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Republic of Kazakhstan: 2004 Article IV Consultation—Staff Report; 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 2004 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 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **April 30, 2004,** 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 June 28, 2004.** 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 Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its July 21, 2004** discussion of the staff report that concluded the Article IV consultation.

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

Selected Issues Paper
Statistical Appendix

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 2004 Article IV Consultation

Prepared by Staff Representatives for the
2004 Consultation with the Republic of Kazakhstan

Approved by Mohsin S. Khan and Martin Fetherston

June 28, 2004

- **The 2004 Article IV consultation mission took place in Astana and Almaty during April 15–30, 2004.** The mission met with Assistant to the President Marchenko, Governor of the National Bank of Kazakhstan (NBK) Saidenov, Minister of Finance Dunaev, Minister of Economy and Budget Planning Kelimbetov, Chairman of the Financial Supervision Agency Zhamishev, as well as senior officials from the Ministries of Agriculture, Energy, Industries and Trade, and Labor and Social Protection. The mission also met with representatives from parliament, the business community, commercial banks, and other members of civil society.
- The team consisted of Mr. Berengaut (head), Mr. P. Keller, Ms. Elborgh-Woytek, Mr. Lohmus, Mr. Kisinbay (EP) (all MCD), and Mr. Yang (PDR). Mr. Saudabaev, Assistant to the Executive Director, participated in some of the discussions.
- **Over the last ten years, Kazakhstan had one SBA followed by two EFF arrangements.** Only one purchase was made under the first EFF and none under the second EFF. In May 2000, all outstanding credit to the Fund was repaid and no reviews under the second EFF were completed, although the arrangement was only formally cancelled in February 2002. In the context of the Ex-Post-Assessment, the mission discussed with the authorities their views on Kazakhstan's experience with Fund-supported programs.
- **Kazakhstan accepted the obligations of Article VIII, Sections 2, 3, and 4 in 1996 and maintains an exchange system free of restrictions for current international transactions.** Capital account restrictions are administered liberally.
- **The quality and coverage of economic data is generally adequate for macroeconomic policy assessment** (Appendix V). In March 2003, Kazakhstan subscribed to the Special Data Dissemination Standard (SDDS).
- **Kazakhstan has made good progress in implementing standards and codes.** In 2003, the Staff Report for the Article IV Consultation (IMF Country Report No. 03/210), the Selected Issues and Statistical Appendix (IMF Country Report No. 03/211), and the reports for the data module ROSC (IMF Country Report No. 03/78) and the fiscal ROSC (IMF Country Report No. 3/100) were published. The authorities agreed to the publication of the report for the 2004 FSAP update.
- It is proposed that Kazakhstan remain on the standard 12-month consultation cycle.

Contents Page

Text Tables

Text Figures

Appendices

Kazakhstan: Basic Data

Social and demographic indicators

Area	2,725,000 sq. km.
GDP per capita (2003, in U.S.dollars)	2,001
Population (end-2002)	14.9 million
Life expectancy at birth (2002)	61.7

	1999	2000	2001	2002	2003	2015
			(In percent)			
Real GDP growth	2.7	9.8	13.5	9.8	9.2	
Inflation (CPI, e.o.p.)	17.8	9.8	6.4	6.6	6.8	
Broad money growth	84.4	45.9	42.8	34.1	26.8	
Monetization ratio (broad money/GDP)	13.5	15.4	17.5	20.3	21.8	
Money multiplier (ratio)	2.1	3.0	3.2	3.7	3.1	
3-month treasury bill rate (year-end) 1/	16.6	7.0	5.4	5.8	5.0	
			(In percent of GDP)			
Government revenue and grants	17.5	21.7	25.6	22.5	26.3	
Government expenditures and net lending	22.7	22.5	22.9	21.0	23.3	
Overall balance (cash basis)	-5.0	-0.8	2.6	1.4	3.0	
Current account balance (in millions of U.S.dollars)	-36.7	768.3	-895.9	-862.0	-69.0	
Current account balance (in percent of GDP)	-0.1	4.2	-4.0	-3.5	-0.2	
Gross official reserves (in billions of U.S.dollars)	2.0	2.1	2.5	3.1	5.0	
Gross official reserves (in months of imports) 2/	3.6	2.8	2.9	3.3	4.5	
			(In tenge per U.S. dollar)			
Exchange rate (period average)	120.1	142.3	146.9	153.5	149.5	
			(In billions of tenge)			
GDP	2,016	2,600	3,251	3,776	4,450	
Quantitative Millennium Development Goals (in percent, unless otherwise indicated)						
Extreme poverty 3/	...	...	28.4	...	...	...
Hunger 4/	...	...	11.7	...	...	...
Universal primary education 5/	...	...	99.8	...	...	100.0
Gender equality 6/	...	...	100.0	...	...	100.0
Maternal health 7/	...	61.6	...	...	...	13.8
Child mortality 8/	...	...	22.8	...	...	11.3

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

1/ NBK notes as from 2001.
2/ Goods and nonfactor services.
3/ Proportion of population below subsistence minimum. Goal to halve share of population living on less than one dollar per day between 1990 and 2015.
4/ Proportion of people lacking balanced nutrition. Goal to halve share of population whose income is below food basket between 1990 and 2015.
5/ Net enrollment ratio in primary education.
6/ Ratio of young literate females to males.
7/ Maternal mortality rate per 100,000 live births.
8/ Under 5 mortality rate per 1,000.

EXECUTIVE SUMMARY

Kazakhstan's economy continues to grow rapidly, driven by the expansion of the oil sector, and supported by a favorable external environment as well as prudent macroeconomic policies. The medium-term outlook remains highly favorable, as large-scale investment continues to flow to the oil and gas sectors. Prospects have improved further following recent agreements with Russia and China on oil and gas pipelines, aimed to enhance Kazakhstan's market access.

With upward pressures on energy prices, the challenges of oil inflows for the mix of macroeconomic policies may become increasingly difficult. The authorities have eased their tight fiscal stance with the 2004 budget. While this relaxation is welcome, greater spending efficiency needs to be encouraged by developing institutional capacity. The authorities should be prepared to sharply reduce foreign exchange market interventions by the NBK in order to keep inflation stable. The National Fund of the Republic of Kazakhstan (NFRK) will continue to play a crucial role in safeguarding Kazakhstan's mounting oil wealth.

To avoid overdependence on the oil sector, the economy should be diversified by improving the investment climate, in particular for small and medium-scale enterprises. The authorities are encouraged to pursue their structural reform agenda, including trade liberalization, more vigorously.

I. Introduction

1. **The 2003 Article IV consultation with Kazakhstan was completed on May 28, 2003.**[1] Executive Directors commended Kazakhstan's strong macroeconomic performance, also resulting from sound macroeconomic policies and early implementation of first-generation structural reforms. Directors encouraged the authorities to accelerate the structural reform agenda in order to improve the investment climate, and to seek early accession to the WTO. They agreed that a key challenge over the medium term will be the continued effective management of rapidly rising oil revenues, in view of both intergenerational considerations and the urgent need to reduce wide-spread poverty. In this context, Directors supported the easing of the fiscal stance, reflected in substantial expenditure increases in the 2004 budget and the tax rate cuts scheduled for January 2004. Directors noted that the NFRK had eased the burden on monetary policy. In view of Kazakhstan's strong balance of payments position, they encouraged the authorities to allow some appreciation of the tenge.

II. Recent Economic Developments

A. Growth and Inflation

2. **Kazakhstan's economy is booming, with average annual growth of more than 10 percent over the past three years,[2] and an estimated 9.1 percent in the first quarter of 2004.** Economic growth has been driven by increasing oil production, supported by high oil prices and rising foreign investments. The production of oil and gas condensate reached 51.3 million tons in 2003, an increase of 9 percent over the preceding year. Led by the petroleum sector, other key sectors such as services, manufacturing, and construction have also shown significant gains, with an average growth rate of 9 percent during 2000–03. Following strong increases in earlier years, the

Selected Macroeconomic Indicators, 2000–03
(Percentage change; unless otherwise indicated)

	2000	2001	2002	2003 Prel.
CPI (end of period)	9.8	6.4	6.6	6.8
Real GDP growth	9.8	13.5	9.8	9.2
Reserve money growth	5.3	30.9	18.2	52.2
Broad money growth	45.9	42.8	34.1	26.8
Broad money velocity (annual average)	7.7	6.7	5.7	5.1
	(In percent of GDP)			
General government balance	-0.8	2.6	1.4	3.0
Revenue and grants	21.7	25.6	22.5	26.3
Total expenditures and net lending	22.5	22.9	21.0	23.3
External current account balance	4.2	-4.0	-3.5	-0.2
FDI, net	7.0	13.8	10.5	7.0
	(In millions of U.S. dollars)			
NBK gross reserves	2,096	2,508	3,136	4,961
National Fund of the Republic of Kazakhstan	…	1,240	1,917	3,603
Public and publicly guaranteed external debt	3,929	3,800	3,501	3,631
Memorandum items:				
Nominal GDP (in billions of tenge)	2,600	3,251	3,776	4,450
Oil price (in U.S. dollars per barrel)	28.2	24.3	25.0	28.9

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

[1] The Staff Report was published on July 18, 2003 as IMF Country Report No. 03/210 and the Selected Issues and Statistical Appendix on July 18, 2003 as IMF Country Report No. 03/211.

[2] During this period, non-oil GDP grew by 9.3 percent on average.

agricultural sector grew only marginally in 2003, as a result of poor weather. Over the past three years, inflation has remained below 7 percent.

3. **Labor market trends have been favorable, with significant gains in employment since 2000.** In 2003, the unemployment rate fell from 9.3 percent to 9.0 percent. Real wages have grown in line with real GDP, averaging about 10 percent during 2000–03. Notwithstanding the reduction in the share of the population living below the poverty line from 34 percent in 1998 to 25 percent in 2003, poverty remains a serious problem, in particular in rural areas and among the elderly.

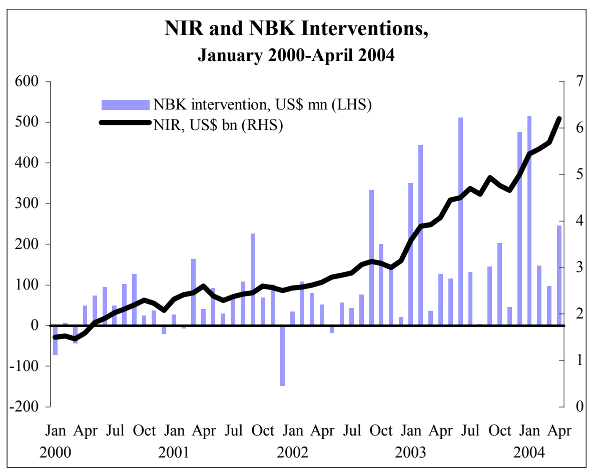
B. Monetary and Exchange Rate Developments

4. **Growth in monetary and credit aggregates remained high in 2003, mainly as a result of unsterilized foreign exchange purchases by the NBK.** Inflation pressures have remained subdued owing to ongoing remonetization with the ratio of M3 to GDP reaching 22 percent in 2003.[3] The rate of credit growth reached 46 percent on an annual basis at end-2003, owing in part to higher credit extended to small- and medium-scale enterprises, In spite of this high growth rate, Kazakhstan's credit-to-GDP ratio remains significantly below the level in more advanced transition economies. Due to the availability of longer-term financing, domestic maturities have increased to as long as 8–10 years on some loans. Although the commercial banks remain highly liquid, the NBK reduced its refinance rate by half a percent to 7 percent in mid-2003. However, the economic relevance of monetary policy instruments, including interest rates, remains very limited. Lending and deposit rates declined somewhat in 2003 (the latter turning negative in real terms), with continued significant spreads resulting from uncertainties in the legal environment and slow structural reforms. A reduction in foreign currency cash holdings likely took place as a result of the appreciation of the tenge, although

Credit Growth and Credit-to-GDP Ratio
in Selected Transition Economies, 2001–03

	Annual Change in Credit-to-GDP Ratio				Credit-to-GDP Ratio
	2001	2002	2003	Average 2001–03	2003
	(In percentage points)				(In percent)
Estonia	3.6	6.9	9.0	6.5	59.4
Hungary	0.8	0.5	10.8	4.0	41.7
Kazakhstan	4.8	2.8	4.4	4.0	23.0
Latvia	4.4	6.1	9.3	6.6	38.3
Lithuania	2.4	2.5	7.5	4.1	23.3
Russia	3.2	1.2	3.2	2.5	20.8
Ukraine	2.1	4.8	7.8	4.9	27.1

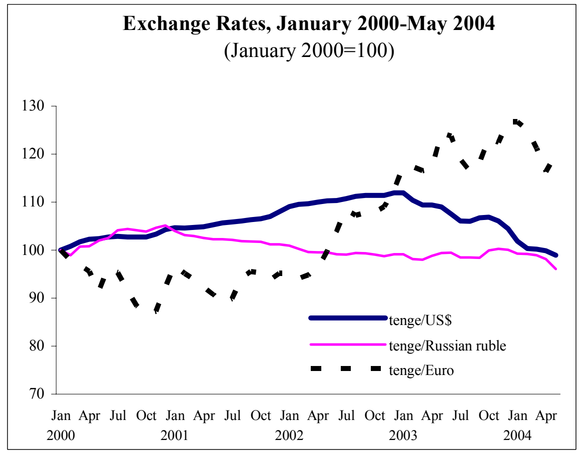
Source: Fund staff estimates.

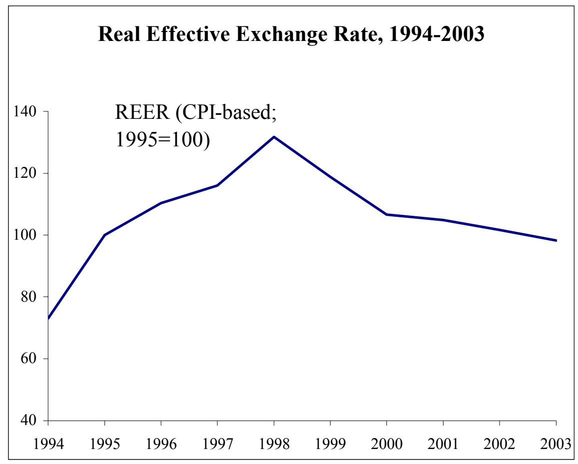


[3] The equivalent ratios are 30 percent in Russia on the one hand, and about 10 percent in Uzbekistan on the other.

supporting data for such a portfolio shift were not available. Deposit dollarization declined significantly from 60 percent at end-2002 to 45 percent in early 2004.

5. **Following the adoption of a new monetary policy framework in 2003, the NBK now treats price stability as the key monetary policy objective.** However, the NBK also continues to monitor closely the development of the real exchange rate of the tenge against a basket of 24 currencies of key trading partners. NBK purchases of foreign exchange, aimed to prevent the rapid appreciation of the tenge, reached the equivalent of 9 percent of GDP in 2003. Since the beginning of 2003, reflecting the movements in the U.S. dollar/euro rate, the tenge has appreciated against the U.S. dollar by about 13 percent, but depreciated sharply against the Euro. The tenge remained largely stable against the Russian ruble during 2001–03, but appreciated against this currency by 4 percent in early 2004.





C. Fiscal Developments

6. **With a general government surplus of 3 percent of GDP in 2003, fiscal policy continued to play a key role in containing aggregate demand, which helped to reduce inflationary pressures in the presence of large capital inflows.** Measured by the non-oil budget deficit, the fiscal stance remained largely unchanged compared to 2002. Revenues reached 26.3 percent of GDP, increasing by 4 percentage points over the previous year. The strong performance was supported by an increase in non-oil sector revenues resulting from higher corporate profitability in non-oil industries and the services sector, and one-off payments

General Government Fiscal Operations, 2000–03
(In percent of period GDP)

	2000	2001	2002	2003 Prel.
Total revenues and grants	21.7	25.6	22.5	26.3
of which: Oil revenue	3.3	5.8	4.4	6.2
Total expenditures and net lending	22.5	22.9	21.0	23.3
Current expenditure	21.8	19.5	17.2	17.2
Capital expenditure	1.6	0.6	3.3	5.0
Net lending	0.9	0.6	0.5	1.1
Overall budget balance (cash)	-0.8	2.6	1.4	3.0
Financing	1.2	-2.9	-1.8	-2.7
Domestic financing (net)	-0.8	-0.7	1.7	1.6
Foreign financing (net)	1.2	0.9	-1.5	0.2
Privatization receipts	0.8	2.5	0.5	1.3
NFRK	…	-5.6	-2.5	-5.7
Other capital operations	0.0	0.0	0.0	-0.2
Statistical discrepancy	0.4	-0.3	-0.4	0.2
Memorandum items:				
Oil price (in U.S. dollars per barrel)	28.2	24.3	24.9	28.9
Non-oil balance	-4.1	-3.1	-3.0	-3.2

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

related to the oil and gas sectors. The rise in expenditures by 2.3 percent of GDP was mainly driven by higher outlays for infrastructure, and construction of the new capital Astana, which accounted for 1.5 percent of GDP. Capital injections to state-owned development institutions were also significant, while the increase in social spending remained limited. A substantial share of the fiscal surplus and privatization receipts was saved in the NFRK (Box 1).

7. **Despite a reduction in tax rates, equivalent to an estimated 1.5 percent of GDP, budget revenues remained strong in the first quarter of 2004.** The VAT rate was reduced from 16 percent to 15 percent and the highest personal income tax rate from 30 percent to 20 percent, with an increase in minimum thresholds. Moreover, a social tax rate reduction from a flat 21 percent to a regressive rate from 7 percent to 20 percent was introduced. The authorities have redirected a substantial share of tax revenues from mining and oil operations—previously earmarked for the NFRK—to the financing of the 2004 budget. New rules for the taxation of oil and mining revenues, introduced in January 2004, were expected to increase the government's share in resource-based revenues. However, the impact of these changes will be delayed as existing contracts remain subject to the old tax regime. The new single treasury account became fully operational on May 1, 2004.

Box 1. The National Fund of the Republic of Kazakhstan (NFRK)

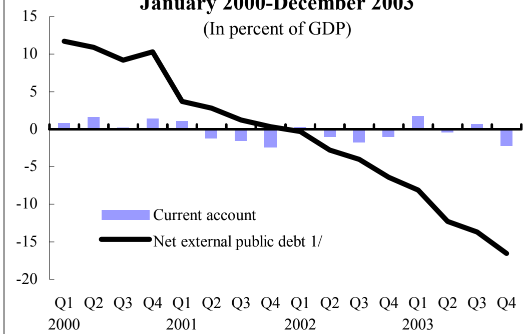
Faced with a surge in foreign exchange earnings from higher oil production and prices, the authorities established the NFRK in 2001 to reduce the impact of volatile market prices of natural resources on the economy, and to smooth the distribution of oil-wealth over multiple generations. The NFRK is domiciled in the NBK, which has the responsibility of managing its assets on behalf of the government. All NFRK assets are invested exclusively abroad. As of end-May 2004, $3.7 billion (equivalent to 10 percent of GDP) were accumulated in the fund.

The mechanics of assigning flows into the NFRK remain quite complex and the mission has suggested simplifications in line with moving to non-oil deficit targeting. Initially, the authorities identified 14 major companies in the natural resources sector, revenues from which were subject to transfer to the NFRK. The number of entities was reduced to 7 in early 2004, and the list was limited to petroleum companies. The income of the NFRK is reinvested.

D. External Sector Developments

8. **The current account was essentially balanced in 2003, improving by more than 3 percent of GDP compared with the previous year.** Exports of goods and services increased sharply because of higher oil and metal prices and an increase in non-oil export volumes of 14 percent, while the expansion of imports kept pace with GDP growth.[4] Gross FDI inflows reached a record level, although net inflows rose only slightly as a result of accelerated debt repayments by foreign investors. External borrowing by commercial banks and domestic enterprises increased substantially (with domestic lending becoming increasingly diversified in terms of sectors), leading to a surplus of 9 percent of GDP in the capital and financial account. Official international reserves increased to $6.5 billion at end-May 2004, equivalent to 4.5 months of import coverage; in addition, the NFRK balance reached $3.7 billion. Public external debt rose somewhat in U.S. dollar terms, but fell to 12 percent of GDP, continuing the trend seen over the past few years. Kazakhstan's official sector became more significant as a net creditor to the rest of the world. Standard & Poor's upgraded Kazakhstan's Foreign Currency Sovereign Credit Rating to investment grade/BBB- in May 2004.

Current Account and Net External Debt, January 2000-December 2003
(In percent of GDP)



1/ Public and publicly guaranteed external debt minus NFRK assets and gross official reserves.

E. Structural Policies

9. **Structural reforms are well advanced compared to other countries in Central Asia, but the implementation of the reform agenda has slowed somewhat since 2000.** Outside the oil sector, the business climate remains difficult, notably for small- and medium-scale enterprises and foreign investors; wide-spread corruption in law enforcement, customs, and tax authorities is often cited as a significant impediment to private sector development.

10. **Reforms of the financial sector were bolstered by the establishment of an independent Financial Supervisory Agency in early 2004.** Legislative reforms were carried further with the introduction of consolidated supervision requirements. The authorities have announced the privatization of the country's second largest pension fund. The recent Financial Sector Assessment Program (FSAP) update mission commended the positive developments since the 2000 FSAP, while highlighting some remaining risks to the financial sector (Box 2). In line with this mission's recommendations, a draft law on

[4] Kazakhstan's main trading partners are Russia, the European Union, and China, with a combined share of 41 percent of exports and 64 percent of imports in 2003.

Anti-Money-Laundering has been prepared and is likely to be submitted to parliament later this year.

Box 2. Key Findings of the Update of the Financial Sector Assessment Program (FSAP)

- The main risks in the banking sector include the credit risk, indirect exchange rate risk, and reliance on volatile wholesale funding.
- Lending and deposit rates declined somewhat in 2003, the latter turning negative in real terms. Continued significant spreads and high real lending rates are largely explained by uncertainties in the legal environment and slow structural reforms.
- The share of classified loans remains substantial, increasing from 29 percent of total loans at end-2002 to 39 percent at end-2003. The increase is largely the result of new stricter classification requirements. However, rapid credit growth continues to challenge the internal risk management capabilities of banks.
- Measures to reduce interest rates comprise disallowing interest deductions as a business expense and excluding deposits from insurance coverage if interest rates exceed certain limits.
- Financial sector legislative reforms are commendable, but implementation is lagging in some areas, such as consolidated supervision.
- Pension funds are currently focused on high returns through short-term investments. These risks have to be addressed by both regulators and market participants.
- Initiatives to prevent money laundering and financing of terrorism have been taken, but the legislative framework does not yet meet international standards. Concerns remain that the new AML/CFT law could undermine confidentiality and endanger confidence in the banking system.

11. **In June 2003, after an intense debate, a new Land Code was passed with the stated aim to create a functioning land market, and to promote private investment in agriculture.** Under the new law, users of land have until end-2004 to decide whether to purchase the land they are cultivating or use it as a contribution to the chartered capital of large farms. Some members of civil society noted the potential for misappropriation of land under this code. They were also concerned about adverse effects on those lacking financial resources to purchase land.

III. Policy Discussions and Outlook for the Remainder of 2004

A. Overview

12. **Kazakhstan's macroeconomic prospects are very positive.** Supported by a highly favorable external environment, real growth is expected to reach about 9 percent in 2004. The fiscal surplus will likely remain significant, despite recent tax cuts. The current account is expected to be balanced as substantial inflows from rising oil exports will likely be offset by increasingly negative services and income balances, largely as a result of higher outward

remittances, growing import demand for services associated with FDI, and repatriation of FDI earnings.

13. **Macroeconomic policy discussions with the authorities focused on the policy mix for 2004 and beyond.** The authorities have decided to relax their fiscal policy stance by expanding government spending on sectoral initiatives and social protection. The mission underlined that the strong record of macroeconomic performance since 2000—high growth, low inflation, and a stable exchange rate—was facilitated by rapid remonetization and budgetary surpluses resulting from tight fiscal policy. While remonetization could be expected to continue from its still modest level, the prospective easing of the fiscal stance will render the sterilization of oil inflows more difficult. The authorities were well aware of the macroeconomic consequences of the fiscal loosening. They noted that, even after taking it into account, the prospective inflows could be accommodated by a combination of greater exchange rate flexibility and stepped-up sterilization through the sale of NBK notes. The mission cautioned that with upward pressures on energy prices, the challenges of the oil inflows for the mix of macroeconomic policies would become increasingly difficult if the exchange rate were not allowed to appreciate.

14. **While expressing its support of the change in the fiscal stance, the mission raised concerns about expenditure priorities.** With the still low level of social protection, the expansion of programs for improving the health and education of the population was highly appropriate. However, the mission questioned the authorities' recent initiatives to become active in specific sectors through specialized financial institutions and funds, which in 2003 accounted for 6 percent of general government expenditure, and tax breaks for emerging processing industries. The authorities explained that these programs were geared to ensure diversification of the economy and that the private sector featured prominently in their implementation. They noted that they were adopting measures to reduce the associated risks of introducing distortions, and that the costs of tax breaks would be very limited. The programs, especially housing subsidies, remain controversial even within the government. Some officials stressed the political economy considerations of pre-empting populist pressures and developing a middle class with strong interest in property rights, while other officials criticized the open-ended nature of the program.

Medium-Term Macroeconomic Indicators, 2003–10

	2003	2004	2005	2006	2007	2008	2009	2010
	Prel.	Projections						
				(Annual change in percent)				
CPI (end of period)	6.8	6.5	6.0	5.5	5.4	5.3	5.2	5.0
Real GDP growth	9.2	9.0	8.0	8.0	7.5	6.5	7.5	7.5
Crude oil output	8.4	10.0	9.0	21.2	2.9	4.6	9.4	6.7
Reserve money growth	52.2	23.5	21.2	19.7	14.3	14.0	13.4	12.9
Broad money growth	26.8	26.0	24.0	22.1	15.2	14.9	14.3	13.9
Broad money velocity (annual average)	5.1	4.7	4.3	4.0	3.8	3.8	3.7	3.7
				(In percent of GDP)				
General government balance	3.0	2.3	1.6	1.1	0.4	-0.2	-0.2	-0.4
Non-oil balance	-3.2	-4.9	-4.9	-4.8	-4.8	-4.5	-4.2	-4.1
Revenues and grants	26.3	26.4	25.5	24.8	24.1	23.1	22.7	22.4
of which: Oil revenue 1/	6.2	7.2	6.6	5.9	5.2	4.3	4.0	3.7
Total expenditures and net lending	23.3	24.1	23.8	23.7	23.7	23.3	23.0	22.9
Allocated to NFRK (-=increase)	-5.7	-3.3	-2.4	-2.1	-1.1	-0.8	-0.8	-1.0
External current account balance	-0.2	0.1	-2.6	-2.0	-2.1	-4.1	-3.9	-3.8
FDI, net	7.0	5.7	5.1	4.6	4.0	4.2	4.0	3.6
				(In millions of U.S.dollars)				
NBK gross reserves	4,961	6,300	7,000	7,500	8,000	8,400	8,800	9,200
National Fund of the Republic of Kazakhstan	3,603	4,848	5,972	7,094	7,790	8,347	8,961	9,844
Public and publicly guaranteed external debt	3,631	3,384	3,367	3,392	3,420	3,441	3,222	3,316
Memorandum items:								
Nominal GDP (in billions of tenge)	4,450	5,180	5,936	6,770	7,663	8,586	9,700	10,959
Oil price (in U.S. dollars per barrel)	28.9	33.5	30.5	28.0	27.0	26.3	25.8	25.8

Sources: Kazakhstani authorities; and Fund staff estimates and projections.
1/ Includes one-off payments, such as discovery bonuses.

15. **The mission discussed with the authorities their views on Kazakhstan's experience with Fund-supported programs** (Box 3).The authorities' assessment of Kazakhstan's experience with Fund programs was generally favorable. However, they noted that performance criteria had in some cases been too detailed and that a streamlining of conditionality would have increased its effectiveness. More flexibility on the side of the Fund would have been helpful in complex negotiations and could have encouraged greater ownership. The staff believes that Fund supported programs have contributed to the development of macroeconomic policies that brought about stabilization and high economic growth, although implementation was uneven. Medium-term growth performance would have benefited from more vigorous completion of the structural reform agenda.

Box 3. Ex-Post Assessment of Longer-Term Program Engagement

During 1995–2000, the Fund approved one SBA and two EFF programs for Kazakhstan. Under the second EFF program no purchases were made, and in May 2000, Kazakhstan repaid all outstanding obligations to the Fund, amounting to SDR 295.8 million. In view of the country's very strong balance of payments position, it is not expected that Kazakhstan will request the use of Fund resources over the foreseeable future. Nevertheless, these programs were classified as longer-term program engagement.

- On June 5, 1995, the Executive Board approved a Stand-by arrangement for Kazakhstan in the amount of SDR 185.6 million, all of which were drawn.
- On July 17, 1996 the Fund approved a three-year Extended Fund Facility (EFF) arrangement for Kazakhstan in support of the government's medium-term economic reform program for 1996-98. Following the fifth review on December 15, 1998, several performance criteria were missed, and the sixth review under the arrangement was not completed, as an agreement on the measures necessary to bring the program back on track could not be reached. The arrangement expired on July 16, 1999. Of the total amount of the arrangement of SDR 309.4 million, SDR 154.7 million were drawn.
- On December 13, 1999 a second three-year EFF arrangement, in the amount of SDR 329.1 million, was approved by the Executive Board. The authorities treated this agreement as precautionary. Discussions on the completion of the first review, envisaged for end-June 2000, were not finalized. No review was completed and no purchases were made under the arrangement, which was cancelled in February 2002.

The authorities' assessment of Kazakhstan's experience with Fund programs was generally favorable. However, in terms of program design, they noted that performance criteria had in some cases been too detailed and that a streamlining of conditionality would have increased its effectiveness. Moreover, the authorities expressed concerns about the complexities of the negotiation process. Overall, more flexibility on the side of the Fund would have been helpful in negotiations and could have encouraged greater ownership.

Some officials raised questions about the Fund's immediate response to the 1998 Russian crisis, especially the support for large-scale interventions to support the tenge in late 1998 and early 1999. They noted that this policy had not prevented the sudden collapse of the national currency, with substantial real sector implications.

The staff believes that Fund supported programs have contributed to the development of macroeconomic policies that brought about stabilization and high economic growth. Moreover, the authorities were largely receptive to Fund policy advice, although it proved impossible to complete the first EFF. The policy dialogue, in combination with substantial technical assistance, supported the authorities' efforts to build institutional capacity at the National Bank of Kazakhstan and in the key ministries.

The authorities appreciated the Fund's contribution to the build-up of intellectual capacity in the NBK and the Ministry of Finance, and regretted the more limited availability of advice following the change to surveillance status.

Program implementation has at times been uneven. During the initial stage of Fund programs, cooperation with the authorities was affected adversely by lack of ownership of the program, largely as a result of vested interests. At a later stage, the completion of the review under the second EFF program was held up by lack of agreement on an appropriate macroeconomic framework and insufficient measures to address governance issues, especially with regard to the budgetary aspects of resource based operations. Overall, the staff believes that Kazakhstan would have benefited from more vigorous completion of the structural reform agenda, including decisive restructuring of enterprises and enhanced transparency in resource extraction.

As regards the effectiveness of Fund surveillance since the end of the active program engagement, the authorities' macroeconomic policies were largely in line with the views expressed by the Executive Board, although they resisted the appreciation of the tenge, thereby constraining monetary policy.

B. Monetary Policy and Exchange Rate Issues

16. **The authorities noted that they were comfortable with the current pace of monetary expansion, which they expect to slow somewhat in 2004.** Nevertheless, they were prepared to step up sterilization activities as necessary. In this context, NBK staff indicated that, in the absence of sufficient amounts of government paper, they would be ready to increase the amount of NBK notes issued to keep up with sterilization efforts, even beyond the limited amount budgeted for 2004.

17. **Against the backdrop of large oil-related inflows, the authorities acknowledged that a significant real appreciation of the tenge may become necessary.** They indicated that they were not at the current stage overly concerned about a potential strong real appreciation of the tenge over the medium-term as a result of higher oil revenues. They thought that, with appropriate policies, the ongoing modernization of the capital stock, including human capital, would result in productivity gains that would be sufficient to maintain competitiveness of the non-oil sector despite a real appreciation. For the period immediately ahead, the authorities noted that they would be prepared to adjust their intervention in the foreign exchange market as necessary to attain their inflation objective of 5–7 percent in 2004. The mission strongly endorsed the authorities' policy to allow greater exchange rate flexibility in order to strengthen the role of monetary policy.

18. **The authorities remained concerned about large-scale foreign borrowing by commercial banks on monetary policy grounds, and because of its impact on Kazakhstan's external debt profile.** Commercial banks have recently attracted external longer-term funding through syndicated loans, thereby complicating sterilization operations by the NBK. (In 2003, unaffiliated private sector debt increased by $3.2 billion.) While the authorities were willing to take measures to limit such borrowings, they found it difficult to implement them without affecting adversely the efficiency of the banking sector. Tax measures, which limit the tax-deductible share of the cost of foreign borrowing, were expected to yield first results by the end of the year. The authorities acknowledged that, in spite of these measures, large-scale external borrowing by banks may continue in view of the lower costs and longer maturities offered. The mission encouraged the authorities to consider increasing reserve requirements for funds borrowed abroad and supported their intention to liberalize capital outflows further.

19. **The authorities plan to adopt an inflation targeting regime by 2006.** To this end, the NBK has developed, together with the National Statistics Agency, a set of core inflation indices, which are monitored closely. The mission cautioned that, at this stage, the absence of a well established monetary policy framework, shallow financial markets, and the still low level of monetization, implying the potential for surprises in money demand, were likely to complicate monetary policy implementation. Moreover, large budget surpluses limited the amount of government paper available for liquidity operations. NBK staff were presently reviewing the development of new monetary instruments. The Ministry of Finance aimed to

issue 15-year bonds on a pilot basis later this year, and papers issued by the Development Bank and the Mortgage Bank could be used for Open Market Operations.

C. Fiscal Issues

20. **The budget for 2004 projected a surplus of 0.1 percent of GDP (based on an oil-price assumption of $22 per barrel).** In early June, the authorities passed a supplementary budget, based on an oil price of $27 per barrel, which provided for additional expenditures of 1 percent of GDP, mostly financing the government housing program and public sector investments in Astana and Almaty. In view of higher WEO price assumptions, the mission projects considerably larger revenues, resulting in a budget surplus of 2.3 percent of GDP. Compared to 2003, the non-oil budget deficit is expected to widen considerably. The mission encouraged the authorities to move to non-oil fiscal deficit targeting, which would moderate the impact of oil-revenue fluctuations on fiscal policy.[5] In view of the substantial tax reductions in early 2004, the mission urged the authorities to abstain from further tax rate cuts until the full effects of this year's measures can be assessed.

General Government Fiscal Operations, 2003–04

(In percent of GDP)

	2003	2004	
	Prel.	Staff Projections	Suppl. Budget
Total revenues and grants	26.3	26.4	24.4
of which: Oil revenue	6.2	7.2	…
Total expenditures and net lending	23.3	24.1	24.3
Current expenditure	17.2	18.9	19.1
Capital expenditure	5.0	4.2	4.3
Net lending	1.1	0.9	0.9
Overall budget balance (cash)	3.0	2.3	0.1
Financing	-2.7	-2.3	-0.1
Domestic financing (net)	1.6	1.7	2.3
Foreign financing (net)	0.2	-0.6	-0.6
Privatization receipts	1.3	0.0	0.0
NFRK	-5.7	-3.3	-1.7
Other capital operations	-0.2	-0.1	-0.1
Statistical discrepancy	0.2	0.0	0.0
Memorandum items:			
Oil price (in U.S. dollars per barrel)	28.9	33.5	27.3
Non-oil balance	-3.2	-4.9	…
Constant oil price (2003) overall balance	3.3	0.9	…

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

21. **While higher outlays on education, health, and social support were welcome, the composition of expenditures and their fast pace of increase for a second year raised concerns about their efficiency.** The mission emphasized the particular risks associated with the government's housing program, estimated to cost about 3 percent of GDP in direct construction financing. As the efficient

General Government Social Expenditure, 2001–06

(In percent of GDP)

	2001	2002	2003	2006 1/
Health	1.9	1.9	2.0	2.7
Education	3.3	3.2	3.3	3.7
Social security and social assistance	5.7	5.3	5.4	5.8
Memorandum items:				
Defence, public order, and security	3.0	3.1	3.2	…
Interest	1.2	1.0	0.8	…
Wage bill	3.3	3.5	3.4	…

Sources: Kazakhstani authorities; and Fund staff estimates.
1/ Medium-term fiscal policy plan for 2004-06.

[5] If the authorities were to choose a non-oil deficit target in line with permanent income, the sustainable general government budget deficit would be around 10 percent of GDP in 2004 and 2005 and would decline to around 5 percent by the end of the decade, assuming enhanced spending efficiency and stronger budgetary institutions (see Chapter V of the Selected Issues paper accompanying this report).

domestic use of rising oil revenues will require stronger budgetary institutions and continued budgetary reforms, the mission encouraged the government to make progress in this area and to engage with the World Bank on public expenditure reviews. The authorities noted the improvements to their expenditure management over the past years, which had reduced the share of unspent budgetary allocations to below 3 percent of planned expenditures. They pointed out that the medium-term budgetary framework, adopted in 2004, will further increase the efficiency of government spending (Box 4). They also noted their intention to delegate the allocation of education funds to the regional (rayon) level and the allocation of health funds to the provincial (oblast) level. The objective would be to bring the allocation of funds closer to the intended beneficiaries, with a view to increasing the accountability of local authorities. However, some officials noted that the quality of local governments remained poor.

Box 4. The Medium-Term Budgetary Framework

The 2004 budget is based on a three-year government program, which defines the overall goals on the basis of two diverging macroeconomic scenarios. The main scenario projects GDP growth on the order of 7–8 percent on average, inflation in the range of 4.5–5.5 percent, and growth in oil production of 42 percent during the three-year period. The budget is expected to show a small surplus of 0.5–1.0 percent of GDP.[1] Under the low-case scenario, GDP growth is expected to slow down to 4.0–4.7 percent. However, in line with rising oil prices, significant revisions are expected for 2005–07.

This approach is commendable as it outlines budgetary policy within a medium-term framework and explicitly recognizes the risks to projections. In the future, a more detailed agenda, including specific steps linked to defined targets could be useful. In defining the resource envelope, comprehensive fiscal coverage should be ensured, including envisaged extra-budgetary funds and any potential quasi-fiscal sources of financing or expenditures. Ideally, the medium-term strategy could assess the cost of the proposed policies and the quality of expenditures, and analyze alternative scenarios.

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[1] The authorities' budgetary presentation in a different format results in a projected deficit of around 1.5 percent of GDP in 2005, which will decrease in subsequent years. Larger budget surpluses in staff projections for 2004–06 result from higher assumed oil revenues.

D. External Sector Issues

22. **The current account is expected to remain strong in 2004.** The projected deterioration in the services and income accounts will likely be offset by rising volumes of oil exports and continued high oil prices. As the development of new oil fields continues, FDI inflows are expected to remain substantial. External public debt as percent of GDP is projected to decline further in 2004. Continued large-scale private sector borrowing could be mitigated by higher amortization of intra-company loans in the oil sector.

23. **The mission underlined the importance of strengthening the financial system to safeguard macroeconomic stability as the capital account continues to be liberalized.** While the rapid accumulation of private sector foreign debt continues, external debt is expected to remain at a manageable level, given the large share of long-term and intra-company loans. The mission encouraged the authorities to improve their debt management, including by compiling debt data on a remaining maturity basis.[6] The authorities noted that they were establishing a centralized debt data management system, expected to be operational by 2007. In line with their intention to fully open the capital account by 2007, the authorities are implementing a three-step plan to liberalize (i) less volatile long-term flows, such as outward FDI in foreign exchange; (ii) long-term portfolio investments by residents; and (iii) all outward investments in domestic and foreign currency, and deposits abroad.

24. **The mission inquired about the authorities' approach to WTO accession.** They acknowledged that the WTO accession process had been slow over the past year owing to continued disagreements with major trading partners on a number of issues, in particular the level of protection for agriculture and the extent of market opening in certain services sectors (Box 5). While trade liberalization remained on the policy agenda, progress had stalled in recent years. Although the average tariff is low, there are 10 bands with considerable dispersion.[7] The mission recommended that trade liberalization should be intensified, including converting specific and combined tariffs into ad valorem ones; reducing tariff dispersion; refraining from contingency protection; removing registration requirements and fees for foreign trade companies; and improving customs valuation procedures.

25. **Advancing regional integration was a key policy objective for the authorities.** While supporting this objective, the mission cautioned the authorities against the risks of trade diversion. The authorities noted that they had no intention to pursue new regional initiatives, as their current priority was to enhance existing regional arrangements (Box 5). The mission welcomed the recent agreements on trade and transit with the Kyrgyz Republic, China, and Pakistan, and emphasized that rigorous implementation would be needed to achieve lasting benefits. In this context, the mission underlined that informal trade barriers should be reduced, especially inspections at customs and en route; road transit charges; fees for customs declaration; deposits of cargo value for transit traffic; duplicate certification requirements; and wide-spread corruption in customs and transportation.

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[6] At end-2003, all public debt and about 83 percent of private sector debt were long-term. The non-guaranteed debt/reserves ratio was 3.9, with non-affiliated debt accounting for 37 percent of total private sector debt and intra-company loans accounting for the remaining 63 percent. As the latter normally do not have specified amortization schedules and their repayment tends to coincide with favorable economic conditions, they have a stabilizing effect on debt service capacity.

[7] Kazakhstan's average tariff has remained at about 8 percent (excluding non-ad valorem tariffs) since 1998, when tariff reforms agreed under the EFF arrangement were not implemented. Some non-tariff measures and ad hoc trade restrictions have continued. Since 1999, Kazakhstan has been rated "4" out of 10 on the Fund's Overall Trade Restrictiveness Index, where 1 means no restrictions.

Box 5. WTO Accession and Regional Trade Initiatives

At the recent sixth meeting of the Working Party (WP), WTO members gave a mixed assessment of Kazakhstan's progress toward WTO accession. While acknowledging the authorities' efforts in legislation and services negotiations, WP members denied their request for long transition phases before complying fully with WTO agreements. The authorities' insistence on the extensive use of safeguard measures and emergency provisions attracted particular criticism. Tariff offers, including those on agriculture, were deemed inadequate, and the authorities promised to return to the WTO with a new offer around mid-2004. The authorities' approach reflected their aim to protect certain domestic processing industries and agriculture.

Kazakhstan continues to maintain strong trade links with other CIS countries, which account for 47 percent of its imports and 43 percent of its non-oil exports. The country is a member of the Eurasian Economic Community (EAEC),[1] but the harmonization of tariffs with other EAEC countries remains incomplete. Intra-Community trade continues to be subject to a multitude of informal barriers, impairing both ordinary and transit trade among Community members. The establishment in September 2003 of a "Single Economic Space" including Kazakhstan, Russia, Ukraine, and Belarus has not yet contributed significantly to trade liberalization in the region. Regional trade within Central Asia continues to be hampered by a fractured pipeline network and inadequate surface infrastructure. Moreover, complex barter arrangements involving seasonal trade in electricity and water, have proven inflexible and non-transparent.

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[1] Replacing the 1995 CIS Customs Union, the Eurasian Economic Community (EAEC) was founded in 2001 by Belarus, Kazakhstan, the Kyrgyz Republic, the Russian Federation, and Tajikistan.

E. Structural Reform

26. **The authorities' structural reform agenda remains unfinished.** In particular, the difficult business climate impedes the development of small and medium-size enterprises. The authorities noted the ongoing efforts to ease the tax burden faced by small enterprises, enhance their access to credit, and simplify the regulatory environment. The mission emphasized that second generation reforms in the area of institution building will be essential to ensure adequate job creation outside the oil sector. Moreover, additional efforts are needed to enhance public sector management, develop a high-quality public investment program, strengthen the social safety net, and improve the physical infrastructure.

27. **As regards the financial system, the authorities largely agreed with the recommendations of the follow-up FSAP mission.** They recognized the distortionary effects of administrative limits on interest rates set by the Deposit Insurance Fund, aimed to discourage banks from offering high interest rates on deposits. The mission underscored the need to complete the launching phase of the new supervisory agency by filling staff vacancies and developing effective consolidated supervision practices. In view of increasing foreign activities of Kazakhstani banks, the mission urged the FSA to reinforce cooperation with financial supervisors in neighboring countries. At the request of the authorities, the Fund will provide technical assistance for strengthening risk-management practices and bringing prudential regulation up to EU standards by 2007.

28. **Anticipating a significant real appreciation of the tenge and a fall of the oil price over the medium term, the authorities have stepped up their efforts to diversify the economy.** These involve, as initial stages of longer-term programs, the newly-established specialized financial institutions and special funds, such as the Development Bank and the Innovation Fund, and programs of sectoral subsidies, mainly in the housing sector. The mission endorsed the authorities' objective to build a more diversified economy, but cautioned against relying on channeling resources to government-favored industries and providing selective tax incentives. The authorities agreed that in order to reduce the high cost of doing business in Kazakhstan, efforts should be intensified to reduce overregulation, excessive inspections, procurement restrictions, poor delivery of government services, and endemic corruption. In this context, they pointed out the positive effects of the moratorium on inspections that was in effect in 2003.

29. **The authorities recognized that extensive poverty remained a problem.** With the support of international donor agencies, the authorities were currently developing a program aimed to develop income generating skills through micro credit and training. Further pension reform measures, focusing on support for uninsured elderly people were also expected to contribute to poverty alleviation. The authorities intended to bolster the voluntary contribution pillar in addition to the already established pay-as-you go and fully funded mandatory contribution schemes.

F. Governance and Transparency

30. **Kazakhstan has supported Fund initiatives on data dissemination and publication of reports.** The quality of macroeconomic data is generally adequate for policy analysis. The authorities subscribe to the SDDS and agreed to the publication in 2003 of the data module ROSC and the fiscal ROSC. The reports for the 2003 Article IV consultation were published, and it is expected that the 2004 consultation reports will also be published. The authorities have agreed to the publication of the report for the 2004 FSAP update.

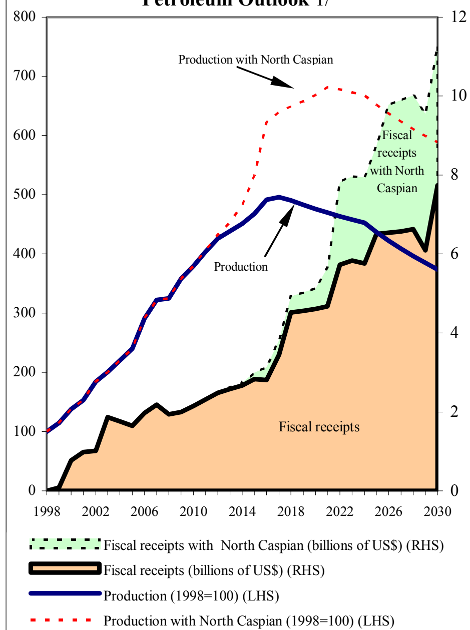
31. **Surveys indicate that corruption was prevalent in law enforcement, courts, and customs and tax authorities.** In December 2003, the Agency for the Fight Against Economic and Corruption Crimes was established with a semi-autonomous status under the Ministry of the Interior. The agency operates on the basis of the Anti-Corruption Law, passed in 1998 and amended in 2003, which provides for criminal, administrative, and disciplinary sanctions. The authorities were currently assessing anti-corruption legislation and measures in a large number of countries, in order to learn from best practices.

32. **Kazakhstan's oil sector has not been fully transparent.** Contracts related to oil production in Kazakhstan are neither published nor approved by parliament. The authorities have so far not followed up on their earlier positive response to the U.K. Government's Extractive Industries Transparency Initiative (EITI). The mission encouraged the authorities to enhance transparency in the oil sector, including through the publication of all new oil related contracts.

G. Medium-Term Outlook and Vulnerability

33. **Kazakhstan's medium-term outlook remains highly favorable.** Over the next 15 years, Kazakhstan's production of crude oil is projected to triple to around 3½ million barrels per day, placing the country among the top ten oil producers in the world (assuming that Kazakhstan's access to world markets would be maintained). Large-scale investment, mainly from abroad, continues to flow to the oil and gas sectors. Medium-term prospects have improved further following recent agreements on oil and gas pipelines,[8] aimed to enhance access to western markets and China.[9]

Kazakhstan: Medium-Term Petroleum Outlook 1/



1/ Solid lines are based on proven crude oil reserves. Production and revenues are likely to be much higher because of North Caspian fields, other than Kashagan (broken line).

34. **Over the medium term, economic growth is expected to reach about 8 percent per year, as a result of growing oil production and its spillovers to other sectors of the economy.** The fiscal surplus is projected to decline in light of higher expenditures, recent tax rate reductions, and a weakening of world prices for oil. In view of oil price developments, and because of large-scale FDI related imports and increasing earnings of foreign investors, the current account is expected to register deficits as from 2005. Despite larger projected capital outflows, the capital account balance is expected to remain positive. In view of continued high inflows from oil, the projections assume a gradual nominal appreciation of the tenge. The authorities target a further deceleration of inflation, but achieving this objective may prove difficult.

35. **The medium-term fiscal profile assumes that the government will adopt a non-oil budget deficit targeting rule, with the aim to lower the non-oil budget deficit to around 4 percent of GDP in the outer years.** In line with falling world market prices for oil from their current high levels, this would imply a drop in revenues by about 6 percent of GDP, and only a small decrease in the expenditure ratio. The overall government balance is expected to decline from a surplus of 1.6 percent in 2005 to a deficit of 0.4 percent of GDP in 2010.

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[8] See http://www.petrokazakhstan.com/images/map1.jpg for a map of Kazakhstan's pipeline network.

[9] A major slow-down in Chinese growth could have adverse effects on Kazakhstan, as China accounted for 13 percent of Kazakhstani exports in 2003.

36. **Kazakhstan's external debt is projected to remain at comfortable levels over the medium term.** Although the debt stock is likely to increase over time, rapid GDP growth and the appreciation of the tenge are expected to reduce the debt-to-GDP ratio. Some 95 percent of the country's debt is long-term, and 63 percent of non-guaranteed debt consists of intra-company loans, which have no specified repayment schedule. Public debt (including government guaranteed debt) has been declining as percent of GDP, and this trend is likely to continue as the government shifts to domestic financing. Stress tests indicate that Kazakhstan's external debt would remain at a manageable level even if it faced multiple negative shocks. Public sector domestic debt, amounting to only 4 percent of GDP, is expected to increase somewhat as the government substitutes some foreign debt (including assets accumulated in the NFRK) with domestic debt to support capital market developments.[10]

37. **The assessment of medium-term prospects includes a low-case scenario with a gradual decline in the oil price to $15/bbl by 2008.** Under this assumption, economic growth would fall to around 5 percent per year, as lower investment into the hydrocarbon sector would entail lower production in the oil and associated sectors. With the non-oil fiscal balance at 4 percent of GDP, the overall fiscal balance would move into a deficit of 3 percent of GDP. The build-up of the NFRK would continue, mostly owing to the interest payments and savings component, increasing just below 1 percent of GDP annually during 2007–10. The substantial decline in oil exports could be partly offset by lower profit-related repayments of intra-company loans. Even if the oil price were to remain at the level of $15/bbl during 2008–10, the debt-to-GDP ratio would decline over time, albeit at a much slower pace.

[10] In view of the low level of public sector domestic debt, a separate fiscal sustainability analysis was not conducted.

Medium-Term Scenarios

	2002	2003	2004	2005	2008	2010	2004	2005	2008	2010
			Baseline				Low-Case			
	(Percentage change)									
Real GDP growth	9.8	9.2	9.0	8.0	6.5	7.5	9.0	6.5	4.5	5.5
Crude oil output	20.5	8.4	10.0	9.0	4.6	6.7	9.7	7.0	0.5	3.0
CPI inflation (e.o.p.)	6.6	6.8	6.5	6.0	5.3	5.0	6.3	5.5	4.8	4.6
	(In percent of GDP)									
Consumption	71.3	67.4	67.3	70.5	71.6	71.4	68.1	71.2	73.9	71.2
Gross fixed investment	27.8	26.4	27.0	28.0	30.0	30.0	27.0	28.0	28.5	28.5
General government balance	1.4	3.0	2.3	1.6	-0.2	-0.4	1.4	0.2	-3.0	-3.0
Revenues and grants	22.5	26.3	26.4	25.5	23.1	22.4	25.5	23.8	19.9	19.8
Of which: Oil revenue	4.4	6.2	7.2	6.6	4.3	3.7	6.2	4.8	1.1	1.0
Non-oil balance	-3.0	-3.2	-4.9	-4.9	-4.5	-4.1	-4.8	-4.7	-4.1	-4.0
Total expenditures and net lending	21.0	23.3	24.1	23.8	23.3	22.9	24.1	23.6	22.9	22.8
Allocated to NFRK (-=increase)	-2.5	-5.7	-3.3	-2.4	-0.8	-1.0	-2.5	-2.4	-0.6	-0.8
External current account balance	-3.5	-0.2	0.1	-2.6	-4.1	-3.8	-0.5	-3.1	-6.1	-3.3
Total debt	74.1	76.9	65.8	59.0	48.1	42.2	68.3	65.4	64.9	64.1
Excluding intracompany debt	30.5	36.4	31.7	28.3	22.5	19.4	32.6	30.9	29.2	28.2
	(In billions of U.S. dollars)									
Exports of goods and services	11.6	15.0	18.9	19.8	25.0	30.1	18.0	18.4	21.5	26.6
Gross official reserves	3.1	5.0	6.3	7.0	8.4	9.2	4.5	4.9	5.7	6.7
NFRK balance	1.9	3.6	4.8	6.0	8.3	9.8	4.5	5.6	7.4	8.6
Nominal GDP (in billions of tenge)	3,776	4,450	5,180	5,936	8,586	10,959	5,132	5,646	7,056	8,171
GDP deflator (in percent)	6.1	6.6	6.8	6.1	5.2	5.1	5.8	3.3	2.1	2.0
GDP per capita (in U.S. dollars)	1,655	2,001	2,563	3,093	4,678	6,160	2,502	2,833	3,616	4,248
World petroleum price ($/bbl)	25.0	28.9	33.5	30.5	26.3	25.8	30.0	25.0	15.0	15.0

Source: Fund staff projections.

IV. Staff Appraisal

38. **Kazakhstan's economy continues to grow rapidly, driven by the expansion of the oil sector, and supported by a favorable external environment and sound macroeconomic policies.** The medium-term outlook remains highly favorable, with projected annual growth of the economy on the order of 8 percent. However, poverty is a serious concern, especially in the rural areas and among the elderly, and the generally difficult business climate impedes the development of the small and medium-size private sector.

39. **With the 2004 budget, the authorities have relaxed somewhat their tight fiscal stance.** The continuation of sizable fiscal surpluses in a country with large social needs and no financing constraints could well make reforms—including the cautious use of the oil wealth—politically unsustainable. Thus, the increase in expenditure is welcome, but greater spending efficiency should be ensured by bolstering institutional capacities. The composition of increased government expenditures gives rise to concerns, in particular where it is linked

to a more prominent role of the government in influencing allocative decisions in the economy through the Development Bank, other state-owned developmental institutions, and sectoral initiatives. The staff welcomes the authorities' efforts to limit the potential for introducing distortions through these programs.

40. **The establishment of a medium-term budgetary framework is commendable as it outlines budgetary policy and explicitly recognizes the risks to projections.** In defining the resource envelope, comprehensive fiscal coverage should be ensured, including the extra-budgetary funds, such as the social insurance fund.

41. **Depending on developments in money demand, the easing of the fiscal policy stance may need to go hand in hand with sharply reduced foreign exchange market purchases by the NBK.** In this context, the authorities' commitment to allow real appreciation to ensure the attainment of the inflation objective is welcome. The authorities' inflation objective of 5–7 percent per annum is appropriate.

42. **The NBK is preparing to adopt an inflation targeting regime by 2006.** While the ongoing work on a core inflation index and an inflation model are important steps, the staff agrees with the authorities that further progress will be necessary in establishing a well-functioning monetary policy framework and deepening financial markets. Therefore, the target date will need to be treated flexibly.

43. **The NFRK has played an important role in protecting oil revenue and easing the burden on monetary policy.** It will be crucial to continue to safeguard the mounting wealth in the NFRK through strict adherence to budgetary procedures and increased transparency, including by publishing regularly the external audit report. The present rules governing the NFRK could be strengthened by moving to a non-oil budget deficit target, and inflows to the NFRK should be treated as budgetary income.

44. **Reforms of the financial sector have been carried further with the establishment of the Financial Supervision Agency.** In light of continued high credit growth and a significant share of classified loans, internal risk management, including stress testing, needs to be strengthened further. Adequate loan-loss provisions should cover unexpected losses. Moreover, care should be taken to ensure that measures to control interest rates do not create distortions; in any case, they could not be a substitute for more effective supervision. Risks to pension funds, which are currently focused on high returns through short-term investments, have to be addressed by both regulators and market participants. The authorities' intention to publish the FSAP update report is highly welcome.

45. **It will be important for Kazakhstan to maintain a diversified economy and avoid overdependence on the oil sector.** While the authorities have only recently started to set up programs in support of these objectives, staff would suggest that a cautious approach be followed. Reliance on import substitution policies and other activist industrial policies can lead to distortions and serious misallocation of resources. Instead, a well thought-out public sector investment program should be a priority. Moreover, a better investment climate is a

critical precondition for sustained and broad-based employment generation, in particular for small and medium-size domestic and foreign investors. Overregulation, excessive inspections, procurement restrictions, import content rules, restrictions on the employment of foreign experts, transfer pricing regulations, poor delivery of government services, and endemic corruption contribute to the high cost of doing business in Kazakhstan. The staff urges the authorities to intensify their efforts in these areas.

46. **Kazakhstan could take advantage of its strong external position to liberalize the trade system further.** In particular, tariff dispersion should be reduced and non-tariff barriers eliminated. It will also be important to improve trade facilitation, including by implementing measures against wide-spread corruption in customs and transportation, and through reductions in unnecessary requirements for documentation. Recent progress on trade and transit arrangements with neighboring countries is most welcome. The authorities should pursue WTO accession discussions vigorously.

47. **Kazakhstan has made significant progress with respect to data transparency with the publication in 2003 of the fiscal and data module Reports on Observance of Standards and Codes (ROSCs).** The authorities are now implementing their agenda for further improving the oversight and transparency of state institutions, building on the results of the fiscal ROSC. It will be essential to further strengthen audit and procurement agencies and to clarify intergovernmental fiscal relations. Continued wide dissemination of key macroeconomic statistics would be welcome, including through official websites and by publishing the staff report.

48. **Greater transparency in the oil sector, including in the context of the Extractive Industries Transparency Initiative (EITI), could yield important benefits.** Making new agreements with oil companies public and publishing regularly comprehensive information about oil bonuses, privatization proceeds, and other payments secured should be a priority.

49. **With regard to the ex-post assessment of longer-term program engagement, staff noted the authorities' view that Kazakhstan's experience with Fund programs had been generally favorable,** although greater flexibility on the side of the Fund would have been helpful in complex negotiations and could have encouraged greater ownership. The staff believes that Fund supported programs contributed to the development of macroeconomic policies that brought about stabilization and high economic growth, although implementation has been uneven.

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

Table 1. Kazakhstan: Selected Macroeconomic and Financial Indicators, 2000–06

(Percentage change over the same period one year earlier, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006
				Prel.		Projections	
Growth							
Real GDP (year-on-year)	9.8	13.5	9.8	9.2	9.0	8.0	8.0
Real non-oil GDP (year-on-year)	7.5	14.2	7.1	6.6	6.0	6.4	3.9
Consumer prices							
End-of-period	9.8	6.4	6.6	6.8	6.5	6.0	5.5
Period average	13.2	8.4	5.9	6.4	6.7	6.3	5.8
Exchange rate (in tenge per U.S. dollar)							
End-of-period	145.4	150.9	155.9	143.3	...	...	...
12-months average	142.3	146.9	153.5	149.5	...	...	...
Exchange rate (in tenge per ruble)							
End-of-period	5.16	5.00	4.90	4.93	...	...	...
Real effective exchange rate (eop from end of previous year) 1/	-0.6	-1.5	-5.0	-2.4	...	...	...
Fiscal accounts (in percent of GDP)							
General government balance	-0.8	2.6	1.4	3.0	2.3	1.6	1.1
Total revenues and grants	21.7	25.6	22.5	26.3	26.4	25.5	24.8
Total expenditures and net lending	22.5	22.9	21.0	23.3	24.1	23.8	23.7
Financing	1.2	-2.9	-1.8	-2.7	-2.3	-1.6	-1.1
Domestic financing, net	-0.8	-0.7	1.7	1.6	1.7	0.8	0.8
Foreign financing, net	1.2	0.9	-1.5	0.2	-0.6	0.1	0.2
Privatization receipts	0.8	2.5	0.5	1.3	0.0	0.0	0.0
Allocation to National Fund	--	-5.6	-2.5	-5.7	-3.3	-2.4	-2.1
Other capital operations	0.0	0.0	0.0	-0.2	-0.1	0.0	0.0
Statistical discrepancy	0.4	-0.3	-0.4	0.2	0.0	0.0	0.0
Monetary accounts							
Reserve money growth (year-on-year)	5.3	30.9	18.2	52.2	23.5	21.2	19.7
Broad money growth (year-on-year)	45.9	42.8	34.1	26.8	26.0	24.0	22.1
Broad money velocity (annual average)	7.7	6.7	5.7	5.1	4.7	4.3	4.0
NBK Refinancing Rate (eop; percent)	14.0	9.0	7.5	7.0	...	...	...
Interest on NBK notes (eop; percent)	8.0	5.7	5.9	5.0	...	...	...
External accounts							
Trade							
Exports of goods and services (in billions of U.S. dollars)	10.6	10.4	11.6	15.0	18.9	19.8	22.1
Imports of goods and services (in billions of U.S. dollars)	-8.9	-10.4	-11.5	-13.2	-16.7	-19.1	-21.5
Current account balance							
In billions of U.S. dollars	0.8	-0.9	-0.9	-0.1	0.0	-1.2	-1.1
In percent of GDP	4.2	-4.0	-3.5	-0.2	0.1	-2.6	-2.0
NBK gross reserves							
In billions of U.S. dollars (end-of-period)	2.1	2.5	3.1	5.0	6.3	7.0	7.5
In months of imports of goods and services	2.8	2.9	3.3	4.5	4.5	4.4	4.2
In percent of stock of short-term debt	145.3	112.3	115.4	101.8	109.0	98.3	84.2
National Fund of the Republic of Kazakhstan (end-of-period; in billions of U.S. dollars)	…	1.3	1.9	3.6	4.9	6.0	7.1
Debt							
Public and publically guaranteed external debt (in billions of U.S. dollars)	3.9	3.8	3.5	3.6	3.4	3.4	3.4
Public and publically guaranteed external debt (in percent of GDP)	21.5	17.2	14.2	12.2	8.9	7.3	6.4
Total public external debt service (in percent of exports of goods and services)	8.5	4.8	7.9	3.2	4.4	2.7	2.4
Amortization to exports of goods and services (in percent)	6.2	2.5	5.8	1.9	3.3	1.8	1.6
Interest payments to exports of goods and services (in percent)	2.3	2.3	2.0	1.3	1.1	0.9	0.8
Savings-investment balance (in percent of GDP)							
Final consumption	73.3	73.3	71.3	67.4	67.3	70.5	70.7
Net exports of goods and non-factor services	8.6	-0.9	0.9	6.2	5.7	1.5	1.3
Gross capital formation = gross savings	18.1	27.6	27.8	26.4	27.0	28.0	28.0
Domestic savings	21.3	23.6	24.3	26.2	27.1	25.4	26.0
Government	1.5	6.5	5.4	9.0	7.5	6.8	5.5
Private sector	19.8	17.1	19.0	17.1	19.7	18.7	20.5
External savings	-3.2	4.0	3.5	0.2	-0.1	2.6	2.0
Memorandum items:							
Nominal GDP for the period (in billions of tenge)	2,600	3,251	3,776	4,450	5,180	5,936	6,770
Oil price (in U.S. dollar per barrel)	28.2	24.3	25.0	28.9	33.5	30.5	28.0

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

1/ A positive sign indicates a real appreciation.

Table 2. Kazakhstan: General Government Fiscal Operations, 2002–06

	2002	2003	2004				2005	2006
			IMF		MoE			
		Prel.	Original Budget	Supplementary Budget	Original Budget	Supplementary Budget	Projections	
	(In billions of tenge)							
Total revenues and grants	847.8	1,169.2	1,366.0	1,366.0	1,208.9	1,265.2	1,511.9	1,679.9
Total revenues	847.8	1,169.2	1,366.0	1,366.0	1,208.9	1,265.2	1,511.9	1,679.9
Oil revenues	165.4	274.8	373.5	373.5	…	…	390.3	402.4
Non-oil revenues	682.4	894.4	992.5	992.5	…	…	1,121.6	1,277.6
Current revenues	838.3	1,156.7	1,348.4	1,348.4	1,192.3	1,248.5	1,491.7	1,657.0
Capital revenues	9.5	12.5	17.6	17.6	16.6	16.6	20.1	23.0
Tax revenues	792.6	1,070.9	1,253.0	1,253.0	1,108.2	1,153.7	1,373.6	1,521.7
Non-oil tax revenues	627.1	827.5	879.5	879.5	…	…	983.3	1,179.1
Nontax revenues	45.8	85.8	95.4	95.4	84.1	94.9	118.1	135.3
Income from capital transactions	9.5	12.5	17.6	17.6	16.6	16.6	20.1	23.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditures and net lending and transfers	794.0	1,036.3	1,190.8	1,246.8	1,202.6	1,258.8	1,414.9	1,602.4
Total expenditures	775.6	985.7	1,185.8	1,198.8	1,175.5	1,210.7	1,384.6	1,602.4
Current expenditures	649.4	763.6	976.9	979.9	979.9	989.1	1,138.8	1,293.8
Capital expenditures	126.2	222.0	208.9	218.9	195.6	221.6	245.7	274.3
Net lending	18.4	50.7	5.0	48.0	27.1	48.1	30.4	34.3
Net transfers to other levels of government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall budget balance	53.8	132.9	175.2	119.2	6.3	6.3	96.9	77.6
Statistical discrepancy	-13.3	11.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-67.1	-121.9	-175.2	-119.2	-6.3	-6.3	-96.9	-77.6
Domestic financing (net)	64.7	73.4	85.9	85.9	120.6	120.6	49.9	53.0
Foreign financing, net	-55.6	8.5	-30.1	-30.1	-33.0	-33.0	4.4	10.3
Privatization receipts	18.9	59.1	2.0	2.0	1.0	1.0	1.8	1.6
National Fund of the Republic of Kazakhstan	-95.0	-255.1	-225.3	-169.3	-87.2	-87.2	-144.9	-142.6
Other capital operations	0.0	-7.7	-7.7	-7.7	-7.7	-7.7	-8.1	0.0
	(In percent of GDP)							
Total revenues and grants	22.5	26.3	26.4	26.4	23.3	24.4	25.5	24.8
Total revenues	22.5	26.3	26.4	26.4	23.3	24.4	25.5	24.8
Oil revenues	4.4	6.2	7.2	7.2	…	…	6.6	5.9
Non-oil revenues	18.1	20.1	19.2	19.2	…	…	18.9	18.9
Current revenues	22.2	26.0	26.0	26.0	23.0	24.1	25.1	24.5
Capital revenues	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Tax revenues	21.0	24.1	24.2	24.2	21.4	22.3	23.1	22.5
Non-oil tax revenues	16.6	18.6	17.0	17.0	…	…	16.6	17.4
Nontax revenues	1.2	1.9	1.8	1.8	1.6	1.8	2.0	2.0
Income from capital transactions	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditures and net lending and transfers	21.0	23.3	23.0	24.1	23.2	24.3	23.8	23.7
Total expenditures	20.5	22.2	22.9	23.1	22.7	23.4	23.3	23.2
Current expenditures	17.2	17.2	18.9	18.9	18.9	19.1	19.2	19.1
Capital expenditures	3.3	5.0	4.0	4.2	3.8	4.3	4.1	4.1
Net lending	0.5	1.1	0.1	0.9	0.5	0.9	0.5	0.5
Net transfers to other levels of government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall budget balance	1.4	3.0	3.4	2.3	0.1	0.1	1.6	1.1
Statistical discrepancy	-0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-1.8	-2.7	-3.4	-2.3	-0.1	-0.1	-1.6	-1.1
Domestic financing (net)	1.7	1.6	1.7	1.7	2.3	2.3	0.8	0.8
Foreign financing, net	-1.5	0.2	-0.6	-0.6	-0.6	-0.6	0.1	0.2
Privatization receipts	0.5	1.3	0.0	0.0	0.0	0.0	0.0	0.0
National Fund of Republic of the Kazakhstan	-2.5	-5.7	-4.4	-3.3	-1.7	-1.7	-2.4	-2.1
Other capital operations	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Memorandum items:								
Nominal GDP (in billions of tenge)	3,776.3	4,449.8	5,180.1	5,180.1	5,180.1	5,180.1	5,935.8	6,769.6
Non-oil balance (in billions of tenge)	-111.7	-141.9	-198.3	-254.3	…	…	-293.4	-310.0
(In percent of GDP)	-3.0	-3.2	-3.8	-4.9	…	…	-4.9	-4.8

Sources: Kazakhstani authorities; and Fund staff estimates

Table 3. Kazakhstan: Monetary Survey, 2000–06
(In billions of tenge; end-period stocks, unless otherwise indicated)

	2000	2001	2002				2003				2004	2005	2006
			Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Projections		
National Bank of Kazakhstan													
Net foreign assets	302.0	377.9	400.0	434.0	483.9	489.2	595.3	664.5	733.3	715.2	889.3	978.9	1,041.9
Net domestic assets	-167.4	-201.6	-244.2	-258.0	-298.3	-280.9	-388.9	-409.0	-436.0	-398.3	-497.8	-504.5	-474.0
Domestic credit	-47.0	-71.9	-111.0	-115.9	-91.0	-111.4	-231.4	-264.7	-279.7	-245.8	-329.6	-329.2	-292.4
Credit to government	-14.1	-59.5	-91.6	-86.1	-56.7	-54.1	-120.3	-85.6	-74.4	-49.6	-64.0	-111.6	-90.5
Credit to banks	-38.8	-5.4	-4.6	-7.8	-11.4	-24.6	-62.3	-107.7	-99.8	-88.5	-144.7	-107.6	-101.9
Credit to the rest of the economy	6.0	-7.0	-14.8	-22.0	-22.9	-32.7	-48.9	-71.5	-105.5	-107.7	-121.0	-110.0	-100.0
Other items (net)	-120.4	-129.7	-133.1	-142.1	-207.4	-169.5	-157.5	-144.3	-156.3	-152.5	-168.2	-175.3	-181.6
Reserve money	134.7	176.3	155.8	176.0	185.5	208.3	206.4	255.5	297.2	317.0	391.4	474.4	567.9
Currency outside NBK	116.3	145.5	135.9	146.9	155.4	177.9	175.8	206.1	238.6	262.1	317.1	381.5	468.0
Deposits	18.3	30.8	19.9	29.1	30.1	30.4	30.6	49.4	58.6	54.9	74.3	93.0	99.9
Banking system													
Net foreign assets	306.0	313.8	332.8	346.2	399.8	402.8	476.7	480.5	519.4	426.2	587.7	664.5	714.9
Net domestic assets	101.1	267.1	243.2	295.0	298.3	398.9	369.2	487.4	576.6	657.7	829.3	1,075.8	1,395.3
Domestic credit	346.7	560.1	544.9	616.8	692.2	781.2	756.4	876.9	1,017.0	1,133.4	1,429.0	1,718.0	2,110.8
Net credit to government	40.6	8.8	-13.2	13.0	44.7	40.6	-15.2	13.0	49.3	54.7	80.3	62.8	103.9
Credit to the economy	306.1	547.6	552.2	599.6	643.9	738.8	767.2	858.0	963.4	1,075.7	1,344.6	1,651.2	2,002.9
Claims on local government	...	3.8	6.0	4.3	3.6	1.8	4.4	5.9	4.2	3.0	4.0	4.0	4.0
Capital accounts and other items net	-245.6	-293.0	-301.7	-321.8	-393.9	-382.3	-387.2	-389.5	-440.4	-475.7	-599.7	-642.2	-715.5
Broad money	399.5	570.4	557.7	615.7	671.7	765.0	793.0	892.3	984.9	969.9	1,222.1	1,515.4	1,850.3
Currency in circulation	106.4	131.2	123.9	135.0	141.4	161.7	159.2	190.0	218.0	238.7	293.2	353.3	423.6
Deposits	293.0	439.2	433.8	480.7	530.4	603.3	633.8	702.3	766.9	731.2	928.9	1,162.1	1,426.7
Tenge deposits	143.6	173.4	168.6	188.3	223.8	241.7	283.6	363.7	387.3	386.8	517.6	736.3	986.6
Foreign exchange deposits	149.4	265.9	265.2	292.4	306.6	361.6	350.1	338.6	379.6	344.4	411.3	425.8	440.1
NBK Notes outside the banking system	7.6	10.6	18.4	25.5	26.4	36.8	53.0	75.5	111.2	114.0	195.0	225.0	260.0
Memorandum items:													
Net international reserves (in millions of U.S.dollars)	2,094	2,506	2,625	2,831	3,132	3,140	3,923	4,493	4,929	4,961	6,300	7,000	7,500
NFRK (in millions of U.S. dollars) 1/	...	1,240	1,306	1,656	1,670	1,917	1,999	2,688	2,774	3,603	4,848	5,972	7,094
Annual growth rates (in percent)													
Broad money	45.9	42.8	33.2	31.5	25.8	34.1	42.2	44.9	46.6	26.8	26.0	24.0	22.1
Currency in circulation	2.8	23.3	21.5	22.1	13.8	23.3	28.5	40.8	54.2	47.6	22.8	20.5	19.9
Reserve money	5.3	30.9	18.6	22.4	16.7	18.2	32.5	45.2	60.2	52.2	23.5	21.2	19.7
Credit to the economy	81.0	78.9	64.8	46.8	39.8	34.9	38.9	43.1	49.6	45.6	25.0	22.8	21.3

Source: National Bank of Kazakhstan.

Table 4. Kazakhstan: Balance of Payments, 2000–06

(in millions of U.S.dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006
				Prel.		Projections	
Current account	768	-896	-862	-69	40	-1,174	-1,073
Trade balance	2,620	1,516	2,301	4,088	5,206	4,219	4,708
Exports (f.o.b.)	9,468	9,124	10,027	13,233	16,900	17,642	19,695
Oil and gas condensate	4,429	4,463	5,037	7,023	9,873	10,060	11,336
Non-oil exports	5,039	4,661	4,990	6,209	7,027	7,582	8,359
Imports (f.o.b.)	-6,848	-7,607	-7,726	-9,144	-11,694	-13,423	-14,987
Services and income balance	-2,101	-2,644	-3,276	-3,992	-4,993	-5,211	-5,591
Services, net	-872	-1,518	-2,153	-2,251	-3,037	-3,546	-4,091
Income, net	-1,229	-1,126	-1,123	-1,741	-1,956	-1,665	-1,499
Of which: Income to direct investors	-1,046	-1,051	-1,007	-1,424	-1,523	-1,509	-1,644
Current transfers	249	232	114	-165	-173	-182	-191
Capital and financial account	811	2,207	1,241	2,700	1,299	1,874	1,573
Capital transfers, net	-291	-194	-120	-29	-30	-32	-33
Foreign direct investment	1,278	3,071	2,163	2,188	2,051	2,210	2,288
Amortization of intra-company liabilities	-1,411	-1,792	-1,518	-2,261	-2,400	-2,200	-2,100
Portfolio investment, net	-55	-1,317	-927	-1,845	-2,140	-2,027	-2,375
Of which: National Fund 1/	...	-1,270	-327	-964	-1,176	-895	-774
Public sector Eurobonds, net	11	-103	-449	54	-300	0	0
Other investment	-121	648	125	2,386	1,418	1,723	1,693
Medium- and long-term loans and credits, net	243	385	725	2,112	1,901	1,711	1,540
Short-term and other capital, net	-364	263	-601	274	-482	12	153
Errors and omissions	-994	-926	156	-1,098	0	0	0
Overall balance	585	385	535	1,534	1,339	700	500
Financing	-585	-385	-535	-1,534	-1,339	-700	-500
Net international reserves of the NBK (increase -)	-585	-385	-535	-1,534	-1,339	-700	-500
Memorandum items 2/							
Current account (in percent of annual GDP)	4.2	-4.0	-3.5	-0.2	0.1	-2.6	-2.0
Exports in percent of GDP	51.8	41.2	40.8	44.5	44.4	38.3	36.9
Of which: Oil exports	24.2	20.2	20.5	23.6	25.9	21.9	21.3
Imports in percent of GDP	37.4	34.4	31.4	30.8	30.7	29.2	28.1
Annual growth rate (in percent)							
Exports	54.6	-3.6	9.9	32.0	27.7	4.4	11.6
Non-oil exports	27.6	-7.5	7.1	24.4	13.2	7.9	10.2
Imports	21.3	11.1	1.6	18.4	27.9	14.8	11.6
Exports of crude oil and gas condensate (in millions of tons)	27.7	32.4	39.3	44.3	47.7	53.5	65.6
NBK gross international reserves (in millions of U.S. dollars)	2,096	2,508	3,136	4,961	6,300	7,000	7,500
in months of imports of goods and non-factor services	2.8	2.9	3.3	4.5	4.5	4.4	4.2
National Fund (incl. interest), end of period stock	...	1,240	1,917	3,603	4,848	5,972	7,094
External debt in percent of GDP	69.3	68.5	74.1	76.9	65.8	59.0	54.6
excluding intra-company loans	31.4	28.4	30.5	36.4	31.7	28.3	25.9
Public external debt service in percent of exports of gnfs	8.5	4.8	7.9	3.2	4.4	2.7	2.4
World oil price (U.S. dollars per barrel)	28.2	24.3	25.0	28.9	33.5	30.5	28.0

Sources: Kazakhstani authorities; and Fund staff estimates.

1/ For 2001 and 2002, the numbers also reflect the effect of market valuation, in addition to transactions. The start-up assets in 2001 included $660 million from the sale of a 5 percent government share in TCO. The remaining balance was from oil revenue.

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

Table 5a. Kazakhstan: External Debt Outstanding at Year-End, 1997–2010 (Baseline)

(In percent of GDP unless otherwise indicated)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
											Projections			
A. Total external debt outstanding at year-end														
Baseline	40.8	44.8	71.3	69.3	68.5	74.1	76.9	65.8	59.0	54.6	50.9	48.1	45.1	42.2
Stress tests:														
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and non-debt inflows are at historical average in 2003-2010								81.1	81.3	80.4	79.0	75.9	72.0	68.1
2. Nominal interest rate is at historical average plus two standard deviations in 2003 and 2004								67.1	61.4	56.7	52.8	49.9	46.8	43.8
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004								74.9	76.2	70.2	65.1	61.2	57.3	53.5
4. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2003 and 2004								99.6	128.0	117.2	108.1	100.8	94.3	87.7
5. Non-interest current account is at historical average minus two standard deviations in 2003 and 2004								76.2	75.6	69.6	64.6	60.7	56.9	53.1
6. Combination of 2-5 using one standard deviation shocks								101.0	126.4	115.8	106.8	99.6	93.2	86.7
7. One time 30 percent nominal depreciation in 2003								101.8	90.1	82.8	76.6	71.8	67.2	62.7
B. External debt, excluding intra-company debt														
Baseline	29.5	29.5	35.0	31.4	28.4	30.5	36.4	31.7	28.3	25.9	24.1	22.5	20.9	19.4
Stress tests:														
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and non-debt inflows are at historical average in 2003-2010								39.8	39.0	37.6	36.0	32.4	28.5	24.6
2. Nominal interest rate is at historical average plus two standard deviations in 2003 and 2004								32.4	29.6	27.1	25.1	23.5	21.9	20.3
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004								36.0	36.6	33.5	31.1	29.2	27.2	25.4
4. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2003 and 2004								47.8	61.6	56.5	52.4	49.1	46.2	43.5
5. Non-interest current account is at historical average minus two standard deviations in 2003 and 2004								41.1	43.2	39.6	36.7	34.4	32.2	30.2
6. Combination of 2-5 using one standard deviation shocks								51.1	65.3	59.8	55.6	52.0	49.0	46.1
7. One time 30 percent nominal depreciation in 2003								48.9	43.3	39.6	36.8	34.5	32.3	30.2
C. External debt, net of NFRK														
Baseline	40.8	44.8	71.3	69.3	62.7	66.3	64.8	53.0	46.0	41.3	38.2	36.1	33.9	31.5
Stress tests:														
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and non-debt inflows are at historical average in 2003-2010								65.9	63.9	61.1	58.9	55.2	50.9	46.4
2. Nominal interest rate is at historical average plus two standard deviations in 2003 and 2004								53.8	47.2	42.4	39.2	37.1	34.8	32.4
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004								60.8	60.4	54.5	50.5	47.7	44.9	41.9
4. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2003 and 2004								81.8	104.2	94.8	87.9	82.8	78.3	73.4
5. Non-interest current account is at historical average minus two standard deviations in 2003 and 2004								63.5	62.7	56.6	52.4	49.5	46.6	43.5
6. Combination of 2-5 using one standard deviation shocks								83.4	103.0	93.8	86.9	81.9	77.4	72.6
7. One time 30 percent nominal depreciation in 2003								83.7	72.7	65.9	61.0	57.5	54.3	50.8
D. External debt, excluding intra-company debt and net of NFRK														
Baseline	29.5	29.5	35.0	31.4	22.6	22.7	24.3	18.9	15.3	12.6	11.4	10.6	9.7	8.7
Stress tests:														
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and non-debt inflows are at historical average in 2003-2010								24.7	21.6	18.4	15.9	11.7	7.4	2.9
2. Nominal interest rate is at historical average plus two standard deviations in 2003 and 2004								19.1	15.5	12.8	11.5	10.8	9.9	8.9
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004								21.9	20.9	17.9	16.7	16.0	15.3	14.5
4. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2003 and 2004								30.0	37.9	34.3	33.0	32.4	32.3	32.3
5. Non-interest current account is at historical average minus two standard deviations in 2003 and 2004								28.4	30.5	27.2	25.9	25.3	25.0	24.6
6. Combination of 2-5 using one standard deviation shocks								33.6	42.1	38.4	37.0	36.5	36.5	36.6
7. One time 30 percent nominal depreciation in 2003								30.7	26.0	22.9	21.6	20.9	20.4	19.8
Key macroeconomic and external assumptions:														
Real GDP growth (in percent)	1.6	-1.9	2.7	9.8	13.5	9.8	9.2	9.0	8.0	8.0	7.5	6.5	7.5	7.5
Exchange rate appreciation (US dollar value of local currency, change in percent)	-10.3	-3.8	-34.0	-16.3	-3.2	-4.3	2.6	10.0	5.4	1.6	1.6	1.6	1.7	1.7
GDP deflator (change in domestic currency)	16.9	5.7	13.2	17.4	10.2	5.3	6.6	6.8	6.1	5.6	5.3	5.2	5.1	5.1
GDP deflator in US dollars (change in percent)	4.9	1.7	-25.2	-1.7	6.6	0.7	9.4	17.5	11.9	7.3	7.0	6.9	6.8	6.9
Nominal external interest rate (in percent)	4.3	3.1	2.8	6.4	6.0	4.9	4.4	5.0	5.0	5.2	5.6	5.8	6.1	6.5
Growth of exports (US dollar terms, in percent)	11.1	-12.5	4.1	50.2	-1.6	11.3	29.2	25.7	4.9	11.4	9.5	3.4	10.0	9.6
Growth of imports (US dollar terms, in percent)	9.9	-5.7	-13.8	31.2	17.8	9.9	14.9	26.8	14.5	12.1	11.1	9.6	9.7	9.7

Sources: Kazakhstani authorities; and Fund staff estimates.

Table 5b. Kazakhstan: External Debt Outstanding at Year-End, 1997–2010 (Lower Oil Price Scenario)

(In percent of GDP unless otherwise indicated)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
											Projections			
A. Total external debt outstanding at year-end														
Baseline	40.8	44.8	71.3	69.3	68.5	74.1	76.9	68.3	65.4	64.8	64.5	64.9	64.7	64.1
Stress tests:														
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and non-debt inflows are at historical average in 2003-2010								81.3	81.6	80.8	79.3	76.4	75.0	74.3
2. Nominal interest rate is at historical average plus two standard deviations in 2003 and 2004								69.7	68.1	67.3	67.0	67.4	67.0	66.4
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004								77.7	82.5	81.1	80.3	80.5	79.8	78.9
4. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2003 and 2004								100.2	131.8	128.4	126.1	125.3	123.5	121.5
5. Non-interest current account is at historical average minus two standard deviations in 2003 and 2004								78.2	81.8	80.4	79.7	79.8	79.2	78.2
6. Combination of 2-5 using one standard deviation shocks								101.0	126.4	123.2	121.1	120.5	118.8	116.9
7. One time 30 percent nominal depreciation in 2003								103.4	97.6	95.6	94.4	94.3	93.2	92.0
B. External debt, excluding intra-company debt														
Baseline	29.5	29.5	35.0	31.4	28.4	30.5	36.4	32.6	30.9	29.9	29.4	29.2	28.6	28.2
Stress tests:														
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and non-debt inflows are at historical average in 2003-2010								39.4	38.2	35.8	33.0	28.8	26.1	24.5
2. Nominal interest rate is at historical average plus two standard deviations in 2003 and 2004								33.4	32.4	31.3	30.8	30.5	30.0	29.5
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004								37.1	39.1	37.8	37.2	36.9	36.3	35.8
4. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2003 and 2004								47.9	62.8	60.7	59.6	59.2	58.4	57.9
5. Non-interest current account is at historical average minus two standard deviations in 2003 and 2004								41.5	45.3	43.8	43.1	42.8	42.1	41.6
6. Combination of 2-5 using one standard deviation shocks								50.6	64.1	61.9	60.8	60.4	59.6	59.0
7. One time 30 percent nominal depreciation in 2003								49.4	46.4	44.9	44.1	43.8	43.1	42.6
C. External debt, net of NFRK														
Baseline	40.8	44.8	71.3	69.3	62.7	66.3	64.8	56.0	52.2	50.6	50.4	51.2	51.2	50.6
Stress tests:														
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and non-debt inflows are at historical average in 2003-2010								66.9	65.0	62.4	60.2	56.8	55.1	53.5
2. Nominal interest rate is at historical average plus two standard deviations in 2003 and 2004								56.8	53.6	52.0	51.8	52.5	52.6	51.9
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004								64.0	66.6	64.6	64.2	64.8	64.7	64.0
4. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2003 and 2004								83.2	108.4	105.2	104.0	104.4	103.9	102.8
5. Non-interest current account is at historical average minus two standard deviations in 2003 and 2004								66.0	68.6	66.6	66.1	66.7	66.6	65.9
6. Combination of 2-5 using one standard deviation shocks								84.2	104.0	100.8	99.8	100.2	99.7	98.7
7. One time 30 percent nominal depreciation in 2003								85.8	79.8	77.4	76.8	77.3	77.1	76.3
D. External debt, excluding intra-company debt and net of NFRK														
Baseline	29.5	29.5	35.0	31.4	22.6	22.7	24.3	20.4	17.6	15.8	15.4	15.4	15.2	14.7
Stress tests:														
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and non-debt inflows are at historical average in 2003-2010								25.0	21.6	17.5	13.9	9.2	6.1	3.6
2. Nominal interest rate is at historical average plus two standard deviations in 2003 and 2004								20.6	18.0	16.1	15.7	15.8	15.6	15.1
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004								23.4	23.2	21.4	21.2	21.5	21.6	21.6
4. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2003 and 2004								30.8	39.5	37.7	38.0	39.3	40.4	41.5
5. Non-interest current account is at historical average minus two standard deviations in 2003 and 2004								29.2	32.3	30.5	30.6	31.5	32.1	32.7
6. Combination of 2-5 using one standard deviation shocks								33.8	41.8	40.1	40.4	41.8	43.1	44.4
7. One time 30 percent nominal depreciation in 2003								31.9	28.6	26.8	26.8	27.4	27.8	28.2
Key macroeconomic and external assumptions:														
Real GDP growth (in percent)	1.6	-1.9	2.7	9.8	13.5	9.8	9.2	9.0	6.5	6.0	5.5	4.5	5.5	5.5
Exchange rate appreciation (US dollar value of local currency, change in percent)	-10.3	-3.8	-34.0	-16.3	-3.2	-4.3	2.6	7.8	3.7	0.8	0.8	0.8	0.8	0.8
GDP deflator (change in domestic currency)	16.9	5.7	13.2	17.4	10.2	5.3	6.6	5.8	3.3	2.5	2.2	2.1	2.0	2.0
GDP deflator in US dollars (change in percent)	4.9	1.7	-25.2	-1.7	6.6	0.7	9.4	14.0	7.1	3.3	3.0	2.9	2.8	2.9
Nominal external interest rate (in percent)	4.3	3.1	2.8	6.4	6.0	4.9	4.4	5.0	4.9	4.9	5.3	5.5	5.7	6.0
Growth of exports (US dollar terms, in percent)	11.1	-12.5	4.1	50.2	-1.6	11.3	29.2	19.8	2.2	5.4	7.2	3.3	12.5	10.3
Growth of imports (US dollar terms, in percent)	9.9	-5.7	-13.8	31.2	17.8	9.9	14.9	22.8	11.5	9.2	7.9	7.2	7.7	7.8

Sources: Kazakhstani authorities; and Fund staff estimates.

Table 6. Kazakhstan: Indicators of Vulnerability, 1998–2003
(In percent of GDP, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003 Prel.
Financial indicators						
Broad money (12-month percentage change)	-14.1	84.4	45.6	42.8	34.1	26.8
Private sector credit (12-month percentage change)	39.9	51.1	81.0	78.9	34.9	45.6
Refinance rate (period average, in percent)	20.1	22.3	15.2	11.7	8.1	7.3
Average yield on 3-month T-bill (in percent)	19.6	23.3	11.7	5.9	5.8	5.9
External indicators						
Competitiveness-related						
Merchandise exports (12-month percentage change, in U.S.dollars)	-14.9	4.3	54.6	-3.6	9.9	32.0
of which: Non-oil exports (12-month percentage change)	-19.3	-6.4	27.6	-7.5	7.1	24.4
Imports (12-month percentage change, in U.S.dollars)	-7.0	-15.4	21.3	11.1	1.6	18.4
Terms of trade (12-month percentage change)	-11.3	11.1	32.1	-7.3	-0.1	2.0
Current account balance	-5.4	-0.1	4.2	-4.0	-3.5	-0.2
Capital and financial account balance	8.3	5.3	4.4	10.0	5.0	9.1
of which: Foreign direct investment (in millions of U.S.dollars)	1,324	1,583	1,278	3,071	2,163	2,188
Capital flight estimates (in millions of U.S. dollars)	641	961	1199	569	-308	0
Exchange rate (per U.S. dollar, period average)	78.5	118.9	142.1	146.9	153.5	149.7
REER appreciation (+) (12-month percentage change, average CPI-based)	21.0	-26.8	-0.6	-1.5	-5.0	-2.4
REER appreciation (+) (12-month percentage change, e.o.p. CPI-based)	13.5	-9.8	-10.2	-1.7	-3.2	-3.4
Reserves-related						
Gross official reserves						
- in millions of U.S. dollars	1,964	2,003	2,096	2,508	3,136	4,961
- in months of imports	3.0	3.6	2.8	2.9	3.3	4.5
- in percent of short-term external debt 1/	84.6	111.0	145.3	112.3	115.4	101.8
- in percent of total external debt	19.9	16.6	16.5	16.5	17.2	21.7
- excluding intra-company loans	30.2	33.8	36.4	40.0	41.8	45.8
Gross official reserves/broad money (M3)	1.1	1.0	0.8	0.7	0.6	0.7
Gross official reserves/narrow money (M0)	2.0	2.2	2.3	2.1	2.3	2.2
Debt-related						
Central bank short-term foreign liabilities (in millions of U.S.dollars)	651.6	462.5	2.1	1.8	0.6	0.9
Short-term foreign liabilities of commercial banks (in millions of U.S.dollars) 2/	260	97	164	440	680	1,962
Short-term external debt 1/						
- in millions of U.S.dollars	2,321	1,805	1,442	2,234	2,717	4,876
- in percent of GDP	10.5	10.6	7.9	10.1	11.0	16.4
- in percent of total external debt	23.5	14.9	11.4	14.7	14.9	21.3
Total external debt						
- in millions of U.S.dollars	9,878	12,089	12,684	15,158	18,221	22,859
- excluding intra-company loans	6,506	5,926	5,753	6,278	7,512	10,830
- in percent of GDP	44.8	71.3	69.3	68.5	74.1	76.9
- excluding intra-company loans	29.5	35.0	31.4	28.4	30.5	36.4
- in percent of exports of goods and services	145.8	171.3	119.7	145.3	156.9	152.3
- excluding intra-company loans	96.0	84.0	54.3	60.2	64.7	72.2
Public external interest payments (in percent of exports of goods and services)	3.0	2.9	2.3	2.3	2.0	1.3
Public external amortization payments (in percent of exports of goods and services)	4.7	9.0	6.2	2.5	5.8	1.9
Net public external debt (in millions of U.S.dollars) 3/	1,994	2,053	1,833	22	-1,553	-4,933
National Fund (NFRK) assets (in millions of U.S.dollars) 4/	…	…	…	1,240	1,917	3,603
Financial market indicators						
Foreign currency debt rating						
Moody's	Ba3	B1	B1	Ba2	Baa3	Baa3
Standard and Poor's	B+	B+	BB-	BB	BB+	BB+
Spread over benchmark bonds (basis points, period average) 5/	903	567	326	235	93	100

Sources: Kazakhstani authorities; and Fund staff estimates.

1/ 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.
2/ Includes deposits from Special Purpose Vehicles, which are set up and owned by Kazakhstani commercial banks abroad and used for channeling foreign financing to Kazakhstan.
3/ Total external public debt minus gross official reserves, and minus NFRK assets.
4/ Includes transitory domestic currency deposits.
5/ Kazakhstani 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.

Kazakhstan—Relations with the Fund
(As of April 30, 2004)

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	0.78	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	3/19/02	329.10	0.00
EFF	7/17/96	7/16/99	309.40	154.70
Stand-by	6/05/95	6/04/96	185.60	185.60

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

VII. Safeguards Assessments:

The safeguards assessment procedures are not applicable to the National Bank of Kazakhstan (NBK) at this time.

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, euros, and Russian rubles, 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 April 30, 2004, the rate was T 138.19 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 May 28, 2003 (see IMF Country Report 03/210).

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. An FSAP update mission took place in February 2004. The fiscal transparency module was completed in October 2002 and the final report published in April 2003. A data module mission took place in April/May 2002, and its final report was published in March 2003.

XI. Technical Assistance:

Kazakhstan has received considerable technical assistance and training by the Fund in virtually every area of economic policy, including through about 75 technical assistance missions provided during 1993–2003 by FAD, MFD, STA, LEG, and the IMF Institute. In addition to short-term missions, the Fund has provided resident advisors to the National Bank of Kazakhstan, to the Agency of Statistics of the Republic of Kazakhstan, 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 1995.

Monetary and Financial Systems

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 Financial Systems Department of the Fund have included:

1. January 1995: NBK Accounting
2. April 1995: Accounting Workshop
3. April-May 1995: Modernization of the NBK: Payments system; Monetary Operations; Banking Supervision.
4. September 1995: Advisory Mission to the NBK: Monetary Operations, Monetary Analysis and Research, T-Bills Market, Payment System, Foreign Exchange Operations and Markets.
5. November 1995: Article VIII compliance
6. June 1996: Advisory Mission to the NBK: Monetary Operations, T-Bill Development, Payments System, and Banking Supervision.
7. April 1997: Staff visit on Payments System.
8. April 1997: Expert visit on Payments System
9. Fall 2001: Multi-topic mission—Financial Sector Consolidated Supervision and Capital Account Liberalization.
10. December 2002: Sequencing of Capital Account Liberalization and Financial Sector Supervision.
11. January 2003: Assessment of the CPSS Core Principles for Systematically Important Payment Systems and Transparency of Payment System Oversight.

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. September 1995: Treasury System
2. June 1996: Seminar on Public Expenditure and Treasury Management
3. September 1996: Executive Workshop on Treasury Systems in Economies in Transition.
4. October 1996: Energy Taxation.
5. April 1997: Tax Administration
6. June 1997: Seminar on Public Expenditure and Treasury Management.
7. July 1997: Expenditure Policy
8. January 2000: Tax Code
9. February 2000: Custom Administration Reform
10. August 2000: Tax Code
11. 1997–present Treasury Modernization.

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. January 1995: Government Finance Statistics
2. January–February 1995: External Trade Statistics
3. February 1995: Money and Banking Statistics
4. April-May 1995: Producer Price Index
5. August 1995: Inspection Mission
6. October 1995: Balance of Payments Statistics
7. December 1995: National Income Coordination
8. June 1996: Money and Banking Statistics
9. September–October 1996: External Trade Statistics
10. April 1997: Money and Banking Statistics
11. August 1997: Balance of Payments Statistics
12. September 1997: Price Statistics
13. September 1997: National Accounts Statistics
14. November–December 1997: Monetary and Financial Statistics
15. February 1998: Monetary and Financial Statistics
16. May-June 1998: Balance of Payments Statistics
17. September–October 1998: Monetary and Financial Statistics
18. March 1999: National Accounts Statistics
19. July 1999: GDDS Pilot Country Study
20. February 2000: National Accounts Statistics
21. February 2000: Balance of Payments Statistics
22. March-April 2000: Monetary and Financial Statistics
23. September–October 2000: National Accounts Statistics
24. November 2002: International Reserves Template

Legal Department

1. March 1995: Commercial Banking Legislation
2. March 1995: Tax Code
3. November 1995: Article VIII Compliance
4. December 2003: Draft Law on Mandatory Reporting on Certain Financial Transactions

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.

XII. Resident Representatives:

Position terminated in August 2003.

Kazakhstan—Relations with the World Bank Group
(As of May 31, 2004)

Kazakhstan became a member of the World Bank and IDA in July 1992, and of the IFC in September 1993. The Bank's lending program has been curtailed in recent years as a result of the country's reduced borrowing needs. At present, there are 6 active projects with a total commitment of $540 million, of which $302 million have been disbursed. The Bank is preparing 4 new operations in support of the agricultural sector and the environment with an expected financing envelope of $90 million.

A Country Partnership Strategy (CPS) is under preparation, focusing on knowledge transfer (some of which embedded in lending operations) and a strategic partnership. It will build on the $3 million three-year Joint Economic Research Program, which is co-financed by the Government of Kazakhstan.

The IFC maintains 19 active operations, equivalent to total financing of $330 million, including syndications in the financial sector, manufacturing, agribusiness, oil and gas, and extending IFC's Reach Program; to date, $121 million have been disbursed.

The Bank is assisting the government in attracting grants from the Global Environmental Facility (GEF), the International Fund for Agricultural Development (IFAD), and, together with UNAIDS, the Global Fund to Fight AIDS, TB and Malaria (GFATM).

Kazakhstan—Relations with the EBRD
(As of May 31, 2004)

As of December 31, 2003, the EBRD's gross cumulative disbursements amounted to €599 million. The current portfolio is composed of 32 projects with a total value of €1.8 billion, of which €931 million are financed by the EBRD. The Bank expects to sign new project agreements in Kazakhstan on the order of €200–300 million per year.

EBRD's strategic priorities include (i) the advancement of commercial principles in public sector infrastructure, including through non-sovereign lending; (ii) the promotion of economic diversification through support for domestic and foreign investment, SMEs, and trade liberalization; and (iii) the development of the financial sector in order to increase its capital base, enhance its stability, encourage prudent credit expansion, and facilitate the diversification of domestic financial assets.

Assistance to Kazakhstan focuses on infrastructure operations and the financial sector. In March 2004, EBRD agreed to provide without sovereign guarantee $60 million to the state-owned Kazakhstan Electricity Grid Operating Company for the construction of a new electricity line facilitating the transmission of surplus power from north to south Kazakhstan (co-financed with Raiffeisen Bank Österreich, Bayerische Landesbank, and Kazakhstan Development Bank). Other infrastructure projects target the development of roads, railroads, ports, airports, and telecommunications. In September 2003 EBRD provided a loan amounting to €48 million to Kazakhtelecom as part of a larger support package involving international banks and the donor community. EBRD also provided $119 million for the rehabilitation of the 900-km road between Kazakhstan's main port of Aktau on the Caspian Sea and the regional center of Atyrau. In the area of banking, the Kazakhstan Small Business Program has disbursed since 1998 close to 85,000 micro credits totaling $471 million. In June 2003, EBRD purchased a 15 percent share of Kazkommertsbank, Kazakhstan's largest bank, for $30.6 million. The Bank also provides targeted technical assistance in the areas of tariff reform and infrastructure.

Kazakhstan—Relations with the Asian Development Bank
(As of May 31, 2004)

Kazakhstan became a member of the Asian Development Bank (ADB) in 1994. As of March 31, 2004, total loan commitments amounted to $501.6 million, covering 12 investment projects in agriculture, rural water supply, transportation, and education, as well as policy-based program lending for special assistance, agriculture, and pension reforms. At end-March 2004, total loan disbursements amounted to $383.5 million. In 2003, ADB approved a $34.6 million loan for a rural water supply project, the first loan since 2000. A new country strategy and program (CSP) was prepared in 2003. ADB sees knowledge transfer as the main pillar of collaboration, with a modest investment program of about one public sector project and one private sector investment project per year planned for 2004–05. Kazakhstan is no longer eligible for concessional resources from the Asian Development Fund.

The ADB has provided Kazakhstan with TA grants in several sectors, including agriculture, education, finance, pension reform, transportation, energy, water supply and sanitation, aid coordination and management, public investment programming, and poverty reduction planning and implementation. As of March 31, 2004, total TA commitments amounted to $23.4 million, covering 50 projects.

Kazakhstan—Statistical Issues

The April 2002 data ROSC mission found that the quality of Kazakhstan's macroeconomic statistics had improved in recent years. Nevertheless, there were shortcomings in some statistical practices that could potentially detract from the accurate and timely analysis of economic and financial developments and the formulation of appropriate policies. Also, agencies compiling national accounts, fiscal, monetary, and balance of payments statistics in Kazakhstan could better coordinate investigation of intersectoral discrepancies.

On March 24, 2003 Kazakhstan became the 53rd subscriber to the Special Data Dissemination Standard (SDDS), marking a major step forward in the development of the country's statistical system. It is the first country to graduate from the General Data Dissemination System (GDDS) to the SDDS, and the second country of the Commonwealth of Independent States to subscribe to the SDDS.

Sector specific issues

In the area of **national accounts,** several weaknesses remain in both the quality of GDP estimates by sector produced by the National Statistical Agency (NSA) and the quality and timeliness 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.

Data on **prices** conform to international standards. **The consumer price index** is calculated for a basket of 329 items using a weighting 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 a Laspeyres type index with weights of previous years and a price reference period of December of the previous year. Appropriate chain-linking procedures are used for linking the data to produce long-term series. The National Statistical Agency and the National Bank of Kazakhstan (NBK) are in the process of developing a core inflation index.

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

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

As a result of extensive technical assistance, the quality of **fiscal data has improved**, in particular following the **consolidation, in 1999, of most extrabudgetary and social security funds** into the fiscal accounts and 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 undervalued to a significant degree. Progress has also 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.** Since 1997, the authorities have reported detailed data for publication in the *GFS Yearbook.* The latest data reported for publication cover consolidated general government and are presented using the new template consistent with the *Government Finance Statistics Manual 2001*. The Ministry of Finance also provides monthly indicators (general government) for publication in *International Financial Statistics (IFS).*

The existing framework for compiling **monetary statistics** generally conforms with recommended Fund methodology, and data are compiled on a timely basis. 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*. The NBK intends to extend **institutional coverage** to compile a financial sector survey, which is important in light of the exclusion of the Development Bank and EXIM Bank from the monetary survey. However, the authorities have not implemented recommendations of past money and banking statistics missions regarding the use of residency criteria as defined in the *Balance of Payments Manual*, fifth edition (*BPM5*). Not all financial assets held by commercial banks are valued at **current market prices**, and there are inconsistencies among banks in recording **syndicated lending**. These factors can distort the measure of net foreign assets and credit to the domestic economy. Also, **data revisions** in the monetary statistics are not synchronized with those for the International Investment Position and balance of payments statistics. MCD and STA staff are working with the authorities to harmonize the presentation of monetary statistics for both the area department and *IFS* purposes.

In the area of balance of payments, the overall quality and timeliness of data are satisfactory. Considerable progress has been made in implementing the Fund technical assistance recommendations 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 *BPM5*. In particular, work is continuing to ensure the correct treatment of construction services provided by foreign companies that operate local branch offices. A Data ROSC mission in April/May 2002 also noted some other shortcomings in the compilation of balance of payments statistics. These shortcomings include (1) commercial banks defining nonresidents on a legal basis rather than on the *BPM5* principle, which affects data reporting by these banks for balance of payments purposes, and (2) discrepancies between balance of payments and other macroeconomic statistics.

Kazakhstan: Core Statistical Indicators
(As of June 15, 2004)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP 2/	External Debt
Date of latest observation	6/15/04	6/11/04	6/11/04	6/11/04	04/30/04	5/31/04	5/31/04	3/31//04	Q4_2003	3/31/03	Q1_2004	Q4_2003
Date received	6/15/04	6/15/04	6/15/04	6/15/04	5/25/04	6/4/04	6/7/04	4/20/04	04/04	05/04	04/04	04/04
Frequency of data	D	W	M	W	M	W	M	Q	Q	Q	Q	Q
Frequency of reporting	D	W	M	W	M	W	M	Q	Q	Q	Q	Q
Source of updating	A	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting	I	C	E	E	E	E	I	C	C	C	C	C
Confidentiality	C	C	C	C	C	C	C	C	C	C	C	B
Frequency of publication 1/	D	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 are 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,
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; I— available on official web site. 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.

INTERNATIONAL MONETARY FUND
Public Information Notice
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FOR IMMEDIATE RELEASE
September 20, 2004

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2004 Article IV Consultation with the Republic of Kazakhstan

On July 21, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Kazakhstan.[1]

Background

Kazakhstan's economy continues to expand rapidly, with average real growth of more than 10 percent over the past three years, and an estimated 9.1 percent in the first quarter of 2004. Economic growth has been driven by increasing oil production, supported by high oil prices and rising foreign investments. The production of oil and gas condensate reached 51.3 million tons in 2003, an increase of 9 percent over the preceding year. Led by the petroleum sector, other key sectors such as services, manufacturing, and construction have also shown significant gains. Labor market trends have been favorable, with significant gains in employment since 2000. In 2003, the unemployment rate fell from 9.3 percent to 9.0 percent. Real wages have grown in line with real GDP. Notwithstanding the reduction in the share of the population living below the poverty line, poverty remains a serious problem, in particular in rural areas and among the elderly.

Growth in monetary and credit aggregates remained high in 2003, mainly because foreign exchange purchases by the National Bank of Kazakhstan (NBK) were not fully sterilized. As a result of ongoing remonetization, inflationary pressures have remained subdued and the inflation rate remained below 7 percent over the past three years. The level of dollarization of bank assets and liabilities has continued to decline.

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

Following the adoption of a new monetary policy framework in 2003, the NBK now treats price stability as the key monetary policy objective. With the aim to prevent a rapid appreciation of the tenge, the NBK continued its large-scale purchases of foreign exchange. Since the beginning of 2003, reflecting the movements in the U.S. dollar/euro rate, the tenge has appreciated against the U.S. dollar by about 13 percent, but depreciated sharply against the euro. The tenge remained largely stable against the Russian ruble during 2001–03, appreciating somewhat against this currency in early 2004.

With a general government surplus of 3 percent of GDP in 2003, fiscal policy continued to play a key role in containing aggregate demand. Measured by the non-oil budget deficit, the fiscal stance remained largely unchanged compared to 2002. The strong performance was supported by an increase in non-oil sector revenues resulting from higher corporate profitability in non-oil industries and the services sector, and one-off payments related to the oil and gas sectors. The rise in expenditures mainly resulted from higher outlays for infrastructure and construction of the new capital Astana. A substantial share of the fiscal surplus and privatization receipts was saved in the National Fund of the Republic of Kazakhstan (NFRK). The authorities have redirected a significant share of tax revenues from mining and oil operations—previously earmarked for the NFRK—to the financing of the 2004 budget. The new single treasury account became fully operational on May 1, 2004.

The external current account was essentially balanced in 2003, improving by more than 3 percent of GDP compared with the previous year. Exports of goods and services increased sharply because of higher oil and metal prices and an increase in non-oil export volumes of 14 percent, while the expansion of imports kept pace with GDP growth. Gross foreign direct investment inflows reached a record level, although net inflows rose only slightly as a result of accelerated debt repayments by foreign investors. Official international reserves increased to $6.5 billion at end-May 2004, equivalent to 4.5 months of import coverage; in addition, the NFRK balance reached $3.7 billion. Public external debt rose somewhat in U.S. dollar terms, but fell to 12 percent of GDP, continuing the trend seen over the past few years. Kazakhstan's official sector became more significant as a net creditor to the rest of the world. Standard & Poor's upgraded Kazakhstan's Foreign Currency Sovereign Credit Rating to investment grade/BBB-in May 2004.

Structural reforms are well advanced compared to other countries in the region, but the implementation of the reform agenda has slowed somewhat since 2000. Outside the oil sector, the business climate remains difficult, notably for small and medium-scale enterprises and foreign investors; lack of transparency in law enforcement, customs, and the tax authorities is considered a significant impediment to private sector development.

Reforms of the financial sector were bolstered by the establishment of an independent Financial Supervisory Agency in early 2004. Legislative reforms were carried further with the introduction of consolidated supervision requirements. The recent Financial Sector Assessment Program (FSAP) update mission commended the positive developments since the 2000 FSAP, while highlighting some remaining risks to the financial sector. In line with this mission's recommendations, a draft law on Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) has been prepared.

Progress with trade liberalization has stalled in recent years, including with regard to WTO accession. Although the average tariff is low, there are 10 bands with considerable dispersion. Advancing regional integration is a key policy objective for the authorities, who recently concluded agreements on trade and transit with the Kyrgyz Republic, China, and Pakistan.

Executive Board Assessment

Executive Directors commended Kazakhstan for continued prudent macroeconomic policies, which, supported by high oil prices and increasing foreign investment, have led to strong economic performance, broad-based economic growth, and the rapid accumulation of international reserves and assets in the National Fund. In view of a highly favorable medium-term outlook, Directors emphasized that the main policy challenges facing Kazakhstan are to prudently manage the country's substantial petroleum wealth, and to undertake the structural reforms necessary for sustainable broad-based economic and social development.

Directors welcomed the authorities' more relaxed fiscal stance in the 2004 budget, which increased outlays on pensions and wages, and reduced the rates of the value-added tax, income tax, and social security tax. In view of rapidly rising revenues from oil, they underlined the need to increase spending on education, health care, anti-poverty programs, and infrastructure development, as well as the importance of enhancing institutional capacities, in collaboration with the World Bank, to ensure greater spending efficiency. Directors cautioned, however, against any tendency toward an excessively pro-cyclical budget and recommended the adoption of a non-oil fiscal deficit target as an important step to guide fiscal policy in the face of volatile oil and gas revenues. They welcomed the establishment of a medium-term budgetary framework, stressing the importance of linking it to the annual budget.

Directors noted that inflation has been contained despite significant growth in monetary aggregates as this growth was accompanied by rapid financial deepening. They advised the authorities, however, to monitor developments in money markets carefully and to continue developing tools to manage excess liquidity to ensure that the easing of fiscal policy does not threaten the inflation objective. In this regard, they noted the supporting role of a more flexible exchange rate policy, which accords with the authorities' intention to adopt an inflation targeting regime over the medium term. In view of Kazakhstan's strong balance of payments position, buoyed by increasing oil revenues, Directors urged the NBK to reduce its purchases of foreign exchange and allow some real appreciation of the currency.

Directors commended the authorities for their prudent management of increasing oil revenues, noting that the NFRK, which accumulates excess oil revenues, has played a crucial role in easing the burden on monetary policy and reducing pressure for an appreciation of the exchange rate. They urged the authorities to safeguard the assets of the NFRK through enhanced transparency in its operations and the regular release of external audit reports. Directors called on the authorities to ensure that the rules governing the NFRK are aligned with the budget. They encouraged the authorities to enhance transparency in the extractive industries, including by publishing information about all new oil-related contracts and payments, and through the adoption of the Extractive Industries Transparency Initiative.

Directors observed that Kazakhstan would benefit from developing a diversified economy by avoiding overdependence on the oil sector, and referred in this regard to lessons from other resource intensive countries. They encouraged the authorities, in addition to prudently managing petroleum wealth, to strengthen the competitiveness of the non-oil economy by adopting measures to enhance productivity, and as a starting point, to develop a well thought-out public sector investment program with a focus on infrastructure investment. Directors cautioned the authorities against allowing state-owned developmental initiatives to take a more prominent role in allocative decisions in the economy, and urged them to adopt measures to reduce the potential for these programs to distort economic decisions.

Directors encouraged the authorities to press ahead further with the implementation of their structural reform agenda. In this regard, they emphasized the overarching importance of improving the overall business climate by strengthening public administration and the judiciary, and by fighting corruption. They called on the authorities to adopt measures to improve the investment climate for small- and medium-sized enterprises, with a view to creating more employment. Directors encouraged the authorities to take advantage of the positive economic environment to strengthen their efforts to reduce poverty, especially in the rural areas and among the elderly. They also welcomed the adoption of a land code, which allowed private land ownership.

Directors commended the authorities for their continued progress with financial sector reforms and the update of the 2000 FSAP, emphasizing the importance of the establishment of the Financial Supervision Agency in early 2004. They encouraged the authorities to strengthen further their systems of consolidated supervision and internal risk management, in view of continued high credit growth and foreign borrowing by commercial banks, and to enhance supervision of the non-bank financial sector, as recommended by the FSAP update mission. Directors stressed the importance of reducing distortions in credit markets through adequate prudential and market conforming measures. A few Directors also encouraged the authorities to consider temporarily raising reserve requirements for funds borrowed abroad in order to mitigate the significant increase in foreign borrowing by commercial banks. Finally, they urged the authorities to pass AML/CFT legislation, in line with international standards.

Directors encouraged the authorities to take advantage of their strong external position to liberalize the trade system further. They welcomed recent progress on trade and transit arrangements with neighboring countries and agreed that Kazakhstan could play a major role in facilitating regional trade by reducing non-tariff barriers and removing obstacles to trade in transportation and customs. Directors called on the authorities to pursue WTO accession discussions vigorously.

In the context of the ex-post assessment of longer-term program engagement, Directors welcomed the authorities' generally favorable assessment of Kazakhstan's experience with Fund programs, while noting that performance had been affected by some differences in views regarding economic policies at certain stages.

Directors commended the authorities for their progress with respect to improving data transparency, in general, and by subscribing to the Special Data Dissemination Standard and publishing the fiscal and data Reports on the Observance of Standards and Codes in 2003.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Kazakhstan: Selected Economic Indicators

	1998	1999	2000	2001	2002	2003 Prel. Est.
			(Changes in percent)			
Real economy						
Real GDP	-1.9	2.7	9.8	13.5	9.8	9.2
CPI (end-of-period)	1.9	17.8	9.8	6.4	6.6	6.8
			(In percent of GDP)			
Public finance						
Government revenue and grants	18.3	17.5	21.7	25.6	22.5	26.3
Government expenditures	26.1	22.7	22.5	22.9	21.0	23.3
General government balance 1/	-7.8	-5.0	-0.8	2.6	1.4	3.0
General government debt (end-of-period) 2/	22.7	30.6	27.2	20.5	17.6	16.0
			(Changes in percent)			
Money and credit						
Base money	-29.0	56.9	5.3	30.9	18.2	52.2
Broad money	-14.1	84.4	45.9	42.8	34.1	26.8
Banking sector credit to the economy	39.9	51.1	81.0	78.9	34.9	45.6
Interest rate on three-month treasury bill 3/	25.8	16.6	7.0	5.4	5.8	5.0
			(In percent of GDP)			
Balance of payments						
Trade balance	-3.6	2.8	14.3	6.9	9.4	13.7
Current account balance 4/	-5.4	-0.1	4.2	-4.0	-3.5	-0.2
External public debt	17.9	23.9	21.5	17.2	14.2	12.2
Gross international reserves						
In billions of U.S. dollars, end of period	2.0	2.0	2.1	2.5	3.1	5.0
In months of imports of goods and nonfactor services	3.0	3.6	2.8	2.9	3.3	4.5
Exchange rate						
End-of-period level (tenge/U.S. dollar)	84.0	138.3	145.4	150.9	155.9	143.3
Real exchange rate vis-à-vis U.S. dollar 5/	-9.4	-30.1	1.0	1.0	0.8	14.0
Real exchange rate vis-à-vis Russian ruble 5/	72.9	-31.4	-9.4	-7.5	-5.4	-3.9

Sources: Kazakhstani authorities; and IMF staff estimates.

1/ Under this definition of the general government balance, privatization revenue is treated as a financing item and measured from below-the-line financing, which includes the statistical discrepancy.
2/ Gross domestic and external debt, including government guaranteed debt.
3/ Starting in 2001, yields refer to NBK notes.
4/ Reported figures for the 1999-2002 current account have been adjusted for staff estimates of the underinvoicing of exports.
5/ End-of-period from end of previous year. A negative sign indicates a depreciation.