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Republic of Kazakhstan: 2001 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2001 Article IV consultation with the Republic of Kazakhstan, the following documents have been released and are included in this package:

- the staff report for the Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **November 19, 2001,** with the officials of the Republic of Kazakhstan on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on January 3, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;

- a staff supplement of **January 18, 2002**, updating information on recent economic developments;

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its January 23, 2002 discussion** of the staff report that concluded the Article IV consultation.

The document(s) listed below have been or will be separately released.

Selected Issues and Statistical Appendix Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to Publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

Staff Report for the 2001 Article IV Consultation

Prepared by Staff Representatives for the
2001 Consultation with the Republic of Kazakhstan

Approved by John Dodsworth and Martin Fetherston

January 3, 2002

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Executive Summary

During 2001 economic performance has been very strong for a second consecutive year, with economic growth at or near double digits, led by the petroleum sector, inflation in single digits, and foreign assets rising rapidly. A prudent fiscal policy has been maintained with a surplus of 3 percent of GDP projected for 2001. Monetary and exchange policy have managed to contain reserve money growth and prevent a real appreciation of the exchange rate. Very rapid credit growth, reflecting a surge in deposits, is of concern. The pace of structural reform has continued more slowly than anticipated, especially with reference to the key measures contained in the EFF.

Kazakhstan faces a two-fold challenge—to manage efficiently the large increase in income related to rapid oil sector development, while achieving internal and external balance; and to pursue structural reform so as to lay the foundation for sustained economic growth and employment creation. On the macroeconomic side, policy discussions centered on the authorities' response in the event that the recent sharp deterioration in the world market price for petroleum were to persist or worsen. On the structural side, the main theme was the need to focus on structural reforms so as to address lingering governance concerns and create a favorable business environment.

Prudent macroeconomic policies, which have resulted in a considerable increase in public sector savings, place Kazakhstan in a strong position to confront a more adverse external environment next year. The staff does not see any need for exceptional financing, even in a low oil price scenario.

While considerable progress has occurred in 2001 in addressing the issues that held up the first review under the EFF, notably on the macroframework and transparency issues, the arrangement is not operative and completion of the first review is not contemplated. The authorities are considering the staff's recommendation to cancel the EFF. They indicated the possibility of a request for a precautionary stand-by arrangement.

Kazakhstan: Basic Data

Social and demographic indicators

Area	2,717,300 sq. km.
GDP per capita (in dollars in 2000)	1,234
Population (end-2000)	14.8 million
Life expectancy at birth (1998)	Men: 59.0 years; Women: 70.4 years
Infant mortality rate (1999)	20.6 per 1000 live births
Hospital beds per 10,000 inhabitants (1999)	72.6

	1996	1997	1998	1999	2000
			(Percent)		
Real GDP growth	0.5	1.7	-1.9	2.7	9.6
Growth of Consumer prices (Dec./Dec)	28.6	11.3	1.9	18.1	9.8
Broad money growth (Dec./Dec.)	13.8	32.3	-14.1	83.4	45.9
Monetization ratio (Broad Money/GDP)	9.8	10.3	8.7	13.6	15.4
Money multiplier (Ratio)	1.8	1.6	1.8	2.1	3.0
3-month treasury bill rate (year-end)	38.0	17.6	25.8	16.6	6.8
			(In percent of GDP)		
General government revenue and grants	13.2	13.3	18.3	17.4	21.7
General government expenditures	18.6	20.1	26.1	22.1	22.9
Overall balance (cash basis)	-5.3	-6.9	-7.8	-4.7	-1.2
			(In millions of U.S. dollars)		
Current account balance	-750	-803	-1,225	-37	923
Current account balance (in percent of GDP)	-3.6	-3.5	-5.6	-0.2	5.1
Gross official reserves	1,967	2,252	1,964	2,003	2,096
Gross official reserves (in months of imports) 1/	3.1	3.3	3.0	3.6	2.8
			(In tenge per U.S. dollar)		
Exchange rate (period average)	67.8	75.6	78.9	121.2	142.1
			(In billions of tenge)		
GDP	1,416	1,672	1,721	2,016	2,596

Sources: Kazakhstani authorities; World Bank, World Development Indicators; and Fund staff estimates.

1/ Goods and nonfactor services.

I. Introduction

1. **The 2001 Article IV consultation discussions were conducted in Astana and Almaty during November 6–19, 2001.**[1] [2] The Extended Fund Facility (EFF) arrangement approved in December 1999 is inoperative.[3] To date it has not been possible to complete discussions on the first program review, which was to have been completed by June 2000. Three key issues held up completion of the review: (i) agreement on an appropriate macroeconomic framework; (ii) measures to address transparency issues, especially on the budgetary aspects of oil sector operations; and (iii) a recovery of the momentum of structural reform. While considerable progress has occurred in 2001, notably on the macroframework and transparency issues, completion of the first review is not contemplated. The authorities are considering the staff's recommendation to cancel the EFF, which could be followed by a request for a precautionary stand-by arrangement.

2. **The 2000 Article IV consultation with Kazakhstan was concluded on December 11, 2000,[4] at which time Executive Directors observed that Kazakhstan's improved economic performance in 2000 had been linked to a significantly more favorable external environment than when the EFF arrangement was approved, as well as to the pursuit of prudent macroeconomic policies and past structural reforms.** Directors observed that economic policies needed to be geared to avoiding excessive real exchange rate appreciation, promoting saving, opening trade, improving governance, and strengthening the supply side of the economy through structural reforms. Directors commended the authorities for pursuing a prudent fiscal policy and recommended that the authorities should ensure that large windfalls in revenue from the oil sector did not weaken tax administration. Directors urged the authorities to ensure further transparency of the oil sector's operations and its linkages with public finance. Directors welcomed Kazakhstan's participation in the Financial Sector Assessment Program (FSAP). Directors urged the authorities not to allow the favorable economic climate to lead to complacency with regard to structural reform.

3. Kazakhstan accepted the obligations of Article VIII on July 16, 1996 and **maintains an exchange regime free from restrictions on current international transactions**. The quality and coverage of economic statistics has continued to improve supported by technical

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[1] The staff met with former Deputy Prime Minister Jandosov, Minister of Finance Esenbayev, Minister of State Revenues Kakimjanov, Minster of Economy and Trade Kulekeyev, National Bank (NBK) Governor Marchenko, and other senior government and NBK officials. The mission also met with members of the business community, bankers, and trade union representatives. Subsequent to the mission's departure, Deputy Prime Minister Jandosov resigned his post and his powers were transferred to Mr. Masimov.

[2] The staff team consisted of Mr. van der Mensbrugghe (head) and Messrs. Pastor, Mathieu, Luecke (all EU2), Mr. Davoodi (FAD), and Ms. Marton (interpreter—BLS). Mr. Dodsworth (EU2) attended some of the policy meetings. Mr. Sazanov, assistant to the Executive Director, participated in several meetings. Mr. Oestreicher, the resident representative, assisted the mission.

[3] A three-year extended arrangement, in the amount of SDR 329.1 million (90 percent of quota), was approved by the Executive Board on December 13, 1999 (EBS/99/214; 11/29/99).

[4] See SM/00/257(11/17/2000), Supplement 1 (12/7/2000), and SUR/00/120 (12/14/00).

assistance from the Fund and others. Statistical issues are discussed in Appendix VI. Kazakhstan participates in the General Data Dissemination System (GDDS); the metadata base was updated in August 2001 and was extended in November to cover external debt and debt service. Progress has been made in implementing standards and codes in several areas, although further progress is needed. The FSAP undertaken in mid-2000 found that Kazakhstan complies to a considerable degree with the 9 ROSC modules in the financial area. Missions to evaluate the ROSCs in the fiscal and statistical areas are expected in 2002.

II. Recent Economic Developments

A. Growth and Inflation

4. Since late-1999, Kazakhstan's economic performance has improved markedly, owing to both a much more favorable external environment and prudent macroeconomic policies. Driven by strong growth in the petroleum sector and associated spillover effects, real GDP in 2001 is expected to again be close to 10 percent while inflation has declined to 7.3 percent in November (year over year; Table 1 and Figure 1). Gross international reserves of the NBK have risen to $2.5 billion, which provides for about three months import coverage. In addition, the government's assets in the newly created National Fund for the Republic of Kazakhstan (NFRK), have reached $1.3 billion (6.2 percent of GDP) at end-November. Petroleum production has been rising at around 15 percent per annum and the oil sector alone now accounts for approximately one quarter of GDP. Consumption goods imports have also risen strongly as the income boom of 2000–01 has led to higher private consumption. As a result, and despite the higher investment trend, private savings are estimated to have declined considerably in 2001,[5] more than offsetting the further rise in government savings.

Table 1. Kazakhstan: Selected Macroeconomic Indicators

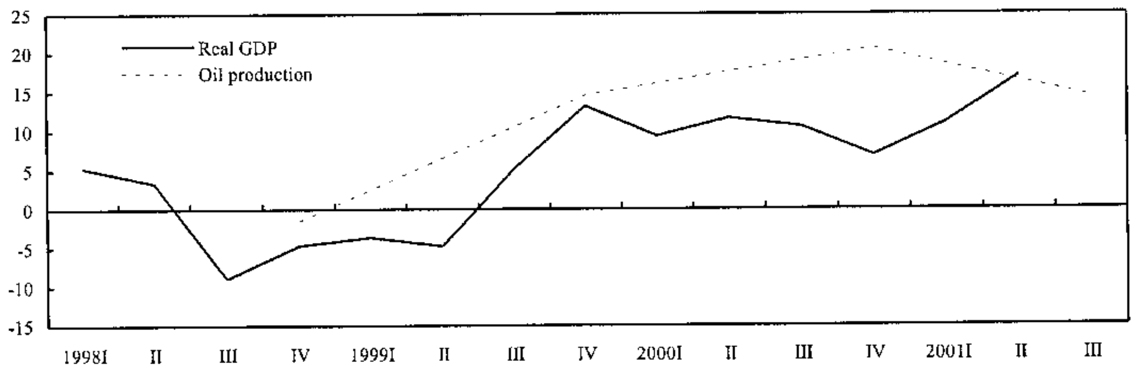
	1998	1999	2000	2001 Projections
Real GDP	-1.9	2.7	9.6	9.0
CPI (end-of period)	1.9	18.1	9.8	7.0
General Government balance (in percent of GDP)	-7.8	-4.7	-1.2	3.1
External current account (in percent of GDP)	-5.6	-0.2	5.1	-3.6
NBK gross reserves				
(In months of imports of goods and services)	3.0	3.6	2.8	2.9
Public and publicly guaranteed				
external debt (in percent of GDP)	17.9	23.8	21.8	19.9

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

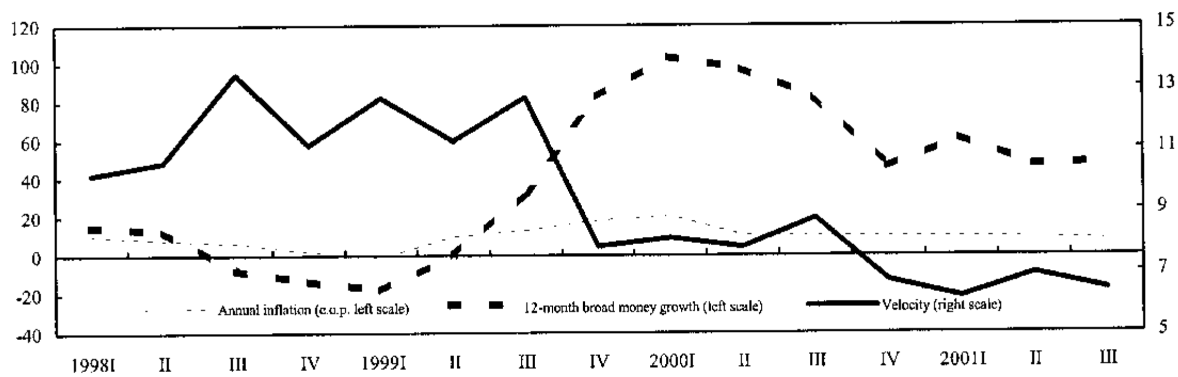
[5] The estimates of the savings-investment balance need to be treated with caution, particularly given the large errors and omissions entries for 1999–2000 in the balance of payments.

Figure 1. Kazakhstan: Selected Macroeconomic Indicators, 1998-2001

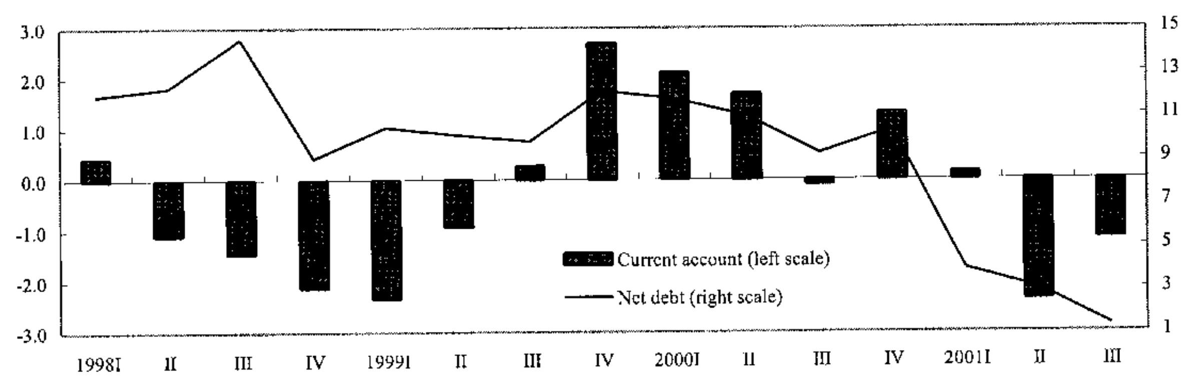
Real GDP and Oil Production
(Annual percentage change)



Inflation and Money



Current Account and Net Debt 1/
(In percent of GDP)



Source: Data provided by the Kazakhstan authorities; and Fund staff estimates.

1/ Net debt is defined as public external debt minus gross international reserves, minus the stock of National Fund for Republic of Kazakhstan (NFRK).

B. Fiscal Developments

5. In 2000, the general government budget deficit declined sharply to 1.2 percent of GDP as revenue surged and expenditure was contained. **This trend continued during the first nine months of 2001, with the general government budget yielding a surplus of about 4.8 percent of annual GDP** (Tables 2a and 2b, and Figure 2). Revenue performance was very strong at 21.0 percent of GDP, one-quarter of which was from the petroleum sector. Fiscal receipts of 3.5 percent of GDP from the petroleum and mining sectors were transferred to the NFRK. Nonoil tax receipts have been buoyant—rising a projected 20 percent for 2001—in part as a result of the conversion of the VAT for trade with the CIS to the destination principle (excluding energy products). From July 1, the VAT rates of 10 percent and 20 percent were unified at 16 percent and the social tax rate was reduced from 26 percent to 21 percent. The 2001 budget was revised in April and again in November. The latter revision incorporated higher revenues (about 2 percent of GDP) as well as an increase in expenditure outlays of about 1 percent of GDP, largely to provide capital for a new development bank and to clear more social arrears.

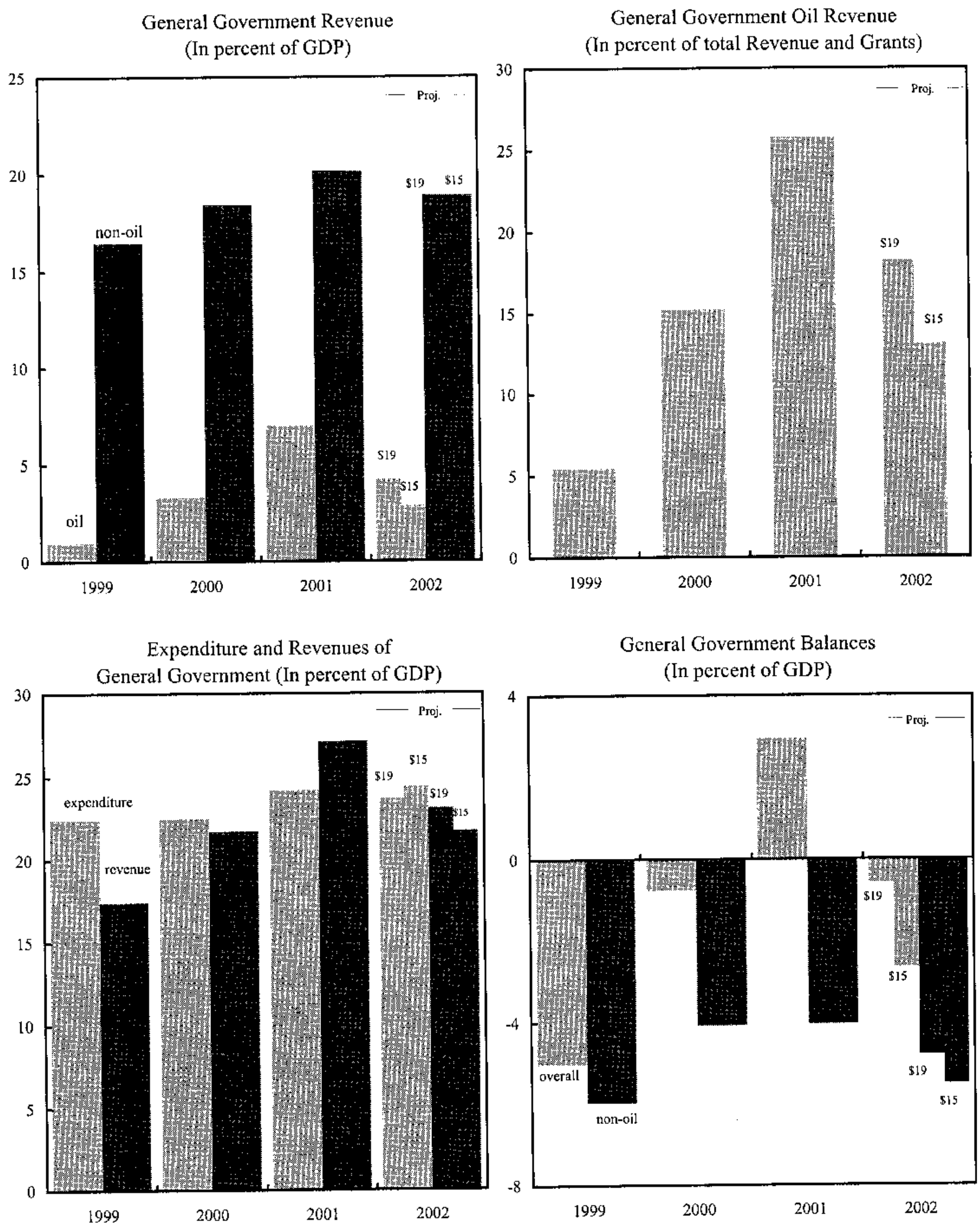
6. **For the year as a whole, the staff projects a general government surplus of about 3.1 percent of GDP (including revenues transferred to the NFRK)**, reflecting accelerated spending in the fourth quarter. Revenue is projected to reach 27.1 percent of GDP, up from 21.7 percent of GDP in 2000; about two-thirds of this increase is from petroleum. Expenditure and net lending are projected to rise by almost 2 percent of GDP, a 14 percent increase in real terms. The nonoil fiscal deficit is projected to remain stable at 4.0 percent of GDP.

7. **Public external debt has stabilized at around $4 billion since end-2000—about 20 percent of GDP**. In net terms, given the build-up of foreign reserves and assets in the NFRK, the external debt of the government and the NBK is projected to be about zero at end-2001. Reflecting the improved fiscal position, net domestic debt has declined significantly from 2.8 percent of GDP at end-2000 to a projected 1.6 percent of GDP at end-2001.

C. Monetary and Exchange Developments

8. **Kazakhstan's economy experienced substantial financial deepening during 2000 and the first nine months of 2001.** The stock of broad money (including foreign exchange deposits) increased by 45.9 percent in 2000 (Table 4). Continuing this trend, end-September 2001 broad money was up 48.4 percent (year-over-year), almost entirely due to strong deposit growth. Velocity has continued to decline from an average of 8.2 in 2000 to 6.4 at end-September 2001. Reserve money growth was contained at 5.3 percent in 2000 as the NBK actively sterilized at the end of the year. Reserve money growth has been more expansionary during 2001 (up 19.4 percent at end-November) and is projected at 16 percent by end year. The net international reserves (NIR) of the NBK rose $600 million (67 percent of beginning reserve money) to $2.1 billion in 2000 and by a further $300 million (36 percent of beginning reserve money) through end-September 2001. The strong fiscal position has helped sterilize these large inflows as net credit to the government declined in 2000 (by 23 percent of beginning reserve money) and by a further 46 percent of reserve money stock in the first nine months of 2001.

Figure 2. Kazakhstan: Fiscal Indicators, 1999-2002



Source: Data provided by the Kazakhstan authorities; and Fund staff estimates and projections.

9. **Reflecting the growth of deposits, banking system credit to the economy grew by 82 percent in 2000, and by a further 55 percent, through end-September, 2001**. Interest rates on both deposits and loans have declined gradually since 1999, although the spread has remained at about 3–4 percentage points (Figure 3). In real terms, headline lending and deposit rates have been quite stable since mid-2000 at around 8 percent and 5 percent, respectively. In mid-2001, a "capital amnesty" was offered as an opportunity to legalize (and avoid back taxes on) funds deposited in special bank accounts. A total of $480 million (2.4 percent of GDP) was deposited, mostly in U.S. dollar banknotes. The **dollarization of deposits**, which was rising slowly but steadily to a little over 50 percent through mid-year, jumped in the third quarter to 57 percent, reflecting the surge in deposits from the capital amnesty. Despite the rise in **foreign currency deposits**, the NBK estimates that the population's holdings of foreign currency cash remain substantial.

10. **During 2000 and 2001, the authorities have successfully resisted a real effective exchange rate appreciation** (Figure 4). While the real exchange rate to the U.S. dollar has been quite stable, the tenge has depreciated steadily in real terms against the Russian ruble, thus supporting the competitiveness of Kazakhstani industry versus their main trading partner, Russia.[6] The real effective exchange rate appreciated about 7 percent through early 2000 from a trough in October 1999 and has remained broadly stable since then.

D. External Developments

11. With a significantly more favorable external environment, **Kazakhstan's external position recorded a very strong improvement in 2000.** The current account surplus rose sharply to an estimated 5.1 percent of GDP, with exports growing at an annual rate of 60 percent, largely on account of petroleum and mineral price and volume rises (Table 5 and Figure 5).[7] Imports rose by 21 percent. Foreign direct investment (FDI) inflows continued to dominate the capital account, but reflecting much higher amortization of intracompany liabilities, net inflows declined to $1.2 billion. **The external current account has deteriorated sharply in 2001 to a projected deficit of about 3.6 percent of GDP, reflecting surging consumer (about 60 percent of the total change) and capital imports (about 40 percent), and declining petroleum and mineral prices. The rise in capital goods imports reflects a spike in FDI in the petroleum sector.** Nonoil export growth has fallen following the sharp recovery of 2000, in part reflecting price declines. In the first half of 2001, import growth rose further to 37 percent (year over year) and net FDI is expected to reach $2.3 billion for the year as a whole. Against this background, and the sizeable increase in official financial assets, major rating agencies have raised Kazakhstan's credit rating on sovereign foreign currency liabilities several times (most recently in July) and spreads on Kazakhstan Eurobonds have fallen by one half to around 200 basis points (Figure 6).[8]

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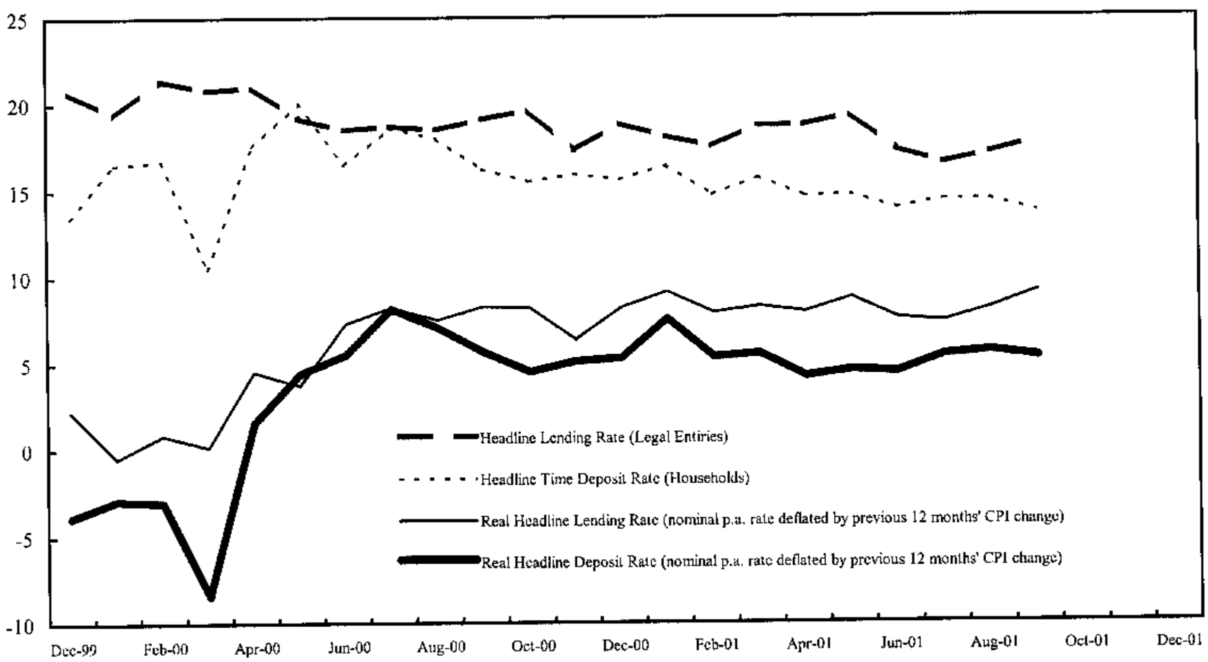
[6] Trade with Russia represents around 20 percent of exports and 50 percent of imports.

[7] The staff has revised downwards the estimate for under recording of oil exports. Work undertaken by the NBK and the staff on this topic has elucidated some aspects of the undervaluation of oil exports to CIS markets, which are accounted for by swaps and monopsony type practices by the Russian pipeline system.

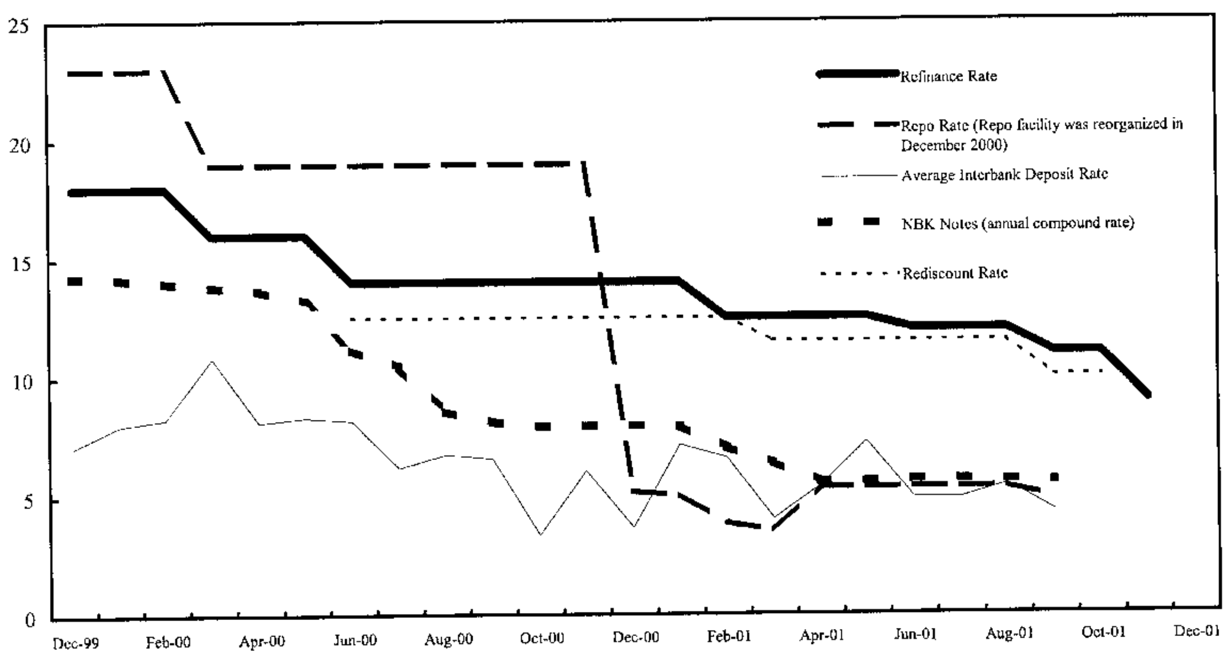
[8] Standard & Poor's and Fitch IBCA from BB- to BB; and Moody's from B1 to Ba2, respectively.

Figure 3. Kazakhstan: Official and Commercial Bank Interest Rates, 1999 - 2001

Kazakhstan: Commercial Bank Lending and Deposit Rates, 1999-2001

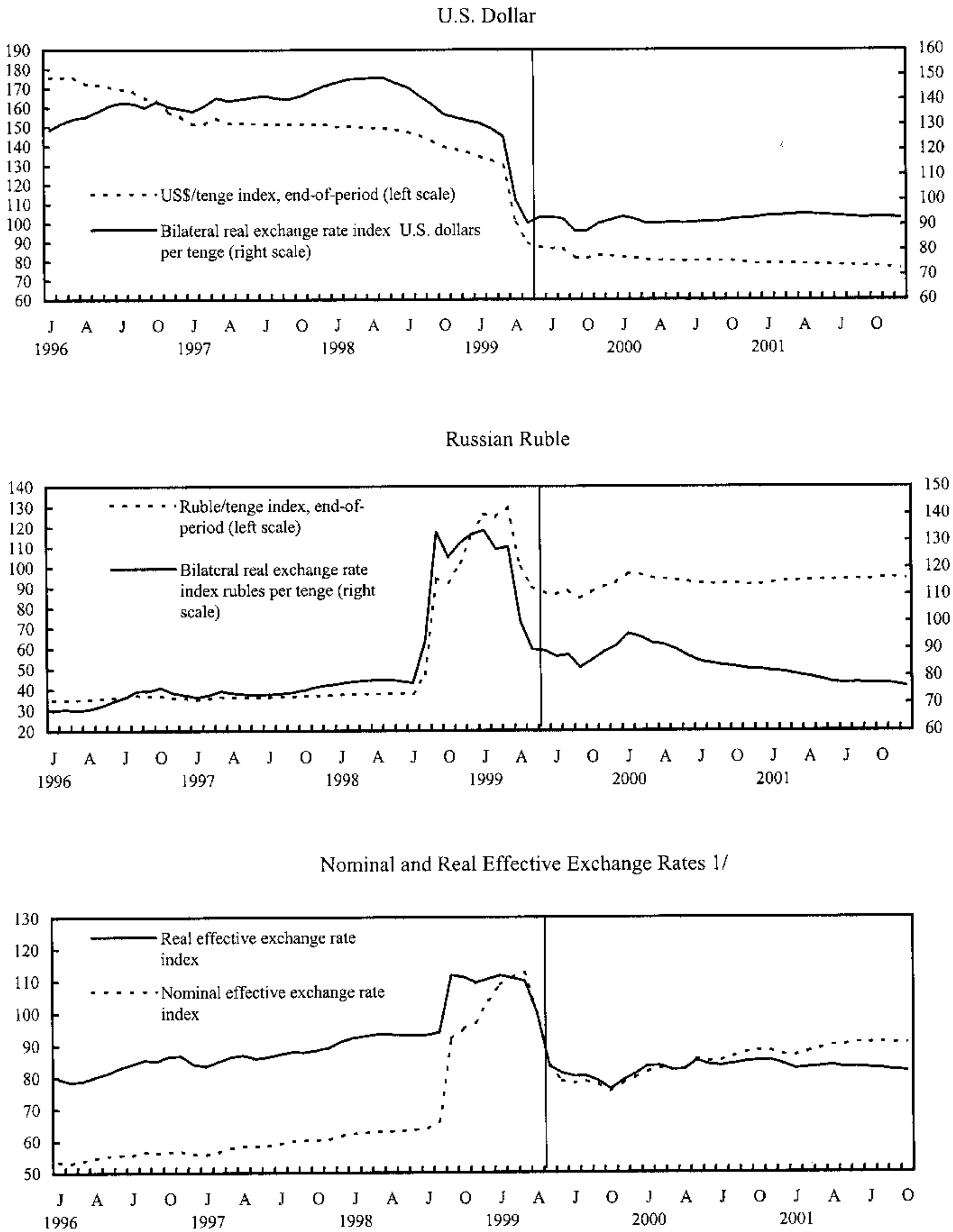


Kazakhstan: Official and Interbank Interest Rates, 1999-2001



Source: Data provided by the Kazakhstan authorities; and Fund staff estimates.

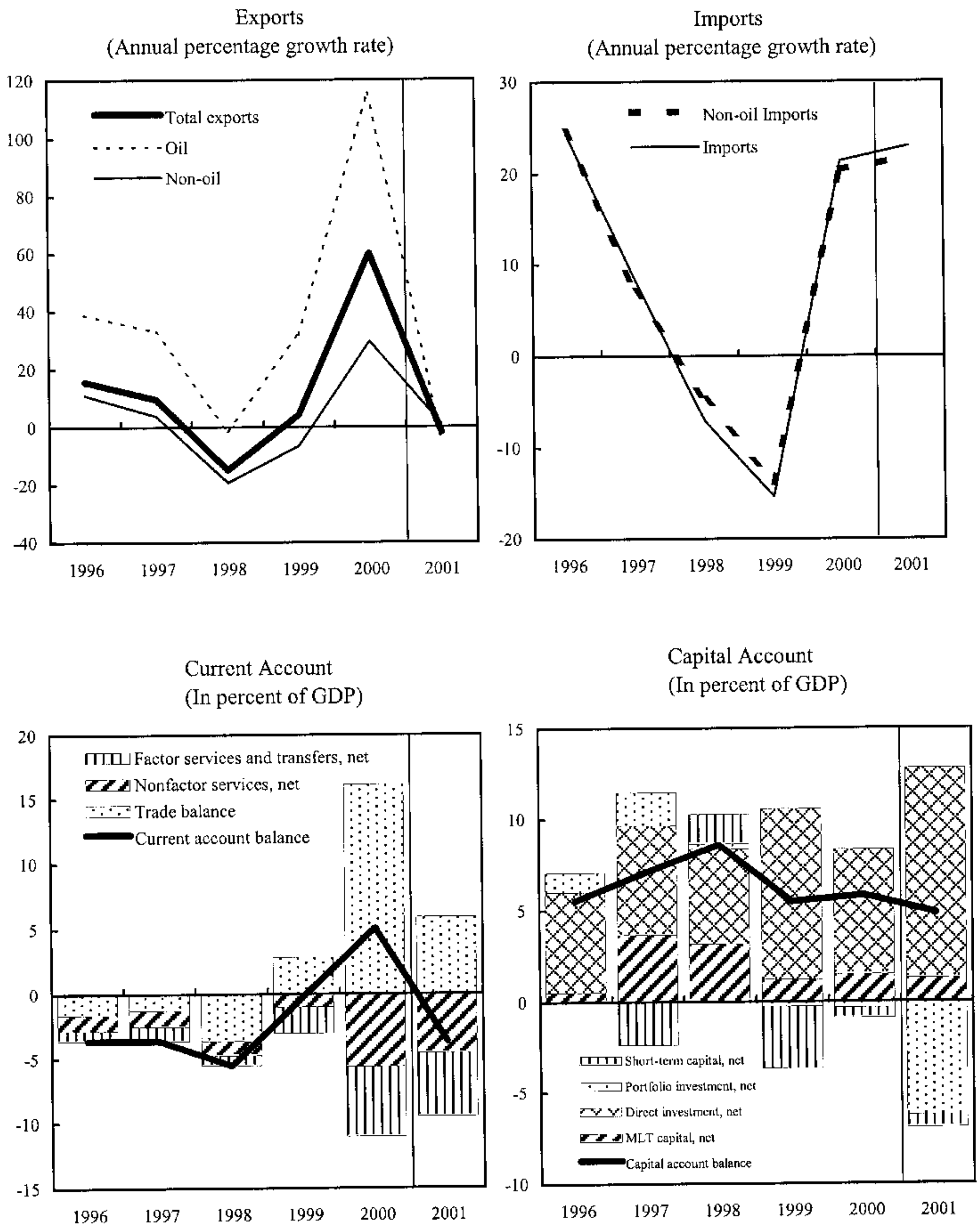
Figure 4. Kazakhstan: Exchange Rate Indicators, 1996-2001
(Indexes, April 1999=100)



Source: Data provided by the Kazakhstan authorities; and Fund staff estimates.

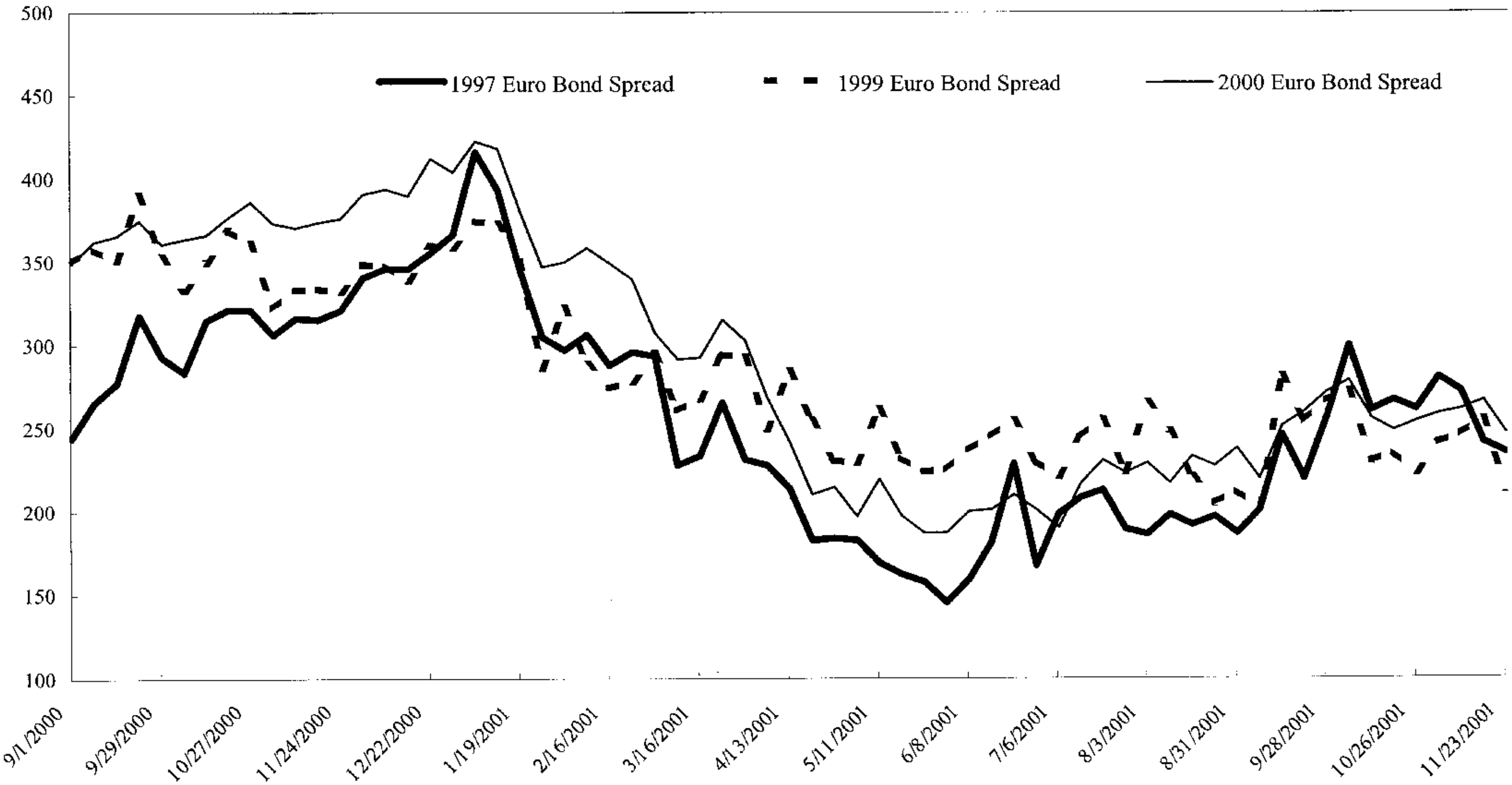
1/ An increase in the index indicates an appreciation.

Figure 5. Kazakhstan: External Sector Indicators, 1996-2001



Source: Data provided by the Kazakhstan authorities; and Fund staff estimates.

Figure 6. Kazakhstan: Weekly Eurobond Spreads
(9/2000 - 11/2001)



Source: Bloomberg, US Federal Reserve, and Fund staff estimates.

E. Structural Reforms

12. **Structural reform has continued, though at a much slower pace than anticipated**. In June 2001, a **new tax code** was signed into law. The code provides a sound legal basis for the tax system of Kazakhstan, and represents a substantial improvement over its predecessor as it formally includes the basic provisions of tax legislation that were absent in the previous law. A number of exemptions were removed and all taxes and obligatory payments to the budget are now included in the tax code thereby providing a more solid revenue base, simplified administration, and a more even-handed treatment of taxpayers. The long-delayed **land law** was approved in July, although with considerably weaker ownership provisions than expected. Only limited progress in **large-scale privatization** has been recorded in the past two years, although a remaining minority stake of 15 percent in the savings bank and 15 percent (out of a remaining 35 percent) stake in the copper company were sold in late November. **Trade policy reforms,** and tariff rationalization in particular, have been only very partially implemented. Virtually all other programmed trade measures have not been implemented and there have been reversals in some areas, notably in licensing and in the introduction of import and export restrictions on agricultural machinery and products, petroleum products, and metal scraps. The average tariff rate has risen somewhat to 7.9 percent. There has been slow progress on WTO accession. In the **financial sector**, at end-June 2001, the NBK absorbed the National Securities Commission, to unify financial sector supervision (covering banks, insurance firms, pension funds, and nonbank financials). **Pension reform** has progressed with assets in the accumulation pension system rising to about $1.1 billion at end-September, and the share of assets in the state pension fund falling to about one-third of total.[9]

III. Policy Discussions and Outlook for 2002

13. **Kazakhstan faces a two-fold challenge—to manage efficiently the large increase in income related to rapid oil sector development, while achieving internal and external balance; and to pursue structural reform so as to lay the foundation for sustained economic growth and employment creation.** With petroleum output projected to continue increasing at about 15 percent per annum, the economy, and in particularly the budget, will benefit from sustained, and potentially very large, increases in income over the medium term. At the same time, the economy is exposed to potentially greater risk, given the increasing weight of oil sector and the volatility of prices. On the macroeconomic side, policy discussions centered on the authorities' response in the event the recent sharp deterioration in the world market price for petroleum were to persist or worsen. The authorities have been successful in implementing appropriate demand management policies and avoiding the "Dutch disease" problem. On the structural side, progress has been more limited and the discussion focused on measures to increase the efficiency and growth prospects of the non oil-related sectors and reduce unemployment. The main theme was the need to revive the pace of structural reforms, to address lingering governance concerns, and to create a

[9] See Selected Issues paper, Section III for a discussion of the pension reform.

favorable business environment. While such reforms perhaps appeared less urgent in the present oil-boom environment, they nonetheless remain key to the sustainability of high economic growth.

A. Macroeconomic Framework

14. The authorities were in broad agreement with the staff assessment of the macroeconomic outlook for 2002. **As a baseline scenario, with oil prices at $19/bbl, growth is projected to remain robust at 7 percent, with investment, consumption, and oil export volumes rising strongly. The strong output growth is supported by the start of operations of the CPC crude oil export pipeline in September 2001, which significantly boosts export capacity and reduces transportation costs.** On the basis of the continued pursuit of prudent fiscal and monetary policy, annual inflation is projected to ease further to 6 percent. Although government savings are projected to decline somewhat, the private consumption boom is expected to ease. The fiscal balance would swing into deficit, but to less than one percent of GDP, while the external current account deficit would deteriorate to around 5 percent of GDP. Gross international reserves of the NBK would be maintained at about 3 months coverage of imports of goods and services. The mission also discussed an alternative scenario with the authorities—one where petroleum prices drop further to average $15/bbl in 2002, before recovering to $19/bbl in 2003. While growth would be reduced to around 4 percent and the external current account and fiscal revenue would be adversely affected, the exercise demonstrated Kazakhstan's improved ability to withstand external shocks, as both the external and fiscal deficits would be financed, in large measure through the automatic mechanism in place in the NFRK.

B. Fiscal Policy

15. **The key fiscal policy issues facing the authorities for 2002 are to contain expenditures in view of the projected decline in oil revenue and deterioration of the current account, and to implement contingency expenditure cuts in case revenue is less than targeted.** It will also be important to implement measures to improve public resource management and maintain the nonoil revenue base. The central (republican) budget approved by parliament on December 10 features a deficit of 2 percent of GDP, which in the mission's view represents a virtual balance, with the consolidation of oil revenue earmarked for the NFRK.[10] The 2002 central budget includes a much greater degree of transparency and detail on petroleum receipts, incorporating to a large degree staff work and suggestions in this area. The authorities indicated their appreciation for the staff's work in modeling budgetary revenue from the oil sector, which had directly contributed to the improved budget forecast and enhanced transparency. A baseline world market price for oil of $19/bbl has been assumed, on which basis receipts from the petroleum sector of 3.6 percent of GDP have been estimated (excluding a one time bonus payment). The staff views the revenue estimate as

[10] On account of higher nontax revenue projections by staff, two-thirds of which are accounted for by a second oil bonus payment.

broadly appropriate. Under the baseline scenario, there would be a relatively small transfer ($245 million) to the NFRK. While local budget proposals will not be finalized for some time, the mission has assumed that an estimated local governments deficit of about 0.5 percent of GDP would be financed by a drawdown in deposits built-up in 2000–01. On this basis, the overall general government balance would be in a small deficit of 0.6 percent of GDP.

16. With the growing importance of the petroleum sector, **the sensitivity of the budget to changes in oil prices has increased for 2002 to about $96 million (0.4 percent of GDP) for every $1/bbl change in international prices**. Nevertheless, the authorities indicated that the budget could accommodate a relatively sharp decline in oil prices. In the adverse alternative scenario, with world market petroleum prices at $15/bbl in 2002, the NFRK would have a small net outflow and the domestic financing need would rise only modestly (Table 2). The authorities indicated that there was significant room to cut investment outlays, and they would do so if the revenue target was not observed. The mission supported the authorities' cautious approach to fiscal policy and their contingency plans. However, given the increased vulnerability to oil price fluctuations, the mission also urged that steps be taken to widen the nonoil tax base.

Table 2. Macroeconomic Impact of Lower Oil Prices in 2002 (First Round Effect) 1/
(In percent of GDP, unless otherwise indicated)

	2001	2002	
	$24.3/bbl	$19/bbl	$15/bbl
GDP growth	9.0	7.0	4.0
Exports	47.1	41.5	38.0
O/w petroleum	21.8	17.7	13.5
External current account	-3.6	-4.9	-7.3
General Government budget balance	3.1	-0.6	-2.7
Flows to NFRK (In millions of dollars)	690	245	-69

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

1/ General government expenditure is maintained constant in nominal terms for the two scenarios of 2002, while nonoil revenue is assumed constant relative to GDP.

17. **The mission welcomed several improvements made in the budget for 2002,** notably to record privatization receipts below the line, eliminate the practice of offsetting VAT refunds against royalty payments, as well as the authorities' intention to pay off all remaining social arrears. The mission also welcomed the setting of a 3-year indicative plan, within which the 2001–02 budgets had been cast. The budget also contains a significant change in intergovernmental fiscal relations. Revenues are being centralized in the republican

budget, with a concomitant increase in transfers to local governments.[11] The mission supported these changes, which greatly reduce the vulnerability of local governments to revenue fluctuations and allow for a more equitable distribution of resources among the regions.

18. **The mission urged that several important structural reforms in the fiscal area be accelerated or initiated**. The reform of the **customs administration**, which has been supported by FAD technical assistance, has progressed only slowly and needs to be reinvigorated. The mission encouraged the authorities to continue with the program to enforce collections of **excises on petroleum products**, which had been temporarily suspended in mid-2000, owing to a severe product shortage. The mission also noted the need to strengthen tax administration, particularly the audit capacity of the large taxpayers unit. Impressive progress has been made in the **modernization of the treasury system**, which is now expected to be completed by mid-2002. The mission urged the authorities to incorporate the wage module in the treasury project, given that the wage bill represents a significant part of current spending. The authorities indicated that they placed great importance on both customs and treasury modernization projects and that progress was being made. The mission welcomed the authorities agreement to a **review of the observance of standards and codes** for the fiscal accounts to be undertaken by FAD in mid-2002, owing to a severe product shortage. The mission noted that the **central government budget preparation** needed strengthening and that it was also necessary to improve the timeliness and execution of local budgets. The authorities agreed and indicated that steps were being taken on the latter.

19. **The mission welcomed the valuable role the NFRK had played so far in restraining expenditure and sterilizing foreign exchange inflows, but noted that international experience with oil funds had been mixed, which underscored the importance of transparency, accountability, and integration of the NFRK with the treasury and budget systems.**[12] The mission urged the authorities to ensure that all flows to the NFRK were recorded in the treasury accounts. A lack of coordination between the NFRK accounting rules and the treasury modernization project had resulted in a failure to account for the stabilization flows to the NFRK. Baseline flows have been captured as have stabilization reflows to the budget from the NFRK. The authorities are already working to remedy this situation. The authorities indicated that all outflows from the NFRK, including special transfers, will be channeled through the treasury and budget systems, and will thus be subject to parliamentary approval. The mission encouraged the authorities to consider ways

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[11] Corporate income taxes, which were shared equally between the central government and local governments, will be credited entirely to the central government budget. In return, the central government is increasing its net transfers to local governments and granting revenues from excises to local governments (except for excises on imported goods and for environmental pollution). Revenues from social tax continue to be credited entirely to local governments.

[12] See SM/00/270 (12/1/00) and Occasional Paper 205, Stabilization and Savings Funds for Nonrenewable Resources: Experience and Fiscal Policy Implications.

to simplify the NFRK funding rules, which are administratively complex. The authorities agreed to conduct a review of the NFRK following a review of its initial operations (Box 1).

Box 1. NFRK and Budget Transparency

Significant progress has been made in addressing the issue of estimating budgetary revenue from the oil sector, including through the development of an oil sector revenue model undertaken jointly with World Bank staff. Since the NFRK was established, the flows into the fund have been close to the amounts estimated by the joint staff oil model. The authorities have used the joint staff model in part in preparing the 2002 budget. While this represents important progress the mission encouraged the authorities to further develop the model on the basis of the individual oil contracts. The 2002 budget is more explicit in stating the assumptions used, and the staff has been able to replicate the oil revenue projection at $19/bbl.

The mechanics of assigning flows into the NFRK are quite complex and the mission discussed the possibility of simplification, including consideration of a Norwegian-type variant. The authorities have identified 12 major companies in the natural resource sector—9 petroleum companies and 3 mineral companies, revenues from which are subject to transfer to the NFRK. Flows to the NFRK consist of a "savings" component (introduced in the 2002 budget) equal to 10 percent of budgeted baseline revenue from the 12 natural resource sector companies ($81 million in the 2002 budget), which is invariant to price or volume changes. Secondly, there is the "stabilization" component—all revenue above the baseline. For 2001and again for 2002 a baseline international price assumption of $19/bbl has been retained. At prices below $19/bbl the savings and stabilization components offset one another. Additionally, the authorities are allocating special bonus payments and receipts from the privatization of the sector to the fund.

Transactions other than involving the savings component and stabilization reflows to the budget from the NFRK are not recorded in the budget (for example stabilization flows accrue directly to the NFRK). The mission underlined the importance of complete coverage by the treasury of all transactions with the NFRK and the authorities have indicated that they are considering how this might be undertaken.

A description of the NFRK is included in greater detail in Appendix VII.

C. Monetary, Financial, and Exchange Policy

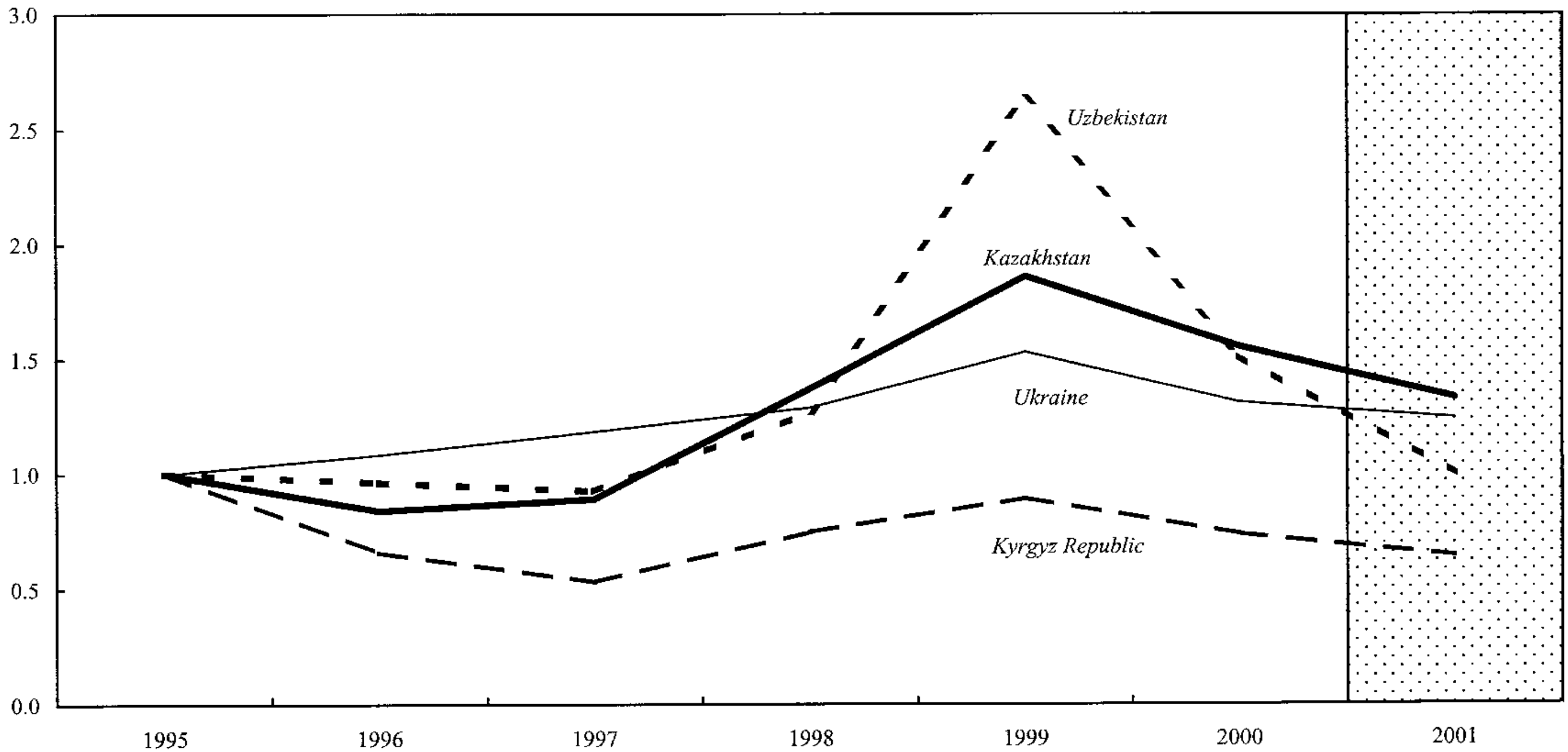
20. **Significant progress has been made in reducing inflation to single digits**. In view of the declining trend in inflation the NBK has appropriately been reducing the refinancing rate, which now stands at 9 percent. The authorities are continuing to target the growth of reserve money as their main monetary policy rule. For 2002, the NBK is aiming to contain reserve money growth to around 18 percent and overall liquidity growth at around 23 percent. While the process of financial deepening is expected to continue, this means the underlying money demand relationships are difficult to project and the monetary authorities must remain vigilant to keep liquidity growth from leading to inflationary pressures. The NBK must also not allow very rapid credit growth to lead to a deterioration in credit quality, which could ultimately undermine the stability of the financial system. The authorities agreed that the situation called for a strengthening of banking supervision (see paragraph 23 below) and that they would monitor developments closely.

21. **The exchange rate has remained stable, both in nominal and in real effective terms in 2001.** This has been achieved with the support of both monetary and fiscal policy. The NBK has been able to effectively conduct sterilization operations, although the need for sterilization has lessened considerably with the creation of the NFRK. The mission believes that the credibility of exchange rate and monetary policy has been bolstered considerably by the institution of the NFRK, as well as by fiscal restraint. Wages in Kazakhstan remain low by international standards at about $114 per month on average in 2001 and while nonoil exports have stagnated in 2001, this reflects structural factors (e.g., a lack of infrastructure and a poor investment climate) and market access limits on some exports (e.g., steel). Nevertheless Kazakhstan's relative wage costs have been rising relative to the region and the authorities need to remain vigilant that this increase is supported by rising productivity and structural transformation (Figure 7).

22. **The authorities described their exchange rate policy as a managed float.** They indicated that in the event of strong downward pressure, the rate would be allowed to depreciate. By contrast, in the event of upward pressure on the rate, and in view of the dependency on, and price volatility of, a single commodity, intervention to prevent a squeeze on the tradable goods sector would be undertaken. Pressures from higher oil prices would be sterilized through the NFRK mechanism. Nonetheless, the authorities indicated they would allow a nominal appreciation of the exchange rate, if necessary to alleviate the pressure on monetary policy and safeguard the inflation objective, which remains the NBK's primary policy objective. **The mission was of the view that this policy was appropriate to Kazakhstan's circumstances and welcomed the authorities' affirmation that inflation reduction remained the primary objective**. The NBK indicated that, while monetary policy had worked well so far, it wished to explore the possibility of changing to an inflation-targeting rule as the economy becomes more sophisticated, and requested technical assistance from the Fund. The mission supported the NBK's request, but recommended the authorities take a cautious approach to changing the monetary framework.

23. **The mission welcomed the progress made in 2001 toward consolidated supervision of bank subsidiaries and affiliates, but underscored the importance of rigorous banking supervision, especially given the prevalence of large financial-industrial groups**. The FSAP assessment in 2000 had found that the financial system remained fragile due to uncertainties regarding the adequacy of capitalizations and the quality of loans. The mission noted that the implementing infrastructure to conduct such supervision is only in the process of being put in place. As ownership structures are frequently not transparent, there is potentially an incentive for commercial banks in conglomerates to take inappropriate risk, especially large credit risk concentration, which renders the banking system more vulnerable. The continued large spread between lending and deposit rates may be indicative of inefficiency, or increasing risk, in the banking system. The mission expressed concern that the ratio of nonperforming loans (substandard loans requiring provisioning) to total loans had risen from 23.3 percent to 29.5 percent in the first nine months of 2001, despite the recent very rapid credit growth. Also, notwithstanding the sizeable increase in bank assets, bank profitability has declined since 1999. The NBK acknowledged the validity of these concerns and indicated it was considering a further strengthening of prudential regulations, including increasing capital adequacy requirements,

Figure 7. Estimated Dollar Unit Labor Costs Relative to Russia, 1/
1995-2001 (1995=1)



Source: Fund staff estimates.

1/ Relative unit wage rates estimates are based on the assumption that productivity rates grow in line with GDP.

for those weaker banks that manifest difficulties in management of credit risk, to 15 percent of risk-weighted assets. The mission recommended that an overall ceiling on credit concentration be introduced in addition to the individual borrower limit of 25 percent of capital and to introduce limits on country risk.

24. **The mission welcomed the authorities' intention to establish a unified supervisory institution for financial services.**[13] Establishing appropriate institutional arrangements, notably regarding the structure of the agency, its independence, and an appropriate financing mechanism are key for the success of this initiative. The mission supported the authorities' view that the new agency should be initially closely affiliated with the NBK, with a view to subsequently becoming independent.

D. External

25. **The baseline outlook for 2002 is for a further deterioration in the external current account deficit to about 5 percent of GDP, largely on account of the decline in petroleum prices**. FDI is expected to decline somewhat, but remain at a significantly higher level than previously. Nonoil export growth is expected to recover somewhat to about 5–6 percent. Import growth is expected to decline substantially from the very high rates of 2000–01, reflecting moderating FDI, but also an easing in consumer spending growth from the recent surge. The capital and financial account will swing into greater surplus, led by the automatic stabilization mechanism of the NFRK. Further, with lower profitability in the petroleum sector, outflows on account of inter company loans and profit transfers would decline. While the resulting overall balance would decline, official reserves would nevertheless rise some $200 million to remain close to three months of import coverage. Under the alternative adverse scenario, staff projections suggest that the external current account deficit could deteriorate further to about 7½ percent of GDP. Reflecting the automatic NFRK mechanism, as well as the further deterioration in profitability of the petroleum sector, the capital account surplus would increase further, and no recourse to exceptional financing would be envisaged.

26. **The authorities indicated their intention to prepare for a gradual liberalization of the capital account beginning in 2003,** supported by technical assistance from the Fund. The mission noted that capital controls in Kazakhstan were generally already quite liberal. Although onerous administration and licensing requirements exist, as a first step these would be reduced significantly. While the macroeconomic situation had strengthened considerably, it was critical to ensure that other supporting policies were in place. In this context, the FSAP assessment in 2000 had noted vulnerabilities in the financial sector, which were still in the process of being addressed. As discussed above, continued efforts by the NBK were needed to ensure effective consolidated supervision of financial institutions, enhanced prudential limits, and implementation of sound risk management practices.

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[13] The mission overlapped with a technical assistance mission from MAE assisting the authorities in establishing a unified financial sector supervisory agency and the sequencing of capital account liberalization.

E. Structural Reform Policies

27. **The mission noted that the favorable macroeconomic performance did not lessen the urgency of pursuing structural reform**. The authorities were in broad agreement that the pace of structural reform had slackened and needed to be revived in some areas. The mission noted that key policy efforts were required to address economic efficiency concerns, notably regarding the management of public resources and the creation of an attractive business environment. This required steps to enhance corporate governance, to pursue the privatization of public utilities with transparent and effective regulation, and to complete large scale privatization, including the divestment of remaining state-owned minority stakes. Such efforts were critically needed to generate employment opportunities as unemployment is officially estimated at around 10 percent using survey data.

28. The authorities outlined their agenda for 2001–02, which in some areas parallel and extend those set out in the 1999 EFF-supported program. The mission welcomed the authorities intentions to improve the management of state assets and resources, professionalize government, and develop financial and capital markets, including through the generalization of international accounting and auditing standards in the economy, but noted little progress on improving the social safety net or on tariff reform. The mission also noted the need for greater specificity of the measures as well as a defined time path for implementation of the authorities structural agenda.

29. **The mission expressed concern regarding several initiatives taken in 2001, which have the potential to harm the investment environment**. Taken together, rules on domestic content, the import substitution program, the anti-transfer pricing legislation, the foreign labor quota regime and the periodic temporary export bans on agriculture and petroleum products paint a worrisome picture of increased state intervention in the economy. The mission also conveyed its misgivings on the creation of a state development bank, which began operations in 2001 with a $200 million capitalization.

30. **The mission noted that efforts were required to address concerns by the business community regarding a burdensome and overlapping regulatory environment, as well as barriers to entry, reflecting the influence of powerful business groups**. A recent survey of the business community, undertaken by the joint IFC/WB Foreign Investment Advisory Service (FIAS), with the cooperation of the Foreign Investors Council, found that Kazakhstan suffered from a poor investment image, not only reflecting its land-locked and distant location from main markets, but also because of heavy and inconsistent regulatory and administrative burdens, corruption, and inadequate legislation and institutional capacity. Such factors were reflected in the very small portion (around 10 percent) of FDI going into the nonoil sectors.

31. With respect to the petroleum sector, the mission noted that while the authorities need to ensure that corporate tax and other financial obligations to the state are being fully respected, public statements by the authorities that they may wish to renegotiate contracts were counterproductive. The mission urged the authorities to dispel any interpretation that they would unilaterally not honor contracts as this would be potentially harmful to the investment climate.

32. The authorities indicated that **the process of Kazakhstan's accession to the WTO had been reinvigorated**, but was being pursued in careful consideration of Kazakhstan's regional trade commitments in the CIS economic union. The mission indicated its concern over the continued active use of interventionist trade policy initiatives and urged the authorities to implement the trade liberalization commitments as outlined in the EFF supported program.

F. Other

33. **The Kazakhstani authorities indicated they attached high priority to supporting international efforts to prevent money laundering**. A detailed review of existing regulations is currently underway to identify and remedy any shortcomings with respect to the Forty Recommendations of the Financial Action Task Force on Money Laundering. Draft rules, incorporating any necessary changes to existing regulations for bank and nonbank financial institutions, are expected to be ready by end-2001. The authorities have also taken steps to identify and freeze financial assets of individuals or organizations that support terrorism.

IV. Medium-Term Outlook and Vulnerability Assessment

34. **Kazakhstan's medium- to long-term outlook has evolved favorably since end-1999**. With the confirmation of Kazakhstan's oil export potential, fiscal and financial constraints have eased and growth has been strong. The medium-term outlook shows the increasing role of the petroleum sector, which by 2005 would represent 50 percent of exports.[14] Oil exports are conservatively expected to grow by about 15 percent per annum in volume terms through 2006 as several important fields are expanded or come into commercial production.[15] Led by the petroleum sector, overall growth is projected to average 5–6 percent. Assuming the baseline oil prices and prudent macroeconomic policy and accelerated structural reform, imports are projected to rise by around 8.2 percent per annum while the external current account deficit would gradually turn to a surplus of about ½ percent of GDP by 2006 (Table 6). Under the baseline scenario, a fiscal deficit of 1 percent of GDP is projected in 2003 and broadly in balance thereafter. The projections of FDI inflows, which take into account the announced investment plans of several major oil companies, continue to dominate the capital account, averaging about $1.6 billion per annum in 2003–06. Flows to the NFRK would average $125 million and the stock of assets would rise to $2.5 billion (8.2 percent of GDP) by end 2006. Public external debt would decline gradually to14 percent of GDP by 2006. The official international reserves (excluding the stock of NFRK) would be maintained at around 3 months of imports.

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[14] The baseline outlook is based on the December 2001WEO oil price projections, which envisage a price of $19/barrel through 2006.

[15] See Selected Issues paper, Section I for an overview of developments and prospects in the Petroleum Sector.

35. **While the expansion of the banking sector over the last two years—in particular of deposits—is welcome indication of public confidence, the financial system is still at an early stage of development.** The FSAP conducted in mid-2000 had found that the financial system remained fragile owing to uncertainties regarding the adequacy of capitalization and the quality of loans. Since then bank credit has grown rapidly and is potentially of concern, especially as the ratio of non-performing loans to total bank loans has increased significantly since end-2000. So far, however, the deterioration in loan quality does not appear alarming, given the high level of provisioning for problem loans, the history of banks recovering a large share even of "loss" loans, and the extensive use of collateral. Nevertheless, the system remains vulnerable, particularly to a sustained economic downturn, which would depress the profitability of firms and hence the value of collateral.

36. **Kazakhstan's vulnerability to external shocks, notwithstanding the much higher share of oil in tax revenues, has on balance been reduced in the past 2–3 years.** Virtually all vulnerability indicators have improved sharply since 1999 (Table 7). Nevertheless, the much higher exposure to the oil sector and the slowing of structural reforms are of concern, especially for the medium term.[16] A sustained period of low oil prices would require a tightening of demand management policies to prevent the emergence of balance of payment difficulties and the resurgence of inflation.

37. **The staff has carried out a long-term analysis of fiscal sustainability and vulnerability focusing on nonoil fiscal balance in the context of government's total net wealth.** Kazakhstan has proven oil reserves estimated at about 15 billion barrels in 2001. For the purpose of this exercise, it was assumed that proven reserves from the as-yet-to-be-announced discovery in the offshore Caspian Sea region of Kashagan would amount to another 15 billion barrels.[17] It is estimated that these reserves would be depleted by 2048. On this basis and assuming the December 2001 WEO oil price projections though 2006 ($19/bbl), and then constant in real terms, oil wealth is estimated at about $60 billion (290 percent of 2001 GDP).[18] With the objective of maintaining this wealth constant in per capita terms, the oil rent that could be consumed indefinitely would be consistent with a nonoil fiscal deficit of about 6 percent of GDP, which is above the nonoil deficit of the last three years and well above the projected nonoil deficit of 4.8 percent of GDP in 2002 (Figures 8 and 9). Given the uncertainty about oil prices and the size of the Kashagan discovery and its timing, which greatly influences the estimate of the oil wealth, this result

[16] A detailed discussion of external vulnerability can be found in Section IV of the companion Selected Issues paper.

[17] The commercial discovery is not expected to be announced before late-2002/ early 2003 and production would not begin before 2005.

[18] In view of the volatility of oil prices, this path is only illustrative and should not be viewed, for example, as trend oil prices. This analysis is developed in greater detail in Section II of the companion Selected Issues paper.

Figure 8. Kazakhstan: Dynamics of Wealth , 2001-48
(In millions of U.S. dollars)

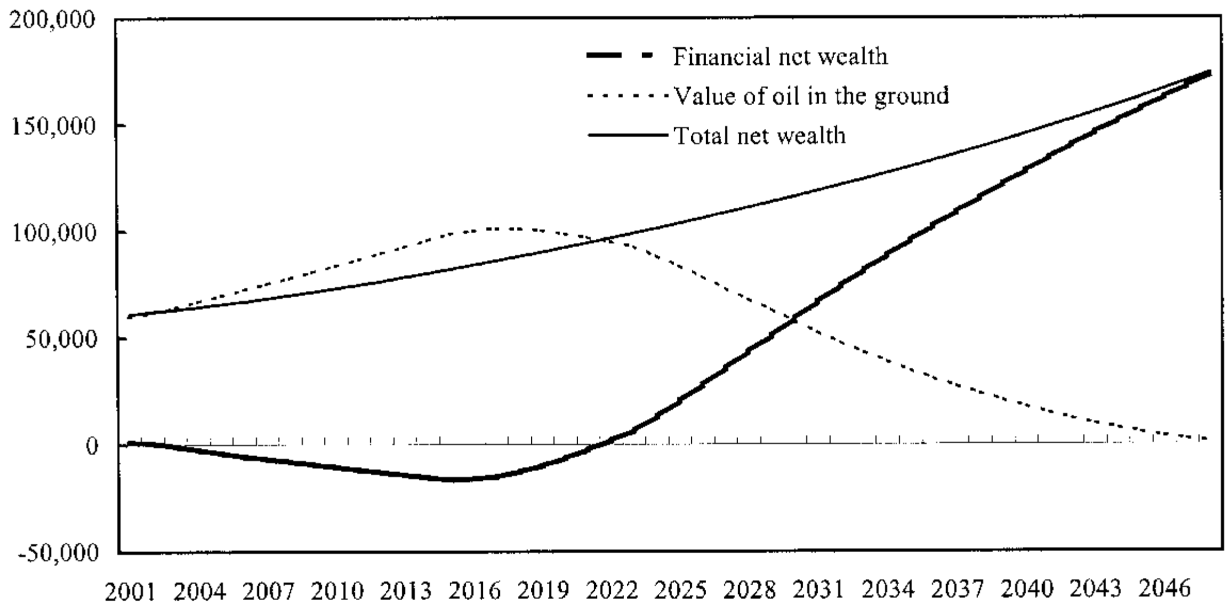
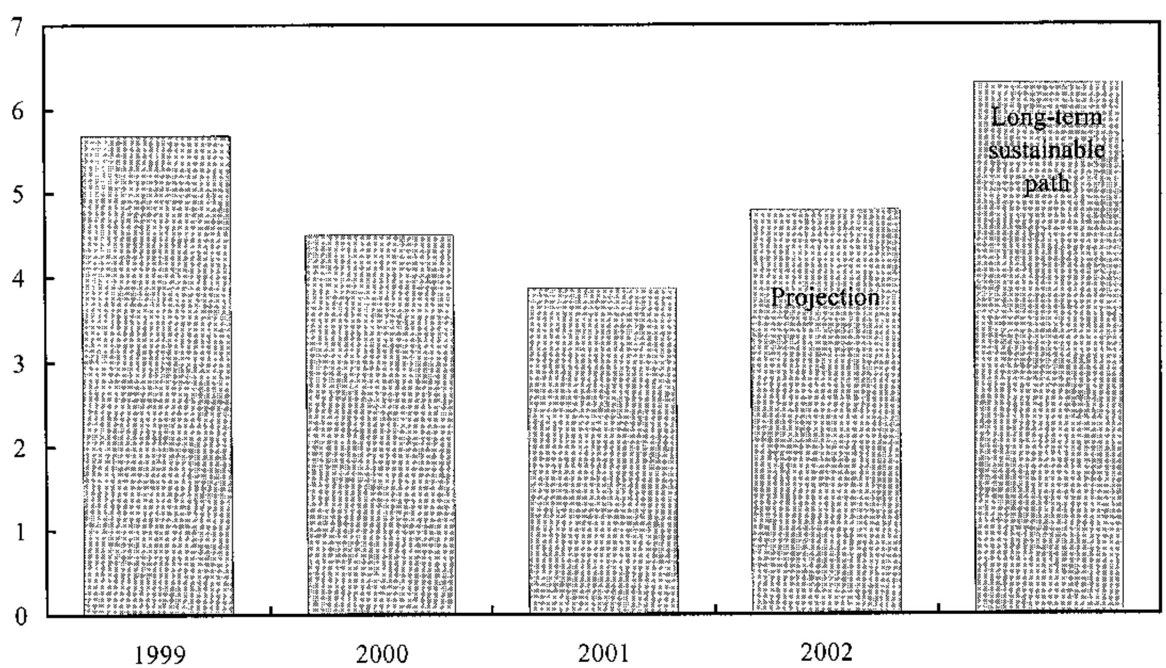


Figure 9: Kazakhstan: Non-oil Fiscal Deficit , 1999-2002
(In percent of GDP)



Source: Data provided by the Kazakhstan authorities; and Fund staff estimates and projections.

should be treated with a great deal of caution and should be seen rather as indicative of the relative prudence of the stance of fiscal policy under the baseline scenario.

38. **A vulnerability assessment for both oil prices and the interest rate indicate a high degree of sensitivity.** If oil prices drop by $1 from the assumed oil price path, a marked fiscal adjustment is needed. Under this scenario, oil wealth drops to $51 billion (250 percent of 2001 GDP) and the sustainable nonoil deficit would amount to 5⅓ percent of GDP (a reduction of some 16 percent). If the interest rate is assumed permanently lower by one percentage point from the baseline 6 percent, the estimate of wealth would be $72 billion (350 percent of 2001 GDP) and the sustainable nonoil deficit would be 5½ percent of GDP (a reduction of 11 percent).

V. Staff Appraisal

39. **Since late-1999, Kazakhstan has experienced a markedly improved economic performance, owing to both a much more favorable economic environment and the stance of macroeconomic policies**. Output has continued to grow strongly, at about 10 percent per annum, while annual inflation has been reduced to single digits, the exchange rate has been stable, and the balance of payments has strengthened considerably as evidenced by the large build-up in foreign assets. As a result, Kazakhstan is now in a much more favorable position than heretofore to confront a downturn in the external environment.

40. **Fiscal policy has contributed significantly in preventing excess demand pressures, avoiding inflation and a real appreciation of the exchange rate, and in building greater confidence in the future macroeconomic outlook**. The staff commends the authorities for saving the higher than expected fiscal revenue over the past two years, which has been instrumental in avoiding the "Dutch disease" problem. The 2002 budget confirms the authorities' continued pursuit of prudent fiscal policy. Even if the price of oil turns out to be considerably below the assumed price in the budget, the budget could still be executed without recourse to exceptional financing. In addition, given the high level of uncertainty, the authorities have incorporated contingency expenditure cuts in the budget. Only in circumstances of a fundamental and longer-term downward shift of oil prices would recourse to exceptional balance of payments financing be viewed as a possibility.

41. **While the economy and the budget benefit from the permanent increase in income from rising oil production, the authorities need to be mindful of the increasing vulnerability of the budget** and thus of the evolution of the nonoil fiscal balance. In this regard, the staff welcomes the authorities' effort to cast the budget in a three-year medium-term framework. The promulgation of the new tax code, which has reduced tax exemptions, clarified many tax provisions and reduced the scope for discretion in determining tax liabilities, is also welcome. In view of the overall performance of tax revenue, continued expenditure restraint, and low level of public debt, the staff supports the recent reduction in the VAT and the social tax. The VAT revenue performance following the switch to destination principle has been encouraging. At the same time, greater revenue can be generated by strengthening tax administration, especially customs. The recent change in intergovernmental relations is welcomed in that it transfers the volatility in revenue,

especially from oil, to the central government, which is much better placed to adjust its operations. It also allows for a more equitable distribution of income among regions.

42. **The initial experience of the NFRK has been encouraging**. The NFRK has facilitated the prudent stance of fiscal and monetary policy and bolstered the credibility of the exchange rate policy. It has also contributed to increased transparency and accountability in the management of the key source of wealth. While noting the positive developments, the staff urges the authorities to ensure all flows to and from the NFRK are duly recorded in the treasury and to simplify the NFRK's operating rules. The staff welcomes the considerable progress achieved in the treasury modernization project but urges the authorities to integrate wage expenditures as soon as possible. The staff also welcomes the progress made in elucidating the role of the petroleum sector in public finances, which enhances macroeconomic policy implementation, in particular the discussion in the 2002 budget of the assumptions underlying the oil revenue projection.

43. **Monetary policy has succeeded in bringing about a reduction in inflation. At the same time, the exchange rate has remained stable, both in nominal and real terms, thus preventing a squeeze on the competitiveness of the tradable goods sector**. While the NBK has been able to effectively conduct sterilization operations when needed so as to respect its reserve money target, the need for sterilization has lessened considerably with the advent of the NFRK and the maintenance of sizeable government deposits. Given recent macroeconomic performance, and the supporting stance of demand management policies, the existing exchange rate policy is appropriate. In view of the economy's dependence on a single commodity with considerable price volatility, the staff supports the central bank's asymmetric managed floating exchange rate policy, namely to intervene to prevent an appreciation provided that this policy does not jeopardize the inflation objective. Given the steady decline in inflation, the staff has supported the reductions in the central bank's refinance rate this year. In view of the uncertainties in 2002, the monetary authorities will need to be vigilant to keep liquidity growth from igniting inflation.

44. **While the process of financial deepening is welcome, the very rapid increase in credit raises concerns with regard to a credit quality deterioration**. The continued large spread between the lending and deposit rate may be indicative of inefficiency, and possibly greater risk, in the banking system. The staff therefore urges the NBK to introduce measures aimed at strengthening prudential regulations and limiting risk. Although legislation is now in place, the NBK is only beginning to set up the appropriate infrastructure to obtain information from financial institutions in order to supervise banks on a consolidated basis, an important deficiency in compliance with the Basel *Core Principles for Effective Banking Supervision* that was noted in last year's FSSA report. Since bank groups dominate the financial services sector, the establishment of a unified supervisory institution is welcome. In part because of the still limited ability to conduct consolidated supervision, the staff supports the authorities' cautious approach to capital account liberalization, and supports the authorities' request for further technical assistance, including a follow-up FSAP mission. The staff welcomes the high priority the authorities place in supporting international efforts to prevent money laundering.

45. **In order to preserve the stabilization gains and to enhance long-term sustained and broad based economic growth, the recent favorable macroeconomic performance should not lessen the urgency of pursuing structural reform.** Key policy efforts are required to address efficiency concerns and to create an attractive business environment. The staff recommends steps that enhance corporate governance, continue the privatization of public utilities, with transparent and effective regulation, complete large scale privatization, including the divestment of remaining state-owned minority stakes, and promote free trade. Such efforts are needed to promote investment in the nonoil sector and to support employment opportunities.

46. **Good governance and transparency are necessary to build an environment conducive to private sector development.** Efforts are required to address concerns by the business community regarding a burdensome and overlapping regulatory environment, and barriers to entry reflecting the influence of powerful business interest groups. State intervention in the economy and public discussion of contract renegotiation need to be resisted, given their potentially harmful effect on investment and growth. The staff therefore urges the authorities to reduce the barriers to entry, and accelerate reforms for firms, including public enterprises, to adopt international accounting standards, which would help develop a capital market. The staff also urges the authorities to reduce barriers to intra-regional trade in order to support growing trade between CIS countries and **urges the authorities to pursue actively their request for accession to the WTO**.

47. The staff welcomes the recent efforts by the authorities to improve macroeconomic statistics, particularly the increased coverage of the petroleum sector. The provision of data to the Fund for surveillance purposes is broadly adequate.

48. The staff stands ready to continue to assist and advise the authorities on their macroeconomic and structural reform program, including discussion of a program that would merit the support of the Fund.

49. **The staff strongly welcomes the authorities' assent to the publication of the staff report, which sends a positive signal on the issue of transparency.**

50. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Kazakhstan—Relations with the Fund

(As of November 30, 2001)

I. Membership Status: Joined: 07/15/92; Article VIII

II. General Resources Account:

	SDR million	Percent of quota
Quota	365.70	100.0
Fund holdings of currency	365.70	100.0
Reserve position in the Fund	0.01	0.0

III. SDR Department:	SDR million	Percent of Allocation
Holdings	0.10	N/A

IV. Outstanding Purchases and Loans: **None**

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
EFF	12/13/99	12/12/02	329.10	0.00
EFF	7/17/96	7/16/99	309.40	154.70
Stand-by	6/05/95	6/04/96	185.60	185.60

VI. Projected Obligations to the Fund: **None**

VII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, National Bank of Kazakhstan (NBK) is subject to the transitional procedures with respect to the Extended Fund Facility approved on December 13, 1999, which is scheduled to expire on December 12, 2002. The transitional procedures require a review of only the NBK's external audit mechanism. This assessment determines whether the NBK publishes annual financial statements that are independently audited in accordance with internationally accepted standards.

As Kazakhstan's EFF is presently inoperative, no external audit assessment has been undertaken. However, the NBK has undertaken regular annual audits since 1998, the last two of which have been undertaken based on internationally accepted standards by local offices of international auditing firms, which have expressed unqualified opinions.

VIII. Exchange Rate Arrangements:

The currency of Kazakhstan is the tenge, which was introduced in November 1993. The official exchange rate is determined on the basis of foreign exchange auctions that are held daily. Auctions are held for U.S. dollars and euros, and official rates are quoted for over thirty other currencies on the basis of cross-rates. On April 4, 1999 the tenge was allowed to float freely but in practice has been kept relatively stable since the latter part of 1999. On November 30, 2001, the rate was T 148.55 per U.S. dollar. Nearly 2,000 exchange bureaus have been established throughout Kazakhstan; the rates at these bureaus are very close to the auction rate, and the spread between buying and selling rates is very small. The exchange system is free from restrictions on payments and transfers for current international transactions.

IX. Article IV Consultation:

Kazakhstan is on the standard 12-month consultation cycle. The last consultation was concluded on December 11, 2000 (see SM/00/257 (11/17/00), Supplement I (12/7/00), and SUR/00/120 (12/14/00)).

X. FSAP Participation and ROSCS:

Kazakhstan participated in the Financial Sector Assessment Program (FSAP) in 2000. The Staff Report on the Financial Sector Stability Assessment (FSSA) was issued on November 27, 2000 (FO/DIS/00/142). The FSSA included the following ROSC modules: Basel Core Principles for Effective Banking Supervision, Core Principles for Systemically Important Payment Systems, Code of Good Practices on Transparency in Monetary and Financial Policies, IOSCO Objectives and Principles of Securities Regulation, IAIS Insurance Core Principles.

XI. Technical Assistance:

Kazakhstan has received considerable technical assistance and training by the Fund in virtually every area of economic policy, including through about seventy-five technical assistance missions provided during 1993–2001 by FAD, MAE, STA, LEG, and the IMF Institute. In addition to short-term missions, the Fund has provided resident advisors to the National Bank, to the State Committee for Statistics (Goskomstat), and to the Ministry of Finance. Other international agencies and governments, including the World Bank, EU TACIS, EBRD, UNDP, OECD, also are providing a wide variety of technical assistance.

The following list summarizes the technical assistance provided by the Fund to Kazakhstan since 1996.

i) Monetary and Exchange Affairs

Technical assistance has enabled steady progress to be made in a number of arrears related to monetary and exchange affairs, including banking legislation, central bank accounting, payments system reform, central bank organization and management, foreign operations and reserve management, banking supervision, monetary statistics, currency issuance, monetary operations and money-market development. Since 1996 missions to Kazakhstan by the Monetary and Exchange Affairs Department of the Fund have included:

1. February/March 2000: FSAP mission.
2. Fall 2001: Multi-topic mission –Financial sector consolidated supervision and capital account liberalization.

ii) Fiscal Affairs

The Fiscal Affairs Department of the IMF has given comprehensive advice to Kazakhstan in the areas of tax and expenditure administration, the establishment of a Treasury system, and the introduction of a social safety net. Technical assistance missions to Kazakhstan since 1999 have included:

1. January 2000: Tax Code.
2. February 2000: Customs Administration reform.
3. August 2000: Tax Code.
4. Treasury Modernization (1997–present).

iii) Statistics

The Fund's technical assistance program in statistics has focused on the development of the institutional framework appropriate to the needs of a market economy. The assistance has concentrated on establishing procedures for collecting and compiling monetary, government finance, balance of payments (including external trade), national accounts, producer price statistics, and consumer price statistics in accordance with international standards. Since 1999, missions by the IMF's Statistics Department to Kazakhstan have included the following:

1. March 1999: National accounts statistics.
2. July 1999: GDDS pilot country study.
3. February 2000: National Accounts.
4. February 2000: Balance of Payments.
5. March 2000: Money and Banking statistics.

iv) IMF Institute

Kazakh officials have participated in courses in Washington and at the Vienna Institute in the areas of macroeconomic management, expenditure control, financial programming, taxation, statistics and other areas. In addition, the Fund's Institute has conducted courses in the region. Seminars and training sessions have also been conducted by MAE and STA technical assistance missions.

VIII. Resident Representatives:

Mr. Geoffrey Oestreicher replaced Mr. Ross on August 14, 2001.

Kazakhstan—Relations with the World Bank Group

(As of November 30, 2001)

1. Kazakhstan became a member of the Bank and IDA in July 1992 and of the IFC in September 1993. The Bank's lending program is designed to support the government's efforts in the transition to a market economy through balance of payments support for macroeconomic stabilization; structural reforms through enterprise restructuring, financial sector reforms and privatization; protection of vulnerable groups through an effective social safety net; and sectoral reforms, with operations in energy, agriculture, infrastructure, and environment and through institution building and reinforcement of implementation capacity.

2. To date, the Bank has approved about $1.9 billion for 22 projects in Kazakhstan. These include five adjustment operations, two technical assistance loans, and fifteen investment loans. The most recent is the Syr-Darya Control and Northern Aral Sea Project. About $1.3 billion has been disbursed.

3. A new Country Assistance Strategy for 2001–03 was prepared jointly by the Bank and the IFC in February 2001. It was developed together with the government, and discussed with other groups among donors and civil society. The main goal of the new strategy is to reduce poverty and improve living standards in Kazakhstan, through reforming the public sector, promoting broad-based private sector led growth, supporting the most vulnerable, and protecting the environment. New projects and analytical and advisory work planned for this period are designed to contribute to achieving this goal.

4. The World Bank has provided Kazakhstan not only with loans but also with policy advice in the agriculture, financial, and energy sectors and has helped with petroleum legislation, taxation reform, and legal reform and training. A Public Expenditure Review was recently prepared, and a survey on governance and service delivery will soon be completed. In addition, six activities financed by the Bank's Institutional Development Fund (IDF) have been providing training and technical support for coordination and management of external assistance, strengthening the country's statistical system, improving wheat sector, and organizing a study tour of industrial countries for government officials and managers of industrial enterprises. The most recently approved IDF grant is to address issues of gender and violence. The World Bank's advisory role in Kazakhstan is expected to increase even more in the future.

5. The Bank is actively supporting international efforts to reverse the severe environmental degradation of many areas of the country. The Bank played a major role in development and implementation of projects under the National Environmental Action Plan and the Aral Sea Basin Program. A number of projects planned for the next few years will also improve water supply and management in several cities and areas of the country.

6. IFC has approved 32 operations, totaling $232.3 million. 14 of these are in the financial sector, 8 in general manufacturing, 1 in agribusiness, 4 in oil and gas, and 5 in the Extending IFC's Reach Program. About $91.6 million has been disbursed.

Kazakhstan—Relations with the EBRD
(As of November 30, 2001)

1. Since the start of its operations in Kazakhstan, the EBRD has focused its assistance on the financial sector and sovereign infrastructure operations. In addition, the EBRD has been involved in the restructuring of Ispat Karmet, the biggest steel producer in Kazakhstan. As of November 30, 2001, the EBRD has a portfolio of 17 signed projects for a total value of € 725 million ($645 million) and it has so far disbursed € 407 million ($362 million) on 9 projects. In addition, the Bank mobilized € 912 million ($811 million) of co-financing.

2. The experience of the Bank in Kazakhstan has been satisfactory. The overall portfolio quality is good and all loans have been performing. A $437 million financing from the EBRD and the IFC helped in the restructuring of operations of the major steel producer Ispat Karmet. However, the Asian and Russian financial crises triggered a dramatic fall in commodity prices, and Ispat Karmet postponed part of the planned investment. In 1999, the undisbursed portion of the EBRD and IFC A Loans and full amount of B Loans were cancelled. EBRD's A loan commitment remaining was $54 million and IFC—at $30 million. In infrastructure, the Bank has contributed to the renovation and modernization of the Caspian Sea port of Aktau, Kazakhstan's main shipping gateway through a $51 million loan and is involved in several projects in the power sector, including renovation of the national grid (KEGOC) under a joint € 280 million loan with the World Bank. A project involving pre-privatization investment in the national telecoms operator KTC has been signed but is currently on hold. A lending program for Small- and Medium-Size Enterprises (SME) is developing rapidly and is now operational in 11 regions throughout the country. It is active in 27 towns and cities with 79 lending outlets across the country.

3. Key priorities for the Bank in 2001 and 2002 involve building upon the success in key areas while extending its expertise to other sectors. The Bank will further develop the small business lending program, will deepen its participation and analytical support in the Foreign Investor's Council jointly chaired by the EBRD and President Nazarbayev, and will keep on lending to the modernization of infrastructure by devoting more resources to municipal borrowers. The Bank is also considering moving into new areas such as the oil and gas sector by supporting the transformation of SOEs, in the mining and minerals sector by developing pilot projects with a view to push for changes in the tax and regulatory environments, and in the non-bank financial sector where the regulatory framework is still in development.

EBRD Project Commitments and Disbursements
(In millions of Euro, as of November 30, 2001)

Status	Number of Operations	EBRD Financing (Euro/millions)	Total Operations Cost (Euro/millions)
Board Approved	21	794	1706
Signed	17	725	1463
Disbursed	9	407	407

1 Euro = [0.88915] U.S. dollars, as of November 30, 2001.

Kazakhstan—Relations with the Asian Development Bank
(As of November 30, 2001)

Lending Program

Kazakhstan became a member of the Asian Development Bank (AsDB) in 1994. As of November 2001, total loan commitments by AsDB consisted of 13 loans amounting to $508 million covering investment projects in agriculture, transport, and education, as well as policy-based program lending for special assistance, agriculture and pension reforms. Of the total amount, $56.1 million is provided from AsDB's concessional window, the Asian Development Fund (ADF), while the balance is from ordinary capital resources. Undisbursed funds of $143 million represent about 28.7 percent of the total net loan amount as of November 30, 2001. A new country strategy and program (CSP) is currently under preparation for the period 2003–07, which will outline the medium-term lending and technical assistance (TA) program in consideration of the Government's development priorities and AsDB's strategic objectives and comparative advantages. The lending level is anticipated to be approximately $100 million per year during the new CSP period. The lending pipeline for 2002 comprises 3 projects in rural water supply, urban small business and early childhood and women's development, in a tentative amount of $85 million. Kazakhstan is no longer eligible for concessional resources from ADF.

Loans by the Asian Development Bank, 1994–November 2001
(In millions of US dollars)

	1994–99	2000	2001
Agriculture and natural resources	139.3	45.0	-
Finance and industry	100.0	-	-
Social infrastructure	62.9	-	-
Transport and communications	50.0	52.0	-
Others	58.9	-	-
Total commitments	411.0	97.0	-
Gross disbursements	312.2	28.1	14.2
Technical Assistance Projects			
Total commitments	15.3	3.6	2.3

Technical Assistance

Since 1994, the AsDB has provided Kazakhstan with TA grants in most sectors, including agriculture, education, finance, pension reform, transport, energy, water supply and sanitation, aid coordination and management, public investment programming, and poverty reduction planning. As of 30 November 2001, total TA commitments consisted of 40 projects—14 of which were in preparation for loans—for a total of $21.2 million.

KAZAKHSTAN: TECHNICAL CONSULTATION

A. Report of the Discussions

1. **The authorities broadly shared the assessment of Fund staff on the outcome and effectiveness of current and past technical assistance (TA) offered by the Fund.** With respect to areas covered by the Statistics Department (STA), the authorities are continuing to implement the recommendations by Fund staff in the areas of balance of payments and national accounts statistics. In general, while they are satisfied with the assistance they have received from visiting Fund missions, the authorities would appreciate more intensive support, either through more frequent missions or, if this is not feasible, through somewhat longer missions (e.g. three weeks rather than two weeks). While there have also been frequent contacts with Fund staff at Headquarters by e-mail and telephone, the authorities felt that such contacts can only complement, but never replace, visits by Fund staff.

2. In the field of **balance of payments statistics** (BOP), the authorities demonstrated considerable familiarity with the BOP methodology as presented in the various Fund documents on the BOP. In the discussions, two areas in need of further analysis were identified. First, Kazakhstan's international investment position becomes difficult to measure as a large portion of Eurobonds issued on behalf of residents is currently held by residents. Second, the authorities are finding it difficult to appropriately estimate "construction services" as this involves differentiating between resident and nonresident subsidiaries of foreign firms. A related problem—once they manage to differentiate between residents and nonresidents enterprises—will be how to estimate resident companies' repatriation of profits to headquarters abroad. Support from STA in these areas would be most useful.[19]

3. As regards the recent areas of **Fiscal Affairs Department** (FAD) TA, the pace of implementation of FAD recommendations has been slow in the area of **customs administration**. The authorities cited lack of resources, particularly for computerization, frequent personnel changes at the Ministry of State Revenues and insufficient collaboration within the Ministry, particularly from the Customs committee, as impediments to successful implementation of FAD recommendations. Nevertheless, some important steps have been taken in 2001 to expedite the pace of reforms, namely simplification of customs legislation, adapting the legislation to make it compliant with the WTO and the WCO, appointment of a new director for the computerization of customs operations, and selection of a customs evaluation company. Authorities pointed out that they have made significant use of FAD customs mission's recommendations in writing the contract for and final selection of the customs evaluation company. Much like staff, the authorities felt that a full implementation of the contract of the customs evaluation company and continued support from the Ministry of State Revenues would amount to implementation of many of the FAD recommendations,

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[19] The authorities also mentioned that they were somewhat dissatisfied with the exports and imports data compiled by the customs committee. Accordingly, the NBK makes adjustments to the data received from customs. It may also be advisable to review the methodology used for adjusting the raw data.

including the important recommendation pertaining to the post release control of customs. Authorities are likely to request further TA for customs reform, which the staff supports.

4. By contrast, considerable progress has been achieved in the **modernization of the treasury system** in which the FAD continues to play a significant role through its missions and peripatetic expert visits. The authorities are aiming at a nationwide launch of the project in February 2002, and training and the placing of the staff are well underway. The FAD peripatetic expert indicated that a nationwide launch in May 2002 might be a more realistic timing. The authorities were enthusiastic about the FAD assistance in organizing a treasury workshop in Kazakhstan in April of 2002 which would showcase, among other things, Kazakhstan's successful experience with treasury reform and another workshop, organized by the FAD in Kazakhstan, to take a stock of the experience learned in the shift to the destination principle for the VAT in many CIS countries, and broader developments in VAT and excise taxation. As for other future TA, the authorities welcomed a forthcoming Fund's mission to conduct a review of observance of standards and codes in the fiscal area in 2002.

5. The authorities were also very appreciative of extensive TA from the **Legal Department** (LEG) with the drafting of the new tax code, which was approved this year. Given the significant assistance from the Legal Department, and the passage of the tax code, the authorities are not likely to request further assistance from the Fund at this time.

6. The recommendations provided by the November 2001 TA mission from **MAE** on capital account liberalization and a unified financial supervision authority were well received by the monetary authorities and will inform their decisions on strategic policy choices. Further TA was requested by the authorities regarding a possible transition to inflation targeting tentatively planned for 2003.

B. Summary of Past Technical Assistance

Statistics Department

7. Kazakhstan volunteered to serve as a pilot country for the implementation of the **General Data Dissemination System (GDDS)**. Metadata were completed in July 1999 and updated in August 2001. Debt and debt service data were added in November 2001. Plans for statistical improvement under the GDDS are reflected in the discussions by sector below.

8. A technical assistance mission in **BOP statistics** visited Kazakhstan in February 2000. The mission was part of an effort to ensure substantial improvement in the major macroeconomic statistical systems began by a resident statistical advisor in 1994–95, that was buttressed by missions in balance of payments statistics during August 1997 and May/June1998. A number of problems associated with the legal definition of residency in Kazakhstan and weaknesses in customs controls result in significant under-recording of the volume and value of international trade were identified. The mission offered recommendations to correct these deficiencies and provided TA in a variety of areas. The mission also suggested that the NBK introduce surveys of freight and insurance charges, shuttle trade, and travel to improve the accuracy of the current account. In view of the

progress made by the authorities since the last mission, no BOP mission has been proposed for FY 2002.

9. The most recent **money and banking statistics** mission to Almaty was in March/April 2000. The mission examined the methodology and procedures used in the compilation of monetary statistics, and reviewed the implementation of the recommendations of the previous money and banking statistics missions.[20] Most of the recommendations from the previous missions have been implemented. Over the medium- to long-term, TA should be aimed at assisting the NBK to achieve its objective of compiling a financial sector survey and in providing training to staff.

10. In early 1999, Kazakhstan formulated a request for a long-term statistical advisor in the area of **national accounts**. A national accounts statistics mission visited Almaty in March 1999 to assess the need and capability of the National Statistics Agency (NSA) to absorb technical assistance in the future, and to review the progress made by the authorities in improving and developing the estimates of national accounts statistics in accordance with the *1993 SNA*.[21] The mission found that the lack of adequate coverage of the statistics was the most significant problem for the compilation of national accounts. A feasible work program consisting of a series of three technical assistance missions was agreed with the authorities. The main project objective was to assist the authorities in the implementation of the supply and use tables as a tool for deriving consistent estimates of GDP. The NSA expressed interest in additional technical assistance to develop the new accounts and to help solve the remaining technical problems.

11. The mission also found that the compilation of quarterly and annual estimates of national accounts was part of the routine work of the NSA, and discrete quarterly estimates have been published regularly since June 1998. However, very little progress had been achieved in improving the estimates, due mainly to financial and human resource constraints, which impeded the institutional capability to perform the work planned for the medium term.

Fiscal Affairs Department

12. Kazakhstan has received considerable TA from FAD in the past in the areas of tax and customs administration, tax policy, expenditure management, expenditure policy, and treasury operations but the pace of TA has slowed down considerably of late. There has been only one FAD TA mission (which issued a red cover report) in the last three years. On the other hand, LEG has provided extensive assistance over the last two years on the new tax code, which was approved in June 2001.

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[20] STA fielded money and banking statistics missions in September 1993, March 1994, February 1995, June 1996, April 1997, November 1997, and September 1998.

[21] Recent STA Mission Reports include the following: Money and banking statistics (6/5/00); Balance of payments statistics (5/23/00); National accounts statistics (7/1/99); Money and banking statistics (12/29/98); Balance of payments statistics (8/11/98); Money and banking statistics (4/24/98).

13. No missions in **tax administration** have taken place since the April 1997 mission in tax policy and administration. In July 2000, meetings were held at IMF headquarters between FAD staff and representatives of the Ministry of Revenue where comments were provided on the tax administration provisions of the proposed new tax code; the new code became law in June of this year.

14. FAD is organizing a workshop on VAT for CIS countries for senior tax/customs officials to discuss the implications of shifting to the destination principle and to share experiences on VAT and excise taxes. The workshop is tentatively scheduled for Almaty in April 2002. The precise program will be reflecting the interests of the participants but the focus of the workshop will be on VAT implementation.

15. At the request of the authorities, a **customs administration** mission took place in February 2000. The objective of the mission was to provide advice on measures required for the modernization of the customs administration, a key component in the government's plan to enhance revenue performance. As the USAID-financed trade and investment project provides for full-time assistance in support of customs administration, it does not appear that TA from FAD will be required in this area. A mission to undertake a fiscal transparency module for a ROSC is planned for the Spring 2002. Intergovernmental fiscal relations are an important area for future TA as is the need to develop a model for projecting revenues from the natural resource sector. Assistance may also be needed from LEG in drafting regulations for the new tax code.[22]

Legal Department

16. The legal department has provided extensive support to Kazakhstan in 1999–2001, particularly on the elaboration of the new tax code. Since September 1999, 8 missions have taken place, with one staff member or a consultant visiting Kazakhstan. Staff resources total over 100 days, not including work at headquarters. Several of the missions to Kazakhstan were together with FAD.

17. The work included policy and drafting advice, including at the later stages detailed comments on and discussions of the tax code. The work did not involve the preparation of extensive reports. At the beginning (in September 1999) LEG provided basic advice on a number of policy issues through the area department. Thereafter several brief assessments of the tax code were provided, but most of our comments were informal and many conveyed orally. The tax code was enacted in May 2001 and is viewed as of good quality. **Future needs** are likely to include continuing advice on proposed amendments to the tax code and

[22] Recent FAD technical assistance reports include the following: *Kazakhstan: Taxation of the Oil and Gas Sector,* by E. Sunley, D. Gray and K. Kostial, November 1996; *Kazakhstan: Measures to Improve Tax Compliance and Selected Tax Policy Issues,* by E. Sunley, C. Vehorn and K. Baer, June 1997; *Kazakhstan: Public Expenditure Policy: Main Issues and Reform Options,* by K-Y. Chu, H. Davoodi, R. Gillingham and A. Mourmouras, October 1997; *Kazakhstan: Customs Administration Modernization,* by J. Walsh, G. Parayno and D. Hope, March 2000.

on the provision of guidance to taxpayers through regulations or other means. No specific request for such assistance has been made at this time.

Monetary and Exchange Rate Affairs

18. No MAE technical assistance was provided to Kazakhstan from mid-1997 through mid-2001. In July 2001, the NBK made a request to renew MAE's TA program, beginning with a multitopic TA mission that should cover three topics: (1) assisting in the establishment of a unified institution for financial sector supervision, including the model to use and to ensure it has adequate financial autonomy (the merger is scheduled to take place in early 2002); (2) advice on properly sequencing a program of capital account liberalization; and (3) assistance in strengthening the NBK's skills in the area of macroeconomic and monetary research and modeling skills, with an eye towards possibly moving to an inflation targeting regime.

19. A mission visited Almaty during November 8–19, 2001 to provide TA in the sequencing of the liberalization of the capital account and in the establishment of a unified financial sector supervisory agency. With regards to the sequencing of the capital account liberalization, the mission felt that the authorities could proceed with removing restrictions on long term outward foreign exchange capital flows. The elimination of all remaining capital account controls, including transactions in tenge, could be implemented in a second phase once the domestic financial system has been strengthened and the NBK has introduced an early warning system. The mission also provided the authorities with a broad plan that covers the organizational and operational aspects of the new supervisory agency.

20. The authorities requested TA in inflation targeting in early 2002, with a view to moving to an inflation targeting monetary policy in 2003. They also requested a follow-up FSAP mission in late 2002 or early 2003 that would focus on risk management in commercial banks and on the insurance sector.

Kazakhstan—Statistical Issues

1. In the area of **national accounts,** several weaknesses in data compilation remain in both the quality of GDP estimates by sectoral branches produced by the National Statistical Agency (NSA) and the quality and timeliness of the production of GDP estimates by expenditures. First, the quality of **GDP estimates by industry** is affected by the poor coverage of production and financial statistics, particularly concerning small enterprises and informal activities. Second, while some progress has been made in making **GDP estimates by final expenditure** consistent with output-based measures, there remain substantial shortcomings particularly in the estimation of fixed capital formation.

2. Data on **prices** conform to international standards. **The consumer price index** is calculated on a basket comprising 329 items using a weighing system based on an annually revised Household Budget Survey. The index covers 19 regions (oblasts) and is calculated on a monthly basis. In addition, a provisional index is compiled weekly, based on a smaller basket of consumer goods. **The producer price index** is based on the Laspeyres formula. However, the quality of the underlying price information received from enterprises needs improvement. Also, the weights need to be updated to account for shifts in the structure of production.

3. The coverage and quality of data on **wages and employment** has improved. In addition to agriculture, industry, and services, collective farms and joint ventures have been included to the survey used for the wage data. Two sets of unemployment data are provided by the Ministry of Labor: the monthly data on unemployment covers only those who are officially unemployed and receive benefits; in addition, the Ministry of Labor is collecting data on hidden unemployment, comprising workers on compulsory leave or on enforced part-time status.

4. Most real sector data are published in a **monthly statistical bulletin** issued by the NSA, which is made available to other government authorities.

5. As a result of extensive technical assistance, the quality of **fiscal data has improved,** in particular on the **consolidation of most extrabudgetary funds** into the fiscal accounts and on the provision of more **detailed expenditure data** on a quarterly basis. However, the coverage of oil revenues, particularly royalties, is not transparent and may be underrepresented to a significant degree. Progress also has been made in the establishment of a **classification of the fiscal accounts** consistent with the Fund's government finance statistics (GFS) methodology. However, as a result of the reorganization of the public sector, including the re-definition of budgetary units, difficulties have arisen with regard to the **recording and reporting of expenditure arrears,** which the mission will look into.

6. The existing framework for compiling monetary statistics conforms with the Fund's methodology, and data are compiled on a timely basis. Several steps are being taken by the NBK to further improve the quality and coverage of data. In particular, **the chart of accounts for commercial banks** has been revised to enable the NBK to distinguish sectors and financial instruments in accordance with the *Monetary and Financial Statistics Manual*

(MFSM). The NBK intends to extend **institutional coverage** to include the credit institutions, use uniform reporting by all other depository corporations, and develop reporting forms for the other financial corporations subsector. The NBK will also work on developing sectoral balance sheets for its accounts and for commercial banks in the future. However, the authorities have not implemented the recommendations of the past money and banking statistics missions regarding the use of residency criteria as defined in the fifth edition of *Balance of Payments Manual*.

7. **In the area of balance of payments,** the overall quality and timeliness of data is satisfactory and considerable progress has been made in implementing the Fund staff's recommendation to address two major deficiencies. First, the coverage of **trade data** has been improved through a survey to determine the volume of shuttle trade and travel expenses. The NBK has also worked closely with relevant agencies to update the ratios used for adjusting c.i.f. imports to an f.o.b. basis. Nevertheless, the timeliness of trade data remains an issue; improvements can be expected with the continuing computerization of customs administration. Second, the NBK has initiated changes and additions to the Law of the Republic of Kazakhstan "*On State Statistics*" to improve the coverage of international operations of branch offices of foreign companies and thus bring **foreign direct investment statistics** in line with the standards set forth in the fifth edition of the *Balance of Payments Manual (BPM5)*. In particular, work is continuing to ensure the correct treatment of construction services provided by foreign companies that operate local branch offices.

8. The data on gross official reserves appears to meet the SDDS requirements.

9. Kazakhstan has published statistical data in the ***International Financial Statistics*** *(IFS)* since September 1996. Balance of payments data were published for the first time in the March 1998 issue and monetary data in the October 2000 issue.

KAZAKHSTAN: CORE STATISTICAL INDICATORS

(As of November 30, 2001)

	Exchange rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Govern't Balance	GDP 2/	External Debt
Date of Latest Observation	Nov. 30, 2001	Nov. 30, 2001	Nov. 30, 2001	Nov. 30, 2001	Oct. 31, 2001	Nov. 30, 2001	Oct. 2001	August 2001	Q2_2001	Sep. 2001	Q3_2001	June 30, 2001
Date received	Dec. 4, 2001	Dec. 4, 2001	Dec. 4, 2001	Dec. 4, 2001	Nov. 30, 2001	Dec. 4, 2001	Nov. 28, 2001	Sep. 20, 2001	Oct. 4, 2001	Oct. 30, 2001	Nov. 28, 2001	Nov. 10, 2001
Frequency of Data	D	W	M	W	M	W	M	M	Q	Q	Q	Q
Frequency of Reporting	D	W	M	W	M	W	M	M	Q	Q	Q	Q
Source of Updating	A	A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting	C	C	E	C	E	C	C	C	C	C	C	C
Confidenti ality	C	C	C	C	C	C	C	C	C	C	C	B
Frequency of Publication 1/	N/A	M	M	M	M	M	M	M	N/A	N/A	A	Q

1/ Some data are partially published by the authorities but cannot be used in the format in which they are being published.

2/ Data on GDP is calculated on an annual basis; monthly data are available on production.

Explanation of abbreviations:
Frequency of data, reporting and publication: D—daily, W—weekly, M—monthly, Q—quarterly, V—irregularly in conjunction with staff visits.
Source of data: A—direct reporting by National Bank, Ministry of Finance, Ministry of Statistics and Analysis or other official agency.
Mode of reporting: C—cable or facsimile; E—e-mail. Most data are provided to the Resident Representative's office and then forwarded to headquarters.
Confidentiality: B—for use by the staff and the Executive Board, C—unrestricted.

The National Fund of the Republic of Kazakhstan (NFRK)

1. Faced with a surge in foreign exchange earnings in 2000 from the effects of much higher petroleum prices, coupled with a long-term secular increase in petroleum production from the development of significant finds and pipeline development, the Kazakhstani authorities have sought ways to manage the increased inflows in a macroeconomically appropriate manner. They have sought to limit pressures for budget[23] expenditure increases, given the volatile nature of world market prices, and ease the sterilization burden the National Bank of Kazakhstan (NBK) has faced. The NBK has maintained a stable nominal exchange rate and has limited the impact on the money supply from large discrete jumps in its foreign assets. In this context, in mid-2000, the authorities began to elaborate a plan to establish a national fund, in consultation with Fund and World Bank staff, modeled in large measure on best practices of other oil producing countries.

2. In August 2000, a presidential decree was issued establishing the National Fund for the Republic of Kazakhstan (NFRK).[24] In late January 2001[25] a new decree clarified and expanded the description of the role the NFRK. The NFRK has the twofold objective of stabilizing government revenue from the natural resource sector[26] and saving a portion of the proceeds from depletable resources for future generations. While not explicitly mentioned as an NFRK objective, the NFRK will play, and is already playing an important role in the sterilization of large external inflows from the petroleum sector. NFRK assets are invested exclusively abroad.

Administration

3. The NFRK has been structured as a government budgetary fund with its own executive board presided over by the President of the Republic and composed of representatives of the main economic ministries and state agencies and the NBK. The NFRK is domiciled in the NBK, which has the responsibility of managing its assets on behalf of the government. It is the joint responsibility of the government and the NBK to choose outside investment managers and a legal advisor, and set investment guidelines. The NBK is compensated for its services on a fee basis. Daily, monthly, quarterly and annual reports are to be produced for the government. An annual external audit is also required to be conducted with the auditor chosen by a competitive bid tender (approval pending). Information on the annual report on operations and the results of the external audit are to be published in the mass media. So far, the authorities have been periodically releasing to the media the level of assets accumulated in the NFRK.

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[23] The term budget here refers to the consolidation of the republican and local government budgets.

[24] Decree 402 of August 23, 2000.

[25] Decree 543 of January 29, 2001.

[26] Crude oil and gas condensate, and nonferrous mineral production.

4. Although the resources flowing to the NFRK are clearly budgetary receipts, an unfortunate oversight in coordination of the NFRK accounting rules with the treasury modernization project has resulted in a failure to account for the excess flows to the NRFK. Baseline flows from the sector have been captured and so have stabilization reflows to the budget from the NFRK. The authorities have indicated their intention to remedy this situation.

5. NFRK assets are to be divided into **two separate portfolios—a stabilization portfolio, comprising not less than 20 percent of assets, and a savings portfolio**. The stabilization portfolio will be invested in short-term highly liquid instruments so as to ensure the availability of NFRK assets for possible stabilization flows. Detailed investment rules have been adopted[27] on asset class allocation ranges, maturity and duration structures, quality ratings of instruments and counterparts, and criteria for choosing outside advisors and asset managers. Compliance with these rules is to be achieved by January 1, 2002. The NBK has sought and obtained extensive technical assistance from the Norwegian authorities in developing the administrative rules and procedures for management of the NFRK.

Funding mechanism

6. The NFRK was originally funded in early-2001 with the proceeds of the sale of a 5 percent government stake in the Tengizchevroil joint venture and an associated bonus payment totaling $660 million. In March 2001, a government resolution set out an indicative macroeconomic plan for the period 2001–05, which, inter alia, set "permanent reference" prices for oil, gas condensate, and four nonferrous metal commodities (copper, lead, zinc, and chrome).[28] These reference prices were used to set baseline budgetary revenue from these sectors, which were incorporated in the revised 2001 budget approved in June. The reference price for crude oil was set at $19/bbl in 2001 and again for the 2002 budget.[29] Government resolution 369a (3/19/01) listed 12 companies—9 in the petroleum sector and 3 in the nonferrous metals sector—revenue from which would be subject to transfer to the NFRK. Baseline quarterly tax receipts for 5 revenue categories[30] for each firm were set,[31] based on the permanent reference prices.

7. Under **the stabilization function**, revenue above the quarterly company baseline targets set in the revised budget are to be transferred to the NFRK on a daily basis once they exceed the quarterly target set for each of the 12 firms. With the approval in mid-May 2001

[27] NBK resolution 237 (6/20/01) and government resolution 787 (6/9/01).

[28] Resolution 368, appendix 2 (3/19/01). The oil price was set at the equivalent of $19 per barrel.

[29] Resolution 1197, September 13, 2001.

[30] Corporate income tax, VAT, royalties, bonuses, and production sharing revenues.

[31] Government resolution 627 (5/11/01) on quarterly targets for budget receipts from the sector.

of operational modalities of the NFRK,[32] a stream of payments from the budget to the NFRK have been made, which totaled $515 million through end-September 2001. NFRK assets at end-November amounted to $1.26 billion (including some $20 million in interest earnings).

8. As for **the savings function**, 10 percent of projected baseline budgetary revenue is to be transferred to the NFRK on a monthly basis. This mechanism will become operational beginning with the 2002 budget and is independent of the stabilization mechanism. The two mechanisms will produce offsetting flows when prices are below the reference price. At the reference price and above, the budget will spend only 90 percent of the baseline revenue, which for 2001–02 is equivalent to $17.1/bbl.

9. A third funding source, as noted above, has been the privatization receipts and large bonus payments from the petroleum sector. Investment income on the NFRK assets also accrues to the NFRK.

10. The creation of the NFRK has placed additional emphasis on **the need for reliable projections of cash revenues to the budget** from the sector at different price assumptions. The authorities are well aware that budgetary projection methods need strengthening in this regard. The staff has worked closely with World Bank staff to develop a model of disaggregated quarterly cash tax receipts based on the information made available to it. The disaggregated funding rules render the task quite complex, as does the large differences between the domestic and export oil markets to the CIS and world markets. Nevertheless, while work is ongoing, the joint staff model appears to track very well actual tax receipts and flows to the NFRK. The authorities have used the staff model in preparation of the 2002 budget and have recently created a special dedicated budget unit in the ministry of finance to this end. Fund staff has encouraged the authorities to use the joint staff model as a basis for further development using information on actual contractual obligations.

Use of funds

11. There are **two avenues for use of NFRK resources**, apart from covering its own administrative expenses. The first is through **the stabilization mechanism**. In the event that budgetary revenues fall short of the quarterly baseline projections, compensatory transfers are to be made to the budget equivalent to the amount of the shortfall, within 20 days from the end of the quarter in which a shortfall occurred, or in the case of the fourth quarter before the end of the year. **No floor has been set on disbursement of funds for stabilization purposes.** In 2001, some shortfalls from the local government budgets were compensated from the NFRK, although only very small amounts. From the 2002 budget, the revenue sharing rules between central and local governments have been revised and to concentrate revenue in the republican budget. This change should simplify the administration of the NFRK funding mechanism.

[32] Government resolutions 632 (5/14/01) on rules for crediting the NFRK and use; 655 (5/18/01) on Fiduciary management by the NBK.

12. The second use mechanism comprises **special transfers to the budget** for purposes established by the President of the Republic, and in the amounts approved in the budget. All outflows from the NFRK, including special transfers, are to be done through the treasury and budget systems, with parliamentary approval.

NFRK—Establishing Decrees, Laws and Resolutions

Date	Title	Number
Presidential Decrees		
August 23, 2000	On the National Fund of the RK	402
January 29, 2001	Several Questions of the NFRK (expanding on 402)	543
Laws		
May 3, 2001	Introducing Changes and Additional to Several Legal Acts Concerning NFRK – Changes to NBK and Banking Laws and Budget System	182-II 2RK
Government Resolutions		
February 8, 2001	Measures to Implement Decree of President 543	212
March 19, 2001	Parameters of Indicative Plan 2001–05 (fixes prices for oil and raw materials)	368
March 19, 2001	Confirming Lists of Organizations for NFRK (lists 9 companies and taxes)	369A
May 11, 2001	Confirming Quarterly Plans of Receipts for NFRK	627
May 14, 2001	Rules for Crediting Money to NFRK and use	631
May 18, 2001	Agreement of Fiduciary Management of NFRK	655
June 9, 2001	Rules of the Investment Operations of the NFRK. (Also NBK resolution 237)	787
July 26, 2001	Rules on Selection of Independent Auditor and Annual Audit	1011
August 9, 2001	A timetable for the NBK to submit information and financial reports on the management of the NFRK	1045
September 13, 2001	On Forecast Targets for the State Budget for 2002–04	1197

Table 1. Kazakhstan: Selected Macroeconomic and Financial Indicators, 1999-2004
(Percentage change over the same period one year earlier unless otherwise indicated)

	1999	2000		2001	2002		2003	2004
	Actual	Program	Actual	Projection	Projection		Projection	Projection
					Low Oil Price	Baseline Oil Price	Baseline Oil Price	Baseline Oil Price
Consumer prices								
End-of-period from end of previous year	17.8	9.0	9.8	6.4	6.0	6.0	4.0	3.5
Period average	8.3	12.2	13.2	8.4	7.0	7.0	4.9	3.7
Growth								
Real GDP	2.7	3.0	9.8	13.2	4.0	7.0	4.6	5.1
Exchange rate (in tenge per U.S. dollar)								
End-of-period	138.3	...	145.4	...	...	...	...	...
Period average	120.1	...	142.3	...	...	...	...	...
Real exchange rate (end-of-period from end of previous year) 1/	-30.2	...	1.0	...	...	...	...	...
Fiscal accounts (in percent of GDP)								
General government balance 2/	-5.0	-6.0	-0.8	2.9	-2.7	-0.6	-0.8	-0.2
Revenues and Grants	17.4	19.0	21.7	27.1	21.7	23.1	22.9	23.5
Expenditures	22.4	25.6	22.5	24.2	24.4	23.7	23.7	23.7
Arrears repayment (plus)	...	0.6	...	...	...	...	...	...
Deficit financing	4.7	6.6	1.2	-3.1	2.7	0.6	0.8	0.2
Domestic financing	0.4	1.9	-0.8	-0.7	1.9	1.4	...	...
Foreign, net	2.6	1.9	1.2	0.9	-0.2	-0.2	...	...
Privatization receipts	1.8	2.8	0.9	3.3	0.8	0.8	...	...
Allocation to National Fund	...	...	...	-6.6	0.1	-1.4	...	...
Monetary accounts								
Reserve money growth, (end-of-period from end of previous year)	55.0	...	5.3	16.2	15.4	18.6	10.8	7.9
Broad money growth, (end-of-period from end of previous year)	83.4	35.6	45.9	40.1	19.9	23.3	13.1	10.2
Broad money velocity (end of year) 3/	8.1	8.8	6.8	5.0	4.9	4.9	4.8	4.7
Broad money velocity (annual average)	11.5	...	8.1	6.5	5.7	5.7	5.1	4.9
NBK Refinancing Rate (end-of-period; percent)	18.0	...	14.0	9.0	...	...	...	...
Interest on 3-Month Treasury Bills (end-of-period; percent)	16.6	...	7.0	4.7	...	...	...	...
External accounts								
Current account balance								
In millions of U.S. dollars	-37	-220	923	-744	-1626	-1123	-710	-454
In percent of GDP	-0.2	-1.5	5.1	-3.6	-7.3	-4.9	-2.9	-1.7
NBK gross reserves 7/								
In millions of U.S. dollars (end-of-period)	2,003	2,066	2,096	2,520	2,570	2,700	2890	3075
In months of imports of goods and services	3.6	3.4	2.8	2.9	2.9	2.9	3.0	3.0
In percent of the stock of short-term debt	111.0	104.0	139.2	122.1	133.9	140.7	120.9	138.8
National Fund of the Republic of Kazakhstan (end-of-period; US$ mln)	...	...	...	1373	1342	1658	1807	2016
Public and publically guaranteed external debt (US$ million)	4044	...	3973	4066	3992	3992	4179	4063
Public and publically guaranteed external debt (in percent of GDP)	23.8	...	21.8	19.9	17.9	17.4	17.1	15.6
Total public external debt service	11.8	13.4	8.3	4.6	8.3	7.5	4.1	5.9
Interest payments to exports of goods and services (percent)	2.9	5.0	2.3	2.3	2.7	2.4	2.2	1.9
Amortization to exports of goods and services (percent)	9.0	8.4	6.0	2.3	5.6	5.1	2.0	4.0
Saving-Investment Balance (percent of GDP)								
Final Consumption								
Net Exports of Goods and Non-Factor Services 8/	83.1	...	76.5	81.7	86.3	83.2	81.1	80.1
Gross Fixed Capital Formation = Gross Savings	2.3	...	9.5	0.3	-4.3	-1.2	0.9	1.9
Domestic Savings	14.6	...	14.0	18.0	18.0	18	18.0	18.0
Government	13.6	...	18.1	13.4	10.2	12.6	14.8	16.0
Private Sector	-2.8	...	1.4	6.6	1.1	3.1	3.0	3.6
External Savings 8/	16.3	...	16.7	6.8	9.1	9.5	11.8	12.4
	1.0	...	-4.1	4.6	7.8	5.4	3.2	2.0
Memorandum items:								
Nominal GDP (in billions of tenge)								
Oil Price (in U.S. dollar per barrel)	2016	2186	2600	2995	3303	3399	3714	4026
	18.1	20.0	28.3	24.3	15.0	19.0	19.0	19.0

Sources: Data provided by the Kazakhstan authorities; and Fund staff estimates and projections.

1/ Vis-a-vis U.S. dollar. A positive sign indicates a real appreciation.

2/ Excluding repayment of pension arrears. Privatization receipts are treated as a financing item and are excluded from revenues. Does not include statistical discrepancy.

3/ Annualized quarterly GDP / end-of-period broad money.

4/ From September 6, 2001.

5/ January 1999.

6/ August 2001.

7/ Excludes deposits earmarked for the National Fund.

8/ Numbers differ from the balance of payments because GDP estimates are not corrected for the undervaluation of oil exports to the CIS.

Table 2a. Kazakhstan: Fiscal Operation of General Government, 1999-2002 1/
(In billions of tenge)

	1999	2000	2001			2002		
	Actual	Actual	Revised Budget as of Apr 2001 5/	Revised Budget as of Nov 2001 6/	Staff Revised Proj.	Draft Budget 9/	Oil price at $19 per barrel Staff Proj.	Oil price at $15 per barrel Staff Proj.
Total revenue and grants	**351.5**	**564.5**	**594.4**	**651.5**	**812.5**	**718.8**	**785.4**	**717.4**
Total revenue	351.0	561.9	593.9	651.0	812.0	718.8	785.4	717.4
o/w oil revenue 2/	19.2	85.8	64.3	64.3	209.1	124.2	143.1	93.8
Current revenue	350.1	559.6	584.5	642.3	802.6	709.1	778.1	710.3
Tax revenue	323.2	521.0	528.5	574.0	701.5	666.7	681.5	614.5
o/w								
Income tax on legal entities 3/	54.8	163.5	148.8	176.6	243.9	200.8	199.2	157.0
Oil	7.4	67.2	43.7	43.7	121.1	78.9	59.9	21.6
Non-Oil	47.4	96.3	105.1	132.9	122.7	121.9	139.3	135.4
Receipts from use of natural resources 3/	10.0	22.0	26.6	28.5	61.0	40.2	55.7	44.4
Oil royalties	4.6	12.6	17.6	17.6	50.1	36.2	43.4	32.4
non-oil	5.3	9.4	9.0	10.9	10.9	4.0	12.4	12.0
Nontax revenue	26.9	38.6	56.0	68.3	101.1	42.4	96.7	95.8
Capital revenue	1.0	2.3	9.4	8.7	9.4	9.7	7.3	7.1
Grants	0.5	2.6	0.5	0.5	0.5	0.0	0.0	0.0
Total expenditure and net lending	**452.3**	**584.2**	**713.4**	**732.5**	**724.2**	**788.0**	**805.0**	**805.0**
Total expenditure	435.1	567.0	677.6	691.5	683.2	...	...	...
Current expenditure	407.7	524.5	616.8	633.5	613.2	...	...	...
Interest	21.5	35.4	45.6	40.6	37.3	44.5	36.7	36.7
Domestic	5.1	9.1	11.9	...	6.9	...	4.6	4.6
Foreign	16.4	26.3	33.7	...	30.4	...	32.1	32.1
Non-interest	386.2	489.1	571.2	592.9	575.9	...	...	...
Capital expenditure	27.3	42.5	60.8	58.1	70.1	...	...	...
Net lending	17.3	17.2	35.8	41.0	41.0	...	...	...
Overall budget balance (cash)	-100.8	-19.7	-119.0	-81.0	88.3	-69.3	-19.6	-87.7
Repayment (accumulation) of pension arrears (cash)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall budget balance excl. pension arrears repayment	**-100.8**	**-19.7**	**-119.0**	**-81.0**	**88.3**	**-69.3**	**-19.6**	**-87.7**
Statistical discrepancy	-5.4	11.3	0.0	0.0	-5.0	0.0	0.0	0.0
Financing	**95.4**	**30.9**	**119.0**	**81.0**	**-93.3**	**69.3**	**19.6**	**87.7**
Domestic financing (net)	7.3	-21.2	32.8	1.3	-21.1	65.0	48.8	63.0
Banking system	4.8	-0.7	...	...	...	...	...	...
NBK	-12.1	-29.0	...	...	...	...	...	...
Commercial banks	16.9	28.2	...	...	...	...	...	...
Nonbank	2.5	-20.4	...	...	...	...	...	...
Foreign financing (net)	51.4	30.0	48.2	48.2	28.0	-9.7	-6.5	-6.5
Disbursements	86.5	41.0	65.9	65.9	43.9	63.0	63.0	63.0
Amortization	-35.1	-11.0	-17.7	-17.7	-15.8	-72.8	-69.6	-69.6
Privatization receipts 7/	36.6	22.1	38.0	31.5	97.8	26.6	26.6	26.6
NFRK 8/	0.0	0.0	0.0	0.0	-198.0	-12.6	-49.2	4.6
o/w: interest earned on NFRK assets	...	...	0.0	0.0	-3.3	...	-5.6	-5.6
Memorandum items:								
Oil price ($ per barrel)	17.98	28.21	19.00	19.00	24.25	19.0	19.0	15.0
Non-oil balance (excluding privatization recipts)	-120.0	-105.4	-183.3	-145.3	-120.8	-193.5	-162.8	-181.5
Balance including privatization receipts	-64.2	2.4	-81.0	-49.5	186.1	-42.7	6.9	-61.1
Stock of Arrears (including submitted VAT refund claims)	54.8	37.8	...	...	37.8	...	37.8	37.8
Stock of Arrears (excluding submitted VAT refund claims)	42.1	18.8	...	...	18.8	...	18.8	18.8
Cash reduction in expenditure arrears	...	23.3	...	...	...	...	...	...
Nominal GDP (in billions of Tenge)	2,016	2,596	2,818	3,044	2,995	3,499	3,399	3,303
Non-oil tax revenue (% chg)		43.2	...	...	13.1	...	9.3	5.8

Sources: Data provided by the Kazakhstan Ministry of Finance; and Fund staff estimates and projections.

1/ Consolidated general government, including extrabudgetary funds.

2/ Consists of CIT, royalties and bonus payment,and local taxes.

5/ Based on the Republican budget approved by the President of Kazakhstan on April 25, 2001 and a preliminary estimate of the local government budget as of August 8, 2001.

6/ Based on the Republican budget as approved by the Parliament on Nov 2, 2001 and a preliminary estimate of local government budget as of August 8, 2001.

7/ Staff projection of privatization receipts for 2001 includes $450 million (65.3 billion Tenge)associated with sale of 5% of government's share in TCO.

8/ Refers to the National Fund of the Republic of Kazakhstan.

9/ Based on the authorities indicative plan of September 13, 2001 and draft Republcian Budget as of December 4th, 2001, which assumes an international petroleum price of $19 per barrel.

Table 2b. Kazakhstan: Fiscal Operation of General Government, 1999-2002 1/
(In percent of GDP)

	1999	2000	2001			2002		
	Actual	Actual	Revised Budget as of Apr 2001 5/	Revised Budget as of Nov 2001 6/	Staff Revised Proj.	Draft Budget 9/	Oil price at $19 per barrel Staff Proj.	Oil price at $15 per barrel Staff Proj.
Total revenue and grants	**17.4**	**21.7**	**21.1**	**21.4**	**27.1**	**20.4**	**23.1**	**21.7**
Total revenue	17.4	21.6	21.1	21.4	27.1	20.4	23.1	21.7
o/w: oil revenue 2/	1.0	3.3	2.3	2.1	7.0	3.6	4.2	2.8
Current revenue	17.4	21.6	20.7	21.1	26.8	20.1	22.9	21.5
Tax revenue	16.0	20.1	18.8	18.9	23.4	18.9	20.0	18.6
Income tax on legal entities 3/	2.7	6.3	5.3	5.8	8.1	5.7	5.9	4.8
Oil	0.4	2.6	1.6	1.4	4.0	2.3	1.8	0.7
Non-Oil	2.3	3.7	3.7	4.4	4.1	3.5	4.1	4.1
Reciepts from use of natural resources 4/	0.5	0.8	0.9	0.9	2.0	1.1	1.6	1.3
Oil royalties	0.2	0.5	0.6	0.6	1.7	1.0	1.3	1.0
non-oil	0.3	0.4	0.3	0.4	0.4	0.1	0.4	0.4
Nontax revenue	1.3	1.5	2.0	2.2	3.4	1.2	2.8	2.9
Capital revenue	0.0	0.1	0.3	0.3	0.3	0.3	0.2	0.2
Grants	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	**22.4**	**22.5**	**25.3**	**24.1**	**24.2**	**22.4**	**23.7**	**24.4**
Total expenditure	21.6	21.8	24.0	22.7	22.8	...	...	...
Current expenditure	20.2	20.2	21.9	20.8	20.5	...	...	...
Interest	1.1	1.4	1.6	1.3	1.2	1.3	1.1	1.1
Domestic	0.3	0.4	0.4	0.0	0.2	0.0	0.1	0.1
Foreign	0.8	1.0	1.2	0.0	1.0	0.0	0.9	1.0
Non-interest	19.2	18.8	20.3	19.5	19.2	...	...	...
Capital expenditure	1.4	1.6	2.2	1.9	2.3	...	...	...
Net lending	0.9	0.7	1.3	1.3	1.4	...	...	...
Overall budget balance (cash)	**-5.0**	**-0.8**	**-4.2**	**-2.7**	**2.9**	**-2.0**	**-0.6**	**-2.7**
Repayment (accumulation) of pension arrears (cash)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall budget balance excl. pension arrears repayment	-5.0	-0.8	-4.2	-2.7	2.9	-2.0	-0.6	-2.7
Statistical discrepancy	-0.3	0.4	0.0	0.0	-0.2	0.0	0.0	0.0
Financing	**4.7**	**1.2**	**4.2**	**2.7**	**-3.1**	**2.0**	**0.6**	**2.7**
Domestic financing (net)	0.4	-0.8	1.2	0.0	-0.7	1.9	1.4	1.9
Banking system	...	0.0	...	...	...	...	...	...
NBK	...	-1.1	...	...	...	...	...	...
Commercial banks	...	1.1	...	...	...	...	...	...
Nonbank	...	-0.8	...	...	...	...	...	...
Foreign financing (net)	2.6	1.2	1.7	1.6	0.9	-0.3	-0.2	-0.2
Disbursements	...	1.6	2.3	2.2	1.5	1.8	1.9	1.9
Amortization	...	-0.4	-0.6	-0.6	-0.5	-2.1	-2.0	-2.1
Privatization receipts 7/	1.8	0.8	1.3	1.0	3.3	0.8	0.8	0.8
NFRK 8/			0.0	0.0	-6.6	-0.4	-1.4	0.1
o/w: interest earned on NFRK assets			0.0	0.0	-0.1	0.0	-0.2	-0.2
Memorandum items:								
Non-oil balance (excluding privatization recipts)	-6.0	-4.1	-6.5	...	-4.0	-5.5	-4.8	-5.5
Balance including privatization receipts	-3.2	0.1	-2.9	-1.6	6.2	-1.2	0.2	-1.8
Stock of Expenditure Arrears (including VAT refunds)	2.7	1.5	...	...	...	0.0	1.1	1.1
Stock of Expenditure Arrears (excluding VAT refunds)	2.1	0.7	...	...	...	0.0	0.6	0.6
Cash reduction in expenditure arrears	0.0	0.9	...	...	...	...	...	...
Nominal GDP (in billions of Tenge)	2,016	2,596	2,818	3,044	2,995	3,499	3,399	3,303
Non-oil tax revenues	15.1	16.8	16.5	...	16.4	15.4	15.8	15.8

Sources: Data provided by the Kazakhstan Ministry of Finance; and Fund staff estimates and projections.

1/ Consolidated general government, including extrabudgetary funds.

2/ Consists of CIT, royalties and local taxes.

3/ Based on fourth quarter staff projection and outturn for the first three quarters of 2000.

5/ Based on the Republican budget approved by the President of Kazakhstan on April 25, 2001 and a preliminary estimate of the local government budget.

6/ Based on the Republican budget as submitted to the Parliament on October 10, 2001 and a preliminary estimate of local government budget as of October 10, 2001.

7/ Staff projection of privatization receipts for 2001 includes $450 million (65.3 billion Tenge) associated with sale of 5% of government's share in TCO.

8/ Refers to the National Fund of the Republic of Kazakhstan.

9/ Based on the authorities indicative plan of September 13, 2001 and draft Republcian Budget as of December 4th, 2001, which assumes an international petroleum price of $19 per barrel.

Table 3a. Kazakhstan: Fiscal Operation of Central Government, 1999-2002
(In billions of tenge; in period flows)

	1999	2000	2001			2002		
	Actual	Actual	Revised Budget as of Apr 2001 4/	Revised Budget as of Nov 2001 5/	Staff Revised Projection	Draft Budget as of Dec 4th. 2001	Oil price at $19 per barrel Staff Proj.	Oil price at $15 per barrel Staff Proj.
Total revenue and grants	**171.6**	**296.9**	**299.5**	**356.6**	**458.0**	**461.9**	**525.7**	**465.0**
Total revenue	169.2	294.3	299.0	356.1	457.5	461.9	525.7	465.0
o/w oil revenue 1/	8.1	45.6	39.4	39.4	138.9	115.0	134.4	85.1
Current revenue	168.2	292.1	292.6	350.4	451.1	454.2	518.7	458.2
Tax revenue	152.1	263.4	249.3	294.8	366.8	415.0	434.3	374.4
Income tax on profit, income and capital gains	28.2	83.0	74.4	88.3	123.3	200.8	200.8	158.5
Income tax on legal entities	27.4	81.8	74.4	88.3	121.9	200.8	199.2	157.0
Oil 2/	3.7	33.6	21.8	21.8	60.6	78.9	59.9	21.6
Non-oil	23.7	48.2	52.7	66.6	61.4	121.9	139.3	135.4
Income tax on individuals	0.8	1.2	0.0	0.0	1.4	0.0	1.6	1.5
Social tax	2.4	20.2	0.0	0.0	0.0	0.0	0.0	0.0
Property taxes	1.0	0.7	0.2	0.4	0.8	0.0	0.9	0.9
Domestic taxes on goods and services	108.0	140.7	150.5	180.2	217.5	178.8	200.3	183.8
VAT	80.8	103.3	105.0	134.2	140.4	136.5	143.1	138.0
Excises	15.1	15.2	19.6	18.0	17.5	1.6	1.4	1.4
Receipts from use of natural resources	9.5	21.1	25.5	27.2	58.3	40.2	55.7	44.4
Oil royalties 2/	4.4	12.0	17.6	17.6	47.9	36.2	43.4	32.4
non-oil	5.0	9.0	7.9	9.6	10.4	4.0	12.4	12.0
Business and professional licenses	2.7	1.1	0.5	0.8	1.3	0.5	0.0	0.0
Taxes on international trade and operations	11.5	18.2	23.9	25.3	24.4	33.3	31.6	30.4
Other taxes	1.0	0.6	0.4	0.6	0.7	2.1	0.8	0.8
Nontax revenue	16.1	28.7	43.3	55.6	84.3	39.1	84.4	83.8
Capital revenue	0.9	2.2	6.4	5.7	6.4	7.7	7.0	6.8
Grants	2.4	2.6	0.5	0.5	0.5	0.0	0.0	0.0
Total expenditure and net lending	**287.7**	**339.3**	**435.9**	**454.5**	**426.7**	**506.9**	**506.9**	**506.9**
Total expenditure	266.2	322.4	404.7	418.2	390.4	482.6	482.6	482.6
Current expenditure	249.4	309.7	373.7	389.8	370.0	451.7	451.7	451.7
Interest	21.4	35.1	44.0	38.5	35.7	44.5	36.7	36.7
Non-interest	228.0	274.7	329.7	351.3	334.3	407.2	415.0	415.0
Capital expenditure	16.8	12.6	31.0	28.3	20.3	30.9	30.9	30.9
Net lending	21.5	16.9	31.1	36.3	36.3	24.3	24.3	24.3
Net transfer to other levels of government	**-6.8**	**-12.1**	**-39.2**	**-39.2**	**-39.2**	**22.9**	**22.9**	**22.9**
Transfers from local government	37.2	54.0	84.2	84.2	84.2	49.1	49.1	49.1
Transfers to local government	30.5	41.9	45.0	45.0	45.0	71.9	71.9	71.9
Overall budget balance (cash)	**-109.4**	**-30.2**	**-97.2**	**-58.7**	**70.5**	**-67.9**	**-4.1**	**-64.8**
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	**109.4**	**30.2**	**97.2**	**58.7**	**-70.5**	**67.9**	**4.1**	**64.8**
Domestic financing (net)	23.8	-20.9	11.0	-21.0	-34.5	63.7	33.2	40.1
Foreign financing (net)	51.4	30.0	48.2	48.2	28.0	-9.7	-6.5	-6.5
Disbursements	86.5	41.0	65.9	65.9	43.9	63.0	63.0	63.0
Amortization	-35.1	-11.0	-17.7	-17.7	-15.8	-72.8	-69.6	-69.6
Privatization receipts 6/	34.1	21.1	38.0	31.5	97.5	26.6	26.6	26.6
NFRK 7/			0.0	0.0	-161.6	-12.6	-49.2	4.6
o/w: interest earned on NFRK assets					-3.3	...	-5.6	-5.6
Memorandum items:								
Oil price ($ per barrel)	17.98	28.21	19.00	19.00	24.25	19.00	19.00	15.00
Non-oil balance (excluding privatization recipts)	-117.5	-75.9	-136.5	...	-68.4	-183.0	-138.5	-149.9
Balance including privatization receipts	-75.3	-9.2	-59.2	-27.2	168.0	-41.4	22.5	-38.2
Stock of Expenditure Arrears (including VAT refunds)	37.9	33.3	...	...	...	...	...	...
Stock of Expenditure Arrears (excluding VAT refunds)	26.5	16.1	...	...	...	...	...	...
Cash reduction in expenditure arrears	0.7	10.4	...	...	...	...	...	...
Nominal GDP (in billions of Tenge)	2016	2,592.0	2,818	3,044	2,995	3,499	3,399	3,303
Non-oil tax revenue (% chg)		51.3			4.6	...	31.6	26.9

1/ Consists of CIT, Royalties and TCO bonus.
2/ Includes royalties, bonuses and PSAs. Oil revenues in the draft budget for 2002 consists of draft budget and authorities projection.
3/ Effect of reducing social tax from 26% to 21%, VAT from 20% to 16 % and shift to destination principle all on July 1, 2001.
4/ As approved by the President of Kazakhstan on April 25, 2001.
5/ As approved in the parliament on November 2, 2001.
6/ Staff projection of privatization receipts for 2001 includes $450 million associated with sale of 5% of government's share in TCO.
7/ Refers to the National Fund of the Republic of Kazakhstan.

Table 3b. Kazakhstan: Fiscal Operation of Central Government, 1999-2002
(In percent of GDP)

	1999	2000	2001			2002		
	Actual	Actual	Revised Budget as of Apr 2001 4/	Revised Budget as of Nov 2001 5/	Staff Revised Projection	Draft Budget as of Dec 4th. 2001	Oil price at $19 per barrel Staff Proj.	Oil price at $15 per barrel Staff Proj.
Total revenue and grants	**8.5**	**11.4**	**10.6**	**11.7**	**15.3**	**13.2**	**15.5**	**14.1**
Total revenue	8.4	11.3	10.6	11.7	15.3	13.2	15.5	14.1
o/w oil revenue 1/	0.4	1.8	1.4	...	4.6	3.3	4.0	2.6
Current revenue	8.3	11.3	10.4	11.5	15.1	13.0	15.3	13.9
Tax revenue	7.5	10.1	8.8	9.7	12.2	11.9	12.8	11.3
Income tax on profit, income and capital gains	1.4	3.2	2.6	2.9	4.1	5.7	5.9	4.8
Income tax on legal entities	1.4	3.1	2.6	2.9	4.1	5.7	5.9	4.8
Oil 2/	0.2	1.3	0.8	...	2.0	2.3	1.8	0.7
Non-oil	1.2	1.9	1.9	...	2.0	3.5	4.1	4.1
Income tax on individuals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social tax	0.1	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Property taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic taxes on goods and services	5.4	5.4	5.3	5.9	7.3	5.1	5.9	5.6
VAT	4.0	4.0	3.7	4.4	4.7	3.9	4.2	4.2
Excises	0.7	0.6	0.7	0.6	0.6	0.0	0.0	0.0
Receipts from use of natural resources	0.5	0.8	0.9	0.9	1.9	1.1	1.6	1.3
Oil royalties 2/	0.2	0.5	0.6	...	1.6	1.0	1.3	1.0
non-oil	0.3	0.3	0.3	...	0.3	0.1	0.4	0.4
Business and professional licenses	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on international trade and operations	0.6	0.7	0.8	0.8	0.8	1.0	0.9	0.9
Other taxes	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Nontax revenue	0.9	2.5	1.5	1.8	2.8	1.1	2.5	2.5
Capital revenue	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	**14.3**	**13.1**	**15.5**	**14.9**	**14.2**	**14.5**	**14.9**	**15.3**
Total expenditure	13.2	12.4	14.4	13.7	13.0	13.8	14.2	14.6
Current expenditure	12.4	11.9	13.3	12.8	12.4	12.9	13.3	13.7
Interest	1.1	1.4	1.6	1.3	1.2	1.3	1.1	1.1
Non-interest	11.3	10.6	11.7	11.5	11.2	11.6	12.2	12.6
Capital expenditure	0.8	0.5	1.1	0.9	0.7	0.9	0.9	0.9
Net lending	1.1	0.7	1.1	1.2	1.2	0.7	0.7	0.7
Net transfer to other levels of government	**-0.3**	**-0.5**	**-1.4**	**-1.3**	**-1.3**	**0.7**	**0.7**	**0.7**
Transfers from local government	1.8	2.1	3.0	2.8	2.8	1.4	1.4	1.5
Transfers to local government	1.5	1.6	1.6	1.5	1.5	2.1	2.1	2.2
Overall budget balance (cash)	**-5.4**	**-1.2**	**-3.4**	**-1.9**	**2.4**	**-1.9**	**-0.1**	**-2.0**
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	**5.4**	**1.2**	**3.4**	**1.9**	**-2.4**	**1.9**	**0.1**	**2.0**
Domestic financing (net)	1.2	-0.8	0.4	-0.7	-1.2	1.8	1.0	1.2
Foreign financing (net)	2.6	1.2	1.7	1.6	0.9	-0.3	-0.2	-0.2
Disbursements	4.3	1.6	2.3	2.2	1.5	1.8	1.9	1.9
Amortization	-1.7	-0.4	-0.6	-0.6	-0.5	-2.1	-2.0	-2.1
Privatization receipts 6/	1.7	0.8	1.3	1.0	3.3	0.8	0.8	0.8
NFRK 7/	0.0	0.0	0.0	0.0	-5.4	-0.4	-1.4	0.1
o/w: interest earned on NFRK assets	0.0	0.0	0.0	0.0	-0.1	...	-0.2	-0.2
Memorandum items:								
Stock of Expenditure Arrears (including VAT refunds)	1.9	1.7	...	...	...	...	...	...
Cash reduction in expenditure arrears (excluding VAT refunds)	0.0	0.4	...	...	...	...	...	...
Balance including privatization receipts	-3.7	-0.4	-2.1	-0.9	5.6	-1.2	0.7	-1.2
Nominal GDP (in billions of Tenge)	2016	2596	2,818	3,044	2,995	3,499	3,399	3,303

1/ Consists of CIT and Royalties.

2/ Based on fourth quarter staff projection and outturn for the first three quarters of 2000.

3/ Effect of reducing social tax from 26% to 21%, VAT from 20% to 16 % and shift to destination principle all on July 1, 2001.

4/ As approved by the President of Kazakhstan on April 25, 2001.

5/ As submited to the parliament on October 10, 2001.

6/ Staff projection of privatization receipts for 2001 includes $450 million associated with sale of 5% of government's share in TCO.

7/ Refers to the National Fund of the Republic of Kazakhstan.

Table 4. Kazakhstan: Monetary Survey, 1999-2002

(In millions of tenge, end period stocks unless otherwise indicated)
Baseline Oil Price Scenario (US$ 19 per barrel)

	1999	2000				2001				2002			
	December Actual	March Actual	June Actual	September Actual	December Actual	March Actual	June Actual	September Actual	December Projection	March Projection	June Projection	September Projection	December Projection
NBK													
Short-Term Net Foreign Assets	222,478	215,299	277,437	323,005	309,147	467,621	481,565	532,870	578,664	595,817	600,680	620,451	657,439
Net international reserves	222,478	215,299	277,437	323,005	309,147	366,138	340,068	357,894	372,960	384,800	384,800	399,600	399,600
National Fund (Program Exchange Rate)	0	0	0	0	0	101,483	141,498	174,976	205,704	211,017	215,880	220,851	257,839
Long-Term Net Foreign Assets	-1,453	-1,077	-769	-574	-601	-479	-507	-375	-400	-400	-400	-400	-400
Net domestic assets	-93,168	-112,055	-156,165	-184,591	-173,880	-335,756	-337,250	-373,454	-413,593	-430,114	-430,636	-434,770	-461,669
Domestic credit	24,985	4,016	-37,229	-64,790	-48,424	-213,359	-227,152	-255,585	-293,243	-307,462	-305,507	-307,326	-331,508
Credit to Government	14,858	-5,335	-43,144	-59,696	-14,128	-88,412	-73,047	-76,613	-52,913	-78,513	-36,213	-63,313	-15,913
National Fund	0	0	0	0	0	-95,997	-142,615	-174,621	-205,704	-211,017	-215,880	-220,851	-257,839
Credit to the financial sector, net	9,941	9,148	5,718	-5,297	-34,500	-29,193	-11,716	-4,582	-34,858	-18,164	-53,645	-23,394	-57,987
Credit to the economy	186	203	197	202	204	242	227	231	231	231	231	231	231
Other items (net)	-118,154	-116,071	-118,936	-119,800	-125,456	-122,397	-110,098	-117,869	-120,350	-122,652	-125,129	-127,444	-130,161
Reserve money	127,856	102,167	120,502	137,840	134,666	131,385	143,809	159,040	164,671	165,303	169,644	185,280	195,370
Currency outside NBK	110,407	92,410	102,175	113,587	116,335	110,797	119,287	133,949	136,869	137,394	140,239	153,165	160,578
Deposits	17,449	9,758	18,327	24,253	18,331	20,588	24,522	25,091	27,802	27,908	29,405	32,115	34,792
Banking System													
Short-Term Net Foreign Assets	275,284	255,752	326,093	360,257	340,039	496,202	512,135	555,267	599,311	614,407	602,360	634,772	662,152
Long-Term Net Foreign Assets	-6,829	3,329	-7,736	-12,727	-22,093	-36,546	-44,166	-32,448	-39,873	-39,873	-54,673	-54,673	-54,673
Net domestic assets	5,425	1,259	-73	12,228	81,522	-40,923	111	11,005	-4,433	-17,400	35,118	56,425	77,120
Domestic credit	207,148	211,339	218,211	236,102	342,128	200,680	247,555	282,208	271,251	262,586	319,582	345,203	370,615
Credit to Government	41,299	32,690	10,456	-5,368	40,560	-32,354	-11,821	-10,367	13,833	-10,767	32,533	6,433	54,833
National Fund (Current Exchange Rate)	0	0	0	0	0	-95,997	-142,615	-174,621	-205,704	-211,017	-215,880	-220,851	-257,839
Credit to the economy	165,849	178,649	207,755	241,470	301,568	329,031	401,991	467,197	463,122	484,370	502,929	559,621	573,621
Other items (net)	-201,723	-210,080	-218,284	-223,874	-260,606	-278,149	-291,611	-271,204	-275,684	-279,987	-284,464	-288,779	-293,495
Broad money	273,880	260,340	318,284	359,759	399,468	418,733	468,080	533,824	555,005	557,134	582,805	636,524	684,599
Currency in circulation	103,486	86,981	96,126	106,105	106,425	101,993	110,538	124,234	127,288	127,777	130,422	142,443	149,338
Deposits	170,394	173,359	222,158	253,654	293,044	316,740	357,541	409,590	427,717	429,357	452,383	494,080	535,261
Tenge Deposits	89,959	89,161	97,320	125,353	143,626	153,684	177,814	174,459	189,064	195,361	207,605	226,740	247,729
Foreign Exchange Deposits	80,435	84,198	124,838	128,301	149,418	163,056	179,727	235,131	238,652	233,996	244,778	267,340	287,531
Memorandum Item:													
Tenge Broad Money	193,445	176,142	193,446	231,458	250,050	255,677	288,352	298,693	316,353	323,138	338,027	369,184	397,067
Net International Reserves (in $ mns)	1,503	1,455	1,875	2,182	2,089	2,474	2,298	2,418	2,520	2,600	2,600	2,700	2,700
Nominal GDP (in millions of tenge)													
Quarterly	533,839	524,835	618,821	783,620	668,800	643,800	809,192	854,080	688,068	694,746	845,067	1,015,255	843,768
Broad Money Velocity	7.8	8.1	7.8	8.7	6.7	6.1	6.9	6.4	5.0	5.0	5.8	6.4	4.9
Tenge Broad Money Velocity	11.0	11.9	12.8	13.5	10.7	10.1	11.2	11.4	8.7	8.6	10.0	11.0	8.5
Money multiplier (m = [1+c]/[c+r])	2.14	2.55	2.64	2.61	2.97	3.19	3.25	3.36	3.37	3.37	3.44	3.44	3.50
Currency/deposits (c = C/D)	0.65	0.53	0.46	0.45	0.40	0.35	0.33	0.33	0.32	0.32	0.31	0.31	0.30
Reserves/deposits (r = R/D)	0.10	0.06	0.08	0.10	0.06	0.06	0.07	0.06	0.07	0.07	0.07	0.07	0.07
End of Period Exchange Rate	138.25	141.95	142.86	142.58	145.40	145.42	146.80	148.0	148.0	148.0	148.0	148.0	148.0

Sources: Data provided by the Kazakhstan authorities; and Fund staff estimates and projections.

Table 5. Kazakhstan: Balance of Payments, 1998-2006
(In millions of U.S. dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
		Actuals				Projections			
CURRENT ACCOUNT	-1225	-37	923	-744	-1123	-710	-454	-113	85
Trade balance	-801	478	2946	1200	498	891	1127	1393	1646
Exports (f.o.b.)	5871	6123	9795	9622	9539	10462	11356	12535	14015
Oil and gas condensate	1650	2174	4682	4458	4065	4659	5263	6138	7298
of which: estimated underinvoicing of exports 1/	...	134	180	196	120	80	60	40	0
Non-oil exports	4220	3948	5113	5164	5474	5802	6093	6397	6717
Imports (f.o.b.)	-6672	-5645	-6849	-8422	-9041	-9571	-10229	-11142	-12369
Services and income balance	-546	-671	-2223	-2119	-1741	-1721	-1701	-1626	-1681
Services, net	-250	-171	-1031	-939	-644	-590	-569	-524	-559
Income, net	-296	-500	-1192	-1179	-1096	-1131	-1132	-1102	-1123
of which: income to direct investors	-97	-274	-928	-984	-892	-966	-1036	-1076	-1109
Current transfers	122	157	200	175	120	120	120	120	120
CAPITAL AND FINANCIAL ACCOUNT	1889	926	1059	987	1303	900	639	468	271
Capital transfers, net	-369	-234	-291	-200	-200	-300	-300	-300	-300
Foreign direct investment, net	1143	1583	1245	2351	1995	1800	1706	1434	1376
of which: amortization of intra-company liabilities	-81	-212	-1418	-1550	-1600	-1600	-1650	-1700	-1750
Portfolio investment, net	62	-46	-62	-1281	-435	-149	-609	-238	-420
of which: National Fund (incl. interest)	...	...	...	-1373	-285	-149	-209	-238	-270
public sector Eurobonds, net	-47	34	11	-64	-150	0	-300	0	0
Other investment									
Medium- and long-term loans and credits, net	696	201	268	258	222	360	374	352	337
of which: disbursement to the central gov., incl. gg debt 2/	2426	411	331	376	276	419	398	349	350
of which: cent. gov. amortization, incl. gg debt and excl. eurobonds	-1914	-257	-227	-250	-201	-232	-214	-205	-240
Short-term and other capital, net	358	-580	-102	-141	-279	-811	-532	-780	-723
of which: estimated capital flight 1/	...	-134	-180	-196	-120	-80	-60	-40	0
Errors and omissions	-1088	-667	-1402	181	0	0	0	0	0
OVERALL BALANCE	-423	222	580	424	180	190	185	355	356
FINANCING	423	-222	-580	-424	-180	-190	-185	-355	-356
Net international reserves of the NBK	423	-222	-580	-424	-180	-190	-185	-355	-356
of which: Fund credit	122	-176	-430	0	0	0	0	0	0
MEMORANDUM ITEMS									
Current account (in percent of annual GDP)	-5.6	-0.2	5.1	-3.6	-4.9	-2.9	-1.7	-0.4	0.3
Exports in percent of GDP	26.6	36.1	53.6	47.1	41.5	42.9	43.7	44.7	46.0
of which: oil exports	7.5	12.8	25.6	21.8	17.7	19.1	20.3	21.9	24.0
Imports in percent of GDP	30.2	33.3	37.5	41.2	39.4	39.2	39.4	39.8	40.6
Annual growth rate (in percent)									
Exports	-14.9	4.3	60.0	-1.8	-0.9	9.7	8.5	10.4	11.8
non-oil exports	-19.3	-6.4	29.5	1.0	6.0	6.0	5.0	5.0	5.0
Imports	-7.0	-15.4	21.3	23.0	7.4	5.9	6.9	8.9	11.0
Exports of crude oil and gas condensate (million tons)	20.4	23.7	29.3	32.9	39.3	44.6	49.9	57.7	68.3
NBK gross international reserves (in million of U.S. dollars)	1964	2003	2096	2520	2700	2890	3075	3430	3786
in months of imports of goods and services	3.0	3.6	2.8	2.9	2.9	3.0	3.0	3.1	3.1
National Fund (incl. interest), end of period stock	...	...	...	1373	1658	1807	2016	2254	2523
External debt in percent of GDP	44.8	71.0	68.8	69.2	66.7	68.3	67.4	66.2	63.6
excluding intra-company loans	29.5	34.6	31.7	30.5	27.9	28.2	26.7	26.4	25.2
Public external debt service in percent of exports of g&s	7.7	11.8	8.3	4.6	7.5	4.1	5.9	2.9	2.8
World oil price (U.S. dollars per barrel)	13.1	18.0	28.2	24.3	19.0	19.0	19.0	19.0	19.0

Sources: Data provided by the Kazakhstan authorities and the Fund staff estimates.

1/ Customs data on unit prices for oil exports to CIS countries are lower than world prices and assumed to reflect estimated capital flight from underinvoicing as shown in the capital account.

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

Table 6. Kazakhstan: Summary Indicators of Medium-Term External Scenarios, 2000-2006

	2000 Actual	2001	2002	2003	2004	2005	2006
		Projections					
Baseline							
GDP growth (in percent)	9.8	13.2	7.0	4.6	5.1	5.8	6.7
External current account balance (in percent of GDP)	5.1	-3.6	-4.9	-2.9	-1.7	-0.4	0.3
Fiscal balance (cash, in percent of GDP)	-0.8	3.1	-0.6	-0.8	-0.2	-0.1	0.2
Foreign direct investment (net, US$ million)	1,245	2,351	1,995	1,800	1,706	1,434	1,376
Net external debt (in percent of GDP) 1/	10.3	0.8	-1.6	-2.1	-4.0	-5.3	-6.5
World oil price (in U.S. dollar per barrel)	28.2	24.3	19.0	19.0	19.0	19.0	19.0
Low oil price							
GDP growth (in percent)	9.8	13.2	4.0	4.6	5.1	5.8	6.7
External current account balance (in percent of GDP)	5.1	-3.6	-7.3	-1.9	-0.7	0.7	1.5
Fiscal balance (cash, in percent of GDP)	-0.8	3.1	-2.7	-1.3	0.3	0.4	0.7
Foreign direct investment	1,245	2,351	2,025	1,800	1,706	1,434	1,376
Net external debt (in percent of GDP) 1/	10.3	0.8	0.4	0.4	-1.5	-2.9	-4.3
World oil price (in U.S. dollar per barrel)	28.2	24.3	15.0	19.0	19.0	19.0	19.0

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

1/ Gross external public sector debt minus net official foreign assets, including reserves.

Table 7. Kazakhstan: Indicators of Vulnerability, 1996-2001
(In percent of GDP unless otherwise indicated)

	1996	1997	1998	1999	2000	2001 Proj.
Financial Indicators						
Broad money (12-month percent change)	13.8	29.2	-13.3	82.7	45.9	38.9
Private sector credit (12-month percent change)	-11.5	23.4	29.9	62.5	81.8	53.6
Refinance rate (period average, in percent)	39.2	25.9	20.1	22.3	15.2	11.9 1/
Average yield on 3-month T-bill (in percent)	38.0	17.6	19.6	23.3	11.7	5.3 2/
External Indicators						
Competitiveness-related						
Exports (nominal percent change, 12-month basis in US$)	15.7	9.7	-14.9	4.3	60.0	-1.8
o/w Non-oil exports (percent change, 12-month basis)	11.1	3.8	-19.3	-6.4	29.5	1.0
Imports (nominal percent change, 12-month basis in US$)	24.4	8.3	-7.0	-15.4	21.3	23.0
Terms of trade (12-month percent change)	3.1	2.7	-11.4	9.3	18.8	-5.3
Current account balance	-3.6	-3.6	-5.6	-0.2	5.1	-3.6
Capital and financial account balance	5.5	7.1	8.6	5.5	5.8	4.8
o/w Foreign direct investment (in millions of US$)	1137	1320	1143	1583	1245	2351
Exchange rate (per US$, period average)	67.8	75.5	78.5	118.9	142.1	146.3 1/
Annual REER appreciation (+) (CPI-based, e.o.p.)	5.1	8.4	21.1	-26.6	3.7	-3.3 3/
Reserves-related						
Gross official reserves 4/						
- in millions of US$	1967	2252	1964	2003	2096	2520
- in months of imports	3.1	3.3	3.0	3.6	2.8	2.9
- in percent of short-term external debt 5/	141.5	115.6	84.6	111.0	139.2	122.1
- in percent of total external debt	27.7	24.9	19.9	16.6	16.7	17.8
- excluding intra-company loans	38.5	34.5	30.2	34.1	36.2	40.4
Gross official reserves/Broad money (M2)	1.1	1.0	1.1	1.0	0.8	0.7
Gross official reserves/Narrow money (M0)	1.9	1.6	2.0	2.2	2.3	2.3
Debt-related						
Central bank short-term foreign liabilities (in millions of US$)	589.6	513.8	651.6	462.5	2.1	1.3 2/
Short-term foreign liabilities of commercial banks (in millions of US$)	33.1	44.8	260.2	96.8	164.4	434.6 2/
Short-term external debt 5/						
- in millions of US$	1390.3	1947.5	2320.9	1804.6	1505.8	2064.6
- in percent of GDP	6.7	8.8	10.5	10.6	8.2	10.1
- in percent of total external debt	19.6	21.6	23.5	15.0	12.0	14.6
Total external debt						
- in millions of US$	7096	9027	9878	12034	12572	14133
- excluding intra-company loans	5113	6523	6506	5872	5787	6234
- in percent of GDP	34.1	40.8	44.8	71.0	68.8	69.2
- excluding intra-company loans	24.6	29.5	29.5	34.6	31.7	30.5
- in percent of exports of goods and services	101.9	116.6	145.8	170.6	115.0	130.4
- excluding intra-company loans	73.4	84.3	96.0	83.2	53.0	57.5
Public external interest payments (in percent of exports of g&s)	1.8	2.5	3.0	2.9	2.3	2.3
Public external amortization payments (in percent of exports of g&s)	3.4	3.7	4.7	9.0	6.0	2.3
Net public external debt (in millions of US$) 6/	1928.1	2319.6	1994.5	2040.5	1883.5	172.8
National Fund (NFRK) assets (in millions of US$)	...	...	...	...	...	1373.5
Financial Market Indicators						
Foreign currency debt rating						
Moody's	Ba3	Ba3	Ba3	B1	B1	Ba2
Standard and Poor's	BB-	BB	B+	B+	BB-	BB
Spread over benchmark bonds (basis points, period average) 7/	...	438	903	567	326	235 1/

Source: Data provided by the Kazakhstan authorities, and Fund staff estimates.

1/ as of Nov. 2001
2/ as of Oct. 2001
3/ as of Sept. 2001
4/ The projection of 2001 excludes the stock of National Fund.
5/ The National Bank of Kazakhstan does not compile short-term debt statistics on a remaining maturity basis. Before 2000, the short-term debt data are on an "original maturity" basis. From 2000 onwards, the short-term debt is estimated by Fund staff on a remaining maturity basis.
6/ Total external public debt minus gross official reserves, and minus National Fund assets.
7/ Kazakhstan eurobonds are mostly held by domestic investors who have limited investment opportunities abroad. Therefore, bond spreads of Kazakhstan are not comparable to those of other countries and do not fully reflect country risks.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

Staff Report for the 2001 Article IV Consultation
Supplementary Information

Prepared by the European II Department

(In consultation with the Policy Development and Review Department)

Approved by John Dodsworth and Martin Fetherston

January 18, 2002

1. This supplement provides information on economic developments since the staff report was issued. A few corrections and clarifications to the staff report are also provided. These changes do not affect the thrust of the staff appraisal.

Preliminary data on the 2001 outturn

2. Preliminary information indicates a better macroeconomic result than that projected in the staff report. Reflecting an exceptional harvest, agricultural output was up 17 percent, while industrial output rose by 14 percent, paralleling the petroleum production increase of 13 percent. As a result, real GDP growth is estimated to have reached around 13 percent. Inflation, as measured by the consumer price index, was 6.4 percent at end-December, or an average for the year of 8.3 percent.

3. The tenge exchange rate to the U.S. dollar ended at T 150.94, representing a nominal depreciation of 3.8 percent in 2001. On the monetary side, reserve money surged in the final few weeks of the year to T 176.3 billion (up 30.9 percent) reflecting the heavy drawdown of government deposits in December (T 40 billion). Net international reserves were broadly as projected at $2,506 million, as was the level of assets in the national fund (NFRK) at $1.26 billion. Broad money growth eased somewhat to 35.9 percent in November (year-over-year).

4. Preliminary data for 2001 suggest a somewhat higher general government surplus of about T 98 billion (3.3 percent of GDP) with higher-than-projected expenditure being more than compensated by higher-than-projected revenues. The revenue overperformance was mostly due to non-oil receipts, especially from personal income tax, social taxes, as well as from VAT, reflecting buoyant economic activity. In addition, the period for paying VAT refunds was extended from 60 days to 90 days, which resulted in lower refunds than projected.

Corrections and clarifications

5. The life expectancy at birth data reported in the basic data table has been updated, raising the figures for both men and women by about 0.8 years (a revised basic data table is attached).

6. The staff report (in paragraph 4) indicated that the oil sector now represented about one quarter of GDP. It should be noted that this staff estimate includes oil transportation. The report (in paragraph 7) misstated the level and decline in public net domestic debt. At end-2000 net domestic debt stood at 1.6 percent of GDP and has declined to an estimated 0.7 percent of GDP at end-November 2001.

7. The balance of payments table (Table 5) has been revised to clarify that the adjustments to exports for estimated underinvoicing of exports are staff estimates. Both NBK staff and the mission have worked extensively to clarify this issue during 2001. The estimate of under-recording of petroleum export receipts has been revised downwards reflecting this work (see footnote 7, page 10). The staff is of the view that an adjustment is warranted, although additional work is required to improve the compilation of balance of payments statistics.

8. The NBK's monetary program for 2002 was published in mid-December 2001. For the first time monetary policy has been cast in a three-year framework in anticipation of a shift to an inflation-targeting regime. For 2002, the description of monetary policy (in paragraph 20) should be revised to indicate a reserve money growth target of 22 percent (from 18 percent) with overall liquidity growth at 24 percent (from 23 percent). The net international revenue figures reported in the staff report are based on a constant gold price of \$270 per ounce and a constant exchange rate of T 148 per \$1. Table 4 in the staff report has been revised to note the methodology for the valuation of gold and short-term net foreign assets.

Kazakhstan: Basic Data

Social and demographic indicators

Area	2,717,300 sq. km.
GDP per capita (in dollars in 2000)	1,235
Population (end-2000)	14.8 million
Life expectancy at birth (2000)	Men: 59.8 years; Women: 71.3 years
Infant mortality rate (1999)	20.6 per 1000 live births
Hospital beds per 10,000 inhabitants (1999)	72.6

	1996	1997	1998	1999	2000
			(Percent)		
Real GDP growth	0.5	1.7	-1.9	2.7	9.8
Growth of Consumer prices (Dec./Dec)	28.7	11.2	1.9	17.8	9.8
Broad money growth (Dec./Dec.)	13.8	29.2	-14.1	83.4	45.9
Monetization ratio (Broad Money/GDP)	9.5	10.3	8.6	13.5	15.4
Money multiplier (Ratio)	1.7	1.5	1.8	2.1	3.0
3-month treasury bill rate (year-end)	32.3	16.1	25.8	16.6	6.8
			(In percent of GDP)		
General government revenue and grants 1/	13.2	13.3	18.3	17.4	21.7
General government expenditures 1/ 2/	18.6	20.1	26.1	22.1	22.9
Overall balance (cash basis) 2/	-5.3	-6.9	-7.8	-4.7	-1.2
			(In millions of U.S. dollars)		
Current account balance	-750	-803	-1,225	-37	923
Current account balance (in percent of GDP)	-3.6	-3.5	-5.6	-0.2	5.1
Gross official reserves	1,961	2,252	1,964	2,003	2,096
Gross official reserves (in months of imports) 3/	3.1	3.3	3.0	3.6	2.8
			(In tenge per U.S. dollar)		
Exchange rate (period average)	67.8	75.6	78.6	120.1	142.3
			(In billions of tenge)		
GDP	1,416	1,672	1,733	2,016	2,600

Sources: Kazakhstani authorities; World Bank, World Development Indicators; and Fund staff estimates.

1/ For 1996 and 1997 does not include extrabudgetary funds.

2/ Including statistical discrepancy.

3/ Goods and nonfactor services.

Table 4. Kazakhstan: Monetary Survey, 1999-2002

(In millions of tenge, end period stocks unless otherwise indicated)
Baseline Oil Price Scenario (US$ 19 per barrel)

Short-term NFA valued at T 148/$	1999 December Actual	2000 March Actual	2000 June Actual	2000 September Actual	2000 December Actual	2001 March Actual	2001 June Actual	2001 September Actual	2001 December Projection	2002 March Projection	2002 June Projection	2002 September Projection	2002 December Projection
NBK													
Short-Term Net Foreign Assets 1/	222,478	215,299	277,437	323,005	309,147	463,818	481,643	532,870	578,664	595,817	600,680	620,451	657,439
Net international reserves	222,478	215,299	277,437	323,005	309,147	366,138	340,068	357,894	372,960	384,800	384,800	399,600	399,600
National Fund	0	0	0	0	0	97,680	141,576	174,976	205,704	211,017	215,880	220,851	257,839
Long-Term Net Foreign Assets	-1,453	-1,077	-769	-574	-601	-479	-507	-375	-400	-400	-400	-400	-400
Net domestic assets	-93,168	-112,055	-156,165	-184,591	-173,880	-331,954	-337,328	-373,454	-413,593	-430,114	-430,636	-434,770	-461,669
Domestic credit	24,985	4,016	-37,229	-64,790	-48,424	-213,359	-227,229	-255,585	-293,243	-307,462	-305,507	-307,326	-331,508
Credit to Government	14,858	-5,335	-43,144	-59,696	-14,128	-88,412	-73,047	-76,613	-52,913	-78,513	-36,213	-63,313	-15,913
National Fund (current exchange rate)	0	0	0	0	0	-95,997	-142,692	-174,621	-205,704	-211,017	-215,880	-220,851	-257,839
Credit to the financial sector, net	9,941	9,148	5,718	-5,297	-34,500	-29,193	-11,716	-4,582	-34,858	-18,164	-53,645	-23,394	-57,987
Credit to the economy	186	203	197	202	204	242	227	231	231	231	231	231	231
Other items (net)	-118,154	-116,071	-118,936	-119,800	-125,456	-118,595	-110,099	-117,869	-120,350	-122,652	-125,129	-127,444	-130,161
Reserve money	127,856	102,167	120,502	137,840	134,666	131,385	143,809	159,040	164,671	165,303	169,644	185,280	195,370
Currency outside NBK	110,407	92,410	102,175	113,587	116,335	110,797	119,287	133,949	136,869	137,394	140,239	153,165	160,578
Deposits	17,449	9,758	18,327	24,253	18,331	20,588	24,522	25,091	27,802	27,908	29,405	32,115	34,792
Banking System													
Short-Term Net Foreign Assets 1/	275,284	255,752	326,093	360,257	340,039	492,400	512,036	555,267	599,311	614,407	602,360	634,772	662,152
Long-Term Net Foreign Assets	-6,829	3,329	-7,736	-12,727	-22,093	-36,546	-44,166	-32,448	-39,873	-39,873	-54,673	-54,673	-54,673
Net domestic assets	5,425	1,259	-73	12,228	81,522	-37,120	210	11,005	-4,433	-17,400	35,118	56,425	77,120
Domestic credit	207,148	211,339	218,211	236,102	342,128	200,680	247,478	282,208	271,251	262,586	319,582	345,203	370,615
Credit to Government	41,299	32,690	10,456	-5,368	40,560	-32,354	-11,821	-10,367	13,833	-10,767	32,533	6,433	54,833
National Fund (current exchange rate)	0	0	0	0	0	-95,997	-142,692	-174,621	-205,704	-211,017	-215,880	-220,851	-257,839
Credit to the economy	165,849	178,649	207,755	241,470	301,568	329,031	401,991	467,197	463,122	484,370	502,929	559,621	573,621
Other items (net)	-201,723	-210,080	-218,284	-223,874	-260,606	-274,346	-291,434	-271,204	-275,684	-279,987	-284,464	-288,779	-293,495
Broad money	273,880	260,340	318,284	359,759	399,468	418,733	468,080	533,824	555,005	557,134	582,805	636,524	684,599
Currency in circulation	103,486	86,981	96,126	106,105	106,425	101,993	110,538	124,234	127,288	127,777	130,422	142,443	149,338
Deposits	170,394	173,359	222,158	253,654	293,044	316,740	357,541	409,590	427,717	429,357	452,383	494,080	535,261
Tenge Deposits	89,959	89,161	97,320	125,353	143,626	153,684	177,814	174,459	189,064	195,361	207,605	226,740	247,729
Foreign Exchange Deposits	80,435	84,198	124,838	128,301	149,418	163,056	179,727	235,131	238,652	233,996	244,778	267,340	287,531
Memorandum Item:													
Tenge Broad Money	193,445	176,142	193,446	231,458	250,050	255,677	288,352	298,693	316,353	323,138	338,027	369,184	397,067
Net International Reserves (in $ mns)	1,503	1,455	1,875	2,182	2,089	2,474	2,298	2,418	2,520	2,600	2,600	2,700	2,700
Nominal GDP (in millions of tenge) Quarterly	557,875	531,858	598,624	792,717	676,703	643,800	809,192	854,080	688,068	694,746	845,067	1,015,255	843,768
Broad Money Velocity	8.1	8.2	7.5	8.8	6.8	6.1	6.9	6.4	5.0	5.0	5.8	6.4	4.9
Tenge Broad Money Velocity	11.5	12.1	12.4	13.7	10.8	10.1	11.2	11.4	8.7	8.6	10.0	11.0	8.5
Money multiplier (m = [1+c]/[c+r])	2.14	2.55	2.64	2.61	2.97	3.19	3.25	3.36	3.37	3.37	3.44	3.44	3.50
Currency/deposits (c = C/D)	0.65	0.53	0.46	0.45	0.40	0.35	0.33	0.33	0.32	0.32	0.31	0.31	0.30
Reserves/deposits (r = R/D)	0.10	0.06	0.08	0.10	0.06	0.06	0.07	0.06	0.07	0.07	0.07	0.07	0.07
End of Period Exchange Rate	138.20	141.80	142.60	142.75	144.50	145.45	146.50	147.7	148.0	148.0	148.0	148.0	148.0

Sources: Data provided by the Kazakhstan authorities; and Fund staff estimates and projections.

1/ Includes gold valued at $270 per fine ounce.

Table 5. Kazakhstan: Balance of Payments, 1998-2006
(In millions of U.S. dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
		Actuals				Projections			
CURRENT ACCOUNT	-1225	-37	923	-744	-1123	-710	-454	-113	85
Trade balance	-801	478	2946	1200	498	891	1127	1393	1646
Exports (f.o.b.) 1/	5871	6123	9795	9622	9539	10462	11356	12535	14015
Oil and gas condensate	1650	2174	4682	4458	4065	4659	5263	6138	7298
of which: estimated underinvoicing of exports 1/	...	134	180	196	120	80	60	40	0
Non-oil exports	4220	3948	5113	5164	5474	5802	6093	6397	6717
Imports (f.o.b.)	-6672	-5645	-6849	-8422	-9041	-9571	-10229	-11142	-12369
Services and income balance	-546	-671	-2223	-2119	-1741	-1721	-1701	-1626	-1681
Services, net	-250	-171	-1031	-939	-644	-590	-569	-524	-559
Income, net	-296	-500	-1192	-1179	-1096	-1131	-1132	-1102	-1123
of which: income to direct investors	-97	-274	-928	-984	-892	-966	-1036	-1076	-1109
Current transfers	122	157	200	175	120	120	120	120	120
CAPITAL AND FINANCIAL ACCOUNT	1889	926	1059	987	1303	900	639	468	271
Capital transfers, net	-369	-234	-291	-200	-200	-300	-300	-300	-300
Foreign direct investment, net	1143	1583	1245	2351	1995	1800	1706	1434	1376
of which: amortization of intra-company liabilities	-81	-212	-1418	-1550	-1600	-1600	-1650	-1700	-1750
Portfolio investment, net	62	-46	-62	-1281	-435	-149	-609	-238	-420
of which: National Fund (incl. interest)	...	...	...	-1373	-285	-149	-209	-238	-270
public sector Eurobonds, net	-47	34	11	-64	-150	0	-300	0	0
Other investment									
Medium- and long-term loans and credits, net	696	201	268	258	222	360	374	352	337
of which: disbursement to the central gov., incl. gg debt 2/	2426	411	331	376	276	419	398	349	350
of which: cent. gov. amortization, incl. gg debt and excl. eurobonds	-1914	-257	-227	-250	-201	-232	-214	-205	-240
Short-term and other capital, net	358	-580	-102	-141	-279	-811	-532	-780	-723
of which: estimated capital flight 1/	...	-134	-180	-196	-120	-80	-60	-40	0
Errors and omissions	-1088	-667	-1402	181	0	0	0	0	0
OVERALL BALANCE	-423	222	580	424	180	190	185	355	356
FINANCING	423	-222	-580	-424	-180	-190	-185	-355	-356
Net international reserves of the NBK	423	-222	-580	-424	-180	-190	-185	-355	-356
of which: Fund credit	122	-176	-430	0	0	0	0	0	0
MEMORANDUM ITEMS									
				(In percent of GDP)					
Current account	-5.6	-0.2	5.1	-3.6	-4.9	-2.9	-1.7	-0.4	0.3
Exports 1/	26.6	36.1	53.6	47.1	41.5	42.9	43.7	44.7	46.0
of which: oil exports	7.5	12.8	25.6	21.8	17.7	19.1	20.3	21.9	24.0
Imports	30.2	33.3	37.5	41.2	39.4	39.2	39.4	39.8	40.6
External debt	44.8	71.0	68.8	69.2	66.7	68.3	67.4	66.2	63.6
excluding intra-company loans	29.5	34.6	31.7	30.5	27.9	28.2	26.7	26.4	25.2
				(Annual percentage change)					
Exports 1/	-14.9	4.3	60.0	-1.8	-0.9	9.7	8.5	10.4	11.8
non-oil exports	-19.3	-6.4	29.5	1.0	6.0	6.0	5.0	5.0	5.0
Imports	-7.0	-15.4	21.3	23.0	7.4	5.9	6.9	8.9	11.0
Exports of crude oil and gas condensate (million tons)	20.4	23.7	29.3	32.9	39.3	44.6	49.9	57.7	68.3
NBK gross international reserves (millions of U.S. dollars)	1964	2003	2096	2520	2700	2890	3075	3430	3786
in months of imports of goods and services	3.0	3.6	2.8	2.9	2.9	3.0	3.0	3.1	3.1
National Fund (incl. interest), end of period stock (millions of U.S. dollars)	...	...	...	1373	1658	1807	2016	2254	2523
Public external debt service in percent of exports of g&s	7.7	11.8	8.3	4.6	7.5	4.1	5.9	2.9	2.8
World oil price (U.S. dollars per barrel)	13.1	18.0	28.2	24.3	19.0	19.0	19.0	19.0	19.0
Unadjusted export data									
Exports (millions of U.S. dollars, f.o.b.) 1/	5871	5989	9615	9426	9419	10382	11296	12495	14015
of which: oil and gas condensate exports	1650	2040	4502	4262	3945	4579	5203	6098	7298
Current account (millions of U.S. dollars)	-1225	-171	743	-940	-1243	-790	-514	-153	85
Current account (percent of GDP)	-5.6	-1.0	4.1	-4.6	-5.4	-3.2	-2.0	-0.5	0.3

Sources: Data provided by the National Bank of Kazakhstan, Ministry of Finance, and Fund staff estimates.

1/ Staff estimates reflect adjustments to oil and gas condensate exports. Customs data on unit prices for oil exports to CIS countries are lower than world prices and assumed by staff to reflect estimated capital flight from underinvoicing as shown in the capital account. Total export value excluding this adjustment is shown above as a memorandum item, together with a corresponding change in the current account.

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

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Washington, D. C. 20431 USA

IMF Concludes 2001 Article IV Consultation with the Republic of Kazakhstan

On January 23, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Kazakhstan.[1]

Background

Kazakhstan's economic performance has improved markedly, since late-1999, owing to both a much more favorable external environment and prudent macroeconomic policies. Driven by the strong growth in the petroleum sector and associated spillover effects, real GDP growth in 2001 is expected to be around 13 percent. Inflation has declined further to 6.4 percent in December (year-on-year). Gross international reserves of the National Bank of Kazakhstan (NBK) have risen to $2.5 billion, which provides for about three months import coverage. In addition, the government's assets in the newly created National Fund for the Republic of Kazakhstan (NFRK), have reached $1.24 billion (6.4 percent of GDP) at end-December 2001. Petroleum production has been rising at around 15 percent per annum and the oil sector alone, including transportation, now accounts for approximately one quarter of GDP. The recent opening of the Caspian Pipeline Consortium has considerably boosted export capacity and lowered export costs.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The general government surplus is projected to be about 3.3 percent of GDP in 2001 (including revenues transferred to the NFRK of about 4 percent of GDP), on account of higher oil revenue, but also reflecting economic buoyancy. Revenue is projected to reach 27.1 percent of GDP, up from 21.7 percent of GDP in 2000; about two-thirds of this increase is from petroleum. Nonoil tax receipts have been buoyant—rising a projected 20 percent for 2001, in part as a result of the conversion of the VAT for trade with the CIS to the destination principle (excluding energy products). From July 1, the VAT rates were unified at 16 percent and the social tax rate was reduced to 21 percent from 26 percent. The nonoil fiscal deficit is projected to increase to about 4 percent of GDP in 2001. Expenditure and net lending has risen almost by 2 percentage points of GDP, or by about 14 percent in real terms.

Public external debt stabilized at $4.0 billion at end-2000—about 21.8 percent of GDP and has declined in 2001 to just under 20 percent of GDP. Reflecting the improved fiscal position, net domestic debt has also declined significantly to about 0.7 percent of GDP at end-November 2001. The net external debt of the government and NBK, reflecting the build-up of foreign reserves and assets in the NFRK is projected to be below 1 percent of GDP at end-2001.

The Kazakh economy experienced substantial financial deepening since 2000. The stock of broad money (including foreign exchange deposits) increased by 45.9 percent in 2000. Continuing this trend, end-November 2001 broad money was up 35.9 percent over the year, almost entirely due to strong deposit growth. Reflecting the growth of deposits, banking system credit to the economy grew by 82 percent in 2000, and by a further 55 percent in 2001, through end-September. Interest rates on both deposits and loans have declined gradually since 1999, although the spread has remained at about 3–4 percentage points.

Following the floating of the tenge in April 1999, the nominal exchange rate has stabilized. While the real exchange rate to the U.S. dollar has been quite stable, the tenge has depreciated steadily in real terms against the Russian ruble, thus supporting the competitiveness of Kazakhstani industry versus their main trading partner, Russia. The real effective exchange rate appreciated about 7 percent through early 2000 from a trough in October 1999 and has remained broadly stable since then.

Kazakhstan's external position recorded a very strong improvement in 2000. The current account surplus rose sharply to an estimated 5.1 percent of GDP, with exports growing at an annual rate of 60 percent, largely on account of petroleum and mineral price and volume rises. Imports rose by 21 percent. The external current account has deteriorated sharply in 2001 to a projected deficit of about 3.6 percent of GDP, reflecting declining petroleum and mineral prices, but also surging imports, reflecting the spike in foreign direct investment in the petroleum sector and higher consumer income. Against this background, and the sizeable increase in net wealth, major rating agencies have raised Kazakhstan's credit rating on sovereign foreign currency liabilities several times (most recently in July) and spreads on Kazakhstan Eurobonds have fallen by one half to around 200 basis points.

A new tax code signed into law in June 2001. A number of exemptions were removed and all taxes and obligatory payments to the budget are now included in the tax code. Limited progress in large-scale privatization has been recorded in the past two years and the government maintains significant minority shareholdings in a broad cross section of industry. Trade policy reforms, tariff rationalization in particular, have been only very partially implemented. The average tariff rate has risen somewhat to 7.9 percent. There has been slow progress on World Trade Organization accession. In the financial sector, the NBK absorbed the National Securities Commission at mid-year, and is expected to become a unified financial sector supervisory agency, covering banks, insurance, pension funds, and nonbank financials.

Executive Board Assessment

Directors commended the authorities for the markedly improved macroeconomic performance in 2000–01, reflected in continued strong growth, the reduction of inflation to single digits, stability in the foreign exchange market, and the increased stock of international reserves and foreign assets. Directors noted that, although a favorable external environment, including high oil prices, contributed to such a positive outcome, the prudent stance of macroeconomic policies adopted by the authorities played an important role. Directors considered that Kazakhstan is in a much better position now to confront a downturn in the external environment; nevertheless, they stressed the need to consolidate the recent gains and strengthen the basis for sustained, diversified economic growth by stepping up the implementation of structural reforms.

Directors agreed that prudent fiscal policy had played a vital role in preventing excess demand pressures, avoiding inflation and a real appreciation of the exchange rate, and building confidence in the economy. They commended the authorities for saving the higher than expected fiscal revenue over the past two years. Directors welcomed the continued fiscal prudence in the 2002 budget, and the authorities' commitment to reduce government spending if oil revenue is lower than targeted but stressed that social spending should be protected. However, they observed that while rising oil production is expected to impact favorably on the budget, the authorities need to be mindful of the increasing vulnerability of the budget to oil revenue fluctuations and thus of the evolution of the non-oil fiscal balance. In this context, they stressed the importance of setting the budget in a medium-term context, broadening the base of non-oil revenues, and managing public resources efficiently and conservatively.

Directors welcomed the structural initiatives being taken to further strengthen fiscal performance, including the adoption of a new tax code, a switch to the destination principle for VAT, changes to intergovernmental revenue- sharing rules, and the modernization of treasury operations. However, they noted that there is scope to further strengthen the budgetary process and tax administration, especially customs administration, and to enforce collection of excise taxes on petroleum products.

Directors were encouraged by the initial experience of the NFRK which has facilitated the prudent stance of fiscal and monetary policies, bolstered the credibility of the exchange rate policy, and contributed to increased transparency and accountability in the budgetary process and in the management of the oil wealth. They recommended that the authorities simplify the NFRK's operating rules and to ensure that all flows to and from the NFRK are duly recorded in the treasury.

Directors endorsed the stance of monetary policy pursued in 2001 as it had succeeded in lowering inflation, preserving the competitiveness of the economy, and sterilizing oil-related foreign exchange inflows. Although the need for sterilization has lessened considerably with the advent of NFRK, Directors were of the view that, given the rapid growth in the economy and the prospects for strong foreign exchange inflows, the authorities need to carefully monitor monetary growth and price movements. While agreeing that the existing exchange rate policy of intervening when necessary to moderate appreciation of the currency is generally appropriate, Directors recommended that the authorities guard against reigniting inflationary pressures. In light of the positive role the managed float has played so far, Directors also advised the authorities to proceed cautiously in shifting to inflation targeting.

Directors welcomed the continued process of financial deepening. Nevertheless, they cautioned that the recent very rapid increase in credit may be of concern with regard to credit quality and risk. Directors welcomed the establishment of a unified supervisory institution, and urged the NBK to introduce measures aimed at strengthening prudential regulations, limiting risk, and putting in place effective consolidated supervision. They supported the authorities' gradual approach to capital account liberalization and welcomed the high priority the authorities have placed in supporting international efforts to prevent money laundering.

Directors noted that structural reforms are the key to preserving the macroeconomic stabilization gains, enhancing long-term sustained economic growth, and reducing the economy's external vulnerability by creating a diversified production base. In particular, policy efforts are required to address efficiency concerns and to build an environment conducive to private sector development. In this connection, Directors stressed the importance of good corporate governance and transparency, including by improved and effective regulation and reduced barriers to entry. They welcomed the sale of remaining state-owned minority stakes and urged the authorities to complete large-scale privatization.

Directors encouraged the authorities to accelerate reforms for firms, including public enterprises, to adopt international accounting standards which would help develop a capital market. They also encouraged the authorities to promote free trade, facilitate trade in the region, and actively pursue their request for accession to the WTO.

Directors welcomed the recent efforts to improve macroeconomic statistics, particularly the increased coverage of the petroleum sector, and the authorities' decision to conduct statistical and fiscal Reports on the Observance of Standards and Codes in the near future.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Kazakhstan: Selected Economic Indicators

	1996	1997	1998	1999	2000	2001 Prel. Est.	
			(Changes in percent)				
Real economy							
Real GDP	0.5	1.7	-1.9	2.7	9.8	13.2	
CPI (end-of-period)	28.7	11.2	1.9	17.8	9.8	6.4	
			(In percent of GDP)				
Public finance							
Government revenue and grants	13.2	13.3	18.3	17.4	21.7	27.1	
Government expenditures	18.6	20.1	26.1	22.1	22.9	24.2	
General government balance 1/	-5.3	-6.9	-7.8	-4.7	-1.2	3.3	
General government debt (end-of-period) 2/	...	...	22.7	30.6	25.2	22.7	
			(Changes in percent)				
Money and Credit							
Base money	26.4	42.0	-29.0	56.9	5.3	30.9	
Broad money	13.8	29.2	-14.1	84.4	45.9	35.9	3/
Banking sector credit to the economy	-11.5	23.4	39.9	50.9	81.8	55.0	4/
Yield on three-month treasury bill, percent per annum (end-period) 5/	32.3	16.1	25.8	16.6	6.8	4.7	
			(In percent of GDP)				
Balance of Payments							
Trade balance	-1.6	-1.2	-3.6	2.8	16.1	5.9	
Current account balance 6/	-3.6	-3.5	-5.6	-0.2	5.1	-3.6	
External public debt	18.7	20.6	17.9	23.8	21.8	19.9	
Gross international reserves							
In millions of US$, end of period	1,961	2,252	1,964	2,003	2,096	2,506	
In months of imports of goods and nonfactor Services	3.1	3.3	3.0	3.6	2.8	2.9	
Exchange Rate							
End-of-period level (Tenge/US$)	73.8	75.9	84.0	138.3	145.4	150.9	
Real exchange rate vis-à-vis U.S. dollar 7/	7.9	6.7	-9.4	-30.1	1.0	-0.3	
Real exchange rate vis-à-vis Russian Ruble 7/	9.5	4.8	72.9	-31.4	-9.4	-7.6	

Sources: Kazakhstani authorities; and IMF staff estimates.

1/ This definition of the general government balance treats revenue from privatization as a financing item and is measured from below-the-line financing which includes the statistical discrepancy.
2/ Gross domestic and external debt. Domestic government debt of 2001 is at end-November.
3/ At end-November (year-over-year).
4/ At end-September (from January).
5/ Yield of 2001 reflects the latest issue in October 2001.
6/ Reported figures for the 1999–2001 current account have been adjusted for staff estimates of the underinvoicing of exports.
7/ End-of-period from end of previous year. A negative sign indicates a depreciation.