10.2	8.4	18.8	7.7	11.5	9.1	20.6	3.3	17.0	9.5	26.5

Sources Kazakh authorities; and Fund staff estimates.

Table 4. Kazakhstan: Revenues of Local and General Government, 1996-99
(Percentage of GDP)

	1997		1998		1999 Revised budget	
	Local budgets	Consolidated general government	Local budgets	Consolidated general government	Local budgets	Consolidated general government
Tax revenues, *of which*	5.9	17.9	5.6	16.1	9.1	18.5
CIT	1.2	2.4	1.2	2.2	1.0	2.0
PIT	2.0	2.4	1.5	1.7	2.1	2.1
Social tax	...	5.3	...	3.2	3.6	3.6
Property taxes	0.8	0.8	0.8	0.8	0.8	0.9
Land tax	0.3	0.3	0.3	0.3	0.3	0.3
Vehicle tax	0.2	0.2	0.1	0.1	0.3	0.3
VAT	0.5	3.5	0.7	4.6	0.0	5.2
Excise on alcoholic drinks	0.3	0.9	0.3	0.3	0.3	0.6
Business and sales fees, *of which*	0.2	0.2	0.3	0.3	0.0	0.5
Fees for registration of individual-entrepreneurs	0.0	0.0	0.0	0.0	0.0	0.0
Fees for the right to engage in certain businesses (license fee)	0.0	0.0	0.1	0.0	0.0	0.0
Fees for state registration of legal entities	0.0	0.0	0.0	0.0	0.0	0.0
Other fees	0.1	0.1	0.2	0.2	0.0	0.0
Non-tax revenues	0.7	1.0	0.8	1.1	0.5	1.6
Total Revenues, pre-transfers (excl. grants from abroad)	6.6	19.2	6.4	17.4	9.6	20.1
Transfer from the Republican budget (subvention)	1.7	...	2.3	...	1.9	...
Transfer to Republican budget (confiscation)	...	...	...	...	2.1	...
Total Revenues, post-transfers (excluding grants from abroad)	8.3	19.2	8.7	17.4	9.5	20.1

Sources: Kazakh authorities; and Fund staff estimates

83. From the viewpoint of the present analysis, there are three areas of special interest. Concerning education, the expenditure assignment makes the central government responsible for higher education and special educational programs administered at the republican level.[15] As regards health care, the central government is responsible for providing those special medical services which are administered at the republican level and for maintaining and operating the specialized hospitals. In this regard too, it is important to point out that these institutions provide health care services that are not among the basic health care services which, according to the Constitution, are to be provided free of charge. Finally, in regard to social security and welfare, it makes the central government responsible for the (pay-as-you-go) state pensions and the state social benefits.

84. Concerning local governments, the law sets out the following expenditure assignment:

- Organization of emergency relief at the local level
- Pre-school, primary, secondary, and secondary vocational education
- Law enforcement at the local level
- Provision of a guaranteed level of medical services to the population
- Special health programs administered at the local level
- Targeted social assistance in accordance with mashlikat decisions
- Implementation of employment programs
- Implementation of housing programs
- Implementation of cultural and entertainment programs at the local level
- Activities in the area of industry and construction administered at the local level
- Environment protection activities administered at the local level
- Research and development activities administered at the local level
- Development of residential areas
- Construction, maintenance, and operation of local road network
- Official transfers from the local budget to the republican budgets
- Servicing local government debt

85. The system of expenditure assignments set out in the new Budget System Law in large part follows the typical pattern observed in most countries (Ter-Minassian, 1997). However, the assignment of basic health care and most of the social benefits—in particular the assistance to the unemployed—to the local governments raises several problems. The subsequent sections will discuss these problems in some detail.

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[15] The Constitution does not guarantee the right of free access to these educational services.

Expenditure structure at the local government level

86. The structure of expenditures at the local government level mirrors the evolving expenditure assignment of local governments. Education, health care, and social benefits and welfare are the three most important expenditure items in local budgets. Their combined share in total expenditures has been around three-fourths (Tables 5 and 6). Given their paramount importance, regional inequalities in these expenditure items are examined separately below.

87. Most of the remaining resources of local government are devoted to local administrative services, housing, law and order, and culture. Even though housing is an area where only local authorities have expenditure assignment, the share of spending on housing programs is steadily declining, suggesting that this function of local government is gradually being phased out. In the area of law and order, the primary responsibility is with the Republican budget, which carries almost 80 percent of the total spending in this functional category (see Table 7). In the sphere of sports and culture, local authorities are gradually assuming more responsibilities. While almost 60 percent of total spending in this functional group was covered by the Republican budget in 1997, this ratio drops to one-third in the revised 1999 budget.

Regional disparities in expenditures on public education, health care, and social benefits

Education

88. According to the new budget system law, central (republican) government is responsible for higher education and special programs financed at the republican level, while local governments are responsible for pre-school, primary and secondary education, and vocational training. This arrangement follows the typical expenditure assignment in education.

89. Table 8 provides the structure of educational spending at the general government level according to the level and form of education, which suggests that, under the present expenditure assignment, most of the expenditure on public education has to be financed out of local budgets. Table 7, giving the historical data for 1997 and 1998 and the budget numbers for 1999, confirms this, showing a share of local budgets in total expenditure on education around 79 percent. This arrangement makes education the largest expenditure item in local budgets. On average, one third of total expenditures of local budgets is devoted to education (Table 5).

Table 5. Kazakhstan: The Structure of Expenditure at the Different Levels of Government, 1996-99

	1997			1998			1999 Revised budget		
	Republican	Local	State	Republican	Local	State	Republican	Local	State
General public services	13.7	3.9	9.2	12.7	4.3	9.0	9.2	2.6	6.9
Defense	8.9	1.7	5.6	8.3	1.7	5.4	5.0	1.3	3.7
Law and order	12.4	4.6	8.8	11.7	5.0	8.8	8.4	4.0	6.8
Education	8.0	41.5	23.0	7.3	35.0	19.6	4.9	32.9	14.9
Health	3.7	20.1	11.1	3.9	11.8	7.4	3.0	27.5	11.8
Social security and welfare	4.6	13.0	8.3	4.5	28.8	15.3	48.6	14.0	36.3
Housing and utilities	0.0	4.0	1.8	0.0	2.8	1.2	0.0	1.8	0.7
Culture and sports	3.8	3.1	3.5	3.3	3.4	3.4	1.4	5.1	2.7
Energy	0.6	0.0	0.3	0.2	0.0	0.1	0.0	0.0	0.0
Agriculture, forestry and fishing	5.2	1.0	3.3	2.5	0.7	1.7	2.7	0.5	1.9
Research and development	2.4	1.1	1.8	0.3	0.9	0.5	1.2	0.1	0.8
Transport and communication	0.1	0.0	0.1	0.1	0.0	0.1	3.9	4.2	4.0
Other economic affairs	11.5	5.8	8.8	8.2	5.5	7.0	4.5	6.0	5.0
Miscellaneous	25.0	0.2	14.3	36.9	0.1	20.5	7.1	0.0	4.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Kazakh authorities; and Fund staff estimates.

Table 6. Kazakhstan: Share of Education, Health Care and Social Security and Welfare in Total Expenditure, 1996-99

	1997				1998			
	Education	Health	Social security	Combined share	Education	Health	Social security	Combined share
Akmola	37.0	24.8	13.1	74.9	37.4	15.4	29.2	81.9
Aktyubinsk	49.4	11.9	13.7	75.1	46.0	10.5	22.2	78.7
Almaty oblast	48.6	22.6	13.1	84.3	37.7	18.6	30.2	86.5
Atyrau	44.0	13.3	9.7	67.0	40.2	9.0	28.2	77.4
East Kazakhstan	40.0	22.5	13.7	76.2	36.4	10.9	30.6	77.9
Zhambyl	49.6	19.9	12.0	81.5	35.4	13.6	37.4	86.3
West Kazakhstan	43.1	23.1	11.9	78.2	37.7	10.4	32.3	80.5
Karaganda	40.4	19.8	11.8	72.0	36.2	12.8	27.1	76.1
Kzyl-Orda	31.9	22.0	26.9	80.8	26.1	8.2	40.0	74.3
Kostani	44.6	20.6	7.0	72.2	39.7	10.5	21.9	72.1
Mangystau	44.4	21.7	10.6	76.7	40.1	13.9	26.3	80.4
Pavlodar	45.8	18.7	12.6	77.2	41.9	7.7	25.9	75.5
North Kazakhstan	43.5	21.7	14.3	79.5	40.3	14.0	28.4	82.7
South Kazakhstan	45.9	17.1	12.4	75.4	38.4	9.9	31.1	79.4
Almaty city	40.2	24.7	15.3	80.3	29.1	16.0	30.9	75.9
Astana city	...	...	...	...	18.3	9.0	27.3	54.7
Total	42.8	20.7	13.4	76.9	36.2	12.2	29.8	78.2

Sources: Kazakh authorities; and Fund staff estimates.

Table 7. Kazakhstan: Expenditure Assignment, 1996-99
(The share of different government in total spending according to functional classification)

	1997				1998				1999 Revised budget			
	Republican	Local	Extrabudg.	Total	Republican	Local	Extrabudg.	Total	Republican	Local	Extrabudg.	Total
General public services	81.0	19.0	0.0	100.0	78.7	21.3	0.0	100.0	86.3	13.7	0.0	100.0
Defense	86.5	13.5	0.0	100.0	85.9	14.1	0.0	100.0	87.0	13.0	0.0	100.0
Law and order	76.5	23.5	0.0	100.0	74.5	25.5	0.0	100.0	79.2	20.8	0.0	100.0
Education	19.0	81.0	0.0	100.0	20.8	79.2	0.0	100.0	21.1	78.9	0.0	100.0
Health	14.6	65.5	19.8	100.0	22.6	54.0	23.4	100.0	16.5	83.5	0.0	100.0
Social security and welfare	5.8	13.5	80.8	100.0	9.5	48.4	42.1	100.0	86.2	13.8	0.0	100.0
Housing and utilities	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0	0.0	100.0
Culture and sports	59.7	40.3	0.0	100.0	55.1	44.9	0.0	100.0	33.1	66.9	0.0	100.0
Energy	100.0	0.0	0.0	100.0	100.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0
Agriculture, forestry and fishing	86.4	13.6	0.0	100.0	81.4	18.6	0.0	100.0	90.4	9.6	0.0	100.0
Research and development	71.7	28.3	0.0	100.0	30.3	69.7	0.0	100.0	95.1	4.9	0.0	100.0
Transport and communication	2.4	0.2	97.4	100.0	2.0	0.0	98.0	100.0	62.8	37.2	0.0	100.0
Other economic affairs	70.7	29.3	0.0	100.0	65.3	34.7	0.0	100.0	57.6	42.4	0.0	100.0
Miscellaneous	99.5	0.5	0.0	100.0	99.7	0.3	0.0	100.0	100.0	0.0	0.0	100.0
Total	38.9	32.0	29.1	100.0	48.0	38.2	13.8	100.0	64.2	35.8	0.0	100.0

Sources: Kazakh authorities; and Fund staff estimates.

Table 8. Kazakhstan: Distribution of Public Expenditure on Education by Facility Level, 1996-99

	1994	1995	1996	1997	1998
Preschool	11.7	9.8	10.5	6.8	5.7
Schools (primary and secondary)	44.7	47.5	52.1	62.5	62.3
Boarding schools	3.0	2.7	2.4	2.4	2.6
Vocational	16.6	13.3	13.2	10.1	9.3
Higher education	11.2	12.5	13.0	12.1	14.4
Other institutions	11.6	12.5	7.5	4.3	4.1
Textbooks	1.0	1.6	1.3	1.8	1.6
Total	100	100	100	100	100

Sources: Kazakh authorities; and Fund staff estimates

90. Given the very high share of local budgets in educational expenditures and the sizable disparities in per capita pre-transfer revenues of local budgets (see below), provision of a broadly even quality of education across oblasts requires a sizable redistribution of revenues among oblasts.

91. Education has been given a very high priority in Kazakhstan. The budget law defines expenditure on education as a priority budget program and a minimum amount of total expenditures on this item for each oblast is established in the republican budget.[16] Moreover, expenditure on education at the local level has been subject to sequestration to a much lesser extent than other items.

92. The high priority attached to education is also reflected in the low level of regional disparities in per capita educational expenditures. As shown in Table 9 and Figure 12, the distribution of per capita educational expenditures is rather even among oblasts. More generally, every indicator of inequality (and skewness) used in this study suggests that the extent of disparities among oblasts is the smallest in this area.[17]

[16] Based on the right of parliament to prescribe such minimum levels of spending on priority programs for local budgets (Article 5 of the Budget System Law).

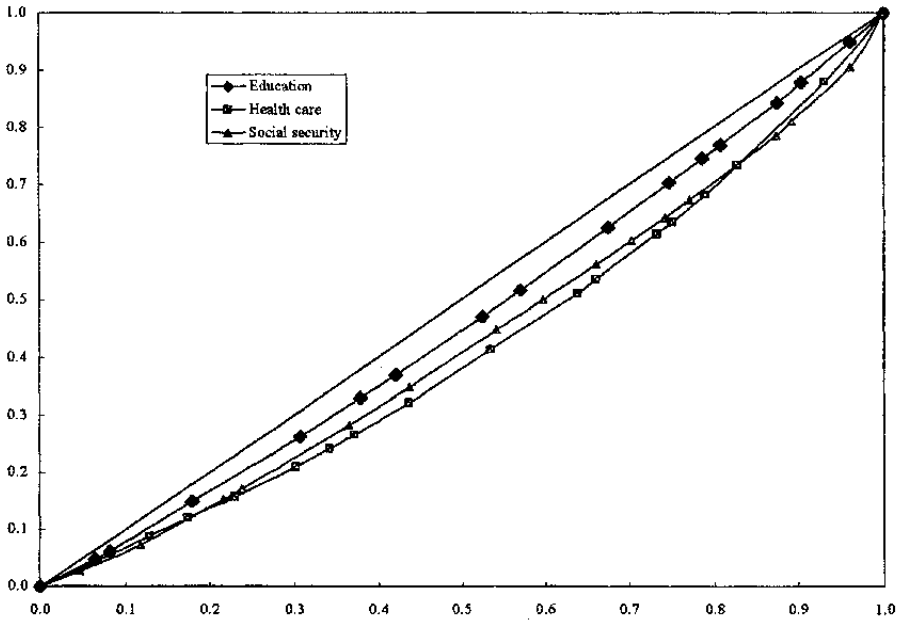
[17] The ratio of the highest and lowest per capita spending is also very small compared to other spending items, suggesting that there are no outliers with very high (or small) levels of per capita spending.

Table 9. Kazakhstan: Per Capita Spending on Education, Health Care and Social Security and Welfare, 1996-99
(Relative to average)

	1997				1998			
	Education	Health	Social security	Total expenditure	Education	Health	Social security	Total Expenditure
Akmola	98.1	129.5	90.6	90.2	108.0	132.2	102.5	104.7
Aktyubinsk	101.0	50.3	89.3	87.3	100.6	68.4	59.1	79.3
Almaty oblast	87.0	83.2	75.0	76.5	95.8	140.4	93.2	92.0
Atyrau	126.0	78.6	88.2	122.4	123.1	81.9	105.0	111.0
East Kazakhstan	108.6	125.8	118.9	116.1	105.2	93.6	107.4	104.7
Zhambyl	88.6	73.3	68.6	76.4	75.0	85.6	96.4	76.8
West Kazakhstan	121.1	134.0	106.7	120.0	95.4	78.4	99.4	91.7
Karaganda	97.3	98.1	90.7	102.8	89.0	93.1	81.0	89.0
Kzyl-Orda	128.8	183.3	346.8	172.6	129.5	120.9	241.7	180.0
Kostani	110.1	105.0	55.1	105.6	94.0	73.5	63.0	85.7
Mangystau	111.0	112.1	84.7	107.0	108.0	111.5	86.2	97.6
Pavlodar	124.1	104.5	108.9	115.8	126.4	68.8	95.1	109.3
North Kazakhstan	99.9	102.5	104.8	98.1	107.8	111.6	92.3	97.0
South Kazakhstan	71.5	54.8	61.9	66.6	89.2	68.2	87.8	84.1
Almaty city	106.9	135.3	130.1	113.6	109.1	177.8	140.9	136.0
Astana city	73.8	116.6	130.2	138.5	77.4	113.1	139.9	152.8
Average	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Highest-to-lowest 1	1.8	3.6	6.3	2.6	1.7	2.6	4.1	2.3
Highest-to-lowest 2	1.7	2.5	2.1	1.8	1.6	2.1	2.2	1.9
Highest-to-lowest 2	1.4	1.8	1.9	1.6	1.4	1.9	1.7	1.6
Standard deviation	17.3	33.5	67.1	26.0	15.9	30.9	42.3	28.2
skewness	-0.33	0.37	3.27	0.82	0.09	1.03	2.41	1.60

Sources: Kazakh authorities; and Fund staff estimates.

Figure 12. Kazakhstan: Inequality in the Expenditures on Education, Health, and Social Security among Oblasts, 1998



Sources: Kazakh authorities; and Fund staff estimates.

Health care

93. The new Budget System Law assigns expenditures for the provision of a guaranteed level of medical services, as well as for special medical programs administered at the local level, to local budgets. This arrangement is based on the recent reform of the health care system, in the course of which a basic package of guaranteed medical services was defined, which is to be provided to everyone free of charge (based on Article 29 of the Constitution).[18]

94. As the column for 1999 in Table 7 suggests, the present expenditure assignment gives primary responsibility for the financing of health care services to local governments. Indeed, they are expected to cover over 80 percent of total public spending on health care services, making it the second largest expenditure item of local budgets. According to the revised 1999 budget, over one-fourth of local government expenditures is expected to be allocated to this purpose.

95. As budget execution data suggest, among the three major spending items, education, health and social security, health care seems to have the second highest priority after education (Table 10). During the last two years, on average, actual spending on health care

[18] For a description of the recent reform of the health care system, see World Bank (1997), pp. 170-176.

Table 10. Kazakhstan: Budget Execution at the Different Level of Government, 1996-99
(Actual expenditure as percentage of budgeted)

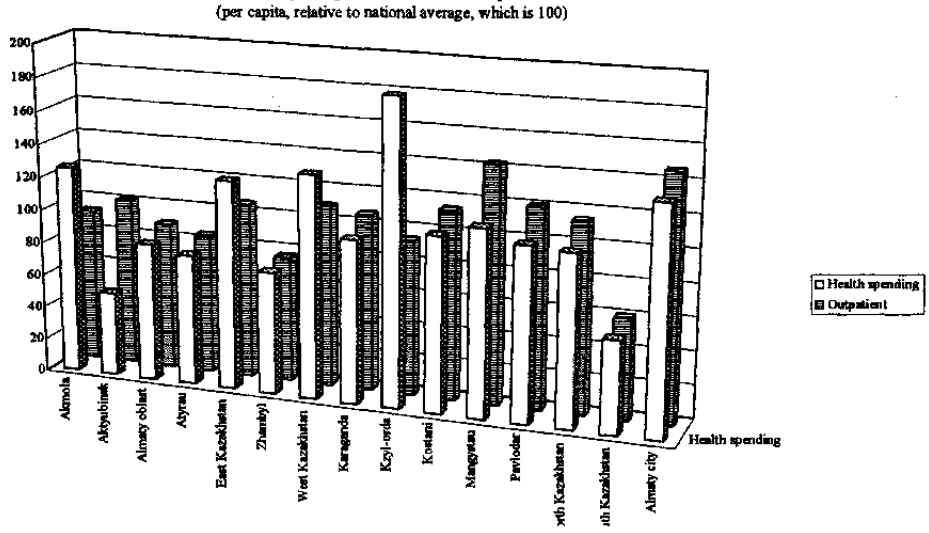
	1997			1998		
	Republican	Local	State	Republican	Local	State
General public services	75.9	96.2	79.1	74.2	87.4	76.7
Defense	94.5	98.9	95.1	92.6	83.7	91.3
Law and order	98.9	93.1	97.5	82.2	90.4	84.1
Education	94.3	100.0	98.9	79.2	90.6	88.0
Health	100.7	86.1	88.4	70.0	86.1	80.7
Social security and welfare	88.8	80.8	83.1	95.8	76.8	79.4
Housing and utilities	0.0	100.2	100.2	0.0	90.4	90.4
Culture and sports	90.1	94.2	91.7	71.5	88.3	78.2
Energy	100.0	...	100.0	36.8	...	36.8
Agriculture, forestry and fishing	92.8	95.4	93.2	63.1	56.7	61.8
Research and development	96.9	82.3	92.3	53.3	82.6	70.8
Transport and communication	93.5	99.7	94.0	74.2	...	74.2
Other economic affairs	71.4	86.2	75.2	69.9	84.8	74.5
Miscellaneous	90.7	260.3	86.3	89.8	63.4	84.9
Total	88.0	92.5	89.1	82.9	84.6	82.0

Sources: Kazakh authorities; and Fund staff estimates.

services by local budgets was around 86 percent of the budgeted amount, suggesting an extent of expenditure compression (14 percent) which was slightly below the average (which was 15.4 percent in 1998). In 1998—a difficult year with substantial revenue shortfalls in both the republican and the local budgets—the extent of expenditure compression at the republican level in this functional category was 30 percent, that is, considerably higher than at the local level.

96. The degree of regional disparities in per capita spending on health is considerably higher than it is for education (see Table 9 and Figure 12). Several factors may be expected to determine health care spending at the local level. Health care expenditures may in the first place be determined by the need (demand) for health care services. Thus, the inequality observed across regions may just be due to the differences in the overall health of the population. Figure 13, showing per capita spending on health care in the different oblasts (relative to the national average, which is 100) and the number of outpatient visits to health care facilities

Figure 13. Kazakhstan: Health Care Spending and the Number of Outpatient Visits to Health Care Facilities
(per capita, relative to national average, which is 100)

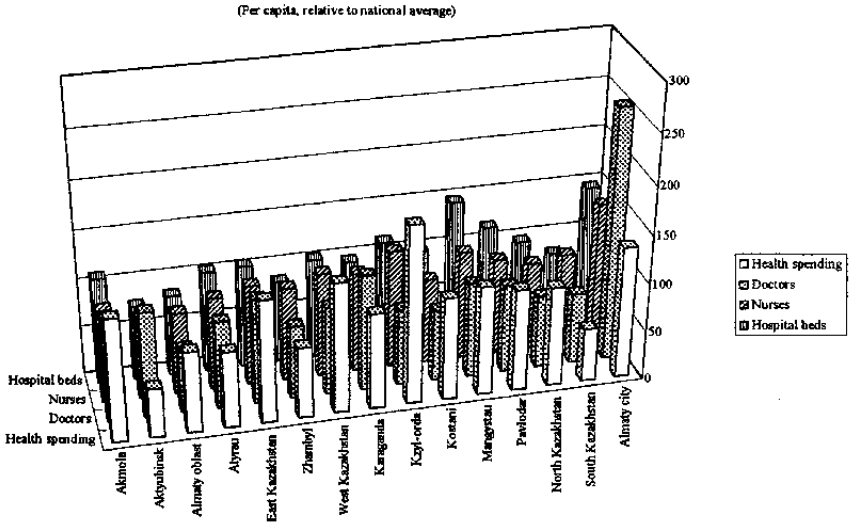


Sources: Kazakh authorities; and Fund staff estimates.

(per 10000 inhabitants and relative to the national average, which is 100), suggests that such a relationship may be present in Kazakhstan. The level of health care services provided in an oblast may also be determined by the extent to which people have access to health care services. That is, the supply of health care services may be as much of a determining factor as demand. The data in Figure 14 on spending on health care services (per capita and relative

to the national average) and the number of doctors, nurses and hospital beds (per 10000 inhabitants and relative to the national average) in the different oblasts in 1997, suggest that the relatively fixed costs of running health care facilities may have also been a factor determining health care spending.

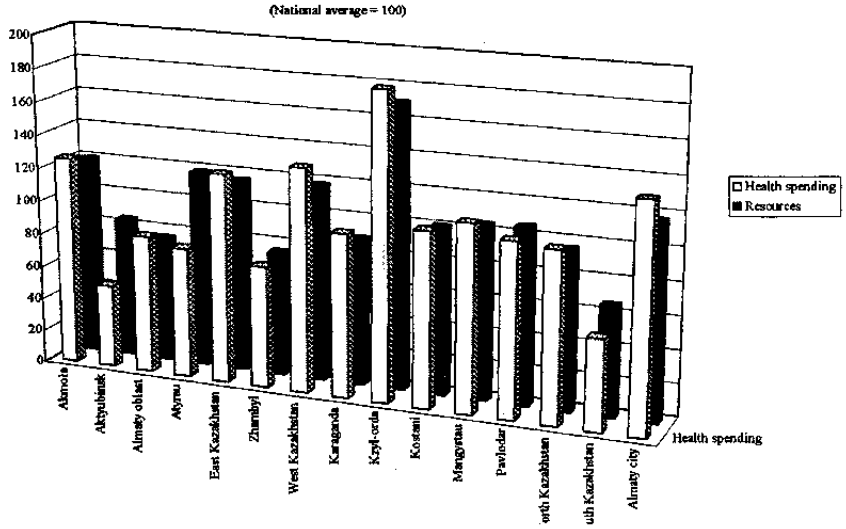
Figure 14. Kazakhstan: Spending on Health Care and the Number of Doctors, Nurses, and Hospital Beds
(Per capita, relative to national average)



Sources: Kazakh authorities; and Fund staff estimates.

97. While the factors mentioned above may have played a part in explaining the observed regional spending on health care, the data in Figure 15 on per capita resources of oblasts (relative to national average) and per capita spending on health care (relative to national average), suggest that there is a very strong relationship

Figure 15. Kazakhstan: Relative Per Capita Resources and Spending on Health Care in Oblasts, 1997
(National average = 100)



Sources: Kazakh authorities; and Fund staff estimates.

between the level of available resources of local budgets and the level of spending on health care. In turn, this hints at the fact that inequality in health care spending is related to disparities in tax base among oblasts. While the way in which transfers to and from local governments are determined in the process of putting together the Republican budget is supposed to take into account differences between expected tax revenue and spending on priority items, sequestration recreates a strong link between local tax revenue and available resources of local budgets.

Social security and welfare

98. According to the expenditure assignment set out in the new Budget System Law, local governments are responsible for financing targeted social assistance and the assistance given to the unemployed.[19] The Republican budget became responsible for the pay-as-you go pension system, state social benefits, and state special benefits established by the law.[20] The respective shares of the republican and local budgets in this functional category in the revised 1999 budget reflect this expenditure assignment (Table 7). This arrangement makes social security and welfare the third largest expenditure item of local governments, the share of which is expected to be around 14 percent in 1999.

99. Among the three major expenditure items, social security and welfare seems to have the lowest priority, as the extent of expenditure compression has been significantly higher for this expenditure item than for education or health care.

100. The lower level of priority attached to social security and welfare is also shown by the higher degree of regional inequality in per capita spending (Figure 12 and Table 9). Every indicator of inequality suggests that the extent of disparity among oblasts in this area is the highest.

101. As discussed below, the degree of spending inequality is intimately related to the extent of expenditure compression and the nature of sequestration.

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[19] The Constitution (Article 24 paragraph 2) guarantees the right for everyone to social protection against unemployment. However, a recent ruling of the Supreme Court determined that this does not necessarily mean the right to unemployment benefits. The argument was that there might be several forms of protection against unemployment that the government can provide, with unemployment benefits being only one of them. Moreover, the court also determined that it was not against the constitution to assign this responsibility of the state to local governments. The argument was that the Constitution did not specify the source of finance for social protection against unemployment.

[20] Such as, the recently introduced state social benefit which replaced the in-kind benefits.

D. Revenue Sources of Central and Local Governments

Description of the present arrangement

102. The new Budget System Law defines the revenue sources of the Republican and local budgets (Article 7). The revenue sources of the *Republican budget* include the followings:

- Taxes, charges, and fees
  - 50 percent of the tax on legal persons (corporate income tax)
  - excess profit tax
  - VAT
  - excise taxes, with the exception of excise on alcoholic drinks, which is equally shared between the central government and the local governments
  - tax on the purchase of foreign exchange by natural persons
  - customs duties
  - royalties and bonuses
  - fees levied for
    - the registration on security issuance
    - the use of radio frequencies
    - the use of republic roads for passage of motor vehicles
    - the use of navigable waterways
    - other administrative fees
- Non-tax revenues
  - Share of profits of state-owned companies (where the owner is the Republic)
  - Receipts from the earnings of the National Bank of Kazakhstan
  - Dividends from joint-stock companies (where the owner is the Republic)
  - Share of production-sharing arrangements
  - 80 percent of environmental pollution fee
- Revenues from capital transactions
- Official grants
- Budget "withdrawals" (i.e., transfer from local budgets)

103. The revenue sources of l*ocal budgets* include:

- Shared taxes
  - 50 percent of the tax on legal persons (corporate income tax)
  - Individual income tax
  - Social tax
  - 50 percent of the excise tax on alcoholic drink
- Local taxes
  - Property tax
  - Land tax
  - Vehicle tax

- Non-tax revenues
  - Dividends from joint-stock companies (where the owner is the local government)
  - Share of production-sharing arrangements
  - 20 percent of environmental pollution fee
  - Receipts from lease of communal property and land
- Local fees
  - for the use of local roads for passage of motor vehicles
  - for the registration of individual entrepreneurs
  - fees for the state registration of title to real estate and real estate transactions
  - license fees
  - fee for the state registration of legal persons
  - auction fees
  - license fee for trading at marketplaces
  - for use of water and forests
  - other administrative fees and penalties
- Revenues from capital transactions
  - receipts from the privatization of communal property
- Official grants
- Subventions (transfers from the republican budget)

The stability of local government revenues

104. Given the nature of their expenditure assignments and their limited capacity to borrow,[21] local governments in Kazakhstan need a reasonably stable stream of revenues. If revenues were subject to substantial variability, given the fairly stable expenditure commitments, local governments might be forced to incur arrears.

105. Given the vulnerability of the Kazakh economy to shocks, the fiscal system should not fully shield local government revenues from fluctuations in total tax revenues. Thus, the country needs a fiscal system that can adjust to shocks promptly. As local governments account for a substantial share of total government revenues, it would be counterproductive to isolate them from any requirement to adjust when prudent macroeconomic management so requires. This conclusion is further reinforced given that the existing level of public debt makes borrowing much less of an available option and that the sources of non-tax revenue, particularly privatization receipts, are dwindling, as extensive privatization operations have already taken place.

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[21] The untested capacity of local government to maintain fiscal prudence justifies the strict limits on borrowing by local governments.

106. At the same time, revenue streams assigned to local governments should be those least affected by existing inequalities across oblasts in order to minimize the need for horizontal equalization. Moreover, in order to make the chosen equalization mechanism less subject to frequent changes, the revenue sharing assignment should assign such taxes and other sources of revenues to local governments which are the least likely to be affected by changes in regional differences.

Revenue sharing and regional differences in tax base

Corporate income tax

107. As regards the corporate income tax (CIT), the present revenue sharing arrangement largely follows the pattern prevalent in previous years. It assigns 50 percent of the CIT to local governments, a figure very close to the actual distribution of revenue in the last two years. The law thus basically acknowledged the existing practice.[22]

108. The long-term trend shows a gradual decline in the share of CIT in GDP. During the period 1996-1998, the decline amounted to over 1 percentage point of GDP (see Table 11). Given the share of total tax revenues in GDP (around 16 percent in 1998), this decline is significant.

109. The inequality among oblasts in per capita CIT tax collection is extremely large (Table 12 and Figure 16). The ratio between the highest and lowest per capita CIT revenues was over 75 in 1998[23]. CIT and VAT revenues are the two types of tax revenues that are the most unevenly distributed (in per capita terms) across the regions.

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[22] In the past however, the rate of sharing was not uniform across oblasts. In general, the "excess" revenues from rich oblasts were taken away through allocating a sufficiently large proportion of the CIT revenues of these oblasts to the Republican budget. When the "excess" revenue of the oblast was higher than its CIT revenues, a proportion of the PIT was also taken away. This explains the effective rates of sharing for PIT shown in Table 13.

[23] This ratio drops to over 36 if the oblasts with the highest (Atyrau) and lowest (Akmola) values are eliminated from the sample, indicating that part of the huge disparity measured by this indicator is attributable to outliers. Nonetheless, the ratio of the highest to the lowest value in the remaining sample is still very high, suggesting that the origin of the problem is not really related to outliers.

Table 11. Kazakhstan: Major National And Local Taxes, 1996-99

	1996	1997	1998	1999	
				Revised budget	Estimated
		In percent of GDP			
PIT	2.2	2.4	1.7	2.1	1.8
CIT	2.9	2.4	2.2	2.0	1.7
VAT	3.8	3.5	4.7	5.2	5.0
Social Tax		5.3	3.2	3.7	3.1
Sub-Total	0.0	13.6	11.8	13.0	11.6
Property Tax	0.4	0.8	0.8	0.8	0.8
Land tax	0.2	0.3	0.3	0.3	0.3
Vehicle tax	0.2	0.2	0.1	0.3	0.3
Total		14.8	13.1	14.4	13.0
Total tax excluding extrabudgetary funds	12.2	12.0	12.4	14.8	13.7
Total tax including extrabudgetary funds		17.9	16.1	18.5	16.8
	In percent of total tax including extra budgetary funds				
PIT		13.6	10.7	11.4	10.6
CIT		13.3	13.7	10.7	10.1
VAT		19.4	28.9	28.0	29.7
Social Tax		29.6	20.0	20.0	18.4
Sub-Total		75.9	73.2	70.1	68.8
Property Tax		4.3	5.2	4.5	5.0
Land tax		1.6	1.8	1.6	1.8
Vehicle tax		1.0	0.9	1.5	1.7
Total		82.8	81.1	77.7	77.2

Sources: Kazakh authorities; and Fund staff estimates.

Table 12: Kazakhstan: Per Capita Tax Collection in Oblasts, 1996-99.
(Country average is 100)

	CIT				PIT				VAT			
	1996	1997	1998	1999 Revised Budget	1996	1997	1998	1999 Revised Budget	1996	1997	1998	1999 Revised Budget
Akmola	5.6	8.1	7.4	8.5	21.5	23.4	38.3	34.9	9.8	7.8	13.8	12.6
Aktyubinsk	148.9	120.7	58.6	31.3	113.3	113.6	94.7	95.2	115.8	212.9	70.9	81.5
Almaty oblast	14.0	14.3	10.2	13.8	31.5	27.8	30.7	27.5	29.1	30.1	30.8	31.2
Atyrau	249.9	445.0	562.2	441.3	223.5	295.0	299.7	298.6	211.2	285.1	348.8	240.8
East Kazakstan	70.9	122.0	88.1	99.8	99.7	88.5	88.7	90.4	104.5	53.7	53.6	50.7
Zhambyl	14.0	21.1	9.2	12.1	48.5	43.0	31.3	28.1	42.5	8.6	21.6	19.1
West Kazakhstan	87.8	133.1	112.3	128.8	79.2	85.2	125.5	117.5	128.9	6.2	18.2	52.0
Karaganda	161.0	94.4	140.0	123.7	141.9	115.2	101.8	99.7	53.6	4.3	0.0	-2.3
Kzyl-Orda	38.3	104.4	97.7	107.0	82.7	122.9	82.1	80.6	59.1	88.8	86.4	56.8
Kostani	50.3	53.6	36.4	44.3	119.7	124.8	77.0	68.8	40.3	79.9	53.1	52.3
Mangystau	329.8	250.6	295.4	229.6	233.4	241.1	265.0	275.8	229.5	281.8	386.2	157.7
Pavlodar	157.4	52.4	63.7	81.4	146.8	137.2	133.8	134.0	51.0	41.6	25.7	25.0
North Kazakhstan	23.3	27.7	13.5	12.2	72.8	58.1	45.4	41.8	79.6	29.3	28.9	27.2
South Kazakstan	41.5	41.5	48.1	45.9	34.8	29.5	37.0	32.0	64.4	40.0	33.9	20.9
Almaty city	358.7	333.7	321.1	378.3	238.7	256.9	316.7	330.6	409.7	529.7	623.8	633.0
Astana city	269.2	295.8	335.7	276.5	142.4	193.1	238.1	278.9	396.4	635.6	520.9	959.6
Kazakhstan	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Highest-to-lowest 1	64.3	55.1	75.8	52.0	11.1	12.6	10.3	12.0	41.6	148.5	45.2	76.0
Highest-to-lowest 2	23.6	23.4	36.4	31.3	7.4	9.2	9.6	10.6	13.6	84.9	28.6	33.1
Highest-to-lowest 3	19.2	14.0	31.6	22.7	6.4	8.2	7.2	8.7	5.7	36.6	17.8	11.5
Standard deviation	118.2	130.4	158.7	135.1	70.5	84.7	98.6	106.2	124.0	195.3	203.1	271.9
Skewness	0.8	1.3	1.6	1.3	0.6	0.8	1.0	1.0	1.6	1.7	1.5	2.4

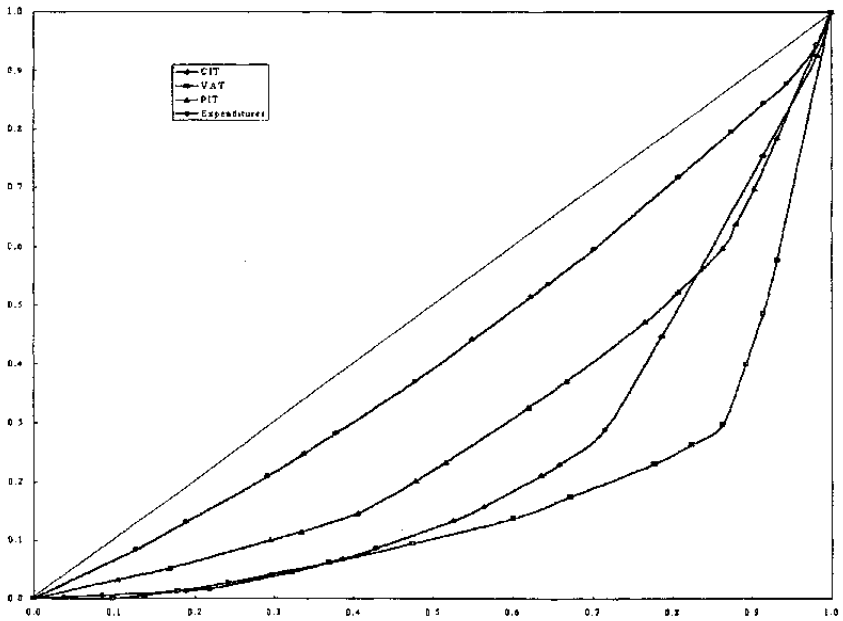
Sources: Kazakh authorities; and Fund staff estimates.

Table 13. Kazakhstan: Revenue Sharing Arrangements, 1997-99
(Thousand Tenge)

	1997					1998					1999 Revised budget					
	Local budgets	General govern-ment	Effective rate of sharing	Percentage of total pre-transfer revenues, local budget	Percentage of total revenues, general govern-ment	Local budgets	General govern-ment	Effective rate of sharing	Percentage of total pre-transfer revenues, local budget	Percentage of total revenues, general government	Local budgets	General government	Effective rate of sharing	Percentage of total own revenues for local budget	Percentage of total revenues, general govern-ment	Revenue sharing according to Budget system Law
Tax revenues, *of which*	100,463,421	303,733,765	33.1	89.4	93.1	97,811,756	280,900,000	34.8	88.2	92.8	161,956,739	331,022,793	48.9	94.5	92.2	0.0
CIT	21,086,211	40,294,406	52.3	18.8	12.4	20,808,534	38,396,382	54.2	18.8	12.7	17,665,000	35,330,000	50.0	10.3	9.8	50.0
PIT	33,814,476	41,275,055	81.9	30.1	12.7	25,346,696	30,124,486	84.1	22.8	10.0	36,692,000	37,642,000	97.5	21.4	10.5	100.0
Social tax	0.0	90,000,000	0.0	0.0	27.6	0.0	56,100,000	0.0	0.0	18.5	63,688,000	65,140,000	97.8	37.2	18.2	100.0
Property taxes	13,068,214	13,068,215	100.0	11.6	4.0	14,625,253	14,625,253	100.0	13.2	4.8	15,048,000	15,318,000	98.2	8.8	4.3	100.0
Land tax	4,870,011	4,869,108	100.0	4.3	1.5	5,013,077	5,013,077	100.0	4.5	1.7	5,277,000	5,428,000	97.2	3.1	1.5	100.0
Vehicle tax	3,138,042	3,138,041	100.0	2.8	1.0	2,543,052	2,543,052	100.0	2.3	0.8	4,985,876	4,985,876	100.0	2.9	1.4	100.0
VAT	9,161,974	58,800,960	15.6	8.2	18.0	11,568,165	80,845,476	14.3	10.4	26.7	0.0	92,803,000	0.0	0.0	25.9	0.0
Excise on alcoholic drinks	5,214,070	15,387,565	33.9	4.6	4.7	6,086,193	6,041,645	100.7	5.5	2.0	5,419,071	10,838,155	50.0	3.2	3.0	50.0
Business and sales fees, of which	3,607,822	3,607,823	100.0	3.2	1.1	4,393,356	4,393,356	100.0	4.0	1.5	0.0	9,449,000	0.0	0.0	2.6	0.0
Fees for registration of individuals-entrepreneurs	101,701	101,697	100.0	0.1	0.0	141,201	141,201	100.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fees for the right to engage in certain businesscs (license fee)	806,408	806,410	100.0	0.7	0.2	916,596	916,596	100.0	0.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Fees for state registration of legal entities	240,629	240,631	100.0	0.2	0.1	190,796	190,796	100.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other fees	2,459,084	2,459,085	100.0	2.2	0.8	3,144,763	3,144,763	100.0	2.8	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-tax revenues	11,926,602	17,700,000	67.4	10.6	5.4	13,117,085	18,925,316	69.3	11.8	6.3	9,448,932	27,814,000	34.0	5.5	7.8	0.0
Total Revenues, pre-transfers (excluding grants from abroad)	112,390,023	326,233,765	34.5	100.0	100.0	110,928,841	302,625,316	36.7	100	100.0	171,405,671	358,836,793	47.8	100	100.0	0.0
Transfer from the Republican budget (subvention)	28,209,660	0.0	0.0	0.0	0.0	40,184,263	0.0	0.0	0.0	0.0	34,666,237	0.0	0.0	0.0	0.0	0.0
Transfer to Republican budget (confiscation)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	37,157,938	0.0	0.0	0.0	0.0	0.0
Total revenues, post-transfers (excluding grants from abroad)	140,599,683	326,233,765	43.1	0.0	0.0	151,113,104	302,625,316	49.9	0.0	0.0	168,913,970	358,836,793	47.1	0.0	0.0	0.0

Sources: Kazakh authorities; and Fund staff estimates.

Figure 16. Kazakhstan: Inequality in the Tax Base and Budget Expenditures Among Oblasts, 1998



Sources: Kazakh authorities; and Fund staff estimates.

110. Given the above, any revenue assignment that involves CIT is likely to suffer from two potential pitfalls: a gradual decline in tax revenues over time and a need for a higher level of horizontal and/or vertical equalization of local government revenues.

Personal income tax

111. According to the new budget system law, the personal income tax[24] (PIT) is assigned to local budgets in full. Again, this is an acknowledgement of existing practices. With the exception of some of the "rich" oblasts, for which there were ad-hoc and frequently changing arrangements on the sharing of the PIT, this has been the practice for the last couple of years (Table 13).[25]

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[24] The tax on the income of natural persons is a progressive income tax, with four income brackets at present. The marginal tax rate in the lowest bracket is 5 percent, while in the highest bracket, it is 30 percent.

[25] As mentioned earlier, in the first place, CIT revenues were used to take away "excess" revenue form rich oblasts, and PIT was shared only for those oblasts, where the CIT revenue was not sufficiently large to serve this purpose. In 1997, for example, this concerned the city of Almaty, Mangystau, and Atyrau.

112. PIT revenues per capita are much more evenly distributed across oblasts than revenues from the CIT or the VAT, but regional differences are still sizeable (Table 12 and Figure 16). Similarly to the CIT, the share of PIT revenues in GDP has declined during the last couple of years (Table 11). However, recent trends suggest that its share has stabilized at the present level, even under the difficult economic situation.

113. Given the expenditure assignments of local governments in Kazakhstan, the above characteristics make the PIT a prime candidate for assignment to local governments in any well-designed revenue sharing assignment.

Social tax

114. The social tax[26] is assigned in full to local budgets, even though, originally, a considerable part of it was meant to be the contribution to the pay-as-you go (solidarity) pillar of the new pension system which became the responsibility of the Republican budget.

115. The share of the social tax in GDP has declined substantially in recent years, mainly because of a reduction in tax rates but also because of a deterioration in the tax base. At present, it is difficult to judge whether its current level is sustainable in the longer run.

VAT

116. The VAT, which in the past was shared between the Republican and local budgets, is now entirely assigned to the Republican budget.

117. As Table 12 and Figure 16 show, VAT revenues in Kazakhstan are very unevenly distributed across oblasts, mainly because of the way this tax is administered. In fact, among national taxes, the VAT tax base is the most unevenly distributed across oblasts. At present, VAT is collected at the factory gate and not at the retail stage.[27] Moreover, it is collected in the oblast where (the headquarter of) the company is registered. Beside the administrative ease, this is explained by the fact that the VAT on exports to CIS countries that are in customs union with Kazakhstan is levied on an origin basis.

118. The VAT is one of the very few taxes that, in percentage of GDP, are yielding increasing revenues. VAT revenues are also much less cyclical than those from the CIT or even the PIT.

119. With these characteristics — when tax administration will be strong enough to properly administer VAT and excises and thus revenues from these sources become more

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[26] Social tax is a flat-rate payroll tax paid by the employer.

[27] That is, the collection of VAT is based on origin and not destination

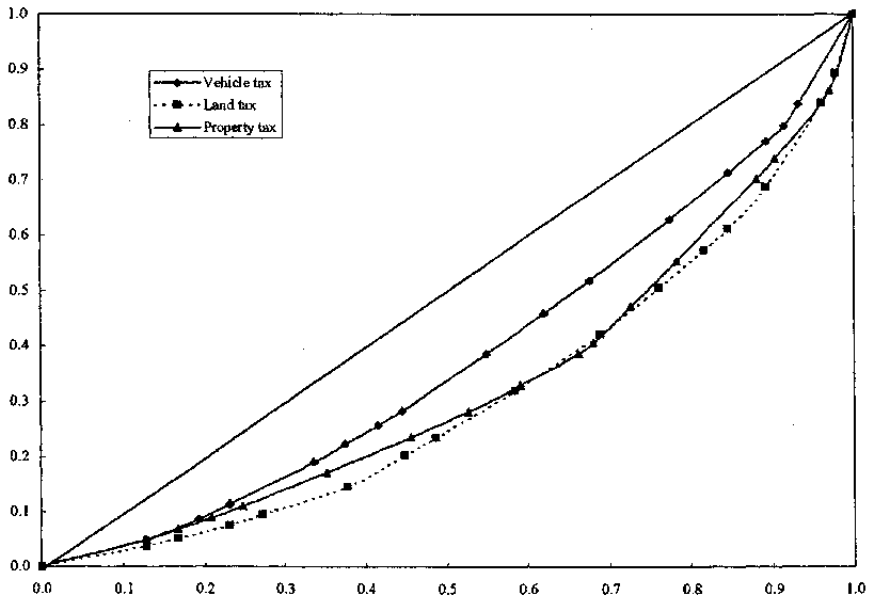
evenly distributed across oblasts — the sharing of VAT revenues may be thought of as a necessary amendment to the present revenue sharing arrangement.

Other taxes

120. Taxes on property, land and vehicles have been local taxes in the past and the new Budget System Law maintains it so. Their combined revenues, in proportion to GDP, increased to a sizable extent during the last three years and reached a level that is close to those of the PIT and the CIT.

121. Revenues from these taxes are more evenly distributed across oblasts than those from the CIT or VAT (Table14 and Figure 17). Tax collection data during the recent downturn suggest that revenues from these taxes are rather insensitive to fluctuations in the underlying economy.[28]

Figure 17. Kazakhstan: Inequality in the Tax Base of Local Taxes Among Oblasts, 1998



Sources: Kazakh authorities; and Fund staff estimates.

[28] As the tax base of these taxes is nominally fixed, it is in principle completely insensitive to fluctuations in nominal income. However, the capacity to pay and compliance may be endogenous and rather cyclical.

Table 14. Kazakhstan: Per Capita Tax Collection in Oblasts, 1996-99.
(country average is 100)

	Property tax				Land tax				Vehicle tax			
	1996	1997	1998	1999 Revised Budget	1996	1997	1998	1999 Revised Budget	1996	1997	1998	1999 Revised Budget
Akmola	88.6	56.9	55.7	0.0	76.3	52.6	82.6	99.3	72.7	93.0	83.7	110.1
Aktyubinsk	164.2	116.3	142.5	0.0	117.6	137.3	163.7	158.4	89.8	102.5	122.8	94.1
Almaty oblast	56.2	39.2	59.0	0.0	46.8	40.8	48.7	48.3	82.3	84.4	73.4	93.7
Atyrau	338.2	487.7	472.1	0.0	114.4	62.7	130.5	88.8	78.7	91.5	88.8	90.5
East Kazakstan	57.7	69.0	61.5	0.0	129.7	113.6	98.5	99.8	94.7	100.8	98.5	90.5
Zhambyl	56.0	77.1	73.8	0.0	45.1	47.5	36.8	46.0	79.1	78.4	57.5	75.4
West Kazakhstan	83.3	78.0	50.7	0.0	83.9	75.3	48.5	64.7	98.3	115.7	83.8	120.2
Karaganda	123.6	138.9	151.4	0.0	125.7	149.7	86.0	82.2	112.0	105.7	111.9	112.0
Kzyl-Orda	38.3	42.9	48.1	0.0	46.9	29.7	34.8	40.8	58.8	53.8	69.3	55.5
Kostani	137.5	92.4	80.1	0.0	180.8	151.8	116.7	126.3	144.0	134.9	117.0	140.2
Mangystau	215.5	211.6	167.7	0.0	97.2	379.6	481.4	455.1	101.8	115.2	125.0	124.0
Pavlodar	182.6	149.1	144.6	0.0	58.6	137.0	121.7	73.6	181.9	112.7	106.7	125.6
North Kazakhstan	84.7	70.0	64.1	0.0	137.6	111.4	80.7	77.8	110.6	117.4	104.3	94.2
South Kazakstan	36.4	38.9	37.8	0.0	31.4	30.5	29.1	32.8	40.9	45.8	38.4	35.8
Almaty city	108.8	174.0	181.8	0.0	162.4	139.2	223.8	245.1	143.9	163.5	239.4	176.7
Astana city	199.6	126.3	117.6	0.0	303.4	192.3	308.0	314.5	210.0	222.4	226.5	201.5
Kazakhstan	100.0	100.0	100.0	0.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Highest-to-lowest 1	9.3	12.5	12.5	0.0	9.6	12.8	16.6	13.9	5.1	4.9	6.2	5.6
Highest-to-lowest 2	5.6	5.4	3.8	0.0	4.0	6.3	8.9	7.7	3.1	3.0	3.9	3.2
Highest-to-lowest 3	3.6	4.1	3.3	0.0	3.5	3.7	6.1	5.3	2.0	1.7	1.8	1.9
Standard deviation	81.0	109.6	105.5	0.0	68.1	86.7	119.5	115.7	44.4	41.6	53.9	41.2
Skewness	1.3	2.7	2.7	0.0	1.5	1.9	2.0	1.9	1.0	1.3	1.5	0.6

Sources: Kazakh authorities; and Fund staff estimates.

E. Transfers and Regional Inequalities

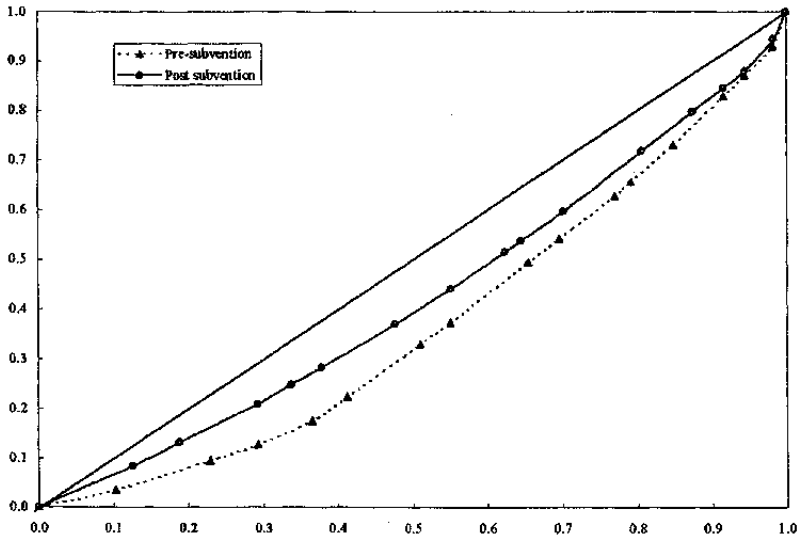
Transfers

122. The main achievement of the new Budget System Law is that it defines the revenue sharing arrangement between central and local governments and makes this arrangement uniform across oblasts. This is an important step forward because, in the past, the revenue sharing arrangement was renegotiated every year, and arrangements were not uniform across oblasts.

123. Based on the revised 1999 budget, the present system of local taxes and sharing of national taxes results in a need for a net positive transfer from local governments to the central government (Table 4). This contrasts to the situation prevailing in previous years when net transfers from the central government to local governments were around 2 percent of GDP .[29]

124. Inequalities across oblasts in pre-transfer per capita resources of local governments have typically been substantial (Table 15 and Figure 18). The analysis presented above on the revenue base of local governments suggests that this is likely to remain so in the future, irrespective of the actual form of the revenue sharing arrangement. Thus, the extent of horizontal redistribution can be expected to remain sizeable in the future.

Figure 18. Kazakhstan: Inequality in the Pre- and Post-Subvention Budget Revenues Among Oblasts, 1998



Sources: Kazakh authorities; and Fund staff estimates.

[29] 1.7 percent of GDP in 1997 and 2.3 percent of GDP in 1998.

Table 15. Kazakhstan: Distribution of Relative Per Capita Pre- and Post-Subvention Revenues of Local Governments, 1997-98

	1997				1998			
	Own revenues and shared taxes	Subvention	Total revenue	Expenditure	Own revenues and shared taxes	Transfers	Total revenue	Expenditure
Akmola	108.8	...	87.0	83.8	135.0	...	99.2	101.1
Aktyubinsk	105.5	...	84.4	84.8	97.2	...	71.4	76.6
Almaty oblast	33.6	176.1	75.6	74.3	34.0	143.9	94.0	88.9
Atyrau	148.0	...	118.3	118.8	149.2	...	109.6	107.2
East Kazakhstan	114.3	88.4	115.9	112.7	96.7	63.2	101.4	101.1
Zhambyl	52.0	121.3	75.1	74.2	44.5	92.8	77.2	74.2
West Kazakhstan	116.5	88.8	117.7	116.6	98.5	15.7	79.9	88.5
Karaganda	108.2	6.5	88.3	99.9	123.5	...	90.8	86.0
Kzyl-Orda	156.7	163.9	170.7	167.6	160.2	132.8	181.5	173.8
Kostani	116.9	25.0	100.4	102.6	93.5	...	68.7	82.8
Mangystau	130.6	...	104.5	103.9	129.9	...	95.4	94.2
Pavlodar	132.1	...	105.6	112.4	124.7	...	91.7	105.6
North Kazakhstan	65.3	157.4	95.8	95.2	50.4	122.8	95.9	93.7
South Kazakhstan	46.6	104.0	66.1	64.7	48.6	102.3	84.8	81.2
Almaty city	146.2	...	116.9	110.3	180.6	...	132.7	131.3
Astana city	402.4	...	321.9	310.1	474.8	...	348.9	342.3
Average	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Highest-to-lowest 1	12.0	...	4.9	4.8	14.0	...	5.1	4.6
Highest-to-lowest 2	3.4	...	2.3	2.3	4.1	...	2.5	2.3
Highest-to-lowest 3	2.3	...	1.6	1.6	3.3	...	1.7	1.6
Standard deviation	83.1	...	60.4	57.5	102.2	...	68.2	65.5
Skewness	2.6	...	3.0	2.9	2.8	...	3.1	3.2

Sources: Kazakh authorities; and Fund staff estimates.

125. At present, the amount of transfers[30] is not based on a pre-defined formula. Rather, it is one of the outcomes of the budgetary procedure. In this procedure, the Ministry of Finance prepares the draft budgets of oblasts, based on revenue estimates prepared by the Ministry of State Revenue and on certain established norms –which are not determined by a law or regulation — for expenditures on education, health care and other services provided by local governments. Based on these budgets, it establishes the pre-transfer balance of each local government (oblast). Subventions and withdrawals are then calculated so as to balance each local government budget. The sum of the subventions and withdrawals will thus be equal to the vertical imbalance in the system, as the draft budgets are based on the assumption of balanced local government budgets. Thus, a subvention is basically a general purpose grant, while a withdrawal is an inverted general purpose grant. Together, they fulfill the function of horizontal redistribution of resources across oblasts.[31]

126. In the past, instead of withdrawals, special revenue sharing arrangements were established for "rich" oblasts, using the sharing rates of one or two taxes (CIT and/or PIT) to establish a balanced budget for the "rich" oblasts.

127. The main advantage of the present system of transfers is its flexibility. Its main drawbacks are the lack of transparency and variability from one year to the other, which makes local budget planning difficult. In current circumstances, flexibility is perhaps the most desirable characteristic for a system of intergovernmental transfers. As pointed out earlier, both the revenue base and the level of expenditures required to cover expenditure assignments continue to change in such a rapid and unpredictable manner that at this time it would be almost impossible to design a formula-based system that could be kept unchanged for a long period. The danger involved in the present system is that it is subject to political factors to an extent that makes intergovernmental fiscal relations vulnerable.

Pre-subvention fiscal deficits at the local level and regional distribution of pre- and post-subvention revenues of local governments

128. As pointed out earlier, prior to the new Budget System Law, revenue sharing arrangements left a sizable vertical imbalance in the system, on the order of 2 percent of GDP (Table 4). Moreover, due to the special revenue sharing arrangements for the rich oblasts, pre-subvention balances of rich oblasts were close to zero, while oblasts with lower levels of revenues (local revenues and shared taxes) were left with sometimes very sizable pre-subvention imbalances (see Table 16). In the case of the poorest oblasts, the subvention was larger than the revenues. That is, as a result of the inequalities in the tax base described

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[30] Transfers are called "subventions" in Kazakhstan if they flow from the central government to a local government and "withdrawals" if they flow from a local government to the central government.

[31] By construction, they also correct for any ex-ante vertical imbalance in the system.

Table 16. Kazakhstan: Pre-Subvention Balances of Oblasts, 1997-98
(Thousand Tenge)

	1997					1998				
	Revenues (local and shared taxes)	Subvention	Total resource	Expenditure	Pre-subvention balance, in percent of revenues	Revenues (local and shared taxes)	Transfers	Total revenue	Expenditure	Pre-subvention balance, in percent of revenues
Akmola	12,765,565		12,765,565	12,488,634	2.2	5,789,345		5,789,345	6,032,910	-4.2
Aktyubinsk	5,480,916		5,480,916	5,595,702	-2.1	5,012,638		5,012,638	5,497,874	-9.7
Almaty oblast	3,921,108	7,103,483	11,024,591	10,994,614	-180.4	3,949,061	10,913,917	14,862,978	14,370,047	-263.9
Atyrau	4,767,576		4,767,576	4,860,908	-2.0	4,843,019		4,843,019	4,840,299	0.1
East Kazakhstan	13,500,090	3,612,458	17,112,548	16,898,072	-25.2	11,240,431	4,796,816	16,037,247	16,349,853	-45.5
Zhambyl	3,728,949	3,009,825	6,738,774	6,758,344	-81.2	3,180,177	4,321,902	7,502,079	7,370,378	-131.8
West Kazakhstan	5,417,117	1,429,305	6,846,422	6,884,150	-27.1	4,543,567	472,518	5,016,085	5,679,790	-25.0
Karaganda	12,042,342	250,000	12,292,342	14,111,713	-17.2	13,514,245		13,514,245	13,093,774	3.1
Kzyl-Orda	6,787,549	2,456,339	9,243,888	9,219,670	-35.8	7,016,444	3,796,247	10,812,691	10,591,102	-50.9
Kostani	9,686,247	715,705	10,401,952	10,791,337	-11.4	7,454,745		7,454,745	9,186,181	-23.2
Mangystau	3,163,793		3,163,793	3,193,456	-0.9	3,203,499		3,203,499	3,233,694	-0.9
Pavlodar	8,410,719		8,410,719	9,088,220	-8.1	7,762,704		7,762,704	9,139,594	-17.7
North Kazakhstan	5,429,335	4,527,389	9,956,724	10,051,841	-85.1	3,999,788	6,363,521	10,363,309	10,346,254	-158.7
South Kazakhstan	6,609,482	5,105,156	11,714,638	11,644,355	-76.2	6,924,350	9,519,342	16,443,692	16,108,469	-132.6
Almaty city	11,062,534		11,062,534	10,596,873	4.2	13,651,018		13,651,018	13,809,645	-1.2
Astana city						9,309,166		9,309,166	9,335,969	-0.3
Total	112,773,322	28209660	140982982	143,177,889	-27.0	111,394,197	40,184,263	151,578,460	154,985,833	-39.1

Sources: Kazakh authorities; and Fund staff estimates.

above, the extent of horizontal imbalances in the system was large and the vertical imbalance made poor oblasts extremely dependent on subventions.

129. The relative pre- and post-subvention per capita local revenues for the different oblasts for 1997 and 1998 are provided in Table 15. The degree of disparity in the pre-subvention per capita numbers is rather sizable, independently of whether Astana is taken into account or not. Astana is clearly an outlier, as shown by the difference between the ratios of the highest-to-lowest, the second highest-to-second lowest and the skewness of the distribution.

130. The actual outcome of the system of transfers is a substantially reduced regional disparity in per capita revenues (see Figure 18). Thus, though not in a transparent way, the system delivered the required outcome. There is however one segment of the cumulative income distribution curve where this system is clearly not reducing inequality. The new capital city, Astana, which enjoys the highest per capita local government revenues, is not subject to any budgetary withdrawal.

F. Subnational Borrowing and Arrears

Subnational borrowing

131. Oblasts and the cities of Almaty and Astana can borrow from the Republican budget (Article 22), from legal entities or individuals, and from foreign states (Article 25). Lower levels of local governments (e.g., rayons) can borrow from higher level local governments (Article 24).

132. The Budget System Law does not establish any explicit limit either on the borrowing (e.g., in terms of revenues) or on the debt of local governments. Neither does it limit the purpose of local government borrowing. However, it stipulates that the law on the Republican budget will establish every year an absolute ceiling on the total combined borrowing by local governments and will give the republican government the right to set a borrowing ceiling for each local government within the aggregate limit (Article 5). This limit in the 1999 revised Republican budget is set at T 5 billion (around 0.3 percent of GDP).

Arrears

133. Arrears have been a widespread and persistent phenomenon at the local level in Kazakhstan. Recent data indicate that, at the end of March 1999, the total stock of expenditure arrears of the general government was T 70.3 billion (3.9 percent of GDP), out of which arrears at the local government level amounted to T 31.8 billion (1.8 percent of GDP). The increase in arrears, particularly at the local level, was most pronounced during the recent period of substantial decline in economic activity and, thus, in tax revenues. The stock of arrears at the local level increased from 1.3 percent of GDP at the end of June 1998 to

1.8 percent of GDP by the end of March 1999. The accumulation of arrears was in large part responsible for the disparities in actual per capita social security and welfare spending across oblasts.

G. Tentative Conclusions Regarding the Current System of Intergovernmental Fiscal Relations

134. Adoption of the new Budget System Law was an important step toward a more transparent and stable system of intergovernmental fiscal relations in Kazakhstan. Its major achievement was that it defined in a clear and transparent manner the way in which tax and non-tax revenues are shared between local and central governments. This, in principle, should provide local governments with a more secure and predictable stream of revenues in the future, and help them define the scope of activities which they can fulfill and, in turn, meet their expenditure responsibilities in a timely manner.

135. However, the current system of intergovernmental fiscal relations raises a number of issues, which are discussed below.

Evolution of the fiscal system

136. It is almost certain that the present division of revenue and expenditure between republican and local governments will have to undergo modifications in the future. Given the ongoing structural transformation of the Kazakh economy and the characteristics of existing main taxes, it is almost impossible to devise a system now that could be kept unchanged for a substantial period of time. At present, adjustment can be made through changes in the level of transfers between republican and local budgets, as these are not set out in the law. However, this form of the equalization mechanism has its limits. If the amount of revenue that is redistributed among oblasts were to become large, the system would undoubtedly come under strain, making an adjustment in the revenue sharing assignment necessary.

Expenditure assignment

137. The most pressing issue that may have to be confronted under the current system of intergovernmental fiscal relations is the risk of turning social benefits into a residual spending item and practically eliminating unemployment benefits. Indeed, the following combination of factors may easily lead to a situation where any fiscal adjustment—be it in the form of sequestration or arrears—would fall disproportionately on spending on social and unemployment benefits: local government's responsibility for providing social benefits; priority given to spending on education and health; limited capacity of local governments to borrow; and difficulties to match actual revenues with budgeted revenues.

138. The situation discussed above would be unfortunate for a number of reasons. It would imply the elimination of an important automatic stabilizer in the economy, a reduction in welfare of needy individuals, and an increase in social inequality. Given the regional disparities in local government expenditures, it would create, in particular, a high level of

inequality in per capita spending on social benefits and assistance across oblasts. One remedy to these potential difficulties might be a well-designed system of special purpose grants, which might limit the link between local revenues and spending on social welfare but leave the implementation of a truly targeted system of social benefits to local governments. Assigning the implementation to local governments would ensure that the efficiency gains from decentralization, including those form improved allocative efficiency, are preserved.[32]

139. Given the nature and direction of the recent health care reforms, a second issue of interest is the assignment of health care financing to local governments. With free access to health care being limited to a basic package of services, it is unclear that local governments are better placed to monitor the activities of health care providers that are financed by public resources. Moreover, there might be economies of scale involved in monitoring health care providers.

140. In order to ensure that provision of this basic set of health services is reasonably uniform across the country, the spending on basic health care should be disconnected from local tax and non-tax revenue. This could in principle be achieved through a well designed special purpose grant scheme, which would basically transfer the costs of such a package to local governments, which in turn would pay the service providers. However, it would create an unnecessary layer in the system and would create moral hazard by eliminating the incentive to control tightly the costs of providers. Moreover, it would also take away the gain form economies of scale and would unnecessarily increase administration costs. Thus, a more centralized model with a specialized public health insurance fund (kept on the balance sheet) would perhaps be a better solution.

Revenue sharing

141. On the revenue side, the allocation of the social tax to local governments is one element that generates significant tensions. Given the large share of revenues from the social tax in total revenues of local governments, pressures to keep the present social tax rate or even to increase it, are likely to be strong. This calls into question one element of the original design of the pension reform, which envisaged that the payroll tax used to finance pension obligations under the former pay-as-you-go system—a tax later subsumed under the social tax—would be gradually reduced over time. Thus, contrary to earlier expectations, it might now be more difficult to shift the tax burden away from wages in the formal sector. A possible avenue for avoiding this difficulty would be increasing tax rates and widening the tax base of local taxes, such as property taxes, so as to reduce the dependence of local governments' revenues on the social tax.

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[32] This of course assumes that local governments have the capacity to efficiently administer such schemes, which may take time and requires major efforts put into improving the quality of government at the local level. Otherwise, the efficiency gains may not be realized, or there may even be efficiency losses involved in decentralization (see Tanzi, 1996).

Transfers

142. As discussed above, the current system of transfers between republican and local governments provides an essential element of flexibility of the whole fiscal system. That flexibility flows from the fact that transfers are not based on a formula. At the same time, this non-rule-based mechanism may contain built-in incentives to overestimate local revenue, which may explain repeated recourse to sequestration in the past years. The Ministry of Finance may be inclined to inflate local revenue estimates because doing so reduces subventions to poor oblasts, increases withdrawals from rich oblasts, and consequently frees resources for the republican budget. Local governments, which do not have the authority to modify transfers from, or to, the central government or increase borrowing beyond a limit fixed by the republican government, may chose to inflate revenue estimates to gain flexibility in ex-post expenditure allocation. Setting an initially high level of revenue allows to establish a commensurately high level of expenditure, which gives local administrations the power to select among expenditure programs when revenues fall short of target.

143. If the need for flexibility in the fiscal system lessens over time, an eventual switch to a rule-based system of transfers might alleviate this difficulty. For instance, one could envisage the use of a revenue assignment that produces a balanced budget for rich oblasts, creates a pool for general and/or specific purpose grants from national taxes, and distributes it to poor oblasts on the basis of a pre-defined formula.

Subnational borrowing

144. While the limit on total government borrowing set out in the revised republican budget for 1999[33] is small enough to make the issue of subnational borrowing largely irrelevant at present, allowing local governments to borrow at all seems questionable given their limited administrative capacities and the uncertainties surrounding the level of future revenues of local governments. Should borrowing at the local level be allowed, it might be desirable to limit it strictly to the financing of certain well-defined budget programs, mainly investments that can enhance regional growth and development.

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[33] T 5 billion, which is 0.3 percent of GDP.

IV. KAZAKHSTAN'S FINANCIAL SECTOR[34]

145. This section consists of two parts. The first provides a description of the development of Kazakhstan's financial sector since independence, the legal and accounting framework in which financial institutions operate, and the regulatory and supervisory activities of the National Bank of Kazakhstan and other regulators. The second reports on the current situation of the commercial banking sector, the insurance sector, and capital markets.

A. Main Features of the Financial Sector

Stages of development

146. When Kazakhstan became independent in 1991 it had a financial system consisting of the National Bank of Kazakhstan (NBK), formerly the local branch of Gosbank (the Soviet State Bank), five state-owned banks,[35] and 72 commercial banks that had been licensed between 1988 and 1991 by Gosbank.

147. Immediately following independence there was a rapid increase in the number of commercial banks, peaking at well over 200 in 1993. Most of these banks were small, poorly capitalized and managed, and served primarily to meet the financing needs of their parent state-owned enterprises or joint-stock companies. By the end of 1994, classified loans exceeded 50 percent of the total loan portfolio, and, if appropriate provisions for loss had been made, the total capital of the banking system would have been significantly less than zero.

148. Against this background, the Kazakh authorities undertook a reform program that included the creation of an appropriate legal framework for commercial transactions generally and for activities of the financial sector specifically. Actions were taken to deal with the overhanging bad loan portfolio and the NBK moved decisively to address problem banks. As a result, the number of banks has decreased sharply, and while the commercial banks remain the dominant players in the financial sector, a number of non-bank institutions have emerged (Box 1). Despite the significant progress made since 1993, further maturation of the financial and capital markets is required before the financial sector can provide efficient intermediation to facilitate domestic investment.

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[34] Written by Michael Andrews

[35] The Savings Bank (Sberbank), the Bank for Foreign Trade (Vneshekonombank), the Agricultural Bank (Agroprombank), the Industry and Construction Bank (Promstroibank), and the Social Investment Bank (Zhilsotsbank).

Box 1. Kazakhstan: Financial Sector, End-December 1998

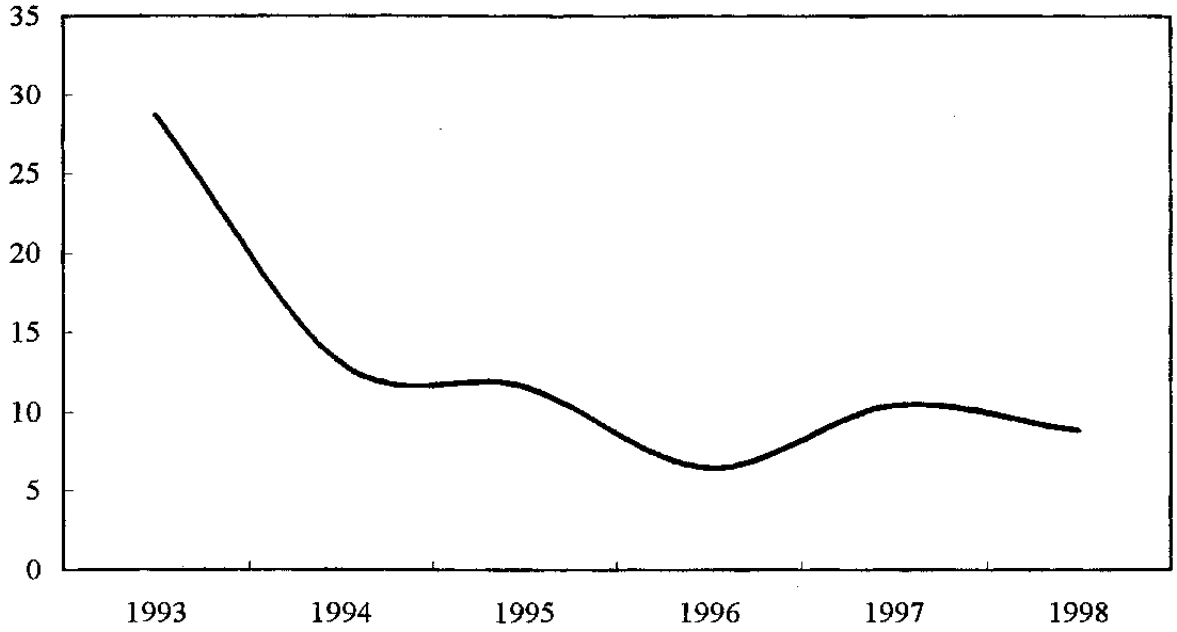
Major players	Number	Total assets (In millions of Tenge)
Commercial banks	71	195,841
Pension accumulation funds		
State	1	17,946
Private	12	5,581
Asset management companies	6	-
Credit partnerships (credit unions)	2	10
Pawn shops	36	356
Specialized government lending organizations (MOF Treasury)	16	5,096
Insurance companies	72	5,398
Clearing houses	2	-
Securities broker-dealers	73	-
Investment companies	130	-

Sources: National Bank of Kazakhstan; National Pension Agency; and National Securities Commission.

149. The level of monetization in Kazakhstan is presently much lower than in the early 1990s (Figure 19). This is due in large part to the impact of very high inflation and negative real interest rates in the early years of transition, which both eroded the value of existing stocks and made the holding of bank deposits and currency unattractive. After rapid growth since 1993, broad money declined by about 15 percent in 1998 due to a decline in bank deposits. Recently, while inflation was moderate and real interest rates positive, the anticipation of a devaluation of the tenge likely resulted in an increased use of foreign currencies both for transactions and as a substitute for bank deposits to hold short-term household and enterprise liquidity.

150. Low inflation, a stable tenge, and confidence in the commercial banks are preconditions for the establishment of a financial sector capable of meeting the intermediation needs of the economy. At present, the NBK and the government of Kazakhstan are fostering further restructuring and reform of the financial sector to permit it to play an appropriate role in an open liberalized economy.

Figure 19. Kazakhstan: Broad Money (M2), 1993-98
(In percent of GDP)



Source: National Bank of Kazakhstan

Legal and Accounting Framework

151. The general commercial legal framework is still evolving, but the basic requirements for financial transactions have been addressed. The Civil Code (1995) clarified property rights, and decrees concerning land, mortgages and registration of securities interests have been promulgated. The Law on Competition dates from 1991. A Decree on Bankruptcy, enacted in 1997, established creditor rights and procedures for business reorganization and out-of-court settlement procedures. Company law was introduced in 1991 and was substantially revised in 1998 in light of experience.

152. The legal requirements for both financial and capital markets are in place (Table 17). One notable feature of both general commercial law and the specific financial sector statutes in Kazakhstan is the almost constant state of flux. Laws and decrees are being continually revised and re-issued, which has the benefit of ensuring that there can be rapid adaptation to changing circumstances or to reflect practical experience with a law. However, there is a cost as market participants find if difficult to keep up with rapidly changing requirements. Multiple laws and decrees may govern in many cases a specific commercial transaction, such as the purchase of foreign exchange.

153. Practical experience with the judicial system has been uneven. While satisfactory proceedings have been reported when banks have had to resort to legal means to collect on loans, there are also reports of complete inability to achieve legal remedies in other cases. One significant cause of these difficulties is the shortage of qualified and experienced commercial lawyers. Another factor is a perception that there are corrupt members of the judiciary, particularly in areas outside of Almaty and Astana.

Table 17. Kazakhstan: Financial Sector Legal Framework

Law/decree	Date
Law on banking	1993
Decree on prudential standards	1995
• Minimum capital	
• Risk-weighted capital adequacy ratios	
• Single borrower exposure	
• Related parties lending	
• Liquidity	
• Reserve requirements	
• Limits on investment in fixed assets and intangibles	
• Limit on open foreign exchange positions	
Decree on classification of loans and establishing provisions	1995
Decree on bank licensing	1996
Decree on bank liquidation	1996
Decree on bank conservatorship	1996
Decree on transition to international prudential standards	1996
Insurance law	1993
Securities market law	1997
Law on investment funds	1997
Law on registration of securities	1997

154. The Kazakhstan Accounting Commission was established in 1996. While more than 20 standards have been introduced with the goal of moving closer to International Accounting Standards, there is still a gap. For example, in order to reconcile the 1998 accounts of one of the largest banks from Kazakh to international standards, the international auditors required adjustments that reduced shareholders equity by over 10 percent. A very major challenge is a lack of suitably trained accounting staff, both within commercial and financial enterprises and in accounting firms. The absence of reliable financial statements prepared in accordance with international standards makes it more difficult to finance emerging businesses as banks generally have little confidence that the statements accurately reflect the financial condition of the enterprise.

Regulation and Supervision

Supervisory agencies and consolidated supervision

155. The NBK is the responsible agency for most of the financial sector, with authority over commercial banks and several types of non-banking institutions including insurance companies. The National Securities Commission (NSC) and National Pension Agency also play a regulatory role (Box 2). Inclusion of both banking and insurance regulation in the mandate of one agency lays the foundation for consolidated supervision. The NBK and NSC have a formal information sharing arrangement and at a working level communicate regarding the regulation of capital markets activities undertaken by banks and their subsidiaries and affiliates. However, achieving effective consolidated supervision is hampered by the lack of a requirement for consolidated financial statements and, in many cases, a lack of knowledge on the part of the regulators of the corporate structure of entities that own or are affiliated with banks.

Box 2. Kazakhstan: Financial Sector Regulators

Regulator/Supervisor	Responsibility	Staff
National Bank of Kazakhstan		
Banking Supervision Department	Commercial banks	106
Insurance Supervision Department	Life and general insurance companies Insurance agents and brokers	24
Non-bank Supervision Division	Credit partnerships Pawn shops Custodian banks Clearing houses Stock exchanges	5
National Securities Commission	Brokers/dealers Asset management companies Investment companies	70
National Pension Agency	Pension accumulation funds	3

Sources: National Bank of Kazakhstan; National Securities Commission; and National Pension Agency.

Banking Supervision

156. The NBK has made significant progress towards establishing a bank supervision regime that is consistent with international best practices (Box 3). When it introduced enhanced prudential requirements in 1997 (Table 18), the NBK implemented a phased two-tier program that would see all commercial banks in compliance with the tougher standards by year-end 2000. The sharp decline in the number of banks in compliance with prudential norms in 1997 was due to the raising of standards more than to any broad deterioration in soundness (Table 19). The improvement in 1998 is a function both of the revocation of licenses of weak banks and improvements in other banks. Although there are some exceptions, the large banks are reported to be generally in compliance with all prudential standards.

Box 3. Kazakhstan: Effective Banking Supervision

Considerable improvements have been made since 1993 in both the legal framework and practical application of banking supervision in Kazakhstan. Areas where further work is required to continue the progress towards international best practices include:

- Increasing the number and professional skill of examination staff.
- The current definition of foreign exchange exposure should be amended to capture tenge-denominated instruments indexed to foreign currency.
- Supervision on a consolidated basis needs to be put in place, including the development of a clear understanding of the structure of the corporate group and even closer cooperation with the National Securities Commission in overseeing the capital markets activities of banks, their subsidiaries and affiliates.
- Adoption of International Accounting Standards, including a requirement for consolidated statements.
- The banking supervisors' ability to deal with unsound banks can be compromised by the provision that a bank whose license has been revoked may have it restored by court order if the NBK application to the courts for a liquidation order is denied.

Table 18. Kazakhstan: Key Prudential Standards

Standard	Requirement	International best practice
Capital Adequacy: Tier 1	6 percent of risk-weighted assets, including off-balance sheet items	Minimum 4 percent, higher warranted for transition economies
Capital Adequacy: Total	12 percent of risk-weighted assets, including off-balance sheet items	Minimum 8 percent, higher warranted for transition economies
Liquidity	20 percent of liabilities	Consistent with international best practice
Single borrower exposure	25 percent of total capital	Consistent with international best practice, although there should also be a limit on the total exposure to all large connections
Related parties exposure	10 percent of total capital	Consistent with international best practice
Open foreign exchange position limits	Total foreign currency exposure limited to 25 percent of total capital, single OECD currency exposure 15 percent, non-OECD currency 7.5 percent of capital	Consistent with international best practice although the common usage of dollar indexed tenge denominated loans creates foreign exchange exposure not captured under the current regulation.

157. The first tier of banks, which originally consisted of 30 institutions, was to have been in full compliance with the more stringent standards by the end of 1998. At year-end 1998, 13 banks were in compliance, consisting of 9 domestic banks, and 4 foreign subsidiaries. Banks that did not meet tier one requirements were moved into the second tier. Banks in this category have greater restrictions placed on their business powers. Second tier banks had to reach a capital level of 8 percent by the end of 1998, 10 percent by 1999, and 12 percent by 2000. The movement of a significant number of small banks into the second group raises concern that this may merely be deferring the need to close institutions that ultimately will be unable to meet the higher prudential standards.

Table 19. Kazakhstan: Compliance with Prudential Standards 1995-98
(In percent of all banks)

Prudential standard	1995	1996	1997	1998
All standards	50.0	65.3	36.7	57.8
Tier 1 capital	n.a	81.2	84.1	91.5
Total capital	95.4	96.0	84.1	90.1
Single borrower exposure	82.3	89.1	78.0	84.5
Lending to related parties	91.5	95.0	86.5	88.7
Open foreign exchange positions	n.a.	n.a.	93.9	88.7
Number of banks	130	101	82	71

Source: National Bank of Kazakhstan.

158. One of the significant achievements of the NBK has been the implementation of a comprehensive off-site reporting system and a regular program of on-site examinations. There is, however, room for further improvement in the off-site reports as many banks, particularly smaller banks, have had difficulty converting to the new chart of accounts mandated in 1997. While the new chart approaches international standards, implementation has been less than satisfactory because many banks continue to operate using the old accounting system and prepare reports on the new basis only to meet prudential filing requirements. Significant reporting errors have resulted, and the quality of data will only improve when the new system of accounts is fully implemented as a management tool within the banks rather than just being used to meet reporting requirements.

159. During 1998, the NBK conducted 41 comprehensive on-site examinations, and 8 limited scope compliance examinations. The NBK has a detailed inspection handbook and program, developed with international technical assistance. The on-site inspections have typically identified under-provisioning for loans, and consequently over-reporting of income and capital. Weaknesses in internal controls and management qualifications are widespread, with 60 percent of banks examined in 1998 receiving a management rating of marginal or worse.[36]

160. One of the major challenges faced by the NBK is the difficulty in attracting, developing and retaining suitably qualified and experienced staff. Liberal use has been made of international assistance and training opportunities, but there is still some concern that lack of experience may mean that there are weaknesses in asset portfolios or operations that do not come to the attention of the inspection teams.

[36] One component of the CAMEL rating (Capital, Assets, Management, Earnings, Liabilities) system used by many regulators, including the NBK.

161. When deficiencies are revealed through off-site reporting or on-site examination, the NBK has a range of remedial measures available. Typically, written commitments are obtained from banks not in compliance to undertake specific actions within a given time period. The NBK has a track record of taking decisive action to deal with banks that do not come into compliance with its directives, having revoked the licenses of 90 banks since 1995.

Supervision of Non-Bank Financial Institutions

Insurance Companies

162. The NBK assumed responsibility for insurance supervision, which had previously been undertaken by the Ministry of Finance, in July 1998. Having the same agency responsible for insurance and banking regulation facilitates consolidated supervision and there are international examples of this being undertaken successfully.[37] However, for both functions to be carried out in one entity, it is important that sufficient specialized expertise be developed. Effective supervision of insurance requires specialized actuarial skills and knowledge of underwriting and insurance accounting that is generally not found within a banking regulator. One of the challenges facing the NBK is to develop this expertise.

Other Non-Bank Institutions

163. The NBK is in the process of developing regulations for credit partnerships. Two existing credit partnerships have been formed on the cooperative principle of one member, one vote. However, the NBK is contemplating permitting an ownership structure that could vary as with any company, thus permitting one or more persons or entities to control a credit partnership. The NBK also licenses and supervises pawnshops and a range of entities whose activities are related to banking, such as the central depository for securities and clearing houses.

Regulation of Capital Markets Activities

164. The National Securities Commission was established in 1995, prior to the introduction of the current Securities Law in 1997. A framework for capital markets regulation has been established, but further refinements are required. An investor protection law has been drafted to establish and defend the rights of small shareholders. There has been concern about the lack of transparency and disclosure and quality of corporate governance among Kazakh companies. There have been instances where management has not acted in

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[37] For example, Canada's Office of the Superintendent of Financial Institutions is responsible for both banking and insurance supervision, as is the Australian Prudential Regulation Authority.

the interests of shareholders, so there is clearly a need for improvement before small investors can be attracted to invest.

165. Planned amendments to the Securities Law for 1999 include the provision of administrative enforcement powers to the Securities Commission. Currently, the Securities Commission has to resort to the courts to enforce supervisory actions over broker-dealers and other licensed entities.

166. There are major concerns about the efficient functioning of the market. In 1998, it is estimated that 95 percent of all trading in listed companies was conducted "upstairs" by broker-dealers and did not cross the floor of the exchange. Clearly, this fosters a market characterized by wide spreads and lack of price discovery. In order to improve the functioning of the market, the Securities Commission has in 1999 implemented a requirement that all trading in listed companies be undertaken on the Kazakhstan Stock Exchange.

167. The importance of capital markets regulation will increase significantly in the near future due to pension reform. By law, the assets of pension accumulation funds are to be managed by asset management companies regulated by the Securities Commission. Sound oversight is essential to ensure that these large pools of funds are prudently managed. Further, if they are to provide an adequate investment return, there needs to be an expansion in both the range of investment instruments available and the depth of existing markets.

168. There are currently 12 non-state pension accumulation funds, which are licensed and regulated by the National Pension Agency. The regulation relates primarily to ownership and governance, as an asset management company regulated by the Securities Commission must manage investment activities.

B. Current Situation of the Main Segments of the Financial Sector

The Commercial Banking Sector

169. At end-April 1999, the two-tier banking system in Kazakhstan consisted of the NBK and 70 commercial banks. The commercial sector has been characterized by a period of rapid growth peaking in 1994, followed by a period of rapid consolidation (Table 20). This consolidation will continue as more banks are expected to be acquired, merge or have their licenses withdrawn as they are unable to meet prudential standards.

Table 20. Kazakhstan: Commercial Bank Entry and Exit, 1995-98

	1995	1996	1997	1998
Number of banks at the beginning of the year	184	130	101	82
New banks licensed during the year	2	1	6	3
Exits during the year				
Withdrawal of license for prudential reasons or court order	42	27	17	4
Merger	1	3	2	2
Other	13	0	6	8
Total exits	56	30	25	14
Number of banks at year-end	130	101	82	71

Source: National Bank of Kazakhstan.

170. The financial performance of most commercial banks has been weak, notwithstanding the profitability reported in 1998 (Table 21). Spreads between loan and deposit rates are high, as indicated by net interest income approaching seven percent of total assets. However, even these very high spreads are insufficient to offset the high cost overhang from a poor quality loan portfolio and extremely inefficient operations that result in operating expenses of 13 percent of total assets.

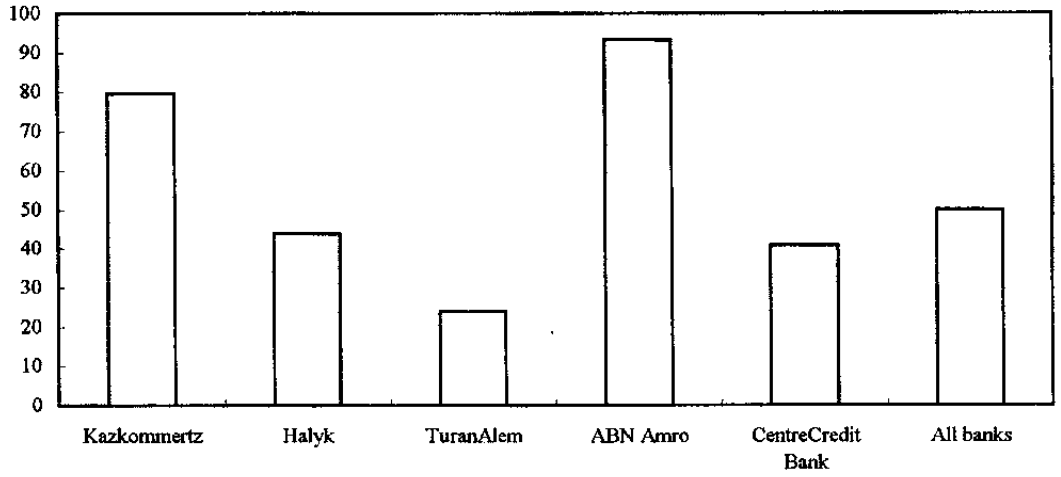
Table 21. Kazakhstan: Commercial Bank Performance, 1997-98

All Banks (in percent of total assets)	1997	1998
Net interest income	6.7	6.9
Non-interest income	12.0	12.2
Total income	*18.7*	*19.0*
Provision for loan loss	8.4	4.8
Operating expenses	13.8	13.0
Operating income	*(3.9)*	*1.2*
Extraordinary items	0.1	0.9
Net income before taxes	(3.8)	2.1
Provision for taxes	0.4	0.2
Net income after tax	*(4.2)*	*1.9*

Source: National Bank of Kazakhstan

171. Gains on foreign currency contributed significantly to the profitability of the commercial banks in 1998. The tenge depreciated by 9 percent against the dollar during the year, and the banks have over 50 percent of their loan portfolio denominated in foreign currency, largely dollars (Figure 20). Even companies without foreign currency income have viewed foreign currency borrowing as attractive because borrowing rates for foreign currency loans have generally been below those for tenge denominated loans (Figure 21). However, when the tenge depreciated significantly in 1999, borrowers who had sought to take advantage of lower foreign currency borrowing rates without the benefit of the natural hedge of foreign currency income or the use of futures or options to manage their exposure were faced with a sharp increase in the tenge value of their debt and debt service costs. This is likely to lead to increasing default rates and loans losses (Box 4).

Figure 20. Kazakhstan: Foreign Currency Loans of the Largest Commercial Banks as of April 1, 1999
(In percent of total loans)



Sourve: National Bank of Kazakhstan.

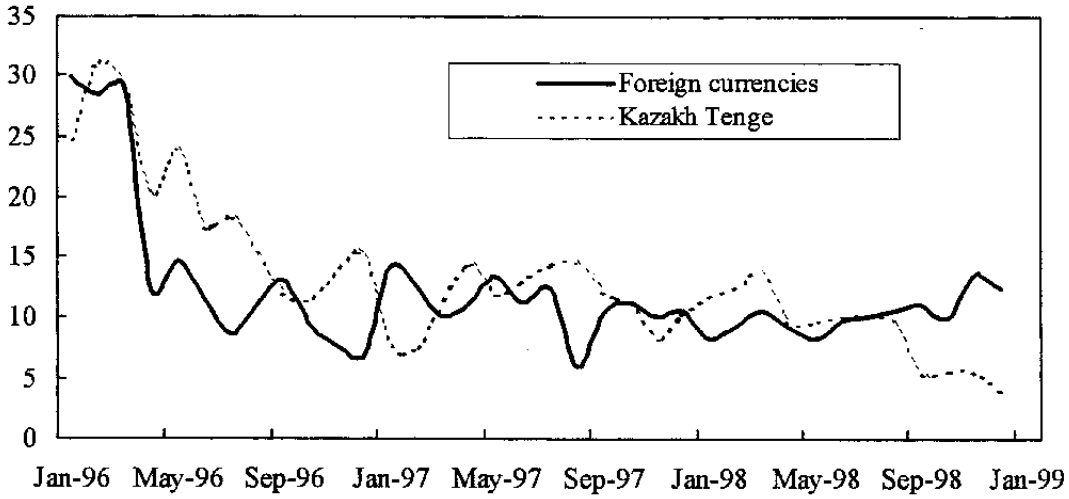
172. The likelihood of further deterioration in the quality of the commercial banks' loan portfolio will exacerbate an already serious asset quality problem (Table 22). Although the percentage of "loss" classifications fell, the percentage of "standard" loans declined to 73.4 percent. Total provisions of less than 7 percent of assets is likely inadequate as ongoing on-site inspections have revealed underprovisioning even before the impact of the recent depreciation of the tenge.

Table 22. Kazakhstan: Reported Quality of Banking Assets, 1998-99
(Including contingent items)

Classification	January 1, 1998		January 1, 1999	
	Percent of total portfolio	Provision as a percent of classification	Percent of total portfolio	Provision as a percent of classification
Standard	74.6	0.0	73.4	0.0
Substandard	10.0	6.7	18.0	5.7
Unsatisfactory	3.2	28.7	2.7	22.7
High risk	1.1	50.8	2.5	53.2
Loss	11.1	55.9	3.4	99.7
Total (in millions of tenge)	122,200	10,190	159,100	10,128

Source: National Bank of Kazakhstan.

Figure 21 . Kazakhstan: Nominal Interest Rates Charges by Commercial Banks for Short-term Credit, 1996-99
(In percent)



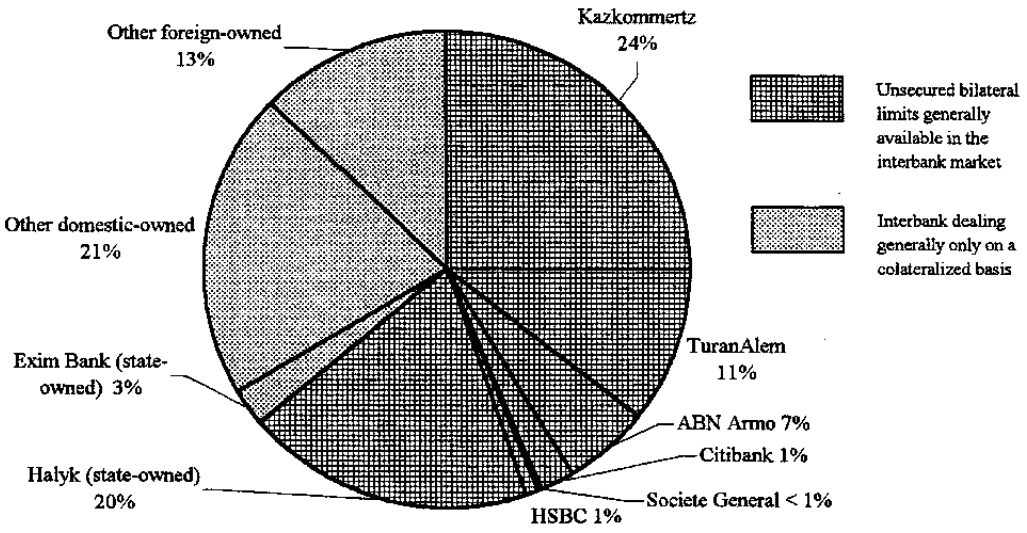
Source: National Bank of Kazakhstan

173. The asset quality and income problems are most serious for the smaller commercial banks, with the result that there is a highly segmented inter-bank market (Figure 22). With the exception of subsidiaries of well known foreign banks, no small banks are able to access the interbank market on an unsecured basis. Although the commercial banking sector as a whole reports strong capitalization (30 percent of risk-weighted assets at end-1998, versus

23 percent in 1997 and 19 percent in 1996), the segmented interbank market indicates the concerns of participants that the income and capital of many banks is overstated.

174. The commercial banking market is quite concentrated, with the five largest banks accounting for two-thirds of assets. A significant increase in the market share of these institutions, baring a large merger, is unlikely. The three newly entered foreign banks: Société Générale, Hong Kong and Shanghai Banking Corporation, and Citibank are expected to compete vigorously to obtain a share of the higher quality credits. While a number of the smaller banks will exit the market, the larger domestic banks and foreign banks are likely to be extremely selective in competing for the customers of these smaller banks, as the portfolios of the smaller banks have a much higher concentration of poorer quality credits.

Figure 22. Kazakhstan: Commercial Bank Segmentation
Percent of total assets, April 1,1999



Source: National Bank of Kazakhstan

Box 4. Kazakhstan: Impact on Commercial Banks of Tenge Depreciation

The earnings of the commercial banks will be affected by the recent depreciation of the tenge. In the first instance the sector will enjoy currency revaluation gains as most banks are long in dollars. In addition to the more than 50 percent of loans denominated in foreign currencies, a further 20 percent of loans, although denominated in tenge, are indexed to the dollar. Thus, 70 percent of the portfolio of the banks increases in face value and interest payable, expressed in tenge, as the currency depreciates. This is positive for the banks in the short term, but there will be longer term negative repercussions.

While precise information is not available, a maximum of 40 percent of borrowers with foreign currency denominated loans are estimated to have foreign currency denominated income. Thus, about 40 percent of all borrowers (60 percent of the 70 percent with foreign currency denominated or indexed debt) were faced with a with 40 percent increase in their real cost of debt service and repayment when the exchange rate moved from 80 at end-1998 to the 112-115 range in April 1999. Few businesses will be able to withstand this kind of shock, with the result that the banks will experience a further deterioration in the quality of their loan portfolios.

It is impossible to determine with certainty whether the potential gains from currency devaluation offset the greater loan losses faced by the banks. The estimates below, based on January 1999 data for all commercial banks, provide an indication that the sector overall will not benefit from the devaluation. While greater depreciation brings greater currency revaluation gains to the banking sector, it also increases the number of unhedged foreign currency borrowers that will default. Even if the sector as a whole is able to withstand the increased loan losses, some individual banks are bound to experience difficulties.

Gain on tenge depreciation			
Foreign currency assets (includes net off-balance sheet)		91,483	
Estimate of indexed tenge assets		19,308	
Long foreign currency (in millions of tenge)			110,791
Less:			
Foreign currency liabilities		83,169	
Indexed tenge liabilities		-	
Short foreign currency (in millions of tenge)			83,169
Net long foreign currency position			27,622
Estimated currency gain if year-end tenge-dollar rate is:		115	12,100
		125	15,500
		145	22,450

Increase in Loan Losses		
Foreign currency loans (including indexed loans)		72,613
Less: estimated outstanding to borrowers with foreign currency income		29,000
Portfolio exposure to unhedged borrowers		43,613
Loan loss expense if loss on unhedged borrowers is:	30 percent	13,100
	50 percent	21,800
	70 percent	30,500

Source: IMF Staff estimates from NBK data.

The Insurance Sector

175. The insurance sector in Kazakhstan is in a very early stage of development. To date there are 72 licensed insurance companies, of which one is foreign (AIG) and two are related to domestic banks (Kazkommerts Policy and TuremAlem). Almost all activity is currently in property and casualty lines, with virtually no offerings of life insurance or annuities. Premiums written in 1998 amounted to T 4,195 million, up 26 percent from 1997. Claims experience has been very favorable, with the sector collectively recording an underwriting profit of 71 percent in 1998, down from 85 percent in 1997.

176. Much of the general insurance written in Kazakhstan is reinsured offshore. This is both because of the limited risk-bearing ability of the local industry and because of the preferences of international firms to deal with well known syndicates even though the Insurance Law requires insurance in Kazakhstan to be underwritten by locally supervised companies.

177. While two companies are licensed to underwrite life insurance, they are virtually inactive. A major obstacle to the development of the life insurance industry is the lack of trained actuaries and the lack of mortality tables. With pension reform, the development of actuarial science and mortality tables has to be a priority if individuals withdrawing their benefits from a pension accumulation fund upon retirement are to be provided with an annuity option. Without the availability of annuities, financially unsophisticated individuals will be faced with the necessity to manage their lump-sum payments in order to provide for the duration of their retirement.

Capital Markets

178. The necessary infrastructure for an active capital market is in place, with a securities clearing and settlement system capable of meeting key Group of 30 standards having become operational in 1997. Settlement on T+3 and delivery versus payment are both features of the system, and there is a central depository for securities and a private clearing house. The inactive Central Asian Stock Exchange had its license revoked in 1998. With the merger of the Kazakhstan Stock Exchange and the Almaty Financial instruments Exchange (run by the NBK for Treasury bills), all exchange trading is concentrated in a single entity.

179. There were 73 registered broker-dealers at end-1998, of which 28 were commercial banks. Of the 73 broker-dealers, 15 had their licensed suspended as of end-1998. These suspensions were largely due to inability to comply with capital requirements as many broker-dealers suffered significant losses during the year from trading on their own account.

180. The major challenge facing the development of an active capital market is provision of a sufficient supply of quality securities. At end-98, there were only 18 companies listed on the Stock Exchange. More than half of all enterprises in Kazakhstan remain state-owned, and among the domestic private companies, few are currently able to access the capital markets. Even for those companies that are not handicapped by inherently weak balance sheets and

uncertain income, the lack of financial statements prepared to international standards, the recent history of poor corporate governance, and the historical lack of transparency in the market are obstacles to be overcome. Foreign investors will be very selective, and domestically there are as yet few institutional investors, and individual investors are wary of the capital markets. However, the rapid growth of pension accumulation funds will increase demand for capital markets instruments, and a resumption of the governments' privatization program could provide a supply of corporate equities.

C. Conclusions

181. Good progress has been made by the authorities to implement the key elements of the legal framework for an efficient financial sector. The commercial banking sector is in the process of rationalization after an excessively rapid expansion. This consolidation is in part due to the implementation of more stringent prudential requirements, which will in the long run help to foster greater confidence in the commercial banks. The authorities remain committed to these standards, and a further reduction in the number of banks is expected. The period through 2000 will be especially challenging as the sector deals with increased loan losses in the wake of the tenge depreciation.

182. The reform of pensions has created a strong impetus for capital markets development. The assets of pension accumulation funds will soon exceed the personal deposits held by the banks, making them the largest pool of domestic savings. This strong demand for capital markets instruments must be met by high quality securities traded in efficient and transparent markets. Otherwise, the pension funds will be unable to earn a return that will enable them to meet the retirement needs of the population.

V. The Magnitude of External Shocks In 1998[38]

A. Introduction

183. As reported in Section II, Kazakhstan was hit by large shocks in 1998, which had a profound impact on domestic economic developments. This section focuses on two of these shocks, the fall in the terms of trade and the real effective appreciation of the tenge. It has two principal objectives. The first is to quantify these two shocks with a reasonable degree of precision. To this end, new time series for real effective exchange rate and terms of trade have been created. The second objective is to evaluate he likelihood of shocks of such magnitude being repeated. This is done by comparing Kazakhstan's experience to changes in the terms of trade or in real effective exchange rates in a large set of countries.

B. Evolution of the Real Effective Exchange Rate

184. This subsection describes the methodology used to create real effective exchange rate series for Kazakhstan, shows the results of the computation of these series, and analyzes their main characteristics.

Methodology

General formula

185. The real effective exchange rate is defined as a weighted average of the domestic currency's exchange rate vis-à-vis that of each of its trading partners divided by a relative price or cost index. Mathematically, it can be expressed as

$$r_t = \sum_i \beta^i \cdot \frac{p_t / e_t}{p_t^i / e_t^i}$$

where r_t is the home country's real effective exchange rate index at time t, β^i, the weight put on trading partner i, e_t, the home country's bilateral exchange rate vis-à-vis the U.S. dollar at time t, p_t, the home country's price or cost index at time t, e_t^i, partner country i's bilateral exchange rate vis-à-vis the U.S. dollar at time t, and p_t^i, partner country i's price or cost index at time t.

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[38] Written by Dominique Desruelle and Patrick Njoroge.

186. Given this formula, the creation of a real effective exchange rate series basically requires choosing a weighting scheme for trade partners and an appropriate price or cost measure. The price or cost measures most commonly used are consumer price indices, producer price indices, value-added deflators, and unit labor cost indices. A variety of weighting schemes have been derived in the literature, some of which show different degrees of sophistication. They range from the simple use of partner countries' shares in home country's exports and imports to schemes that attempt to take into account the nature of the goods traded or the effects of competition in third markets .

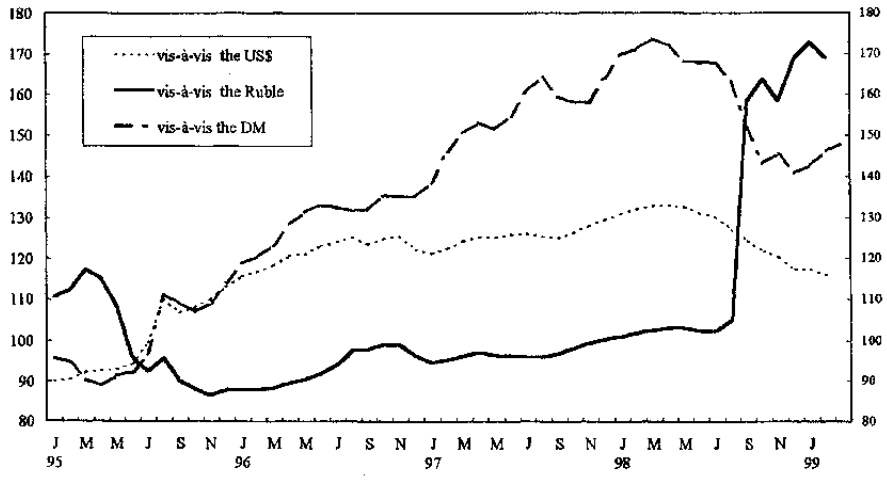
Choice of a price or cost index

187. For the present study, the choice of a price or cost index will be limited to the consumer price index. Given that the consumer price index is a weighted average of the price of tradables and non-tradables, and assuming that prices of tradables are equalized through trade, a real effective exchange rate series based on the CPI can be thought of as an index of the relative price of nontradables in the home and foreign countries. An increase in the index—i.e., a real effective exchange rate appreciation—signifies a relatively greater pull of resources toward the non-tradable good sectors in the home country than in its trading partners.

Choice of weighting schemes

188. Chosing a weighting scheme is particularly difficult in the case of Kazakhstan, as there are marked differences in the evolution of the tenge's real bilateral exchange rate vis-à-vis currencies of different trading partners (Figure 23).

Figure 23. Kazakhstan: Real Exchange Rate of the Tenge
vis-à-vis Different Currencies, 1995-99
(Index, 1995 = 100)



Source: Kazakh authorities; and staff estimates

189. Since no weighting scheme is clearly superior to another, three different weigthing schemes are used in this study. Consequently, three different real effective exchange rate series will be computed.

190. The first weighting scheme simply uses trading partners' share of imports and exports in Kazakhstan' external trade. Thus, trading partner *i*'s weight, β_i, is given by

$$\beta_i = \frac{X}{X+M} \cdot \frac{x_i}{X} + \frac{M}{X+M} \cdot \frac{m_i}{M}$$

where X and M are Kazakhstan's total exports and imports, x_i, Kazakhstan's exports to country *i*, and m_i, Kazakhstan's imports from country *i*.

191. The second and third weighting schemes are adapted from the methodology used to compute real effective exchange rate series under the IMF's Information Notice System.[39]

192. These two schemes are based on separate weights for trade in manufactured goods and food products and trade in primary comodities. Specifically,

$$\beta_i = \frac{X^M + I^M}{X^M + I^M + X^{PC} + I^{PC}} \cdot \beta_i^M + \frac{X^{PC} + I^{PC}}{X^M + I^M + X^{PC} + I^{PC}} \cdot \beta_i^{PC}$$

where X^M, I^M, X^{PC}, I^{PC} respectively are Kazakshtan's exports and imports of manufactured goods and food products and its exports and imports of all primary commodities, but oil, and β_i^M and β_i^{PC} are weights for these two groups of products.

193. As for the first weighting scheme, weights for trade in manufactured goods and food products are based on trading partners' share of imports and exports in Kazakhstan's trade of these products. Thus,

$$\beta_i^M = \frac{X^M}{X^M + M^M} \cdot \frac{x_i^M}{X^M} + \frac{M^M}{X^M + M^M} \cdot \frac{m_i^M}{M^M}$$

where x_i^M are Kazakhstan's exports of manufactured goods and food products to country *i*, and m_i^M, its imports of those same commodities from country *i*.

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[39] For a description of the INS, see Zanello and Desruelle (1997).

194. Weights for trade in primary commodities are of a different nature. Primary commodities are grouped into four categories, corresponding to SITC categories 11-12 (beverages and tobacco), 21-29 (crude materials, except fuels), 41-43 (animal and vegetable oils), and 68 (non-ferrous metals). The weight of trade partner *i* for trade in one of these four categories is the product of the share of this category in Kazakhstan's total trade in primary commodities by the share of country *i* in world trade in this category of commodities. The weight of trade partner *i* is simply the sum of the weights for each category of primary commodities. The assumption underlying this weighting scheme is that primary commodities are homogeneous goods that are sold on a unified world market. Thus, the weight to be given to a partner country for trade in primary commodities has to be linked to the importance of that country as a producer or consumer of that commodity. Oil is excluded as it is assumed that world demand and supply of oil is independent of currency fluctuations. Mathematically,

$$\beta_i^{PC} = \sum_{j=1}^{4} \left(\frac{X^j + M^j}{\sum_{j=1,4}(X^j + M^j)} \right) \cdot \left(\frac{x_i^j + m_i^j}{\sum_i (x_i^j + m_i^j)} \right)$$

where X^j, M^j, respectively, are Kazakhstan's exports and imports of primary commodities included in category *j*, and x_i^j and m_i^j, respectively, are country *i*'s total exports and imports of primary commodities included in category *j*.

195. The second and third weighting schemes differ with respect to the inclusion of shuttle trade in the computation of trade weights. For the second weighting scheme, only customs data are used. For the third weighting scheme, customs data are corrected to account for shuttle trade.

196. For all three weighting schemes, the same simple cut-off rule was used. Weights were computed on the basis of the methodology described above. Then, countries with the top twenty weights were selected and their weights were scaled by a uniform factor so that they would add up to 1.

Data sources and additional assumptions

197. The trade data used in the computation of the three set of weights are Kazakhstan's customs data for 1998, National Bank of Kazakhstan (NBK)'s global estimates of shuttle trade for 1998, and INS data for trade in primary commodities. Nominal exchange rate and consumer price data for the period up to February 1999 were also taken from the IMF's INS database. This database uses the average monthly nominal exchange rate of national currencies vis-à-vis the US dollar. Nominal exchange rate and consumer price data for Kazakhstan for March and April 1999 were obtained from the NBK and the National Statistical Agency.

198. Additional assumptions had to be made for the regional distribution of shuttle trade and exchange and price data for March and April 1999. On the basis of partial information on air and land travel, it was assumed that 50 percent of shuttle trade is done with Russia, 30 percent with Turkey, 10 percent with China, and 5 percent each with Uzbekistan and the Kyrgyz Republic. In addition, it was assumed that the real bilateral exchange rate of Kazakhstan's trading partners vis-à-vis the U.S. dollar remained at the same level in March and April 1999 as in February 1999.

Results

Weights

199. The weights derived under the three weighting schemes are shown in Table23.

200. Under all schemes, Russia has the largest weight. However, its weight varies substantially from one scheme to the next with a minimum of 30 percent and a maximum of nearly 38 percent.

201. Not surprisingly, the second and third schemes based on the INS methodology generate bigger weights for the largest economies in the world than the first scheme, as these economies account for a large proportion of world trade in primary commodities. Again, not surprisingly, the third weighting scheme yields substantially greater weights for countries that are thought to be the largest sources of shuttle imports.

Real effective exchange rate series

202. The real exchange rate series computed according to the methodology described above are shown in Table 24 and Figures 24 and 25.

203. Despite the significant differences in weighting schemes, it is striking that the broad shapes of the three real effective exchange rate series since 1995 are identical. Three periods can be distinguished. From mid-1995 to mid-1998, the tenge steadily appreciated in real effective terms. In August-September 1998, following the sharp nominal depreciation of the Russian ruble, the tenge's real effective exchange rate jumped further. In April 1999, as a result of the switch to a floating exchange rate regime and the ensuing nominal devaluation of the tenge, the tenge's real effective exchange rate sharply fell to a level similar to that seen in early 1996.

204. Nevertheless, there are differences between these series. The most notable is the estimate of the real effective exchange rate appreciation that occurred in August-September 1998. Depending upon the series used, it varies from 10 to 15 percent. The highest number

Table 23. Kazakhstan: Weights for Real Effective Exchange Rate Series, 1998
(In percent)

First weighting scheme: bilateral trade share		Second weighting scheme: INS methodology		Third weighting scheme: INS methodology with inclusion of shuttle trade	
Russia	37.6	Russia	29.8	Russia	34.0
United Kingdom	8.1	Germany	9.6	Turkey	10.1
Germany	7.6	United States	8.9	Germany	7.7
Italy	6.9	United Kingdom	6.9	United States	7.1
China	5.1	China	5.3	China	6.3
Switzerland	4.6	Turkey	4.9	United Kingdom	5.4
Ukraine	4.2	Netherlands	4.9	Netherlands	3.9
Netherlands	4.1	Japan	3.8	Japan	3.0
United States	4.0	France	3.5	France	2.7
Turkey	3.5	Switzerland	3.3	Switzerland	2.6
Uzbekistan	2.5	Italy	3.1	Italy	2.5
Finland	1.9	Korea	2.5	Uzbekistan	2.4
Korea	1.6	Estonia	2.1	Korea	2.0
Estonia	1.5	Canada	2.1	Kyrgyz Republic	1.8
Japan	1.4	Belgium	1.8	Estonia	1.7
Kyrgyz Republic	1.3	Uzbekistan	1.7	Canada	1.7
France	1.2	Ukraine	1.6	Belgium	1.5
Czech Republic	1.1	Finland	1.5	Ukraine	1.3
Poland	1.0	Belarus	1.4	Finland	1.2
Belarus	1.0	Brazil	1.3	Belarus	1.1

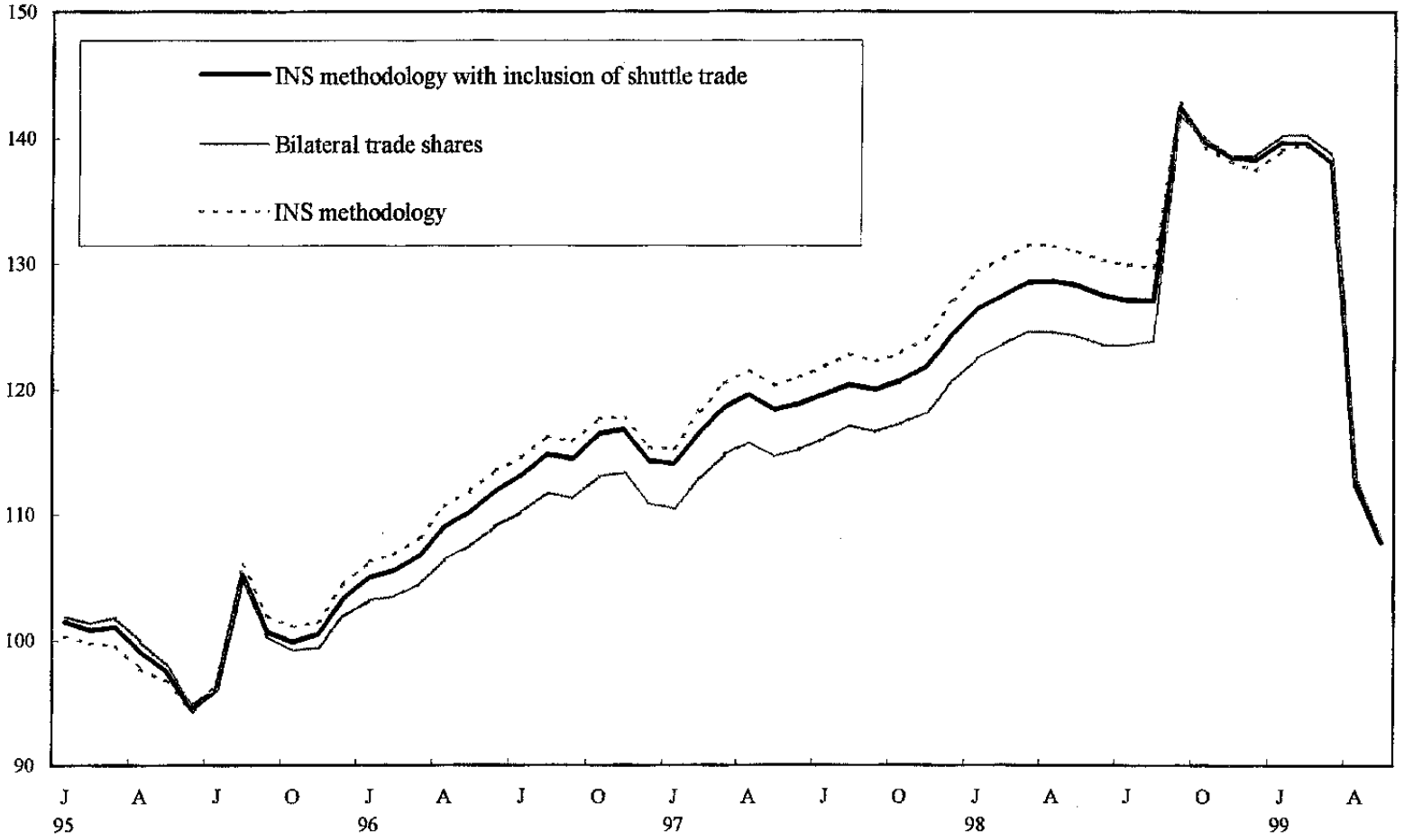
Source: Fund staff estimates.

Table 24. Kazakhstan: Real Effective Exchange Rates Series, 1995-99
(Index, 1995 = 100)

	First weighting scheme: Bilateral trade shares	Second weighting scheme: INS methodology	Third weighting scheme: INS methodology with inclusion of shuttle trade
1995 Jan.	101.9	100.3	101.5
Feb.	101.3	99.8	100.8
Mar.	101.8	99.6	101.0
Apr.	100.0	97.7	99.0
May	98.1	96.8	97.6
Jun.	94.8	94.3	94.4
Jul.	96.1	96.4	96.1
Aug.	105.1	106.1	105.2
Sep.	100.4	102.0	100.7
Oct.	99.2	101.1	99.9
Nov.	99.4	101.5	100.5
Dec.	101.9	104.4	103.3
1996 Jan.	103.2	106.3	105.0
Feb.	103.5	106.9	105.5
Mar.	104.5	108.2	106.8
Apr.	106.5	110.6	109.0
May	107.5	111.9	110.2
Jun.	109.0	113.5	111.8
Jul.	110.2	114.7	113.2
Aug.	111.8	116.3	114.9
Sep.	111.3	115.8	114.5
Oct.	113.1	117.7	116.5
Nov.	113.3	117.7	116.8
Dec.	110.9	115.4	114.4
1997 Jan.	110.5	115.3	114.1
Feb.	112.9	118.3	116.6
Mar.	114.9	120.5	118.6
Apr.	115.7	121.5	119.6
May	114.7	120.3	118.4
Jun.	115.2	120.9	118.9
Jul.	116.1	121.9	119.6
Aug.	117.1	122.8	120.3
Sep.	116.6	122.3	120.0
Oct.	117.3	122.9	120.7
Nov.	118.1	124.1	121.8
Dec.	120.6	127.1	124.4
1998 Jan.	122.5	129.4	126.4
Feb.	123.6	130.4	127.5
Mar.	124.6	131.4	128.5
Apr.	124.6	131.4	128.6
May	124.2	130.9	128.3
Jun.	123.5	130.3	127.5
Jul.	123.5	129.9	127.1
Aug.	123.9	129.7	127.0
Sep.	141.9	142.8	142.5
Oct.	140.1	139.4	139.7
Nov.	138.6	138.2	138.5
Dec.	138.7	137.4	138.3
1999 Jan.	140.2	139.1	139.7
Feb.	140.3	139.6	139.6
Mar.	137.9	137.2	137.2
Apr.	112.3	111.6	111.7
May	107.3	106.7	106.8

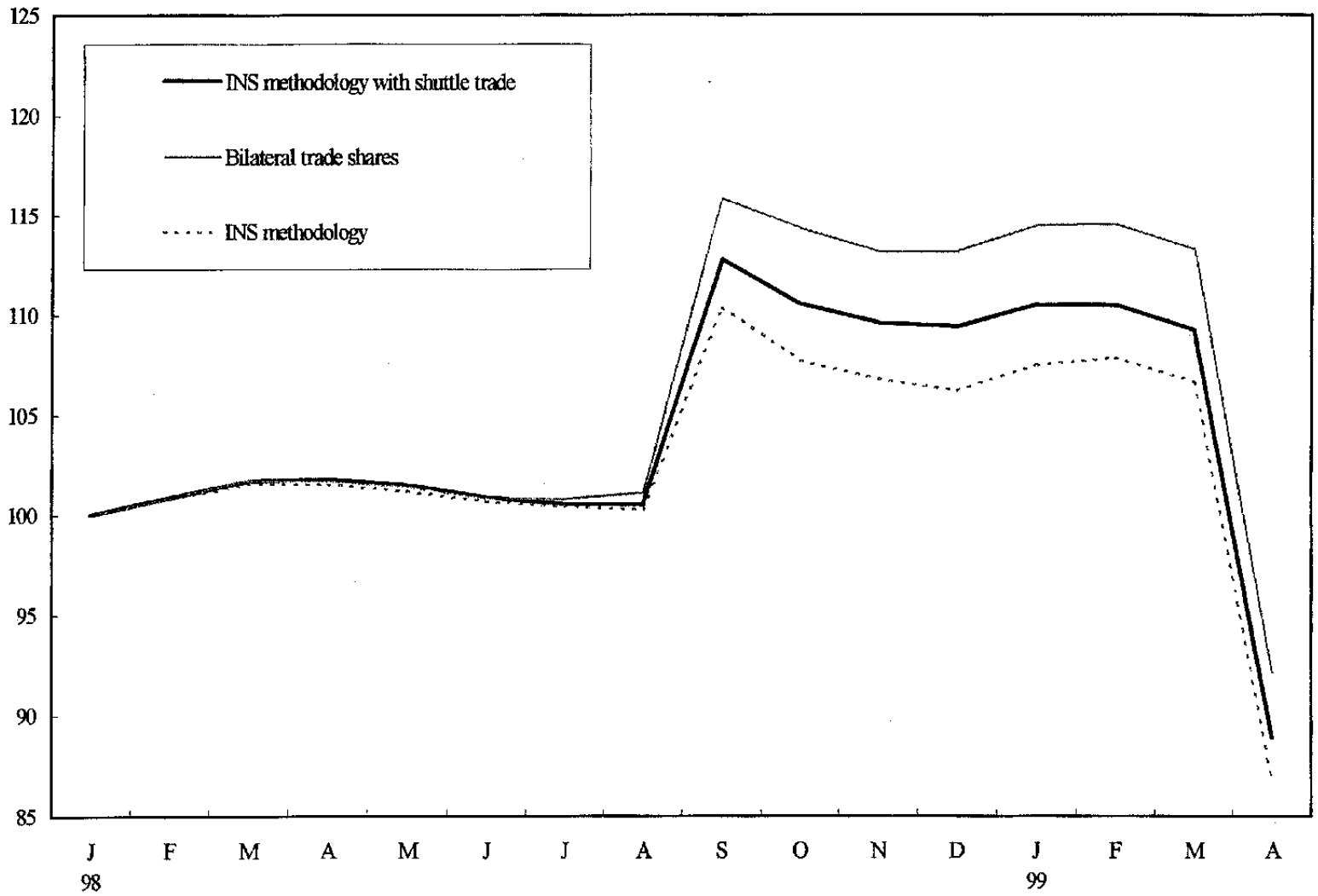
Source: Fund staff estimates.

Figure 24. Kazakhstan: Real Effective Exchange Rate, 1995-99
(1995 = 100)



Source: Fund staff estimates.

Figure 25. Kazakhstan: Real Effective Exchange Rate, 1998-99
(January 1998 = 100)



Source: Fund staff estimates.

pertains, of course, to the series that places the largest weight on Russia, which is the one whose weights equal bilateral trade shares.

C. Evolution of the Terms of Trade

205. This subsection provides information on the methodology used to compute a terms of trade series for Kazakhstan and presents the results of that computation.

Definition

206. The terms of trade (TOT) of an economy are defined as the ratio of the average price of exports to the average price of imports.

Data and Methodology

207. To construct a TOT series for Kazakhstan, detailed customs data on Kazakhstan's 1998 exports and imports in 1998 were used.[40] These data included trade disaggregated into 91 and 97 categories of exports and imports respectively. By comparing the description of each of these categories to those in the SITC system, the customs data figures were consolidated into a smaller set of 14 categories. The choice of these categories was based on two main factors: the desire to limit the diversity of goods in each category and the availability of reliable world price indicators. The starting point was the set of two-digit SITC categories, which underpin computation of trade weights in the IMF's Information Notice System (INS). This set then was reduced in some ways and expanded in others, especially as regards metals and other primary commodities.[41] The distribution of Kazakhstan's exports and imports according to this classification is shown in Table 25.

208. A world price index for each of the categories was established using the baseline commodity prices compiled by the IMF's Research department in the WEO database. These price series are shown in Table 26. While, it would have been preferable to use the prices that

[40] While 1998 can hardly be described as a "normal year" with regard to the composition of exports and imports, it is equally difficult to describe any other year as characterizing a normal pattern of trade in view of the pace and depth of structural changes in the economy over the recent years. 1998 data were used as these were the most recent data and as these data incorporated all statistical improvements to-date.

[41] The 14 categories are: food and live animals; beverages; inedible crude materials except fuels; animal and vegetable oils, fats and waxes; oil and products; manufactured goods; ferrous metals and products; copper and products; nickel and products; aluminum and products; lead and products; zinc and products; tin and products; and other base metals and metallo-ceramics.

actually underlied actual transactions, the dearth of reliable detailed data on such transactions precluded this option.

Table 25. Kazakhstan: Composition of Exports and Imports of Goods, 1998
(In millions of US dollars)

	Exports	Imports
TOTAL	5,338,909	4,241,736
Food and live animals	428,689	364,871
Beverages	4,196	38,785
Inedible crude materials except fuels	392,660	95,298
Animal and vegetable oils, fats and waxes	8,738	56,543
Oil and products	2,068,123	617,453
Manufactured goods	672,283	2,601,121
Ferrous metals and products	787,628	406,670
Copper and products	582,563	9,982
Nickel and products	117	953
Aluminium and products	62,084	35,840
Lead and products	41,643	2,659
Zinc and products	181,635	1,383
Tin and products	0	6,614
Other base metals, metallo-ceramics	108,551	3,565

Sources: Kazakh authorities; and Fund staff estimates.

Results

Using the data from Tables 25 and 26, quarterly and annual export price, import price, and terms of trade series were computed for the period 1993-1999. In addition, similar series were computed excluding oil and related products. These series are presented in Table 27 and Figure 26.

Table 26. Kazakhstan: World Prices Indices, 1993-99
(Index, 1995=100)

	1993	1994	1995	1996	1997					1998					1999
					QI	QII	QIII	QIV	Year	QI	QII	QIII	QIV	Year	QI
Food index of cereals, oils, protein meals, meat, sugar, and bananas	88.0	92.5	100.0	112.2	105.8	102.6	94.6	97.1	100.0	93.6	89.1	82.1	84.5	87.3	79.0
Export unit value of manufactures of industrial countries	88.0	90.7	100.0	96.9	92.0	89.2	88.4	87.5	89.3	88.9	86.8	86.5	89.7	88.0	89.5
Metals index	71.8	83.7	100.0	88.1	91.8	92.6	93.3	85.3	90.7	79.5	77.5	74.7	72.1	75.9	67.9
Vegetable oils and protein meals index of soys, oils, and meals	85.9	93.0	100.0	110.7	114.4	112.7	105.3	111.6	111.0	106.4	100.0	94.3	95.5	99.0	82.7
Oil, average of U.K. Brent, Dubai, and west Texas intermediate	97.6	92.7	100.0	118.4	122.6	107.5	108.4	109.5	112.0	82.3	77.2	75.6	68.9	76.0	68.5
Index of Ironore; Brazil,Itabira standard, 61.5 percent, Germany	104.1	94.3	100.0	105.9	106.4	106.3	106.3	106.3	106.3	110.0	110.0	110.0	110.0	110.0	97.9
Index of copper, LME, grade A cathodes, cif Europe	65.3	78.6	100.0	78.2	82.5	85.4	77.3	65.1	77.6	58.0	59.0	56.0	52.7	56.4	48.0
Index of nickel; LME, melting grade, cif north Europe	64.5	77.0	100.0	91.3	92.0	88.6	81.5	74.8	84.2	65.9	60.3	50.7	48.0	56.2	56.3
Index of LME standard grade aluminum	63.2	81.8	100.0	83.5	88.4	87.8	90.7	87.5	88.6	81.1	75.5	73.2	71.1	75.2	66.2
Index of lead; LME, 99.97 percent pure, cif European	64.7	87.2	100.0	123.0	108.2	99.2	99.3	89.3	99.0	85.0	86.9	84.2	78.8	83.7	80.1
Index of zinc; LME, high grade, cif United Kingdom	93.5	96.8	100.0	99.4	113.8	126.2	155.4	114.7	127.5	103.0	102.3	99.3	92.7	99.3	96.3
Index of tin; LME, standard grade, cif European	83.4	88.1	100.0	99.4	94.9	91.3	88.0	89.9	91.0	85.6	94.4	90.5	86.9	89.3	84.2

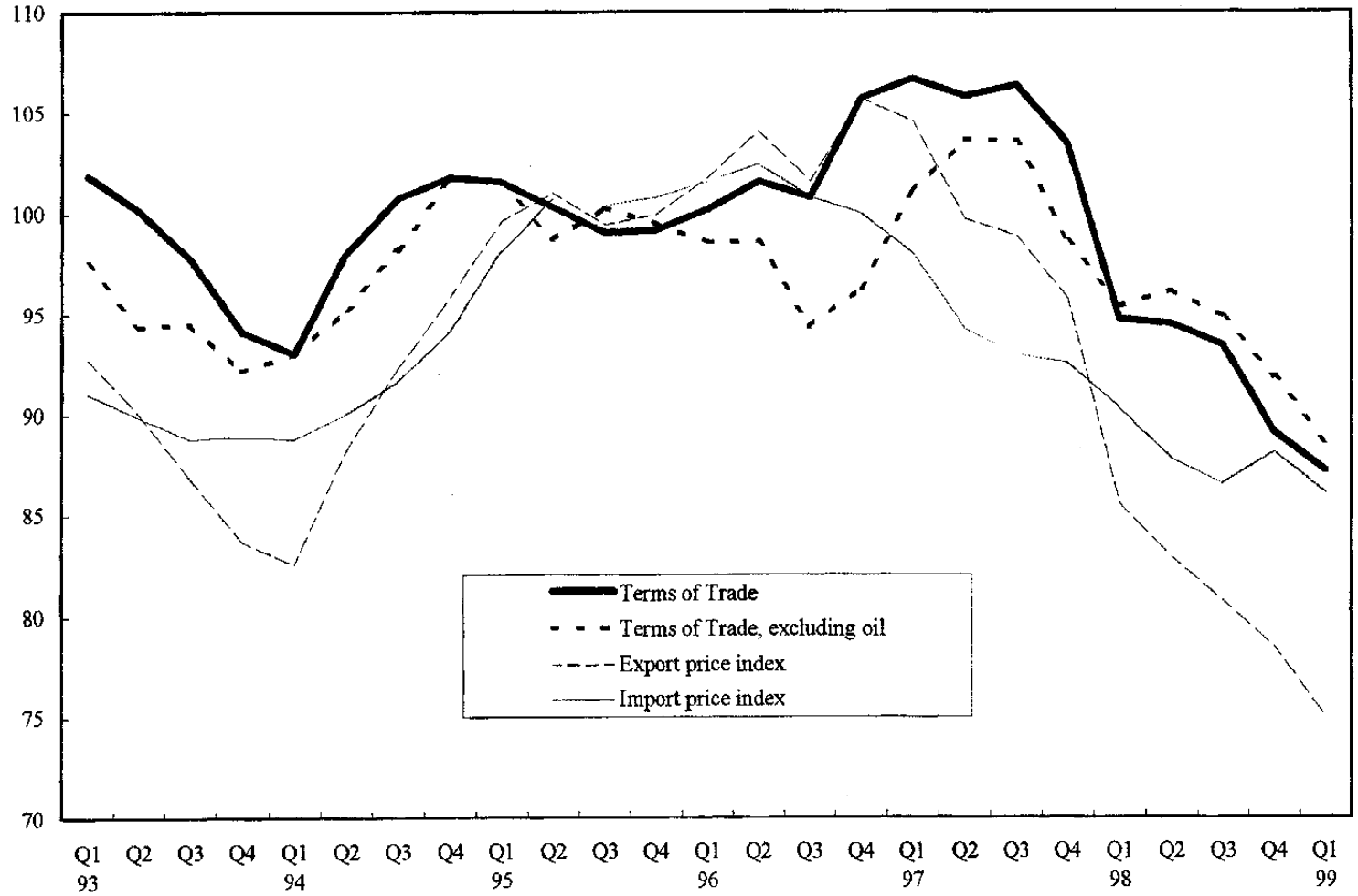
Source: Fund staff calculations:

Table 27. Kazakhstan: Terms of Trade, Export and Import Price Indices, 1993-99
(Index, 1995=100)

	1993	1994	1995	1996	1997					1998					1999
					QI	QII	QIII	QIV	Year	QI	QII	QIII	QIV	Year	QI
Overall terms of trade	98.5	98.4	100.0	102.1	106.7	105.8	106.4	103.4	105.6	94.7	94.5	93.4	89.1	92.9	87.2
Excluding oil	94.6	97.1	100.0	97.0	101.1	103.6	103.6	98.6	101.7	95.3	96.1	94.8	91.8	94.5	88.6
Export price index	88.3	89.7	100.0	103.3	104.6	99.7	98.8	95.7	99.7	85.5	82.9	80.8	78.5	81.9	75.0
Excluding oil	84.0	88.3	100.0	96.2	96.1	96.1	94.3	89.3	94.0	86.9	85.5	83.2	83.0	84.7	78.0
Import price index	89.6	91.1	100.0	101.2	98.0	94.3	92.9	92.5	94.4	90.3	87.7	86.5	88.1	88.1	86.0
Excluding oil	88.7	90.9	100.0	99.2	95.1	92.7	91.1	90.5	92.4	91.2	89.0	87.8	90.4	89.6	88.1

Source: Fund staff calculations.

Figure 26. Kazakhstan: Terms of Trade, 1993-99
(1995 = 100)



Source: Fund staff estimates.

209. Comparing annual averages, Kazakhstan experienced an adverse TOT shock of 12.1 percent between 1997 and 1998, as export and import prices weakened by an average of 17.9 and 6.7 percent respectively. Between the fourth quarters of 1997 and 1998, the adverse TOT shock is estimated at 13.8 percent. Excluding oil, these figures respectively fall to 7.1 and 6.8 percent.

D. Calibration of Kazakhstan's 1998 REER and TOT Shocks

210. In this subsection, an attempt is made to evaluate Kazakhstan's external shocks in comparison to those experienced by other countries.

211. Based on INS data for 159 countries, Figure 27 shows the number of countries whose currencies have experienced a change in real effective exchange rate during 1998 within certain percentages. It is apparent that few countries experienced an appreciation of the real effective exchange rate as high as that seen in Kazakhstan. Out of 159 countries, fourteen saw their currencies appreciate in real effective terms by more than 10 percent and eleven by more than 15 percent. Out of these fourteen countries, eight were neighbors of Russia and two were Asian countries who had experienced a very sharp currency depreciation a year earlier. Consequently, excluding the impact of the Russian and Asian crises, only four countries witnessed a real effective exchange rate appreciation of more than 10 percent. Assuming that events such as the Asian and Russian crises will remain rare, these 1998 data suggest that the shock felt by Kazakhstan in August-September 1998 was of an unusually large magnitude.

212. To calibrate Kazakhstan's terms-of-trade shock in 1998, indicators of TOT shocks in other countries were compiled. This information was obtained from the estimates made for individual countries by IMF staff, as background to the bi-annual WEO exercise.[42] This data shows that 17 percent of the 172 countries in the sample had TOT shocks that were greater than 10 percent, while 13 percent of countries had shocks greater than 12.5 percent (Figure 28)[43]. Thus, while Kazakhstan's TOT shocks was significant in 1998, it was far from exceptional.

213. An alternative way to calibrate the TOT shock to Kazakhstan is to compare it with those experienced in other economies over the past years. Table 28 shows the percentage of countries that experienced positive or negative TOT shocks greater than certain thresholds during a given year. It indicates that, on average during the period 1971-98, nearly 30 percent of countries experienced a TOT shock greater than 10 percent in any given year and nearly 20 percent of countries a TOT shock larger than 15 percent. These data strongly suggests that the TOT shock that affected Kazakhstan in 1998 was indeed not of an extreme magnitude.

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[42]These data are summarized in tables 24 and 25 of the *World Economic Outlook*.

[43] From the data, 22 of the 172 countries (12.8 percent) had shocks that were equal to or greater than 12.1 percent.

Figure 27. Kazakhstan: Frequency of Real Effective Rate Changes, 1998

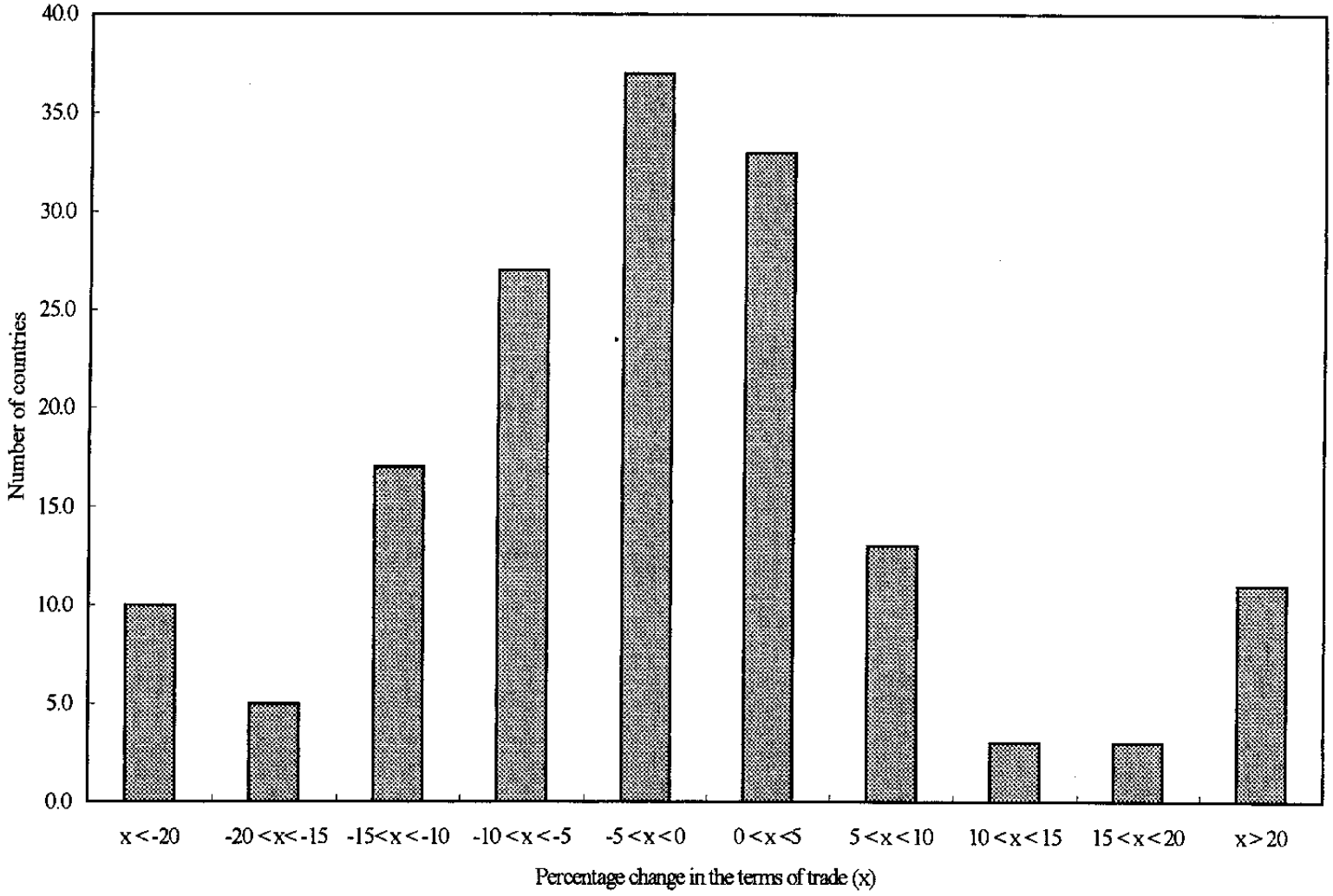
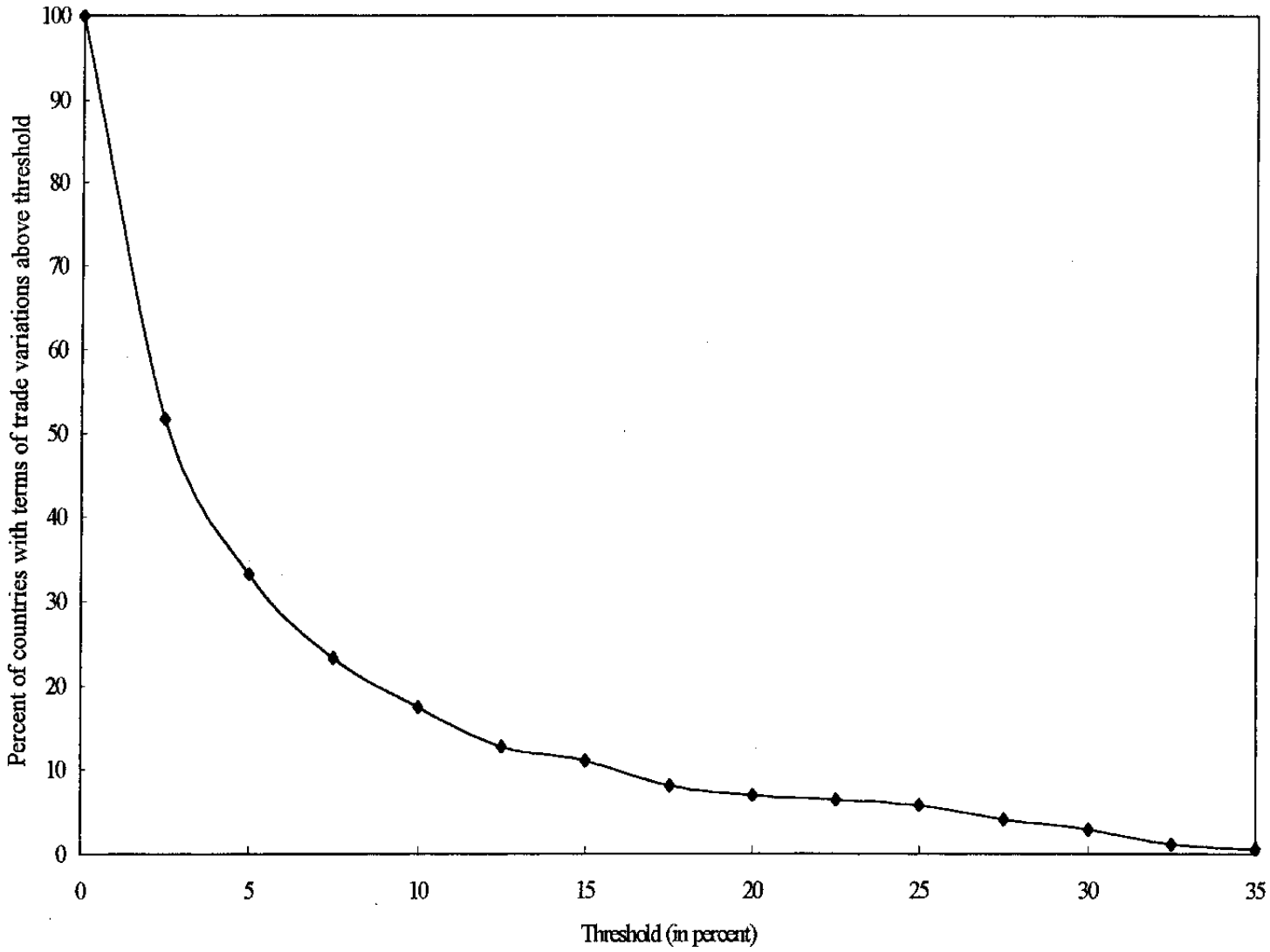


Figure 28. Kazakhstan: World Terms of Trade Shocks, 1998
(Cumulative distribution)



Source: Fund staff estimates.

Table 28. Kazakhstan: Percentage of Countries with Terms of Trade Shocks larger than Threshold, 1971-88

	Greater than:							
	5%	10%	15%	20%	25%	30%	35%	40%
1971	47	23	12	7	2	1	0	0
1972	39	20	9	5	2	0	0	0
1973	58	36	21	14	7	6	4	2
1974	78	62	52	40	33	30	28	28
1975	56	36	23	16	8	6	5	2
1976	58	37	25	20	15	11	9	7
1977	50	34	26	19	14	10	9	7
1978	55	33	17	9	7	5	4	2
1979	60	35	20	13	9	5	1	0
1980	72	51	37	25	15	13	11	10
1981	64	37	18	13	7	5	4	2
1982	44	25	13	5	4	3	2	2
1983	41	20	8	3	3	3	2	2
1984	40	23	16	10	8	7	5	5
1985	38	19	11	7	5	4	2	2
1986	75	57	36	26	20	14	13	10
1987	51	36	24	13	10	6	5	4
1988	52	29	19	11	5	2	2	2
1989	49	27	16	7	6	5	3	3
1990	54	27	18	11	8	5	4	3
1991	45	26	14	8	6	4	3	2
1992	39	21	12	9	5	3	2	2
1993	41	20	10	6	4	4	2	1
1994	39	20	14	5	3	2	2	2
1995	31	15	10	6	6	5	4	3
1996	31	16	10	7	4	1	1	1
1997	26	13	8	5	2	2	1	1
1998	33	17	11	7	6	3	1	0

Source: Fund staff calculations.

E. Conclusions

214. The series presented in this section showed that the real effective appreciation of the tenge in 1998 was of a very large magnitude, both in absolute terms and in comparison to the experience of the majority of other countries. However, it also showed that the nominal devaluation of the tenge that followed the switch to a floating exchange rate regime in early April 1999 had reversed not only the real appreciation incurred in the second half of 1998 but also that experienced since early 1996. Thus, on this limited basis, remaining concerns about Kazakhstan's external competitiveness would appear unwarranted.

215. Contrary to the extent of the tenge's real appreciation, the magnitude of the terms-of-trade shock felt by Kazakhstan in 1998 cannot appear exceptional. Given that Kazakhstan's exports will most likely continue to be concentrated on oil, gas, and other primary commodities for years to come, terms of trade shocks of similar magnitude in the future should be expected. Thus, it is essential that the design of macroeconomic policies take into account the flexibility needed to deal with such external shocks.

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Kazakhstan: Summary of Changes in the Tax System during 1998.

1. There were several amendments made to the Tax Code in Kazakhstan since the last Article IV consultation. Altogether 10 laws were passed between April 15, 1998 and March 31, 1999, which resulted in changes in the Tax Code. This Annex gives a summary of the main changes.

Personal Income Tax

2. As a consequence of the pension reform, income from the pension accumulation funds is included in the tax base, but obligatory pension contributions to pension accumulation funds is made deductible. State pension (pay-as-you go system) continues to be exempt from the tax base.

3. The number of tax brackets has been reduced from 6 to 4, the highest bracket being now 65 times the annual assessment index (AI) and above. The marginal tax rate has been increased from 15 to 20 percent in the bracket from 30 to 65 times the AI, and was set at 30 percent in the consolidated highest bracket.

Social Tax

4. As a consequence of the pension reform, obligatory pension contribution of physical persons to pension accumulation funds withheld by employers is not subject to social tax.

5. The social support tax has been eliminated.

Corporate Income Tax

6. The amount of revaluation of fixed assets in excess of inflation is now included into the aggregate annual income.

7. As a result of the reform of the system of social benefits, social benefits paid by employers, up to 1.5 percent of total payroll cost, are made deductible.

8. Business organizations income from leasing new technological equipment for a term longer than three years (with subsequent transfer of the equipment) is not subject to CIT.

9. In order to discourage under-invoicing of exports, the difference between actual contractual price and imputed price (if the latter is higher) is regarded as income.

VAT

10. In order to discourage under-invoicing of exports, the difference between actual contractual price and purchase price or imputed price (if the latter is higher) is made subject to the standard 20 percent VAT.

11. The group of activities (turnovers) which are not subject to VAT has been extended to include educational and medical services.

12. A reduced rate of 10 percent has been introduced for cattle and poultry, meat, fish, flour, bread, pasta, milk and milk products, eggs, vegetable oil, margarine, cereals, grain, sugar, vegetables, baby food. The same rate applies to sausage, tinned meat, fish products, processed vegetables and some other items if sold by residents.

13. The amount of offset in excess of assessed tax is reckoned toward future VAT payment. The procedure for the treatment of excess offset in case of imports will be established jointly by the Ministry of State Revenue and the Ministry of Finance. To support exporting firms, in case of zero rated (exported) goods, the excess off-set has to be paid back within 60 days.

Excise

14. In case of electricity, the taxable base is defined as the entire output, which makes arrears to electricity suppliers subject to excise duty. In the event of a loss of or damage to excisable goods, excise duty is to be paid in full.

Land Tax

15. New (higher) tax rates have been introduced for land used for auxiliary farming, vegetable gardening, and for datchas (period cottages), which depend on the size of the plot.

16. New (increased) tax rates have been introduced for land in populated areas. In the cities of Almaty and Astana, higher rates have been introduced for land plots that are attached to, but not occupied by residential units.

Vehicle tax

17. New (higher) tax rates have been introduced based on the size of the engine, with special rates on high performance vehicles.

Table 1. Kazakhstan: Value Added in the Main Production Sectors, 1993-98

	1993	1994	1995	1996	1997	1998
			(In millions of Tenge)			
Nominal GDP						
Industry	8,444	123,277	238,733	299,958	357,452	383,614
Agriculture	4,837	63,298	125,134	170,223	190,738	147,385
Construction	2,440	40,599	65,501	62,301	70,723	77,652
Transport and communication	2,937	47,283	108,203	159,704	195,579	192,944
Trade and catering	3,051	51,396	174,642	244,916	261,643	303,133
Others 1/	7,714	97,616	301,977	478,648	596,008	642,992
Total	29,423	423,469	1,014,190	1,415,750	1,672,143	1,747,720
			(Percent change from previous year)			
Real GDP growth						
Industry	-14.0	-27.5	-8.6	0.3	4.1	-5.5
Agriculture	-6.9	-21.0	-24.4	-5.0	-0.8	-18.9
Construction	-25.9	-16.2	-37.6	-21.8	8.0	11.0
Transport and communication	-14.4	-26.3	-12.5	1.5	3.3	-1.8
Trade and catering	-6.3	-17.4	6.1	14.7	3.0	-2.7
Others 2/	-0.9	0.9	8.0	-0.6	2.8	0.0
Total	-9.2	-12.6	-8.2	0.5	2.0	-2.5
			(In percent of GDP)			
Share of GDP						
Industry	28.7	29.1	23.5	21.2	21.4	22.5
Agriculture	16.4	14.9	12.3	12.2	11.4	8.8
Construction	8.3	9.6	6.5	4.4	4.2	4.5
Transport and communication	10.0	11.2	10.7	11.3	11.7	9.3
Trade and catering	10.4	12.1	17.2	17.3	15.6	17.2
Others 1/	26.2	23.1	29.8	33.7	35.6	37.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sources: National Statistical Agency; and Fund staff estimates.

1/ Mainly services.

Table 2. Kazakhstan: Industrial Production, 1993-97

	1993	1994	1995	1996	1997
			(In millions of Tenge)		
Gross output					
Electric power engineering	3,647	64,834	106,936	109,523	125,224
Fuel industry	3,976	79,080	141,619	192,603	246,589
Ferrous metallurgy	2,665	42,842	92,814	77,212	100,805
Nonferrous metallurgy	3,399	41,125	76,870	88,080	112,258
Chemistry and petrochemistry	1,022	12,763	27,800	31,084	22,814
Machine building	2,581	25,174	49,247	52,562	43,402
Timber and wood processing	605	3,809	6,633	6,318	6,409
Construction materials	1,318	14,044	24,604	21,143	18,580
Light industry	1,509	14,230	17,304	18,370	17,351
Food industry	2,964	35,575	91,900	109,129	137,581
Others	1,865	20,634	33,061	42,404	60,015
Total	25,549	354,109	668,787	748,428	891,028
			(Percent change from previous year)		
Real output growth					
Electric power engineering	-4.4	-15.2	-2.8	-10.3	-14.2
Fuel industry	-14.8	-14.0	-46.2	3.8	2.3
Ferrous metallurgy	-24.4	-29.5	13.5	-17.5	25.3
Nonferrous metallurgy	-7.8	-22.8	6.3	3.6	13.8
Chemistry and petrochemistry	-44.6	-41.1	1.6	-27.0	-29.9
Machine building	-14.7	-37.1	-27.3	-9.2	-29.9
Timber and wood processing	-8.7	-44.9	-40.0	-21.8	-30.5
Construction materials	-26.8	-57.1	-29.0	-37.0	-23.7
Light industry	-11.7	-44.3	-59.3	-11.3	-24.2
Food industry	-13.7	-26.1	-37.5	-24.6	-3.3
Total	-14.0	-27.5	-8.6	0.3	4.1
			(In percent of total)		
Share of gross output					
Electric power engineering	14.3	18.3	16.0	14.6	14.1
Fuel industry	15.6	22.3	21.2	25.7	27.7
Ferrous metallurgy	10.4	12.1	13.9	10.3	11.3
Nonferrous metallurgy	13.3	11.6	11.5	11.8	12.6
Chemistry and petrochemistry	4.0	3.6	4.2	4.2	2.6
Machine building	10.1	7.1	7.4	7.0	4.9
Timber and wood processing	2.4	1.1	1.0	0.8	0.7
Construction materials	5.2	4.0	3.7	2.8	2.1
Light industry	5.9	4.0	2.6	2.5	1.9
Food industry	11.6	10.0	13.7	14.6	15.4
Others	7.3	5.8	4.9	5.7	6.7
Total	100.0	100.0	100.0	100.0	100.0

Sources: National Statistical Agency; and Fund staff estimates.

Table 3. Kazakhstan: Production of Selected Industrial Goods, 1994-99

	1994	1995	1996	1997	1998	1999 QI
Production						
Crude oil (in thousands of metric tons) 1/	20,279	20,641	22,960	25,778	25,933	6,772
Coal (in thousands of metric tons)	104,625	83,355	76,831	72,647	69,756	15,363
Natural gas (in millions of cubic meters) 2/	4,488	5,916	6,524	8,114	8,244	2,309
Iron ore (in thousands of metric tons)	10,521	14,902	12,975	13,133	9,302	1,647
Electricity (in millions of kwh)	66,397	66,659	59,038	52,000	49,847	14,107
Mineral fertilizers (in thousands of tons)	126	197	191	151	23	6
Textiles						
Cotton yarn (in thousands of tons)	20	4	3	2	2	1
Woven cotton fabrics (in millions of square meters)	85	21	21	14	10	3
Paper (in metric tons)	721	174	67	154	0	0
Tires (in thousands)	264	83	107	1	164	0
Building materials (in thousands of tons)	2,033	1,772	1,115	657	621	77
Cast iron (in thousands of tons)	2,435	2,530	2,536	3,089	2,594	714
Processed meat (in thousands of tons)	412	273	173	157	...	...
Milk products (in thousands of tons)	552	279	250	203	...	...
		(Percent change from previous year)				
Growth of production						
Crude oil (in thousands of metric tons) 1/	-11.7	1.8	11.2	12.3	0.6	0.2
Coal (in thousands of metric tons)	-6.5	-20.3	-7.8	-5.4	-4.0	-22.2
Natural gas (in millions of cubic meters) 2/	-32.9	31.8	10.3	24.4	1.6	-4.8
Iron ore (in thousands of metric tons)	-19.9	41.6	-12.9	1.2	-29.2	-52
Electricity (in millions of kwh)	-14.3	0.4	-11.4	-11.9	-4.1	-7
Mineral fertilizers (in thousands of tons)	-58.5	55.8	-3.0	-20.9	-84.8	57.5
Textiles						
Cotton yarn (in thousands of tons)	-43.4	-79.0	-24.8	-33.3	0.0	-7.4
Woven cotton fabrics (in millions of square meters)	-37.6	-74.9	-1.4	-33.3	-28.6	-8.5
Paper (in metric tons)	-65.8	-75.9	-61.5	129.9	0.0	0
Tires (in thousands)	-85.2	-68.6	29.4	-99.5	32.7	0
Building materials (in thousands of tons) 3/	-48.7	-12.8	-37.1	-41.1	-5.5	-27.2
Cast iron (in thousands of tons)	-31.4	3.8	0.2	21.8	-16.0	-2.2
Processed meat (in thousands of tons)	-32.3	-33.8	-36.7	-9.2	...	...
Milk products (in thousands of tons)	-26.9	-49.5	-10.5	-18.8	...	...

Sources: National Statistical Agency; and Fund staff estimates.

1/ Includes gas condensates.
2/ Consists of both gas from oil wells (gas-oil) and gas from gas wells.
3/ Including cement.

Table 4. Kazakhstan: Production of Selected Agricultural Goods, 1994-99

	1994	1995	1996	1997	1998	1999 QI
	(In thousands of metric tons; unless otherwise indicated)					
Production						
Meat	2,102	1,774	1,541	1,346	1,213	211.3
Milk	5,296	4,619	3,627	3,220	3,394	500
Eggs (in millions)	2,629	1,841	1,263	1,242	1,388	314.5
Wool	75	58	42	32	25	...
Cereals	16,454	9,506	11,237	12,238	6,396	...
Of which						
Wheat	9,052	6,490	7,678	8,955	4,746	...
Rice	283	184	226	255	236	...
Barley	5,497	2,208	2,696	2,583	1,093	...
Oats	822	250	359	286	73	...
Soybean	6	4	3	3	4	...
Potatoes	2,040	1,720	1,657	1,472	1,263	...
Tobacco	3	2	2	2	9	...
Vegetables	781	780	778	880	1,079	...
	(Percent change from previous year)					
Growth of production						
Meat	-5.8	-15.6	-13.1	-12.7	-9.9	-2.0
Milk	-5.0	-12.8	-21.5	-8.1	1.7	7.0
Eggs	-20.0	-30.0	-31.4	0.2	9.7	7.0
Wool	-21.6	-22.6	-27.6	-16.7	-28.6	...
Cereals	-23.9	-42.2	18.2	10.2	-48.3	...
Of which						
Wheat	-21.9	-28.3	18.3	16.6	-47.0	...
Rice	-29.8	-35.0	22.8	12.8	-7.5	...
Barley	-23.1	-59.8	22.1	-4.2	-57.7	...
Oats	2.5	-69.6	43.6	-20.3	-74.5	...
Soybean	0.0	-33.3	-25.0	0.0	33.3	...
Potatoes	-11.2	-15.7	-3.7	-11.2	-14.2	...
Tobacco	-25.0	-33.3	0.0	0.0	0.0	...
Vegetables	-3.3	-0.1	-0.2	13.1	22.6	...
	(In percent of total production)					
Share produced by private farms						
Meat	61.0	64.6	70.3	76.0	86.5	88.9
Milk	64.0	71.1	78.1	87.1	92.3	93.2
Eggs	42.0	39.6	45.8	47.2	45.5	34.6
Wool	46.0	51.5	58.4	73.7	82.2	...
Potatoes	78.9	85.7	87.5	88.8	91.5	...
Vegetables	63.8	70.1	75.9	80.4	88.7	...

Sources: National Statistical Agency; and Fund staff estimates.

Table 5. Kazakhstan: Livestock Population, 1994-99

	1994	1995	1996	1997	1998	1999 QI
	(Thousand heads; end-of-period)					
Animal population						
Cattle	8,550	7,232	5,425	4,307	3,958	4,197
Of which						
Cows	3,525	3,149	2,547	2,110	1,953	1,950
Sheep and goats	29,759	23,062	13,679	10,384	9,556	10,080
Pigs	2,147	1,632	1,036	879	892	933
Horses	1,649	1,521	1,310	1,083	986	950
Poultry	45,121	26,481	15,378	15,982	16,985	15,376
	(Percent change from previous year)					
Growth of animal population						
Cattle	-9.0	-15.4	-14.8	-13.2	-8.1	-3.0
Of which						
Cows	-2.7	-10.7	-11.3	-17.2	-7.4	-6.0
Sheep and goats	-21.0	-22.5	-25.5	-24.1	-8.0	0.1
Pigs	-15.2	-24.0	-22.0	-15.1	1.4	8.0
Horses	-5.4	-7.7	-6.1	-17.4	-9.0	-6.0
Poultry	-13.7	-41.3	-35.4	3.9	6.3	4.0

Sources: National Statistical Agency; and Fund staff estimates.

Table 6. Kazakhstan: Consumer Prices, 1996-99

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
						(In monthly percent change)						
1996												
Total	4.1	2.5	1.7	3.0	2.0	2.5	1.8	0.7	1.2	2.9	2.4	0.8
Food	5.8	3.1	1.9	2.3	2.1	0.8	-1.0	-1.4	-0.5	-0.1	1.3	1.1
Bread and cereals	3.3	2.2	1.6	3.6	2.4	1.4	1.9	2.0	2.3	0.8	0.4	-0.4
Meat and poultry	6.5	4.2	3.0	4.4	9.2	2.6	0.2	0.0	-0.5	-0.1	-1.3	-0.4
Fish	2.1	4.1	1.6	1.6	-0.4	0.0	0.2	0.4	0.9	0.2	0.2	0.6
Dairy products	6.8	4.7	-0.1	0.1	-1.2	-2.1	-1.2	-0.9	0.9	2.9	5.8	5.5
Eggs	20.4	-1.0	-1.4	1.5	-5.3	-5.4	-5.5	-1.0	0.4	1.1	5.1	3.9
Oils and fats	1.8	0.0	-0.5	-0.6	-1.1	-1.4	-2.5	-1.6	0.6	0.1	2.6	2.2
Fruits and vegetables	20.2	10.0	7.8	4.4	2.9	2.0	-10.3	-17.5	-14.2	-7.6	9.5	10.0
Sugar, coffee, tea and condiments	0.6	0.2	-0.3	-0.1	-0.9	-0.8	-1.1	-0.6	-0.4	-0.9	-0.2	0.0
Beverages at home	1.7	0.8	0.7	0.6	0.7	0.4	0.5	0.5	0.0	0.5	0.3	0.6
Food and beverages away from home	2.5	4.2	1.8	2.0	1.4	4.1	2.7	1.6	1.9	1.5	0.0	1.0
Tobacco	1.4	1.7	0.7	0.2	1.2	0.2	0.4	0.1	0.5	0.4	0.5	0.6
Clothing and footwear	0.9	1.0	1.0	0.8	0.5	0.3	0.4	0.4	0.8	0.9	0.6	0.3
Rent, water, and power	1.2	2.1	2.1	19.0	5.2	22.1	17.2	8.3	7.8	21.8	11.1	0.6
Household goods	1.1	1.1	0.8	1.0	0.3	0.2	0.1	0.2	0.2	0.4	0.2	0.3
Medical care	1.0	3.0	0.9	0.2	1.3	1.0	0.6	1.4	1.0	-0.1	0.3	0.1
Transportation and communication	6.1	2.4	1.4	1.1	3.6	1.2	1.6	1.2	1.0	3.9	1.1	1.5
Recreation, education and culture	2.4	2.6	2.6	2.2	0.6	3.9	2.9	6.3	4.4	4.0	3.2	1.9
Personal care	0.8	0.7	1.2	1.1	0.6	0.5	0.5	0.5	0.5	2.7	1.3	0.8
1997												
Total	2.1	1.7	0.8	0.8	0.4	0.8	0.7	-0.3	-0.1	1.1	1.5	1.3
Food	2.2	1.7	0.8	-0.1	-0.4	0.0	-0.3	-1.2	-0.4	0.2	1.3	1.9
Bread and cereals	-0.4	0.2	-0.2	-0.3	-0.4	-0.1	-0.7	-0.2	-0.1	-0.3	-0.5	-0.4
Meat and poultry	0.9	1.2	0.9	2.7	2.6	0.5	0.5	0.2	0.5	0.1	0.0	1.5
Fish	1.3	1.5	0.2	0.1	-0.9	-2.2	-0.6	0.2	0.5	0.1	2.0	1.4
Dairy products	3.4	2.3	1.2	-2.8	-4.3	-4.5	-0.6	0.5	1.1	3.8	6.4	6.2
Eggs	8.2	0.9	-1.2	-4.0	-6.7	-7.4	-2.8	-2.4	2.5	4.5	5.0	4.1
Oils and fats	2.0	2.3	1.8	0.5	-0.8	-1.9	-1.0	0.1	2.6	2.4	1.3	1.4
Fruits and Vegetables	15.1	8.0	2.7	-2.6	-3.1	-4.5	-10.5	-13.1	-6.7	-0.4	12.0	12.4
Sugar, coffee, tea and condiments	0.6	1.4	1.2	0.9	0.6	8.9	6.6	-1.4	-2.6	-2.2	-1.3	0.5
Beverages at home	0.1	0.5	0.5	0.1	0.4	-0.4	0.5	0.7	0.3	0.1	1.3	1.1
Food and beverages away from home	2.0	0.8	2.6	0.9	0.3	0.4	0.5	0.6	0.0	0.4	0.4	1.4
Tobacco	1.2	0.3	0.4	0.8	0.5	0.7	0.8	0.6	0.8	0.6	1.2	0.8
Clothing and footwear	0.5	0.3	0.3	0.2	0.2	0.1	0.0	0.0	0.2	0.3	0.5	0.4
Rent, water, and power	2.9	3.0	1.3	7.3	1.8	5.1	5.3	2.3	0.1	4.9	3.9	0.5
Household goods	0.3	0.1	0.1	0.3	0.2	0.1	0.0	0.1	0.1	0.2	0.0	0.1
Medical care	0.3	-0.2	0.9	-1.1	1.6	0.5	-0.2	-0.9	0.1	0.1	-0.2	0.1
Transportation and communication	6.4	2.5	-0.6	3.5	1.0	0.8	1.0	0.1	0.2	2.1	1.0	0.9
Recreation, education and culture	1.1	4.0	2.7	1.3	3.3	0.5	1.2	0.5	0.4	0.4	0.2	0.7
Personal care	1.0	2.1	0.6	0.4	0.9	-0.4	-0.1	0.1	0.0	0.4	0.0	0.0
1998												
Total	1.8	1.1	0.7	0.5	0.3	-0.8	-0.2	-1.0	-0.1	-0.7	0.0	0.3
Food	2.7	1.3	1.2	0.1	0.6	-1.4	-1.8	-1.9	-0.5	-1.1	-0.2	0.6
Bread and cereals	-0.1	-0.3	-0.5	-0.6	-1.0	-0.8	-0.8	-0.6	0.0	-0.2	-1.1	-0.7
Meat and poultry	5.4	3.1	4.7	1.2	2.6	1.1	-0.2	-1.0	-0.8	-3.2	-3.2	-2.3
Fish	1.5	1.4	0.2	-0.3	-1.4	-1.3	-0.6	-0.6	0.2	0.1	0.1	1.1
Dairy products	2.8	1.1	-1.7	-2.9	-3.3	-3.6	-2.1	-0.4	2.4	1.4	3.6	2.9
Eggs	4.1	-1.7	-2.9	0.2	-4.5	-5.7	-4.7	-0.6	1.7	-0.6	-1.4	5.6
Oils and fats	0.0	0.2	-0.2	-0.7	-1.1	-1.6	-1.2	0.1	7.5	-2.7	-0.8	-0.1
Fruits and Vegetables	13.6	5.6	5.4	2.6	7.0	-7.1	-10.4	-14.2	-14.1	-1.6	7.7	11.1
Sugar, coffee, tea and condiments	0.6	0.5	0.1	-0.4	-0.8	-0.6	-1.1	-0.5	1.4	-0.6	-0.3	0.3
Beverages at home	0.4	0.3	0.2	0.1	0.2	0.0	0.1	-0.2	0.4	0.0	0.8	0.1
Food and beverages away from home	0.5	0.2	0.9	1.3	0.2	0.5	0.2	-0.1	1.7	0.0	0.8	0.1
Tobacco	1.0	1.7	0.6	0.6	1.8	0.7	0.5	0.2	0.3	0.7	0.2	0.1
Clothing and footwear	0.2	0.2	0.3	0.2	0.2	0.0	0.0	0.1	0.3	0.3	0.3	0.2
Rent, water, and power	1.4	1.8	0.0	1.0	0.0	0.0	4.5	0.3	0.3	-0.9	0.3	0.2
Household goods	0.1	0.0	0.0	0.4	-0.1	-0.2	-0.2	-0.1	0.6	-0.1	0.0	-0.1
Medical care	0.1	-0.2	-0.2	-0.5	-0.3	-0.5	0.0	0.0	-0.7	-0.8	-0.7	-0.5
Transportation and communication	1.4	0.8	-0.1	1.4	-0.1	-0.3	0.3	-0.4	0.0	-0.2	0.0	-0.4
Recreation, education and culture	0.3	0.3	0.2	0.5	0.3	0.0	0.7	0.2	1.0	0.4	0.0	0.0
Personal care	0.9	0.6	0.4	9.7	0.2	-0.2	0.2	-0.1	0.2	-0.2	0.2	0.0
1999												
Total	0.9	-0.2	-0.2									
Food	1.0	-0.3	-0.3									
Bread and cereals	-0.3	-0.4	1.2									
Meat and poultry	-0.7	-1.9	-1.1									
Fish	0.0	-0.8	-0.9									
Dairy products	1.4	-0.4	-1.7									
Eggs	5.9	-1.1	-5.8									
Oils and fats	0.2	-0.8	-0.7									
Fruits and Vegetables	9.5	2.8	4.1									
Sugar, coffee, tea and condiments	0.4	-0.2	-0.3									
Beverages at home	0.1	-0.1	-0.1									
Food and beverages away from home	0.1	0.3	0.2									
Tobacco	0.7	0.9	4.1									
Clothing and footwear	0.2	0.1	0.0									
Rent, water, and power	2.1	-0.1	-0.1									
Household goods	0.0	-0.1	-0.3									
Medical care	-0.5	-1.2	-0.9									
Transportation and communication	0.0	-0.8	-0.5									
Recreation, education and culture	0.3	1.2	0.4									
Personal care	0.1	0.3	0.4									
						(Percentage change over previous year)						
Memorandum items:												
Total 1996	53.3	47.3	42.5	42.2	41.2	41.4	39.9	37.9	36.5	34.9	32.4	28.7
Total 1997	26.2	25.2	24.1	21.5	19.5	17.6	16.4	15.3	13.7	11.7	10.6	11.2
Total 1998	10.8	10.1	10.0	9.7	9.6	7.9	6.9	6.1	6.2	4.3	2.8	1.9
Total 1999	1.0	-0.3	-1.2									

Sources: National Statistical Agency; and Fund staff estimates.

Table 7. Kazakhstan: Administered Prices, 1996-99 1/

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
	(Administratively set price for the corresponding month, in Tenge)											
1996												
Wholesale prices												
Oil 2/	...	...	...	...	...	...	...	...	...	...	...	...
Coal 2/	...	...	...	...	...	...	...	...	...	...	...	...
Natural gas	547.0	551.0	551.0	551.0	551.0	551.0	551.0	549.0	549.0	549.0	529.0	546.0
Gasoline 3/	...	...	...	...	...	...	...	...	...	...	...	...
Diesel fuel 3/	...	...	...	...	...	...	...	...	...	...	...	...
Fuel oil 3/	...	...	...	...	...	...	...	...	...	...	...	...
Electricity	1.6	1.6	1.6	1.6	1.6	1.8	1.9	2.0	2.0	2.2	2.2	2.2
Retail prices												
White bread 3/	...	...	...	...	...	...	...	...	...	...	...	...
Gasoline A93 3/	...	...	...	...	...	...	...	...	...	...	...	...
Gasoline A76 3/	...	...	...	...	...	...	...	...	...	...	...	...
Diesel fuel 3/	...	...	...	...	...	...	...	...	...	...	...	...
Fuel 3/	...	...	...	...	...	...	...	...	...	...	...	...
Electricity in rural areas	...	...	...	...	...	...	...	...	...	n.a.	n.a.	n.a.
Electricity in urban areas	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.2
Electrical heating	...	...	...	...	...	...	...	...	...	n.a.	n.a.	n.a.
Water and sewage	18.0	18.9	19.2	22.7	24.9	29.7	43.7	49.6	56.3	72.2	81.5	81.6
Hot water	49.8	53.8	54.1	64.3	66.8	100.4	139.3	150.8	158.9	198.5	200.6	208.4
Rent	3.0	3.3	3.3	3.5	3.8	3.9	4.6	4.8	4.2	4.6	4.7	4.9
Transportation (public) 4/	9.5	10.0	9.9	10.1	10.1	10.4	10.4	10.4	10.5	10.5	10.6	10.8
Telephone subscription	150.0	150.0	150.0	150.0	150.0	150.0	165.0	165.0	165.0	200.0	200.0	200.0
1997												
Wholesale prices	...	...	...	...	...	...	...	...	...	...	...	...
Oil 2/	...	...	...	...	...	...	...	...	...	...	...	...
Coal 2/	...	...	...	...	...	...	...	...	...	...	...	...
Natural gas	547.0	547.0	548.0	548.0	563.0	563.0	563.0	563.0	563.0	563.0	594.0	594.0
Gasoline 3/	...	...	...	...	...	...	...	...	...	...	...	...
Diesel fuel 3/	...	...	...	...	...	...	...	...	...	...	...	...
Fuel oil 3/	4,292.0	4,315.0	4,295.0	3,639.0	3,393.0	3,367.0	3,284.0	3,282.0	3,448.0	3,709.0	3,704.0	3,823.0
Electricity	2,589.0	2,664.0	2,726.0	2,726.0	2,738.0	2,740.0	2,988.0	2,999.0	3,021.0	2,999.0	2,970.0	3,093.0
Retail prices												
White bread 3/	33.9	34.0	34.1	34.0	33.8	33.7	33.4	33.4	33.4	33.4	33.2	33.2
Gasoline A93 3/	26.1	27.2	27.0	27.0	26.7	26.2	26.6	27.3	27.2	27.1	27.5	28.8
Gasoline A76 3/	22.7	22.2	21.5	20.9	20.1	19.6	20.0	20.1	19.9	19.7	21.3	24.9
Diesel fuel 3/	12,808.1	13,450.7	13,922.1	14,067.0	13,877.8	13,841.2	13,968.2	15,011.1	15,228.9	15,353.2	15,474.7	16,659.3
Fuel 3/	6,001.8	5,880.9	5,930.5	5,893.5	6,611.9	6,597.8	6,611.9	5,931.8	6,190.9	6,157.9	6,101.6	6,199.0
Electricity in rural areas	...	...	...	...	...	...	...	...	...	...	...	...
Electricity in urban areas	2.3	2.4	2.4	2.8	2.9	2.9	3.1	3.1	3.1	3.2	3.4	3.5
Electrical heating	...	...	...	...	...	...	...	...	...	...	...	...
Water and sewage	18.9	19.8	20.1	21.0	22.1	22.1	23.2	23.4	23.4	23.6	24.0	24.2
Hot water	57.9	58.1	57.7	59.3	67.2	67.4	63.5	64.9	64.9	65.3	75.2	75.2
Rent	5.0	5.0	5.0	5.1	5.2	5.3	5.3	6.2	6.3	6.3	6.3	6.3
Transportation (public) 4/	11.5	12.3	12.3	12.0	12.1	12.1	12.3	12.6	12.6	12.9	12.9	13.4
Telephone subscription	200.5	200.0	20.0	270.0	270.0	270.0	270.0	270.0	270.0	320.0	320.0	320.0
1998												
Retail prices												
White bread 3/	33.6	33.4	33.7	33.6	33.4	33.2	33.0	32.9	33.0	32.9	32.6	32.4
Gasoline A93 3/	30.9	30.7	29.1	28.5	28.3	27.8	27.5	27.9	26.8	26.5	26.4	26.2
Gasoline A76 3/	25.7	24.7	23.4	22.4	21.8	21.1	21.5	20.8	19.5	18.8	18.1	18.0
Diesel fuel 3/	17,399.0	17,171.5	16,516.0	16,418.0	16,392.8	15,997.2	16,139.0	15,923.0	15,515.8	15,265.9	14,935.5	14,350.4
Fuel 3/	6,464.5	6,573.4	6,675.1	6,572.2	6,655.5	6,655.5	6,226.8	6,236.6	6,058.1	6,182.5	6,202.6	6,178.3
Electricity in rural areas												
Electricity in urban areas	3.5	3.6	3.6	3.6	3.6	3.6	3.8	3.8	3.8	3.7	3.7	3.7
Electrical heating												
Water and sewage	27.9	27.5	27.5	27.7	27.7	27.7	28.7	28.9	28.4	27.6	27.2	27.4
Hot water	76.5	80.5	80.4	81.1	81.1	81.2	81.4	81.7	81.7	77.6	77.4	78.4
Rent	6.4	6.5	6.6	6.7	6.7	6.7	6.8	7.0	6.9	6.9	6.9	6.9
Transportation (public) 4/	13.5	14.1	14.3	14.2	14.3	14.3	14.3	14.2	14.2	13.9	13.8	13.7
Telephone subscription	320.0	320.0	320.0	340.0	338.3	338.3	338.3	338.3	338.3	338.3	338.3	338.3
1999												
Retail prices												
White bread 3/	32.3	32.2	31.6									
Gasoline A93 3/	26.0	24.9	24.3									
Gasoline A76 3/	17.7	16.7	15.7									
Diesel fuel 3/	14,026.5	13,490.3	12,436.2									
Fuel 3/	6,202.1	6,148.0	5,982.8									
Electricity in rural areas												
Electricity in urban areas	373.7	373.7	373.7									
Electrical heating												
Water and sewage	27.6	27.6	27.6									
Hot water	78.6	77.2	77.2									
Rent	7.0	7.0	7.0									
Transportation (public) 4/	13.7	13.7	13.6									
Telephone subscription	338.3	338.3	338.3									

Sources: National Statistical Agency; and Fund staff estimates.

1/ Rents, utility fees (heating, water), and local transportation fares are set administratively at the regional (oblast) level. All other prices are set at the national level.
2/ Prices were liberalized in the second quarter of 1994.
3/ Prices were liberalized in the fourth quarter of 1994.
4/ Prices were liberalized in August of 1994.

Table 8. Kazakhstan: Wholesale Prices, 1996-99

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
						(In monthly percent change)						
1996												
Total	3.5	3.0	0.4	1.0	1.5	1.9	-0.3	1.3	1.0	2.4	0.9	0.7
Electric energy	-0.1	2.0	0.9	1.3	4.9	7.5	2.6	5.1	0.1	9.4	2.2	0.1
Fuel	7.2	2.2	0.6	1.0	0.2	0.0	0.8	0.0	0.2	0.4	0.2	1.9
Oil extraction	0.0	6.6	1.8	2.1	0.1	-0.4	0.0	0.0	0.1	0.1	0.2	0.3
Oil processing	0.6	0.0	0.0	2.0	0.0	0.0	-1.4	0.0	0.0	1.8	0.2	0.5
Gas extraction	0.0	1.2	0.0	0.0	0.0	0.0	0.0	-0.7	0.0	0.0	-5.4	9.8
Coal	19.8	0.2	0.1	-0.4	0.5	0.3	3.0	0.0	0.3	-0.1	0.7	3.7
Ferrous metals	1.5	7.1	-2.3	-4.6	-1.2	-2.1	-2.1	0.1	0.3	0.5	0.6	-0.1
Nonferrous metals	3.5	0.0	-2.6	0.5	0.9	6.3	-7.0	-1.1	0.1	1.2	0.2	0.1
Chemicals	-1.7	6.2	4.4	3.0	5.1	-2.0	-0.2	-1.2	0.3	2.8	1.3	-1.6
Petrochemicals	0.0	1.1	0.0	0.0	10.5	3.9	0.0	-0.3	0.0	0.0	0.0	0.0
Machine building	6.1	6.2	2.3	3.6	1.4	1.6	0.4	1.3	0.6	2.9	1.2	1.0
Wood products	4.6	1.3	-1.1	1.3	0.3	-1.1	-0.2	0.1	-1.0	-2.8	-0.8	1.1
Construction materials	-0.5	3.0	4.9	5.1	3.5	0.2	-1.0	2.3	0.5	1.7	4.6	0.6
Glass industry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Light industry	0.5	1.2	0.6	1.3	-0.5	0.1	2.6	1.3	1.4	0.4	1.0	2.1
Food industry	4.5	3.7	1.5	2.3	1.9	2.1	0.7	2.8	4.1	2.3	0.5	0.7
Other	0.0	0.0	1.0	8.6	15.2	0.0	0.3	0.0	8.5	9.5	1.8	0.0
1997												
Total	5.3	1.0	0.8	-0.1	0.3	0.4	1.6	-0.1	0.4	1.0	-0.3	0.9
Electric energy	13.3	0.7	1.3	-0.8	0.8	0.1	7.1	-0.2	0.4	5.2	-0.6	2.9
Fuel	10.6	1.7	0.7	-0.4	-0.2	1.5	-0.1	0.3	0.3	0.4	-0.2	1.3
Oil extraction	5.8	2.8	2.0	0.6	0.0	0.0	0.0	0.0	0.0	0.6	0.0	1.8
Oil processing	19.2	0.8	-0.1	-3.5	-0.7	5.5	-0.3	0.1	1.0	2.0	0.3	0.7
Gas extraction	0.0	0.0	0.5	0.0	4.1	0.0	0.0	0.0	0.0	0.0	5.4	0.0
Coal	10.0	1.5	0.2	0.5	-0.3	0.3	-0.1	0.6	0.0	-0.8	-1.0	1.3
Ferrous metals	-1.1	2.8	2.4	-0.5	-1.0	-0.7	0.9	-1.2	2.5	-1.1	1.8	0.0
Nonferrous metals	3.0	0.4	0.5	-0.1	3.5	1.4	1.1	-0.1	-0.6	-0.3	-3.4	-3.6
Chemicals	-0.8	1.7	1.3	0.1	-0.2	1.4	0.0	0.5	3.5	-0.2	-2.6	-0.3
Petrochemicals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Machine building	3.8	0.5	-1.6	1.4	-0.8	0.6	0.8	-0.2	-0.3	-0.9	0.2	4.1
Wood products	-3.3	1.4	3.7	0.8	2.6	0.0	-0.1	0.1	-0.6	-1.1	0.2	-0.2
Construction materials		-0.4	0.6	1.2	-0.3	0.5	1.3	0.7	0.3	0.3	0.5	1.0
Glass industry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Light industry	0.4	-0.9	1.1	0.4	0.4	0.0	0.0	0.1	0.1	-0.2	0.0	0.0
Food industry	0.6	1.4	0.4	0.3	-0.4	-0.8	-0.1	-0.2	0.1	0.4	0.7	0.7
1998												
Total	0.2	0.7	-0.2	-0.4	-0.6	-0.9	-0.8	-1.0	-0.7	-0.5	-1.3	0.0
Mining and extraction industry	0.8	0.3	-0.5	0.0	-1.5	-1.1	1.5	-3.5	-3.9	-0.4	-3.2	-0.4
Extraction of energy resources	0.8	0.5	-0.7	-0.3	-2.2	-1.5	2.2	-3.9	-5.6	-0.9	-4.5	0.2
Extraction of coal and lignite	0.4	0.4	-1.8	0.1	0.1	0.2	-0.1	0.0	1.4	0.1	1.4	0.4
Extraction of crude oil and natural gas	1.0	0.5	-0.3	-0.4	-3.0	-2.1	3.1	-5.4	-8.4	-2.3	-7.1	0.2
Extraction of crude oil	1.0	0.5	-0.3	-0.4	-3.2	-2.2	3.2	-5.7	-8.8	-1.4	-7.5	0.2
Extraction of natural gas	0.0	0.0	0.0	0.0	0.7	0.1	0.4	0.4	1.0	0.9	0.7	0.5
Mining and extraction industry, other than the extraction of energy resources	0.5	0.5	0.1	0.9	0.7	0.4	-1.0	-1.8	1.7	0.8	0.6	-2.3
Mining of metallic ores	0.5	0.4	1.0	-0.2	0.8	0.6	-1.2	-2.1	1.8	0.9	0.4	-2.6
Other sectors of mining and extraction industry	0.4	0.6	-6.4	8.8	-0.3	-0.9	0.0	0.5	1.4	0.8	1.8	0.0
Processing industry	0.6	0.8	0.1	-0.1	-0.3	-1.3	-2.3	0.2	1.2	-0.3	-0.7	0.2
Processing of agricultural products	1.4	0.4	-0.3	-0.1	-0.1	0.7	0.6	0.6	1.3	-0.6	-0.1	0.4
Food production	1.4	0.2	-0.6	-0.1	-0.3	0.1	0.8	0.7	1.5	-0.6	0.0	0.5
Textile and sewing industry	1.5	-0.2	0.0	0.4	0.1	-0.7	0.0	-0.2	0.2	0.0	0.0	-0.2
Shoe manufacturing	0.0	0.4	0.0	0.0	0.0	0.0	-0.4	0.0	1.2	0.0	4.9	0.0
Production of wood and wood production	0.0	0.0	0.2	0.2	1.7	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Production of paper and cardboard, printing industry	5.0	85.8	-4.0	-1.1	0.0	-5.5	0.0	0.0	0.0	0.0	0.0	-1.8
Coal production, oil refinery	10.1	0.1	0.0	-2.7	-0.3	-2.7	-7.1	0.7	1.5	1.6	-0.7	1.0
Chemical industry	0.0	0.2	9.3	0.2	0.2	0.2	0.0	-0.1	-0.8	-2.3	2.5	0.9
Manufacturing of rubber and plastic products	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.4
Production of other nonmetallic mineral-based materials	0.3	0.7	0.6	0.6	0.8	0.4	-0.4	-0.2	-0.2	0.0	0.0	0.1
Metallurgical industry and metal working	-3.9	0.1	-0.6	0.8	-0.5	-2.2	-3.2	0.0	1.7	-1.2	-1.7	-0.3
Manufacturing of machinery and equipment	2.6	2.0	0.5	0.2	-0.4	-0.5	0.2	0.1	0.0	2.5	0.0	0.0
Manufacturing of electrical and electronic equipment	0.1	0.0	0.8	0.0	0.0	-2.5	0.0	0.3	-0.1	0.6	0.1	-0.1
Production of transportation equipment	2.0	-1.7	-0.5	1.3	1.1	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Furniture production; other sectors of industry	0.0	0.1	0.0	0.0	0.0	2.1	0.0	0.1	0.1	0.0	0.0	0.2
Production and distribution of electricity, gas, and water	-1.4	1.0	-0.1	-1.5	-0.1	0.1	-0.6	0.0	-0.3	-0.8	-0.3	0.0
1999												
Total	-1.0	-1.3	-0.1									
Mining and extraction industry	-1.7	-2.9	1.2									
Extraction of energy resources	-2.0	-2.9	1.6									
Extraction of coal and lignite	0.8	3.4	-1.3									
Extraction of crude oil and natural gas	-3.2	-6.7	3.1									
Extraction of crude oil	-3.4	-7.1	3.2									
Extraction of natural gas	0.7	0.5	1.0									
Mining and extraction industry, other than the extraction of energy resources	-0.6	-3.0	0.1									
Mining of metallic ores	-0.7	-3.6	-0.3									
Other sectors of mining and extraction industry	0.0	0.6	2.4									
Processing industry	-0.9	-1.1	-1.2									
Processing of agricultural products	-0.3	-1.0	0.2									
Food production	-0.3	-1.1	-0.2									
Textile and sewing industry	-0.2	-0.3	-2.3									
Shoe manufacturing	0.0	0.0	0.0									
Production of wood and wood production	0.0	0.0	-0.5									
Production of paper and cardboard, printing industry	-0.2	-1.2	1.3									
Coal production, oil refinery	-0.7	0.1	-9.5									
Chemical industry	0.2	0.3	-1.0									
Manufacturing of rubber and plastic products	0.0	0.0	0.0									
Production of other nonmetallic mineral-based materials	0.1	0.3	-0.4									
Metallurgical industry and metal working	-1.9	-2.3	1.3									
Manufacturing of machinery and equipment	0.3	0.9	0.6									
Manufacturing of electrical and electronic equipment	0.2	-0.1	-1.4									
Production of transportation equipment	0.0	0.0	0.0									
Furniture production; other sectors of industry	0.2	0.0	2.1									
Production and distribution of electricity, gas, and water	-0.1	0.2	0.3									
						(Percentage change over previous year)						
Memorandum items:												
Total 1994	1,678.9	1,718.2	1,814.3	2,777.9	3,729.7	3,927.0	4,361.7	3,887.1	3,761.9	3,304.7	2,592.3	1,923.8
Total 1995	1,379.1	1,036.6	838.5	435.6	292.0	172.2	104.2	92.5	61.1	47.7	45.7	40.2
Total 1996	37.1	33.9	27.9	23.8	25.1	26.1	23.3	17.0	20.8	19.2	18.4	18.5
Total 1997	20.5	18.1	18.6	17.4	16.0	14.3	16.5	15.0	14.4	12.9	11.5	11.7
Total 1998	6.3	6.0	4.9	4.6	3.7	2.3	-0.1	-1.0	-2.2	-3.6	-4.6	-5.5
Total 1999	-6.5	-8.5	-8.4									

Sources: National Statistical Agency; and Fund staff estimates.

Table 9. Kazakhstan: Energy Prices, 1994-99 1/
(Monthly price, in Tenge)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1994												
Crude oil (ton)	100	100	100	633	780	880	1,683	1,683	1,767	1,820	2,000	2,083
Natural gas (1000m3)	5	21	34	88	124	139	150	250	253	291	291	291
Electricity (1000kwh)	90	90	90	350	370	730	1,120	1,140	1,170	1,220	1,240	1,260
Coal (ton)	81	81	81	79	146	197	319	345	365	504	504	504
Gasoline (ton)	654	678	695	1,573	1,698	2,080	4,442	4,442	5,153	5,579	6,041	6,041
Diesel (ton)	706	728	757	1,339	1,463	2,087	4,119	4,119	4,401	4,401	4,901	4,901
Mazuth (ton)	452	448	471	775	823	900	2,121	2,121	2,266	2,266	2,269	2,322
1995												
Crude oil	3,173	3,173	3,173	3,200	3,200	3,200	3,200	3,200	3,200	3,375	3,375	3,300
Natural gas	291	291	291	343	349	349	404	414	415	415	454	454
Electricity	1,260	1,280	1,300	1,330	1,335	1,341	1,360	1,375	1,380	1,400	1,435	1,460
Coal	630	653	653	653	628	649	650	650	656	656	628	628
Gasoline	9,074	9,169	8,769	8,960	8,960	8,960	9,231	8,950	9,266	9,278	9,324	9,324
Diesel	6,465	6,615	6,615	7,183	7,183	7,183	7,183	7,051	7,165	7,253	7,253	7,034
Mazuth	3,771	3,945	3,578	3,213	3,213	3,213	3,074	3,374	3,374	3,573	3,469	3,469
1996												
Crude oil	3,330	3,542	3,595	3,661	3,665	3,649	3,650	3,651	3,655	3,659	3,665	3,676
Natural gas	547	551	551	551	551	551	551	549	549	549	529	546
Electricity	1,511	1,559	1,567	1,587	1,624	1,840	1,929	2,046	2,046	2,175	2,180	2,180
Coal	776	780	778	765	769	772	782	782	785	784	788	788
Gasoline	9,530	9,530	9,530	10,312	10,312	10,312	9,929	9,929	9,929	9,943	9,943	9,943
Diesel	7,056	7,056	7,056	7,425	7,425	7,425	7,264	7,264	7,264	7,298	7,298	7,298
Mazuth	3,506	3,438	3,438	3,128	3,128	3,128	3,128	3,128	3,128	3,325	3,325	3,390
Heating (Gcal)	744	748	754	765	838	843	837	842	843	968	1,008	1,010
Liquid petroleum gas (ton)	3,129	3,129	3,129	3,345	3,345	3,345	3,345	3,345	3,345	3,345	3,345	3,345
1997												
Crude oil	3,911	4,016	4,099	4,127	4,127	4,127	4,127	4,127	4,127	4,156	4,156	4,242
Natural gas	547	547	548	548	563	563	563	563	563	563	594	594
Electricity	2,589	2,664	2,726	2,726	2,738	2,710	2,988	2,999	3,021	2,999	2,970	3,093
Coal	559	575	577	582	579	581	580	580	580	577	577	577
Gasoline	11,598	11,814	11,848	11,849	11,948	13,162	13,166	13,189	13,177	13,259	13,254	13,263
Diesel	8,707	8,729	8,725	8,855	8,986	9,448	9,580	9,584	9,582	9,581	9,580	9,581
Mazuth	4,292	4,315	4,295	3,639	3,393	3,417	3,281	3,281	3,418	3,709	3,704	3,823
Heating (Gcal)	1,117	1,097	1,097	1,131	1,094	1,094	1,092	1,080	1,082	1,235	1,235	1,252
Liquid petroleum gas (ton)	3,864	3,871	3,869	4,249	4,251	4,267	4,268	4,270	4,270	4,270	4,270	4,270
1998												
Crude oil	4,479	4,498	4,481	4,459	4,296	4,211	4,314	4,045	3,688	3,627	3,368	3,370
Natural gas	778	778	778	778	782	782	784	787	793	799	803	807
Electricity	2,640	2,640	2,640	2,580	2,580	2,580	2,590	2,590	2,580	2,540	2,550	2,550
Coal	735	836	724	725	725	725	721	723	737	737	748	752
Gasoline	14,790	14,767	14,769	14,867	14,904	14,541	13,097	12,951	13,137	13,162	13,424	12,887
Diesel	10,000	9,997	9,998	10,424	10,308	9,935	9,368	9,384	9,532	9,555	9,149	9,561
Mazuth	4,964	4,964	4,964	3,950	3,954	3,747	3,358	3,468	3,510	3,714	3,835	3,949
Heating (Gcal)	1,185	1,186	1,186	1,170	1,168	1,168	1,128	1,128	1,120	1,108	1,095	1,095
Liquid petroleum gas (ton)	4,865	4,865	4,867	4,872	4,875	5,159	5,396	5,461	5,580	5,629	5,742	5,522
1999												
Crude oil	3,703	3,448	3,564									
Natural gas	818	821	828									
Electricity	2,380	2,380	2,390									
Coal	471	491	486									
Gasoline	12,584	12,648	10,000									
Diesel	9,365	9,380	8,651									
Mazuth	3,086	3,095	2,980									
Heating (Gcal)	1,142	1,142	1,143									
Liquid petroleum gas (ton)	4,117	3,592	3,494									

Sources: National Statistical Agency, and Fund staff estimates.

1/ Producers' ex-factory prices. Average prices for all customers.

Table 10. Kazakhstan: Employment, 1993-97 1/

	1993	1994	1995	1996	1997
			(In thousands of people)		
Employment					
Total	5,630	5,415	4,994	4,380	3,629
Sectors of material production	3,868	3,737	3,338	2,839	2,310
Industry	1,195	1,121	1,026	916	804
Construction	492	391	325	251	188
Agriculture	1,108	1,196	1,062	883	658
Forestry	13	11	10	9	9
Transport	497	464	418	378	336
Communication	79	82	80	77	67
Trade and public catering	294	264	225	166	119
Marketing and purchasing	98	84	71	60	49
Information services	10	8	6	5	5
Other	82	116	115	94	75
Sectors of non-material production	1,762	1,678	1,656	1,541	1,319
Municipal services	252	242	248	224	192
Health and cultural services	425	425	412	389	337
Education	732	697	685	632	542
Culture and art	93	82	81	67	52
Science and scientific service	77	38	37	32	28
Credit and state insurance	52	49	47	43	35
Management apparatus	132	145	146	154	133
			(In percent of total)		
Share of employment					
Total	100.0	100.0	100.0	100.0	100.0
Sectors of material production	68.7	69.0	66.8	64.8	63.7
Industry	21.2	20.7	20.5	20.9	22.2
Construction	8.7	7.2	6.5	5.7	5.2
Agriculture	19.7	22.1	21.3	20.2	18.1
Forestry	0.2	0.2	0.2	0.2	0.2
Transport	8.8	8.6	8.4	8.6	9.3
Communication	1.4	1.5	1.6	1.8	1.8
Trade and public catering	5.2	4.9	4.5	3.8	3.3
Marketing and purchasing	1.7	1.6	1.4	1.4	1.4
Information services	0.2	0.1	0.1	0.1	0.1
Other	1.5	2.1	2.3	2.1	2.1
Sectors of non-material production	31.3	31.0	33.2	35.2	36.3
Municipal services	4.5	4.5	5.0	5.1	5.3
Health and cultural services	7.5	7.8	8.2	8.9	9.3
Education	13.0	12.9	13.7	14.4	14.9
Culture and art	1.7	1.5	1.6	1.5	1.4
Science and scientific service	1.4	0.7	0.7	0.7	0.8
Credit and state insurance	0.9	0.9	0.9	1.0	1.0
Management apparatus	2.3	2.7	2.9	3.5	3.7

Sources: National Statistical Agency; and Fund staff estimates.

1/ Excluding small enterprises.

Table 11. Kazakhstan: Labor Market, 1994-98

	1994				1995				1996				1997				1998			
	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV
										(In thousands)										
Number of job placement inquiries	20.0	22.7	22.1	25.4	26.4	26.5	28.6	35.9	52.6	47.0	44.5	43.3	50.5	46.6	44.1	37.3	46.3	44.5	42.8	45.5
Number of people placed in jobs	5.7	8.8	8.7	7.9	6.5	8.1	8.2	8.0	6.7	9.3	9.6	7.8	6.4	8.3	8.6	8.6	7.3	9.4	9.3	9.1
Number of people granted unemployment status	7.9	8.9	9.4	11.5	14.4	14.1	16.1	23.1	35.8	32.7	31.6	30.5	32.5	32.9	30.8	31.9	33.5	32.6	30	31.3
Number of unemployed	45.9	51.4	56.6	66.4	81.3	92.9	103.3	127.8	183.3	235.4	263.1	279.5	293.1	277.7	268.7	263.5	262	272.4	264.8	254.5
Of which																				
Beneficiaries	17.4	21.2	25.1	30.2	40.7	49.0	54.1	65.8	101.5	140.9	157.3	167.5	178.7	177.8	178.5	176.9	169.5	169	159.3	150
Number of vacancies	28.4	44.2	42.7	33.4	26.1	27.6	25.9	20.0	16.2	17.9	17.6	11.6	8.6	9.8	12.9	9.6	8.5	11.2	12.5	9.9
Hidden unemployment 1/ 2/	675.6	529.0	477.0	556.2	746.5	793.4	766.6	643.3	579.4	364.1	317.1	305.2	331.7	289.5	240.3	235.0	224.1	213.1	201.2	204.3
Total unemployment 3/	721.5	580.4	533.6	622.6	827.8	886.3	869.9	771.1	762.7	599.5	580.2	584.7	624.8	567.2	509.0	498.5	486.1	485.5	466	458.8
										(In percent)										
Official unemployment rate 4/	0.6	0.7	0.8	1.0	1.2	1.5	1.8	2.1	2.7	3.5	3.9	4.1	4.3	4.1	4.0	3.9	3.9	3.9	3.9	3.8
Actual unemployment rate 5/	9.2	7.2	6.8	8.1	11.3	12.1	11.5	13.0	11.4	8.9	8.6	8.6	9.2	8.3	7.5	7.3	7.0	7.0	6.7	6.6

Sources: National Statistical Agency; Ministry of Labor; and Fund staff estimates.

1/ Defined as workers in part-time jobs and forced leave.
2/ In March 1996, the Ministry of Labor introduced a new methodology of collecting data on hidden unemployment, which has resulted in a reduction in the number for hidden unemployment.
3/ Unofficially unemployed persons are not included.
4/ Ratio of number of officially unemployed to the labor force.
5/ Ratio of number of officially unemployed plus that of hidden unemployed to the labor force.

Table 12. Kazakhstan: Nominal and Real Wages, 1994-98
(In Tenge per month, unless otherwise indicated)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
1994												
Minimum wage	30	40	40	100	100	100	150	150	150	200	200	200
Average wage 1/	331	370	475	807	1,036	1,357	1,726	1,971	2,451	3,091	3,360	3,392
Minimum real wage 2/	70	75	64	122	91	62	75	66	60	67	58	53
Average real wage 2/	76	68	74	96	92	83	84	84	96	101	96	88
Average wage (in U.S. dollars)	36	32	27	31	27	32	38	43	52	63	66	63
1995												
Minimum wage	200	200	250	250	250	250	280	280	280	300	300	300
Average wage 1/	3,571	3,650	4,161	4,282	4,613	4,830	5,185	5,352	5,729	5,963	6,194	6,327
Minimum real wage 2/	49	46	54	52	51	50	54	53	52	54	51	50
Average real wage 2/	85	81	88	88	92	94	98	99	104	104	103	102
Average wage (in U.S. dollars)	64	62	69	69	73	76	83	93	95	96	98	99
1996												
Minimum wage	1,100	1,100	1,100	1,400	1,400	1,400	1,700	1,700	1,700	2,000	2,000	2,000
Average wage 1/	5,634	5,713	6,218	6,518	6,452	6,768	7,063	7,105	7,349	7,587	7,423	7,674
Minimum real wage 2/	174	170	167	207	203	198	236	234	232	265	258	256
Average real wage 2/	87	86	92	94	91	93	96	96	98	98	94	96
Average wage (in U.S. dollars)	87	87	95	99	97	101	105	105	107	108	104	105
1997												
Minimum wage	2,030	2,030	2,030	2,060	2,060	2,080	2,085	2,085	2,085	2,340	2,340	2,340
Average wage 1/	7,506	7,472	8,201	7,993	8,313	8,742	8,882	8,621	9,054	9,285	9,035	9,205
Minimum real wage 2/	255	251	249	250	249	250	249	249	250	277	273	269
Average real wage 2/	92	90	98	95	98	103	103	101	106	107	103	104
Average wage (in U.S. dollars)	102	99	109	106	110	116	118	114	120	123	120	121
1998												
Minimum wage	2,360	2,360	2,360	2,380	2,380	2,380	2,400	2,400	2,400	2,440	2,440	2,440
Average wage 1/	9,016	9,005	9,722	9,485	9,660	9,919	9,858	9,656	9,934	9,986	9,811	11,192
Minimum real wage 2/	267	264	262	...	...	...	...	...	...	...	...	...
Average real wage 2/	84	99	107	97	102	104	100	99	103	101	98	114
Average wage (in U.S. dollars)	119	118	127	124	126	129	128	124	125	123	119	134

Sources: National Statistical Agency; Ministry of Labor; and Fund staff estimates.

1/ For December, excludes estimated bonus.
2/ December 1993 = 100.

Table 13. Kazakhstan: Wages by Sector, 1993-97 1/
(In Tenge)

	1993	1994	1995	1996	1997
Total	128	1,726	4,786	6,841	8,541
Sectors of material production	137	1,960	5,383	7,447	9,278
Industry	171	2,801	7,792	10,198	12,489
Construction	170	2,660	7,850	9,660	11,319
Agriculture	101	1,038	2,392	3,512	3,875
Forestry	75	870	2,442	4,165	5,353
Transport	182	2,408	6,808	9,453	10,974
Communication	120	1,821	5,875	9,156	10,209
Trade and public catering	85	1,175	3,341	4,883	5,835
Marketing and purchasing	140	2,035	6,108	8,708	9,441
Information services	134	1,825	5,417	7,234	11,237
Sectors of non-material production	89	1,158	3,497	5,592	7,082
Municipal services	102	1,642	4,575	6,780	8,183
Health and cultural services	66	797	2,675	4,568	5,824
Education	81	893	2,933	5,069	6,320
Culture and art	67	771	2,332	4,149	5,549
Science and scientific service	119	1,470	4,483	6,786	9,043
Credit and state insurance	288	4,179	10,967	13,022	17,004
Management apparatus	139	1,775	4,475	7,250	9,638

Sources: National Statistical Agency; and Fund staff estimates.

1/ Data are not comparable with monthly wages in Table 12.

Table 14. Kazakhstan: Investment in Constant Prices, 1994-98
(1991 = 100)

	1994		1995		1996 1/		1997		1998 2/	
	Total	State	Total	State	Total	State	Total	State	Total	State
Total investment	27.5	14.0	15.8	7.9	9.4	4.3	10.6	3.2	13.3	3.9
Productive investment	29.2	15.0	18.6	8.6	10.6	4.5	11.6	2.6	...	...
Industry	50.0	22.2	29.9	11.4	17.5	4.9	21.5	2.0	25.5	1.1
Agriculture	5.2	3.5	2.0	0.8	0.9	0.3	0.5	0.2	0.1	0.1
Transport and communication	49.0	45.2	36.0	32.0	26.1	24.2	20.9	18.7	28.3	21.3
Construction	5.5	0.7	3.9	0.6	2.6	1.6	1.8	0.7	11.2	12.1
Trade and catering	3.4	0.6	5.0	0.5	4.1	1.0	4.9	0.6	17.8	1.5
Other	112.5	38.5	12.5	5.1	35.7	4.6	17.8	2.2	...	...
Non-productive investment	23.9	11.9	11.0	4.4	6.7	3.9	8.5	4.8	...	...
Housing	14.6	9.8	8.6	3.7	5.2	2.2	5.9	3.4	5.0	2.8
Other	42.3	16.0	12.5	4.8	9.6	7.0	13.6	7.2	...	...
Memorandum item:										
Index of houses constructed	36.7	...	27.1	...	...	...	...	...	...	...

Sources: National Statistical Agency; and Fund staff estimates.

1/ Adjusted for underreporting.

Table 15. Kazakhstan: Financing of Investment, 1994-98

	1994	1995	1996	1997	1998
	(In millions of Tenge)				
All resources	80,945	148,590	118,981	139,790	189,296
State enterprises	41,257	66,847	48,997	38,383	50,609
Budget resources	7,332	6,075	8,335	8,895	23,926
Own resources	33,926	60,705	40,662	29,488	26,683
Other 1/	39,688	81,743	69,984	101,407	138,687
	(In percent of total resources)				
State enterprises	51.0	45.0	41.2	27.5	26.7
Budget resources	9.1	4.1	7.0	6.4	12.6
Own resources	41.9	40.9	34.2	21.1	14.1
Other 1/	49.0	55.0	58.8	72.5	73.3

Sources: National Statistical Agency; and Fund staff estimates.

1/ Includes mainly private sector investment.

Table 16. Kazakhstan: Sectoral Composition of Capital Investment, in Current Prices, 1994-98
(In percent of total investment)

	1994	1995	1996	1997	1998 1/
Total	100.0	100.0	100.0	100.0	100.0
For production facilities	72.8	75.0	77.4	74.8	...
Industry	55.2	57.3	55.9	60.8	57.7
Electric power generation	7.1	8.2	10.6	4.0	6.1
Oil extraction industry	24.4	20.5	20.7	32.8	35.4
Oil refining industry	2.5	2.2	2.1	1.2	0.9
Gas industry	1.3	1.9	2.6	2.0	...
Coal industry	5.0	4.5	3.5	3.7	1.0
Ferrous metallurgy	4.0	5.7	2.8	3.1	3.1
Nonferrous metallurgy	5.3	9.6	7.9	6.7	2.2
Construction materials industry	0.5	0.3	1.1	1.5	0.1
Light industry	0.3	0.1	0.1	0.0	0.1
Medical industry	0.1	0.1	0.1	0.0	0.0
Machine building and metalworking	0.6	0.6	0.5	0.3	0.3
Other	4.1	3.6	3.9	5.5	8.5
Agriculture	6.0	3.6	3.3	1.5	0.3
Forestry	0.0	0.0	0.1	0.0	0.0
Transportation	7.3	4.6	9.5	8.8	10.4
Other	4.2	9.4	8.6	3.7	...
For nonproduction facilities	27.2	25.1	22.6	25.2	...
Housing construction	12.4	12.6	12.0	11.8	8.2
Municipal construction	7.2	5.8	3.6	5.4	2.7
Consumer services	0.1	0.1	0.0	0.1	0.0
Public health and social security	2.9	3.0	2.6	1.8	2.2
Public education	1.0	0.9	0.6	0.9	0.4
Culture and art	0.5	0.4	0.3	0.5	1.2
Scientific research	0.0	0.0	0.0	0.0	0.0
Other nonproduction sectors	3.2	2.3	3.4	4.7	...

Sources: National Statistical Agency; and Fund staff estimates.

1/ Preliminary estimates.

Table 17. Kazakhstan: Savings, Investment and Growth, 1994-98

	1994	1995	1996	1997	1998
	(In percent of GDP)				
Savings and investment					
Investment	22.6	20.5	11.8	12.9	11.5
Gross capital formation	20.0	17.9	10.7	11.9	10.5
Public sector	9.7	6.7	3.7	3.7	3.0
Of which					
Budget	2.6	1.0	1.7	2.0	2.0
Private 1/	10.3	11.2	7.0	8.2	7.5
Change in stocks	2.6	2.6	1.1	1.0	1.0
Financed by:					
Total savings	22.6	20.5	11.8	12.9	11.5
National savings	14.0	17.4	8.2	9.3	5.8
Budget 2/ 3/	-4.8	-2.2	-3.5	-4.8	-5.7
Private	18.8	19.6	11.7	14.1	11.5
Foreign savings 4/	8.6	3.1	3.6	3.6	5.7
	(Percent change over previous year)				
Real GDP	-12.6	-8.2	0.5	2.0	-2.5
Real GDP per capita	-11.0	-7.2	1.2	3.1	...
Memorandum items:					
Total factor productivity	...	-8.5	1.5	3.8	-0.9
Labor force growth	-3.0	-3.0	-2.0	-2.2	-1.0
Inflation (CPI, end-of-period)	1,160.3	60.4	28.6	11.3	1.9
Fiscal deficit (percent of GDP) 3/	-7.4	-3.2	-4.7	-6.8	-7.7

Sources: Kazakh authorities; and Fund staff estimates.

1/ This reflects in part reclassification of the public sector to the private sector due to privatization.
2/ Government savings equal revenues minus current expenditures, equivalent to deficit (calculated from fiscal data on revenues and expenditures) plus investment.
3/ Excludes privatization proceeds from revenue.
4/ Foreign savings equal the current account deficit.

Table 18. Kazakhstan: Privatization of State Enterprises, 1994-99
(Units)

	Before 1994	1994	1995	1996	1997	1998	1999 Feb.
Small-scale privatization	5,578	2,748	2,477	3,393	5,590	2535	523
Mass privatization	...	...	147	497	1,122	516	35
Privatization in agriculture	...	918	513	138	18	9	3
Case-by-case privatization	...	...	5	28	47	13	0
Total	9,269	4,147	3,142	4,056	6,777	3,073	561

Sources: Ministry of Finance; National Statistical Agency; and Fund staff estimates.

Table 19. Kazakhstan: Privatized Enterprises by Sectors, 1994-99

	1994	1995	1996	1997	1998	1999 Feb.
			(Units)			
Industry	211	48	437	608	152	7
Construction	110	52	45	162	50	1
Agriculture	918	514	138	18	9	3
Transport	180	28	101	331	73	24
Trade and catering	1,394	1,358	1,519	1,279	287	40
Personal and public services	587	337	280	689	169	25
Other sectors	747	806	1,536	3,690	2,267	448
Of which						
Incompleted units	16	19	31	226	66	13
Total	4,147	3,143	4,056	6,777	3,073	561
			(In percent of total)			
Industry	5.1	1.5	10.8	9.0	4.9	1.2
Construction	2.7	1.7	1.1	2.4	1.6	0.2
Agriculture	22.1	16.4	3.4	0.3	0.3	0.5
Transport	4.3	0.9	2.5	4.9	2.4	4.3
Trade and catering	33.6	43.2	37.5	18.9	9.3	7.1
Personal and public services	14.2	10.7	6.9	10.2	5.5	4.5
Other sectors	18.0	25.6	37.9	54.4	73.8	79.9
Of which						
Incompleted units	0.4	0.6	0.8	3.3	2.1	2.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Ministry of Finance; National Statistical Agency; and Fund staff estimates.

Table 20. Kazakhstan: Summary Accounts of National Bank of Kazakhstan, 1997-98

	1997	1998			
	December	March	June	September	December
	(In millions of Tenge; end period stocks)				
Net international reserves	131,306	111,405	110,724	91,324	99,366
Foreign exchange	91,728	71,784	71,071	54,286	61,086
Assets	129,938	109,227	106,818	88,628	110,313
Liabilities, short-term	38,210	37,443	35,747	34,342	49,226
Gold	39,578	39,621	39,653	37,038	38,279
Net domestic assets	-24,402	-19,422	-19,097	-9,235	-17,893
Domestic credit	23,079	29,601	27,100	36,406	23,827
Credit to Government	21,487	24,259	21,669	30,240	26,922
Less amount used for sterilization	...	...	-1,154	-511	0
Credit to banks, net	1,393	5,150	5,243	5,983	-3,280
Credit	8,248	8,146	8,214	8,503	8,766
Special deposits (NBK notes and repos)	-6,855	-2,996	-2,971	-2,520	-12,046
Credit to the economy	199	193	188	182	185
Other items (net)	-47,481	-49,024	-46,197	-45,641	-41,720
Reserve money	106,903	91,983	91,626	82,088	81,473
Currency outside NBK	96,518	84,058	84,082	72,563	72,982
Currency held by public	92,782	80,022	79,926	68,872	68,727
Currency held by commercial banks	3,736	4,036	4,156	3,691	4,255
Commercial bank deposits	10,254	7,776	7,223	9,306	7,947
Reserves	31	28	33	38	23
Correspondent accounts	9,552	7,374	6,598	8,595	4,552
Other deposits	671	374	593	673	3,372
Demand, time and enterprise deposits	131	149	321	220	544
	(In millions of U.S. dollars)				
NBK gross reserves	2,244	1,970	1,939	1,663	1,967
NBK net international reserves, stock	1,738	1,475	1,466	1,209	1,315
Foreign exchange, excluding CIS currencies	1,214	950	941	719	809
Gold	524	524	525	490	507
Memorandum items: 1/					
Change from end of previous quarter					
Net international reserves	...	-19,901	-681	-19,400	8,042
Credit to government (net)	...	2,771	-2,590	8,571	-3,318
Credit to government (excluding sterilization using debt)	...	2,771	...	...	...
Credit to banks	...	3,757	93	740	-9,263
Change from end of previous year (in U.S. dollar)					
Net international reserves	...	-263	-272	-529	-423
Reserve money					
Percentage change from end of previous quarter	...	-14.0	-0.4	-10.4	-0.8
Percentage change from end of previous year	...	-14.0	-14.3	-23.2	-23.8

Sources: Kazakh authorities; and Fund staff estimates.

1/ In addition to integrating the accounts of the Budget Bank with those of the NBK, a reclassification of Loro accounts of domestic banks has been made.

Table 21. Kazakhstan: Monetary Survey, 1997-1998

	1997	1998			
	December	March	June	September	December
	(In millions of Tenge; end period stocks)				
Net international reserves	139,720	120,147	104,434	86,963	94,277
Foreign exchange	100,142	80,526	64,781	49,925	55,998
Assets	142,344	121,613	105,332	101,427	94,045
Liabilities, short-term	42,202	41,087	40,551	51,502	38,048
Gold	39,578	39,621	39,653	37,038	38,279
Net domestic assets	31,168	32,965	54,629	61,604	55,729
Domestic credit	105,685	111,415	127,852	138,035	136,807
Credit to Government	28,231	27,187	33,660	37,636	37,122
Of which					
Outstanding stock of government paper	20,774	17,423	20,794	15,597	18,669
Credit to the economy	77,454	84,228	94,191	100,398	99,685
Of which					
Credits denominated in convertible currency	25,363	31,283	42,543	46,295	42,097
Other items (net)	-74,517	-78,451	-73,223	-76,431	-81,078
Broad money	170,888	153,112	159,062	148,567	150,006
Currency in circulation	92,796	80,022	79,926	68,872	68,727
Deposits	78,055	73,058	79,108	79,644	81,099
Nonbank institutions	50,436	45,032	48,044	49,513	50,759
Tenge	38,690	30,748	32,818	30,171	29,145
Convertible foreign exchange	11,052	13,558	14,559	19,121	21,043
Nonconvertible foreign exchange	694	727	667	221	571
Households	27,619	28,026	31,064	30,131	30,339
Tenge	20,748	20,315	22,676	20,959	20,866
Convertible foreign exchange	6,860	7,694	8,374	9,163	9,469
Nonconvertible foreign exchange	12	17	14	9	5
Bonds/promissory notes of banks	36	31	28	51	180
	(In millions of U.S. dollars)				
Banking system net international reserves	1,849	1,590	1,382	1,151	1,248
Foreign exchange	1,326	1,066	857	661	741
Gold	524	524	525	490	507
Memorandum items:					
Change from end of previous quarter					
Net international reserves	...	-19,743	-15,714	-17,471	7,314
Credit to government (net)	...	-8,400	6,473	3,976	-515
Credit to economy	...	7,000	9,963	6,207	-713
Change from end of previous year					
Net international reserves of banking system	...	-261	-469	-700	-604
NBK	...	-263	-272	-529	-423
Commercial banks	...	2	-197	-171	-181
Broad money					
Percentage change from end of previous quarter	...	-13.6	3.9	-6.6	1.0
Percentage change from end of previous year	...	-13.6	-10.3	-16.2	-15.4

Sources: Kazakh authorities; and Fund staff estimates.

Table 22. Kazakhstan: Interest Rates, 1995-99
(In percent; end-of-period)

	Inflation Year-on-year	NBK refinance rate	Yield on 3-month Treasury bills	Commercial bank short-term lending rates 1/ 2/	Commercial bank time deposit rates 1/ 2/	
					Households	Legal entities
1995						
December	60.4	52.5	58.8	91.1	25.7	65.0
1996						
January	53.3	59.0	56.9	87.1	25.0	59.8
February	47.3	50.0	54.2	86.6	23.5	58.1
March	42.5	44.0	47.0	85.2	25.2	56.6
April	42.1	40.0	33.9	69.9	23.6	53.6
May	41.1	40.0	33.3	69.2	22.6	41.4
June	41.4	36.0	34.9	72.2	22.1	35.8
July	39.9	32.0	34.2	59.3	19.6	32.8
August	38.0	32.0	29.3	54.8	19.4	33.7
September	36.4	32.0	33.2	65.7	19.5	37.1
October	34.8	35.0	35.1	49.4	17.0	35.5
November	32.2	35.0	32.3	45.1	16.7	28.1
December	28.6	35.0	32.3	46.0	16.0	22.0
1997						
January	26.2	35.0	28.0	40.3	16.4	30.3
February	25.2	35.0	26.8	37.4	14.8	25.1
March	24.1	35.0	24.6	36.5	13.5	25.9
April	21.5	35.0	21.7	35.9	13.0	22.3
May	19.6	30.0	12.9	39.4	12.9	19.7
June	17.7	24.0	13.9	37.6	11.3	17.8
July	16.4	21.0	14.6	37.3	8.2	16.0
August	15.2	21.0	12.8	35.0	8.0	15.2
September	13.7	19.5	12.6	34.5	7.2	13.1
October	11.8	18.5	12.8	28.8	6.5	12.9
November	10.8	18.5	14.6	28.7	5.9	14.4
December	11.3	18.5	16.1	23.7	6.0	11.8
1998						
January	11.0	18.5	15.8	23.4	...	...
February	10.3	18.5	16.8	23.6	...	...
March	10.2	18.5	18.2	22.3	4.2	8.8
April	9.9	18.5	17.5	...	...	...
May	9.8	18.5	16.0	...	...	...
June	8.0	18.5	18.1	21.1	4.0	11.7
July	7.1	18.5	18.5	...	...	...
August	6.3	20.5	20.3	...	...	...
September	6.3	20.5	21.6	19.8	4.1	14.3
October	4.4	20.5	21.8	...	...	...
November	2.9	25.0	24.5	...	...	...
December	1.9	25.0	25.8	17.4	4.9	14.5
1999						
January	1.0	25.0	26.3	18.2	5.4	17.2
February	-0.3	25.0	26.3	19.4	4.6	17.4
March	-1.2	25.0	26.3	22.2	5.3	18.8
April	2.8	25.0	...	...	...	...
May	3.9	...	...	...	...	...

Source: National Bank of Kazakhstan.

1/ Credits and deposits in Tenge.

2/ Rates on existing stocks of credits and deposits through December 1996, rates on new credits and deposits thereafter.

Table 23. Kazakhstan: Interbank Currency Exchange (KICEX) Auction Rates, 1995-99

	Tenge per U.S. dollar		Tenge per deutsche mark		Tenge per 1,000 Russian ruble	
	Period average	End-of-period	Period average	End-of-period	Period average 1/	End-of-period 1/
1995						
January	55.76	57.15	36.57	38.00	14.63	14.25
February	58.89	59.80	39.26	40.80	13.80	13.34
March	60.62	61.30	43.13	44.40	12.90	12.20
April	62.20	62.80	45.39	45.95	12.49	12.40
May	63.18	63.45	45.27	45.80	12.40	12.50
June	63.53	63.33	45.74	46.00	13.55	14.25
July	62.30	59.45	45.27	43.35	13.85	13.60
August	57.37	59.13	40.02	40.50	13.09	13.40
September	60.27	61.15	41.52	43.50	13.48	13.70
October	61.85	62.71	43.93	43.23	13.81	13.95
November	63.52	64.05	45.02	44.70	14.02	14.14
December	63.92	63.97	44.50	44.45	13.75	13.80
1996						
January	64.61	65.30	44.39	44.07	13.77	13.65
February	65.38	65.36	44.66	45.05	13.72	13.53
March	65.15	65.25	44.28	44.36	13.47	13.38
April	65.83	66.50	43.92	43.70	13.43	13.47
May	66.81	66.71	43.67	43.38	13.40	13.30
June	67.02	67.18	43.95	43.97	13.26	13.16
July	67.36	67.62	44.82	45.80	13.22	13.33
August	67.67	68.14	45.91	46.44	...	...
September	68.93	69.54	45.88	45.75	...	...
October	69.99	70.12	46.04	46.58	...	...
November	71.09	72.71	47.15	47.50	...	...
December	73.32	73.80	47.33	47.70	...	...
1997						
January	75.44	75.79	47.19	46.69	...	...
February	75.67	75.62	45.54	45.06	...	...
March	75.19	74.35	44.69	44.48	...	...
April	75.03	75.49	44.22	44.07	...	...
May	75.50	75.48	44.69	44.75	...	...
June	75.49	75.57	43.89	43.61	...	...
July	75.59	75.74	42.60	41.12	...	...
August	75.79	75.80	41.31	42.50	...	...
September	75.77	75.73	42.34	42.86	...	...
October	75.69	75.80	43.17	44.34	...	...
November	75.75	75.80	44.29	43.43	...	...
December	75.82	75.89	42.99	44.20	...	...
1998						
January	76.32	76.40	...	...	...	...
February	76.40	76.38	...	...	...	...
March	76.50	76.61	...	...	...	...
April	76.69	76.80	...	...	...	...
May	76.82	76.87	...	...	...	...
June	77.00	77.20	...	...	...	...
July	77.26	77.90	...	...	...	...
August	78.21	78.88	...	...	...	...
September	79.73	80.57	...	...	...	...
October	81.37	82.16	...	...	...	...
November	82.53	83.00	...	...	...	...
December	83.96	84.00	...	...	...	...
1999						
January	84.65	85.30	...	...	...	...
February	85.50	86.45	...	...	...	...
March	87.37	88.10	...	...	...	...
April	112.25	114.80	...	...	...	...
May	119.64	129.03	...	...	...	...

Source: National Bank of Kazakhstan.

1/ Auctions for Russian rubles ceased to be held from July 1996. The activity for German Marks is low and not followed any longer.

Table 24. Kazakhstan: Number of Commercial Banks and Branches, 1995-98
(End-of-period)

	Commercial banks						Branches
	State	Interstate	With Foreign Capital		Other	Total	Total
			Total	*of which* subsidiaries			
1995							
December	4	1	0	0	125	130	1,036
1996							
March	6	1	12	6	110	129	1,013
June	5	1	12	6	95	113	1,006
September	5	1	7	6	89	102	990
December	5	1	7	6	88	101	949
1997							
January	6	1	8	5	86	101	944
February	6	1	7	6	86	100	932
March	6	1	9	5	81	97	785
April	6	1	9	5	81	97	786
May	6	1	9	5	80	96	784
June	6	1	9	5	80	96	783
July	6	1	19	5	72	98	733
August	6	1	19	5	72	98	640
September	6	1	19	5	64	90	637
October	6	1	21	7	62	90	598
November	6	1	21	7	62	90	598
December	5	1	20	7	56	82	582
1998							
January	5	1	20	6	50	76	526
February	5	1	20	6	50	76	526
March	5	1	20	6	50	76	526
April	1	1	20	7	51	73	526
May	3	1	21	7	52	77	495
June	1	1	23	9	50	75	473
July	1	1	24	9	50	76	433
August	1	1	23	9	50	75	436
September	1	1	24	9	50	76	455
October	1	1	25	11	48	75	455
November	1	1	24	11	49	75	455
December	1	1	23	11	46	71	446

Source: National Bank of Kazakhstan.

Table 25. Kazakhstan: Government Budgetary Operations, 1995-99 1/
(In billions of Tenge)

	1995	1996	1997	1998				1999	
				Jan.-Mar.	Jan.-Jun.	Jan.-Sep.	Jan.-Dec.	Jan.-Mar.	Jan.-Dec. Revised budget
Total revenue and grants	171.2	187.2	225.2	60.6	123.3	183.4	242.8	54.1	363.8
Total revenue	171.2	187.2	224.9	57.7	119.1	178.5	237.4	54.1	361.0
Current revenue	171.2	187.2	220.1	56.5	116.0	174.9	234.5	54.1	358.8
Tax revenue	131.6	160.6	204.1	52.6	107.2	156.7	215.6	51.0	331.0
Tax on income, profits and capital gains	58.8	64.5	81.6	17.5	34.9	49.5	68.5	11.0	73.0
Domestic taxes on good and services	39.7	75.0	91.3	27.9	55.1	82.2	114.5	20.6	146.4
Taxes on international trade	12.8	9.0	8.0	2.1	5.5	7.5	10.0	1.9	10.5
Social tax	...	...	...	...	...	...	...	12.1	65.1
Other taxes	20.3	12.1	23.2	5.1	11.6	17.5	22.5	5.4	36.0
Nontax revenue	39.6	26.6	16.0	3.9	8.9	18.2	18.9	3.1	27.8
Capital revenue	0.0	0.0	4.8	1.1	3.1	3.6	2.8	0.0	2.2
Total grants	0.0	0.0	0.3	2.9	4.2	4.9	5.5	0.0	2.8
Expenditure and net lending	211.2	262.8	341.9	68.6	160.8	250.9	381.7	62.0	489.6
Expenditure	191.2	245.7	318.7	63.1	150.8	237.5	349.6	61.0	472.5
General Government services	25.4	31.6	29.4	5.8	14.1	18.5	31.4	3.7	32.5
Defense	10.8	15.0	17.9	3.3	8.0	10.2	18.9	2.6	17.3
Public order and security	15.8	23.6	28.2	5.7	13.8	18.7	30.6	3.8	32.2
Education	45.6	48.7	73.4	11.8	28.4	47.3	68.5	13.0	70.4
Health	30.5	39.7	35.3	4.8	11.6	17.0	25.9	5.0	55.8
Social insurance and social security	7.8	43.3	26.6	13.8	33.2	38.7	53.4	27.3	171.3
Recreation and culture	5.6	13.1	11.0	2.1	5.0	7.8	11.8	1.3	12.9
Fuel and energy complex	1.1	1.4	1.1	0.2	0.3	0.3	0.4	0.0	0
Agriculture, forestry, and nature conservation	7.2	9.3	10.6	1.5	3.6	4.3	5.9	0.3	9.2
Mining and minerals, processing, construction	3.6	6.1	5.7	0.2	0.6	1.4	1.9	0.1	3.7
Transportation and communications	0.1	0.1	0.3	0.1	0.1	0.2	0.2	0.3	18.9
Other	37.7	13.8	79.4	13.7	32.1	73.2	100.7	3.6	48.3
Net lending	20.0	17.1	23.2	5.5	10.0	13.4	32.1	1.0	17.1
Regular budget balance	-40.0	-75.6	-116.7	-8.0	-37.4	-67.5	-138.9	-7.9	-125.8
Quasi-fiscal operations (surplus+)	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall budget balance	-34.1	-75.6	-116.7	-8.0	-37.4	-67.5	-138.9	-7.9	-125.8
Statistical discrepancy	-6.2	-8.8	-1.4	-2.7	5.1	6.4	-4.7	5.0	0.0
Financing	27.9	66.8	115.3	5.4	42.5	73.9	134.2	12.9	125.8
Domestic, net	0.4	-1.7	16.3	-4.7	10.0	16.4	12.4	-5.7	27.6
Banking system	9.7	-3.7	14.9	-8.4	-1.9	2.0	5.1	-8.4	12.6
Nonbank	-9.3	2.0	1.4	3.7	12.0	14.4	7.3	2.7	15.0
Foreign, net	20.2	37.4	44.4	4.1	17.2	34.8	46.8	-3.0	39.5
Privatization receipts	7.2	31.1	54.6	6.0	15.2	22.7	75.0	21.6	58.7
Memorandum items:									
Revenues including privatization receipts	178.3	218.3	279.5	63.6	134.4	201.2	312.3	75.7	419.7
Budget balance excluding privatization receipts	-32.9	-44.5	-62.1	-2.1	-22.2	-44.8	-63.9	13.7	-67.1

Sources: Ministry of Finance; and Fund staff calculations.

1/ Includes financial operations of the consolidated state budget (republican and local budgets) and net position of extrabudgetary funds.
2/ Includes T 21.4 billion in expenditures related to called foreign loan guarantees.

Table 26. Kazakhstan: Government Budgetary Operations, 1995-99 1/
(In percent of GDP)

	1995	1996	1997	1998				1999	
				Jan.-Mar.	Jan.-Jun.	Jan.-Sep.	Jan.-Dec.	Jan.-Mar.	Jan.-Dec. Revised budget
Total revenue and grants	16.9	13.2	13.3	15.6	15.4	14.3	13.9	15.0	20.4
Total revenue	16.9	13.2	13.2	14.8	14.9	13.9	13.6	15.0	20.2
Current revenue	16.9	13.2	13.0	14.5	14.5	13.6	13.5	15.0	20.1
Tax revenue	13.0	11.3	12.0	13.5	13.4	12.2	12.4	14.1	18.5
Tax on income, profits and capital gains	5.8	4.6	4.8	4.5	4.4	3.8	3.9	3.0	4.1
Domestic taxes on good and services	3.9	5.3	5.4	7.2	6.9	6.4	6.6	5.7	8.2
Taxes on international trade	1.3	0.6	0.5	0.5	0.7	0.6	0.6	0.5	0.6
Social tax								3.3	3.6
Other taxes	2.0	0.9	1.4	1.3	1.5	1.4	1.3	1.5	2.0
Nontax revenue	3.9	1.9	0.9	1.0	1.1	1.4	1.1	0.9	1.6
Capital revenue	...	...	...	...	...	...	...	...	...
Total grants	0.0	0.0	0.0	0.7	0.5	0.4	0.3	0.0	0.2
Expenditure and net lending	20.8	18.6	20.1	17.6	20.1	19.5	21.9	3.6	28.1
Expenditure	18.9	17.4	18.8	16.2	18.8	18.5	20.1	3.5	27.1
General Government services	2.5	2.2	1.7	1.5	1.8	1.4	1.8	0.2	1.9
Defense	1.1	1.1	1.1	0.9	1.0	0.8	1.1	0.1	1.0
Public order and security	1.6	1.7	1.7	1.5	1.7	1.5	1.8	0.2	1.8
Education	4.5	3.4	4.3	3.0	3.5	3.7	3.9	0.7	4.0
Health	3.0	2.8	2.1	1.2	1.5	1.3	1.5	0.3	3.2
Social insurance and social security	0.8	3.1	1.6	3.5	4.1	3.0	3.1	1.6	9.8
Recreation and culture	0.6	0.9	0.6	0.5	0.6	0.6	0.7	0.1	0.7
Fuel and energy complex	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture, forestry, and nature conservation	0.7	0.7	0.6	0.4	0.5	0.3	0.3	0.0	0.5
Mining and minerals, processing, construction	0.4	0.4	0.3	0.1	0.1	0.1	0.1	0.0	0.2
Transportation and communications	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1
Other	3.7	1.0	4.7	3.8	1.8	1.1	1.3	0.0	0.0
Net lending	2.0	1.2	1.4	1.4	1.2	1.0	1.8	0.1	1.0
Regular budget balance	-3.9	-5.3	-6.9	-2.1	-4.7	-5.3	-8.0	-0.5	-7.2
Quasi-fiscal operations (surplus +)	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall budget balance	-3.4	-5.3	-6.9	-2.1	-4.7	-5.3	-8.0	-0.5	-7.2
Statistical discrepancy	-0.6	-0.6	-0.1	-0.7	0.6	0.5	-0.3	0.3	0.0
Financing	2.7	4.7	6.8	1.4	5.3	5.7	7.7	0.7	7.2
Domestic, net	0.0	-0.1	1.0	-1.2	1.3	1.3	0.7	-0.3	1.6
Banking system	1.0	-0.3	0.9	-2.2	-0.2	0.2	0.3	-0.5	0.7
Nonbank	-0.9	0.1	0.1	1.0	1.5	1.1	0.4	0.2	0.9
Foreign, net	2.0	2.6	2.6	1.0	2.2	2.7	2.7	-0.2	2.3
Privatization receipts	0.7	2.2	3.2	1.5	1.9	1.8	4.3	6.0	3.3
Memorandum items:									
Revenues inlcuding privatization receipts (in percent of GDP)	18.3	17.6	19.7	17.9	18.7	17.4	22.2	26.9	26.8
Budget balance excluding privatization receipts (in percent of GDP)	-3.2	-3.1	-3.7	-0.5	-2.8	-3.5	-3.7	0.8	-3.8

Sources: Ministry of Finance; and Fund staff calculations.

1/ Includes financial operations of the consolidated state budget (republican and local budgets) and net position of extrabudgetary funds.
2/ Includes T 2.1 percent of GDP in expenditures related to called foreign loan guarantees.

Table 27. Kazakhstan: Government Budgetary Operations, 1995-99 1/
(In percent of total)

	1995	1996	1997	1998				1999	
				Jan.-Mar.	Jan.-Jun.	Jan.-Sep.	Jan.-Dec.	Jan.-Mar.	Jan.-Dec. Revised budget
Total revenue and grants	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total revenue	100.0	100.0	99.9	95.2	96.6	97.3	97.7	100.0	99.2
Current revenue	100.0	100.0	97.8	93.4	94.1	95.4	96.6	100.0	98.6
Tax revenue	76.9	85.8	90.6	86.9	86.9	85.5	88.8	94.3	91.0
Tax on income, profits and capital gains	34.4	34.5	36.2	29.0	28.3	27.0	28.2	20.3	20.1
Domestic taxes on good and services	23.2	40.1	40.5	46.0	44.7	44.8	47.2	38.1	40.2
Taxes on international trade	7.5	4.8	3.5	3.5	4.4	4.1	4.1	3.5	2.9
Other taxes	11.9	6.5	10.3	8.4	9.4	9.6	9.3	22.4	17.9
Nontax revenue	23.1	14.2	7.1	6.5	7.2	9.9	7.8	10.0	9.9
Capital revenue	...	...	...	...	...	...	...	0.0	0.6
Total grants	0.0	0.0	0.1	4.8	3.4	2.7	2.3	0.0	0.8
Expenditure and net lending	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Expenditure	90.5	93.5	93.2	92.0	93.8	94.7	91.6	98.4	96.5
General Government services	12.0	12.0	8.6	8.5	8.8	7.4	8.2	6.0	6.6
Defense	5.1	5.7	5.2	4.8	5.0	4.1	5.0	4.2	3.5
Public order and security	7.5	9.0	8.2	8.4	8.6	7.4	8.0	6.1	6.6
Education	21.6	18.5	21.5	17.2	17.7	18.8	17.9	21.0	14.4
Health	14.4	15.1	10.3	7.0	7.2	6.8	6.8	8.1	11.4
Social insurance and social security	3.7	16.5	7.8	20.1	20.6	15.4	14.0	44.0	35.0
Recreation and culture	2.7	5.0	3.2	3.0	3.1	3.1	3.1	2.1	2.6
Fuel and energy complex	0.5	0.5	0.3	0.3	0.2	0.1	0.1	0.0	0.0
Agriculture, forestry, and nature conservation	3.4	3.5	3.1	2.2	2.3	1.7	1.5	0.5	1.9
Mining and minerals, processing, construction	1.7	2.3	1.7	0.4	0.4	0.6	0.5	0.2	0.8
Transportation and communications	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.5	3.9
Other	17.8	5.3	23.2	20.0	20.0	29.2	26.4	5.8	9.9
Net lending	9.5	6.5	6.8	8.0	6.2	5.3	8.4	1.6	3.5

Sources: Ministry of Finance; and Fund staff calculations.

1/ Includes financial operations of the consolidated state budget (republican and local budgets) and net position of extrabudgetary funds.
2/ Includes T 21.4 billion in expenditures related to called foreign loan guarantees.

Table 28. Kazakhstan: Balance of Payments, 1995-98
(In millions of U.S. dollars)

	1995	1996	1997	1998				
				QI	QII	QIII	QIV	Year Prel.
Current account	-518	-750	-803	64	-361	-410	-541	-1,248
Trade balance	-222	-326	-276	117	-212	-312	-394	-801
Exports (f.o.b.)	5,164	6,292	6,899	1,345	1,596	1,403	1,229	5,774
Non-oil exports	4,257	4,950	5,228	1,045	1,201	970	906	4,123
Of which: Shuttle exports	184	381	387	91	109	116	106	422
Oil-exports	907	1,342	1,671	499	393	433	323	1,650
Imports, (f.o.b.)	-5,387	-6,618	-7,176	-1,428	-1,808	-1,715	-1,624	-6,575
Non-oil imports	-5,169	-6,304	-7,009	-1,393	-1,756	-1,673	-1,604	-6,428
Of which: Shuttle exports	-1,379	-2,171	-3,185	-547	-677	-737	-613	-2,574
Oil-imports	-237	-314	-166	-33	-52	-42	-20	-147
Services and income balance	-355	-473	-601	-74	-165	-118	-169	-525
Services, net	-208	-254	-282	-22	-56	-62	-91	-230
Credit	535	673	842	208	236	232	220	896
Transportation	352	432	495	103	110	89	78	380
Travel	122	199	289	82	97	119	109	407
Other services	62	43	58	24	29	24	33	109
Debit	-743	-928	-1,124	-230	-292	-293	-311	-1,126
Transportation	-265	-357	-392	-86	-111	-102	-111	-410
Travel	-283	-319	-445	-100	-122	-139	-133	-494
Other services	-196	-252	-287	-44	-59	-52	-68	-223
Income, net	-147	-220	-319	-52	-109	-56	-78	-295
Credit	45	57	74	23	23	22	27	95
Compensation of employees	0	1	1	2	2	2	2	6
Investment income	45	56	73	21	21	20	26	88
Of which: Interest on international reserves	35	46	52	17	15	12	15	58
Debit	-191	-276	-392	-75	-132	-78	-103	-390
Compensation of employees	-7	-19	-24	-9	-9	-9	-9	-36
Investment income	-185	-257	-368	-66	-123	-69	-97	-354
Current transfers	59	50	75	20	16	20	22	78
Credit	80	75	105	25	22	24	26	97
General Government	73	65	86	22	20	22	23	88
Other Transfers	7	10	18	3	2	2	3	9
Debit	-21	-25	-30	-5	-6	-4	-4	-19
General Government	0	-13	-13	-1	-2	-1	0	-4
Other Transfers	-21	-12	-17	-4	-3	-4	-4	-15
Capital and Financial account	749	884	1,513	-253	360	220	679	1,007
Medium and long-term loans and credits, net	462	335	713	155	90	240	148	532
Government and government guaranteed, net	444	261	460	89	59	216	86	450
Central government, net	331	338	310	210	124	232	159	626
Drawings 1/	331	338	315	214	124	236	1,851	2,325
Repayment 1/	0	0	-5	-4	0	-4	-1,692	-1,700
Government guaranteed, net	113	-78	150	-21	-65	-16	-74	-176
Drawings	242	143	317	5	18	13	4	40
Repayment	-129	-221	-167	-26	-82	-29	-78	-215
Commercial banks, net	0	4	37	49	-4	2	5	52
Other private sector, net	18	69	217	17	34	22	57	131
Net foreign direct investment, net	964	1,137	1,320	159	282	279	411	1,132
Portfolio investment, net	7	224	404	13	165	-55	-61	62
Short-term and other capital, net	-304	-495	-485	-516	-68	-211	245	-450
Government and government guaranteed, net	4	-29	0	0	0	0	0	0
Commercial banks, net	-404	43	59	2	62	-6	-98	-40
Other private sector, net	97	-509	-544	-517	-130	-105	344	-409
Capital transfers, net	-381	-316	-440	-64	-109	-133	-63	-369
Credit	116	88	58	14	15	17	20	66
Debit	-497	-403	-498	-79	-124	-150	-83	-435
Errors and omissions	-75	-80	-220	-74	-9	-67	-32	-181
Overall balance	156	54	490	-263	-9	-257	106	-423
Financing	-156	-55	-490	263	9	257	-106	423
Net international reserves of the NBK (increase -)	-373	-228	-490	263	9	257	-106	423
Monetary gold	-143	-173	0	0	0	0	0	0
Foreign exchange assets (net)	-232	-55	-490	263	9	257	-106	423
Of which: Fund credit (net)	142	135	-6	-19	-12	-34	178	112
Purchases	142	135	0	0	0	0	205	205
Repurchases	0	0	-6	-19	-12	-34	-28	-93
Memorandum items:								
GDP (in U.S. dollar)	16,558	20,810	22,466	5,063	5,296	6,121	5,423	21,903
Current account (in percent of GDP)	-3.1	-3.6	-3.6					-5.7
NBK gross international reserves (in million of U.S. dollars)	1,650	1,980	2,244	1,970	1,939	1,663	1,967	1,967
(in months of imports of goods and non-factor services)	3.2	3.1	3.2	...	...	...	...	3.1
(in percent of stock of short-term debt) 2/	...	141.9	110.2	90.5	81.4	73.9	93.7	93.7
Stock of external debt (in million of U.S. dollar) 1/	...	5,489	7,257	7,465	7,947	8,303	7,331	7,331
(in percent of GDP)	...	26.4	32.3	...	...	...	...	33.5
External debt service (in millions of U.S. dollars) 1/	317	476	692	...	...	...	...	2,554
(in percent of exports of good and non-factor services)	5.6	6.8	8.9	...	...	...	...	39.8

Sources: Kazakh authorities; and Fund staff estimates and projections.

1/ Includes impact of the settlement of mutual claims between Russia and Kazakhstan of $1,691.7 million in October 1998.

2/ Short-term debt is defined by original maturity.

Table 29. Kazakhstan: Composition of Exports, 1995-98

	units for volume	1995			1996			1997			1998		
		Volume	Price 1/	Value	Volume	Price 1/	Value	Volume	Price 1/	Value	Volume	Price 1/	Value
				(In millions of U.S. dollars)			(In millions of U.S. dollars)			(In millions of U.S. dollars)			(In millions of U.S. dollars)
Customs exports													
Oil and gas condensate	thousand tons	11,307.0	70.1	792.6	14,503.0	86.7	1,257.4	16,381.8	102.0	1,670.9	20,429.1	80.8	1,650.5
Coal	thousand tons	20,767.5	16.9	351.0	20,839.0	18.3	381.4	24,857.0	14.7	365.4	23,578.4	13.7	323.2
Oil refining products	thousand tons	1,361.3	84.8	115.4	2,485.8	95.9	238.4	1,423.6	90.2	128.4	1,034.7	50.0	51.7
Alumina	thousand tons	973.3	181.9	177.0	976.7	160.4	156.7	1,200.3	123.9	148.7	529.1	150.8	79.8
Refined copper	thousand tons	216.6	2,636.4	571.0	261.9	2,172.4	569.0	287.9	2,100.0	604.7	323.0	1,572.4	507.9
Unrefined zinc	thousand tons	147.7	974.3	143.9	149.5	957.2	143.1	191.1	1,146.7	219.2	218.0	833.2	181.6
Unrefined lead	thousand tons	58.3	530.0	30.9	61.0	775.6	47.3	77.8	635.6	49.5	85.2	479.4	40.8
Chromium ores and concentrates	thousand tons	1,029.6	54.7	56.3	262.7	61.8	16.2	579.6	27.0	15.7	388.4	34.8	13.5
Iron ores and concentrates	thousand tons	2,023.3	27.2	55.0	3,503.3	24.4	85.5	9,271.0	20.9	193.8	7,354.8	24.2	177.7
Ferroalloys	thousand tons	606.0	521.3	315.9	471.9	412.4	194.6	609.7	336.2	205.0	575.5	389.3	224.0
Rolled ferrous metal	thousand tons	1,689.3	279.9	472.9	1,907.2	283.0	539.7	2,795.6	252.0	704.5	2,374.5	217.2	515.7
Yellow phosphorus	thousand tons	21.2	1,258.9	26.7	27.7	1,257.7	34.8	17.6	1,132.9	20.0	4.7	1,411.1	6.6
Grain	thousand tons	3,484.1	88.5	308.3	2,808.9	152.6	428.6	3,577.5	143.1	511.6	2,905.2	101.7	295.4
Cotton fiber	thousand tons	25.7	1,413.3	36.4	69.7	1,388.1	96.7	63.9	1,213.6	77.5	48.2	1,077.3	51.9
Wool	thousand tons	51.7	999.1	51.7	31.2	1,372.4	42.8	41.7	1,367.9	57.1	12.0	1,440.0	17.3
Natural gas	million cubic meters	2,565.6	7.6	19.5	2,341.8	13.1	30.6	2,431.8	8.5	20.7	2,305.7	9.8	22.6
Others		...	...	1,725.6	...	...	1,648.1	...	...	1,504.5	...	...	1,178.6
Total custom exports		...	...	5,250.2	...	...	5,911.0	...	...	6,497.0			5,338.9
Operations not included in customs statistics		...	...	5.8	...	...	0.2	...	...	15.2			12.6
Shuttle exports		...	...	184.0	...	...	380.5	...	...	387.0			422.3
Total exports		...	...	5,440.0	...	...	6,291.7	...	...	6,899.2			5,773.8

Source: Kazakh authorities, and staff estimates.

1/ U.S. dollars per unit (ton or piece) except for natural gas which is in U.S. dollars per thousand cubic meters.

Table 30. Kazakhstan: Composition of Imports, 1995-98

	Units for volume	1995			1996			1997			1998		
		Volume	Price 1/	Value (In millions of U.S. dollars)	Volume	Price 1/	Value (In millions of U.S. dollars)	Volume	Price 1/	Value (In millions of U.S. dollars)	Volume	Price 1/	Value (In millions of U.S. dollars)
Customs imports													
Oil and gas condensate	thousand ton	691.6	63.3	43.8	340.1	87.1	29.6	1,726.0	96.3	166.2	2,074.2	70.8	146.9
Oil refining products	thousand ton	1,175.7	128.8	151.4	895.3	226.1	202.4	617.9	263.9	163.1	783.0	235.9	184.7
Electricity	million kilowatt-hours	7,394.8	31.5	232.9	6,614.7	36.5	241.2	4,703.9	25.5	119.9	3,373.8	24.2	81.6
Natural gas	million cubic meters	9,120.9	40.8	372.1	5,494.5	37.5	205.8	3,003.7	30.7	92.2	3,051.8	36.9	112.6
Coal	thousand ton	1,209.1	29.2	35.3	1,059.8	30.1	31.9	975.3	27.4	26.7	1,211.1	24.8	30.0
Rolled ferrous metals	thousand ton	30.5	436.4	13.3	39.8	610.7	24.3	42.3	583.9	24.7	32.4	506.6	16.4
Electrical equipment and mechanical tools		...	...	868.6	...	...	994.8	...	...	1,154.3			1,199.9
Foodstuffs		...	...	237.3	...	...	337.8	...	...	370.6			241.6
Nonfood consumer goods		...	...	271.1	...	...	307.2	...	...	400.7			356.0
Vehicles		...	...	265.0	...	...	360.0	...	...	367.7			385.0
Others		...	...	1,231.7	...	...	1,429.7	...	...	1,364.3			1,443.4
Total customs imports		...	...	3,722.6	...	...	4,164.8	...	...	4,250.5			4,198.2
Operations not included in customs statistics		...	...	84.1	...	...	76.3	...	...	50.3			43.5
Shuttle imports		...	...	1,379.1	...	...	2,170.9	...	...	3,185.5			2,574.1
Other corrections		...	...	140.1	...	...	214.7	...	...	-310.7			-241.1
Grants		...	...	25.0	...	...	351.7	...	...	98.3			97.7
Non-equivalent barter		...	...	462.4	...	...	247.5	...	...	29.9			114.9
Freight		...	...	-347.3	...	...	-384.5	...	...	-438.9			-453.7
Total imports		...	...	5,325.9	...	...	6,626.7	...	...	7,175.6			6,574.7

Sources: Kazakh authorities, and staff estimates.

1/ U.S. dollars per ton except for natural gas which is in U.S. dollars per thousand cubic meters and electricity which is in U.S. dollars per thousand kilowatt-hours.

Table 31. Kazakhstan: Geographical Distribution of Exports of Energy Sources to the Baltics, Russia and Other States of the Former Soviet Union, 1995-98

	1995	1996	1997	1998
	(In thousands of tons)			
Oil and gas condensate				
Total	6,793.4	10,567.5	9,226.7	10,267.3
Azerbaijan	34.1	0.0	38.6	36.0
Belarus	0.0	0.0	20.1	115.2
Kyrgyz Republic	0.0	0.4	1.5	0.0
Lithuania	880.0	1,763.8	344.0	0.0
Russia	4,795.2	6,737.3	5,497.2	6,925.0
Turkmenistan	0.0	0.0	0.0	0.0
Ukraine	1,084.1	2,041.9	3,111.0	3,160.7
Estonia	0.0	24.1	214.3	30.4
	(In million of cubic meters)			
Natural gas				
Total	2,565.5	2,341.8	2,431.8	2,305.7
Georgia	0.0	177.0	0.0	30.0
Russia	2,565.5	2,164.8	2,431.8	2,275.7
	(In thousands of tons)			
Gasoline				
Total	134.6	184.4	81.5	25.6
Kyrgyz Republic	92.3	91.3	22.3	19.6
Latvia	0.0	0.0	0.0	0.0
Moldova	0.0	0.0	0.0	0.0
Russia	10.7	11.8	6.3	0.7
Tajikistan	13.6	53.3	47.1	5.3
Uzbekistan	12.5	28.0	3.7	0.0
Ukraine	5.5	0.0	2.1	0.0
Diesel fuel				
Total	100.1	294.3	206.3	61.0
Belarus	0.0	0.0	0.1	0.0
Kyrgyz Republic	60.7	65.6	31.3	38.8
Latvia	0.0	24.6	6.5	1.1
Lithuania	1.0	2.5	3.5	0.1
Moldova	0.0	0.0	0.2	0.0
Russia	8.9	157.0	142.1	21.0
Tajikistan	9.5	11.8	2.1	0.0
Uzbekistan	1.1	3.7	0.0	0.0
Ukraine	17.3	29.1	17.5	0.0
Estonia	1.6	0.0	3.0	0.0
Heavy furnace fuel				
Total	137.5	194.1	144.5	138.4
Belarus	0.0	0.0	0.0	0.0
Kyrgyz Republic	35.7	89.6	32.2	42.2
Lithuania	4.4	0.0	2.1	0.0
Moldova	0.0	0.5	6.0	0.0
Russia	39.3	81.0	101.2	84.9
Tajikistan	0.0	0.0	0.0	0.0
Uzbekistan	0.0	0.6	0.0	0.0
Ukraine	58.1	22.4	3.0	11.3
Coking coal				
Total	1,976.1	1,507.4	1,371.3	262.0
Belarus	0.0	0.0	0.0	0.0
Georgia	0.0	0.0	0.0	0.0
Kyrgyz Republic	5.5	28.6	5.7	0.0
Lithuania	0.0	1.3	0.0	0.0
Russia	1,959.5	1,477.5	1,365.6	262.0
Tajikistan	0.0	0.0	0.0	0.0
Turkmenistan	0.0	0.0	0.0	0.0
Uzbekistan	1.2	0.0	0.0	0.0
Ukraine	9.9	0.0	0.0	0.0

Source: Kazakh authorities.

Table 32. Kazakhstan: Geographical Distribution of Exports 1995-98
(In percent)

	1995	1996	1997	1998
1. BRO Countries	58.11	57.13	47.56	42.04
Armenia	0.00	0.00	0.00	0.01
Azerbaijan	0.44	0.16	0.36	0.56
Belarus	1.03	0.78	0.66	0.41
Estonia	0.30	0.24	0.66	2.25
Georgia	0.00	0.17	0.03	0.09
Kyrgyz Republic	1.43	1.89	1.02	1.18
Latvia	0.60	0.30	0.31	0.31
Lithuania	2.30	2.82	0.70	0.15
Moldova	0.05	0.05	0.04	0.02
Russia	45.06	42.03	35.21	28.90
Taiikistan	0.77	1.03	0.85	0.79
Turkmenistan	0.90	0.66	0.77	0.23
Ukraine	2.31	3.59	4.67	4.91
Uzbekistan	2.92	3.41	2.28	2.23
2. Non-BRO Countries	41.89	42.87	52.44	57.96
Austria	0.30	0.24	0.07	0.07
Afghanistan	0.10	0.10	0.13	0.14
Belgium	0.30	0.11	0.39	0.38
China	5.70	7.76	6.81	7.16
Czech Republic	0.50	0.40	0.29	0.74
Finland	1.00	1.89	2.86	1.66
Greece	0.00	0.02	0.04	0.02
Germany	3.30	3.10	5.43	5.27
Hungary	0.20	0.19	0.08	0.06
Italy	2.70	3.33	5.50	9.23
Japan	0.90	1.48	1.66	0.93
Netherlands	9.70	5.13	3.13	5.15
Oman	0.00	0.00	0.01	0.00
Poland	0.00	0.36	0.43	0.77
South Korea	1.70	3.01	2.00	0.76
Switzerland	3.60	3.58	4.40	6.14
Sweden	0.10	0.33	0.11	0.14
Thailand	0.80	0.93	0.98	0.15
Turkey	1.30	0.87	1.57	1.77
United Kingdom	2.10	3.91	8.45	8.97
United States	0.80	1.00	2.14	1.42
Yugoslavia	0.00	0.01	0.00	0.00
Other countries	6.79	5.12	5.96	7.03
Total	100.00	100.00	100.00	100.00

Source: Kazakh authorities.

Table 33. Kazakhstan: Geographical Distribution of Imports 1995-98
(In percent)

	1995	1996	1997	1998
1. BRO Countries	70.64	70.54	55.67	47.94
Armenia	0.07	0.01	0.04	0.01
Azerbaijan	0.66	0.53	0.45	0.21
Belarus	2.04	2.84	1.36	1.44
Estonia	0.19	0.20	0.19	0.08
Georgia	0.06	0.07	0.13	0.09
Kyrgyz Republic	0.81	2.15	1.48	1.14
Latvia	0.31	0.30	0.74	0.30
Lithuania	0.46	0.60	0.51	0.38
Moldova	0.15	0.19	0.06	0.07
Russia	49.90	54.81	45.79	39.40
Tajikistan	0.32	0.41	0.15	0.09
Turkmenistan	6.34	4.15	1.07	0.30
Ukraine	2.25	2.18	2.17	2.16
Uzbekistan	7.08	2.10	1.53	2.27
2. Non-BRO Countries	29.36	29.46	44.33	52.06
Austria	1.35	0.50	0.85	0.79
Canada	0.20	0.20	0.57	0.92
China	0.91	0.80	1.08	1.19
Cuba	0.00	0.60	0.50	0.58
Czech Republic	0.59	0.60	0.73	1.24
Finland	0.80	1.30	1.58	1.67
Germany	5.17	4.70	8.55	8.61
Hungary	0.55	0.80	1.24	1.21
India	0.37	0.40	0.46	0.85
Italy	0.79	1.00	1.97	2.10
Japan	0.22	0.40	0.67	1.60
Poland	0.00	1.00	0.95	1.10
Switzerland	1.45	1.10	1.15	1.57
Sweden	0.43	0.30	0.31	0.37
United Kingdom	2.20	1.80	3.29	5.04
United States	1.70	1.60	4.69	6.32
Yugoslavia	0.05	0.10	0.05	0.04
Other countries	12.58	12.26	15.69	16.86
Total	100.00	100.00	100.00	100.00

Source: Kazakh authorities.

Table 34. Kazakhstan: Breakdown of Foreign Direct Investment by Country, 1993-98
(In percent of total)

Country	1993-96	1997	1998
Canada	3.09	1.08	2.48
China	4.85	14.86	7.03
Germany	1.60	2.50	5.62
Iceland	2.24	3.11	0.26
Indonesia	1.86	5.90	4.46
South Korea	21.41	34.17	2.58
Switzerland	1.19	1.48	3.79
Turkey	5.29	3.09	7.20
United Kingdom	14.54	14.78	7.01
United States	28.44	9.88	32.38
Others	15.49	9.15	27.19
Total	100.00	100.00	100.00

Source: Kazakh authorities.

Table 35. Kazakhstan: Breakdown of Foreign Direct Investment by Industry, 1993-98
(In percent of total)

Sector	1993-96	1997	1998
Oil and gas	43.91	34.08	66.86
Ferrous metals	27.33	36.13	6.27
Non-ferrous metals	5.01	5.25	1.01
Energy	3.80	6.09	6.99
Geological exploration	0.55	1.46	1.48
Mining	2.78	3.21	0.00
Food	3.54	3.35	3.48
Banking	0.90	1.23	6.89
Communication	3.13	6.00	0.38
Hotels and restaurants	0.30	0.53	0.76
Other	8.75	2.67	5.88
Total	100.00	100.00	100.00

Source: National Bank of Kazakhastan.

Table 36. Kazakhstan: Stock of External Debt, end of period 1994-98
(In millions of U.S. dollars)

	1994	1995	1996	1997	1998				
					QI	QII	QIII	QIV	Year
Total external debt	...	...	5,489	7,257	7,565	7,947	8,303	7,331	7,331
Excluding IMF	...	...	4,937	6,712	7,040	7,434	7,823	6,879	6,879
Total Government and General Government external debt (including IMF)	2,781	3,428	3,889	4,595	4,640	4,688	4,910	3,748	3,748
IMF credit	289	432	552	545	525	513	479	452	452
Total Government and General Government external debt (excluding IMF)	2,492	2,996	3,338	4,050	4,115	4,176	4,431	3,297	3,297
Multilateral creditors	189	375	648	894	956	1,072	1,102	1,239	1,239
World Bank	189	289	516	716	724	832	844	927	927
EBRD	0	22	36	10	14	16	28	28	28
ADB	0	64	96	168	218	224	230	284	284
Bilateral creditors	1,469	1,561	1,609	1,658	1,699	1,673	1,890	641	641
Russia I 1/	1,250	1,250	1,250	1,250	1,250	1,250	1,250	0	0
Russia II 2/	68	68	68	68	68	68	68	0	0
Turkmenistan	8	8	8	...	...	...	...	...	...
Germany	0	0	4	4	4	4	4	4	4
Japan (JEXIM)	143	227	271	238	235	213	221	262	262
Austria	0	5	4	4	4	4	4	5	5
Sweden	0	3	3	3	3	3	3	3	3
OECF	0	0	0	25	70	65	72	94	94
Other 3/	0	0	0	68	66	66	268	274	274
Medium- and long- term trade credits	834	1,060	881	947	910	881	889	866	866
									0
Eurobonds	...	...	200	550	550	550	550	550	550
Non-guaranteed external debts	...	...	1,599	2,662	2,925	3,259	3,392	3,582	3,582
Medium- and long-term credits and loans	...	...	227	668	758	945	1,160	1,488	1,488
Short-term	...	...	1,372	1,994	2,167	2,313	2,233	2,094	2,094
Commercial banks	...	...	0	115	203	229	178	97	97
Enterprises	...	...	470	668	643	681	663	724	724
Inter-enterprise credits	...	...	902	1,211	1,321	1,404	1,392	1,273	1,273
Memorandum items:									
Government and General Government short-term debt	...	...	23.5	42.2	11.4	68.3	19.2	112.1	112.1
Government and General Government debt by creditor (in percent of total debt)									
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Multilateral creditors, excluding IMF	6.8	10.9	16.7	19.5	20.6	22.9	22.4	33.1	33.1
IMF	10.4	12.6	14.2	11.9	11.3	10.9	9.8	12.0	12.0
Bilateral creditors	52.8	45.5	41.4	36.1	36.6	35.7	38.5	17.1	17.1
Medium- and long-term trade credits	30.0	30.9	22.7	20.6	19.6	18.8	18.1	23.1	23.1
Eurobonds	...	...	5.1	12.0	11.9	11.7	11.2	14.7	14.7

Sources: Ministry of Economy; Ministry of Finance; and Fund staff estimates.

1/ Intergovernmental debt resulting from conversion of 1992-93 correspondent account balances; it is assumed that deferred interest is capitalized semiannually.

2/ Intergovernment debt resulting from drawings under the 150 billion Russian Ruble technical credit.

3/ Debt guaranteed by the government and assumed as government debt as of the beginning of 1997, plus debt of commercial banks and firms not included elsewhere.