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REPUBLIC OF KAZAKHSTAN

2013 ARTICLE IV CONSULTATION

September 2013

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 2013 Article IV consultation with Kazakhstan, the following documents have been released and are included in this package:

- **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on June 4, 2013, with the officials of Kazakhstan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 18, 2013. 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.
- **Informational Annex** prepared by the IMF.
- **Press Release** summarizing the views of the Executive Board.

The document listed below has been or will be separately released.

Selected Issues Paper

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REPUBLIC OF KAZAKHSTAN

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

July 18, 2013

KEY ISSUES

Context: Average growth of 8 percent over the past decade, supported by rising oil output and prices, has solidified Kazakhstan's position as a regional economic power. Following rapid economic recovery from the 2007–08 crisis, growth has decelerated but remains solid. Inflation and employment growth are stable. Financial sector repair is ongoing, but its pace is held back by persistently high non-performing loans (NPLs).

Outlook and risks: Medium-term growth prospects are strong, helped by a substantial projected increase in oil output, with full scale production in the Kashagan oil field expected to commence in 2015. There are some downside risks to the outlook, primarily emanating from the external environment, including from a possible sustained slowdown in global growth and lower oil prices.

Key Article IV policy recommendations: The authorities' vision of developing Kazakhstan into a leading emerging market economy requires concerted efforts to strengthen the policy architecture. The currently stable macroeconomic conditions and appropriate policy mix provide the authorities an opportune time to:

- Speed up progress on resolving the large stock of NPLs.
- Bolster the monetary and fiscal policy frameworks, with a view to promoting durable and inclusive medium-term economic growth and alleviating vulnerabilities to shocks.
- Enhance the diversification strategy, including by strengthening institutions, the business environment, and human capital, while carefully managing the country's oil wealth.

Approved By
Juha Kähkönen (MCD) and Mark Flanagan (SPR)

The staff team comprised Hossein Samiei (head), Natan Epstein, Gohar Minasyan, Amgad Hegazy (all MCD), and Aidyn Bibolov (MCM). Discussions were held in Almaty on May 22-28 and in Astana on May 29-June 4. The mission met with Deputy Prime Minister Kelimbetov, Central Bank Governor Marchenko, the President's Deputy Chief of Staff Sultanov, Ministers of Finance (Zhamishev), Economy and Budget Planning (Dossayev), and Oil and Mining (Mynbayev), as well as other officials, parliamentarians, private sector and civil society representatives, and IFIs. Mr. Sazanov (OED) attended some of the meetings. The mission also held seminars for the authorities on its background analytical work, issued a concluding statement, and held interviews with the press.

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CONTEXT

1. Economic fundamentals remain relatively strong, although financial sector healing is not yet fully secured. Following rapid output recovery from the crisis, real GDP growth slowed to 5 percent last year, mostly reflecting declines in oil and agricultural output. External pressures on prices have eased and inflation remains within the authorities' objective range of 6-8 percent. Based on standard international rankings, the business environment is improving, albeit from a low base. Kazakhstan's accession to the WTO is expected this year.[1] A persistently large stock of NPLs—a legacy of the global crisis—is holding back a meaningful recovery in banks' profits, although credit growth (especially consumer lending) is picking up.

2. Implementation of Fund's past policy advice is ongoing. The authorities have taken steps to address earlier recommendations, including officially abolishing the exchange rate band (2011) and continuing to implement prudent fiscal policy. In addition, recent technical assistance on financial sector issues, public financial management, and statistics has been well received. However, the policy response to high NPLs has been relatively slow, while enhancing monetary and fiscal policy frameworks requires a steadfast approach.

3. Looking ahead, the authorities are keen to develop Kazakhstan into a major diversified emerging market economy. To meet this goal, improving macroeconomic policy frameworks and properly managing oil wealth, while bolstering human capital and institutions, will be crucial. There is broad agreement among policy makers on the need to reduce the economy's dependence on oil by promoting non-oil activity, and to lower the large presence and reach of state-owned enterprise activities throughout the economy.

4. The political backdrop is broadly stable. Risks to political stability have largely subsided since the deadly clashes between protesting oil workers and police in December 2011. However, the recently proposed changes to the pension system (in particular the plan to increase the retirement age for women) have generated public discontent. Kazakhstan has started to play an increasing role in mediating conflicts across the region.

RECENT DEVELOPMENTS

5. Growth has decelerated, but macroeconomic conditions remain solid. Real GDP growth slowed from 7½ percent in 2011 to 5 percent in 2012, as the positive non-oil output gap reached a peak of about 1½ percent earlier in the year. The deceleration was particularly noticeable in the mining and agriculture sectors, and continued through the first quarter of 2013 with GDP growth amounting to 4.6 percent year-on-year. Employment has expanded at about 2½ percent annually

[1] WTO accession has been delayed from last year reflecting prolonged negotiations, in part due to issues related to the Customs Union with Russia and Belarus.

over the last three years. Helped by moderating food prices, headline inflation stood at 6.0 percent at end-2012, down from 7½ percent at end-2011. More recently, headline inflation has fallen to just below the authorities' 6-8 percent target range, while core inflation has remained stable at around 5-5½ percent (Figure 1).

6. The balance of payment (BoP) position weakened somewhat in 2012. The current account surplus (CAS) was almost halved, to 3.8 percent of GDP, due to a weaker trade surplus (reflecting in part a decline in the share of oil exports in GDP as well as a surge in non-hydrocarbon imports) and a deteriorating deficit in the services balance. The fall in the CAS was mostly offset by a decline in the deficit of the financial account, reflecting higher FDI and other investment inflows. Central bank international reserves decreased by $1 billion, to $28.3 billion, but remain just below what is implied by standard reserves adequacy metrics. However, the National Fund of the Republic of Kazakhstan (NFRK) stood at a healthy $63 billion, or 30 percent of GDP, at end-June, 2012. Preliminary first quarter results for 2013 reveal a BoP surplus of $0.3 billion (compared to $2.1 billion in 2012 Q1), largely reflecting a narrower CAS.

7. Kazakhstan's external competitiveness position has improved somewhat. Based on standard CGER analysis, the average estimate of the real exchange rate's misalignment yields a small undervaluation of 2-3 percent, but there is some variation across the different measures, with the macro-balance approach suggesting some overvaluation, while the equilibrium real exchange rate model implying undervaluation. At the same time, Kazakhstan's nonoil sector has seen some increased global export penetration in recent years, suggesting some gains in the competitiveness position.[2] External debt remains within a safe threshold following the successful restructuring of banks' external debt over the years, and results of the external DSA suggest a sustainable external debt path. Overall, therefore, the external situation appears stable.

8. The financial sector is recovering, but only gradually. Efforts to resolve the stock of NPLs are ongoing, but with limited impact so far. Ratios remain elevated, at 30 percent for the system, albeit with large variations across banks (Figure 2). Profits have improved over the past year, but remain very weak, with the return on assets ratio for the largest banks (excluding troubled BTA and Alliance banks) barely reaching 1 percent last year. The system's capital adequacy ratio increased from 17 percent to 18 percent in 2012, following the external debt restructuring and state-funded recapitalization of BTA. While private sector credit growth remains moderate overall at 13 percent, consumer lending, concentrated in small- and medium-sized banks, is expanding rapidly (from a low base) at around 40 percent year-on-year.

[2] Kazakhstan's non-oil commodity exports as a share in global non-oil exports increased from 0.12 percent in 2009 to 0.16 percent in 2011.

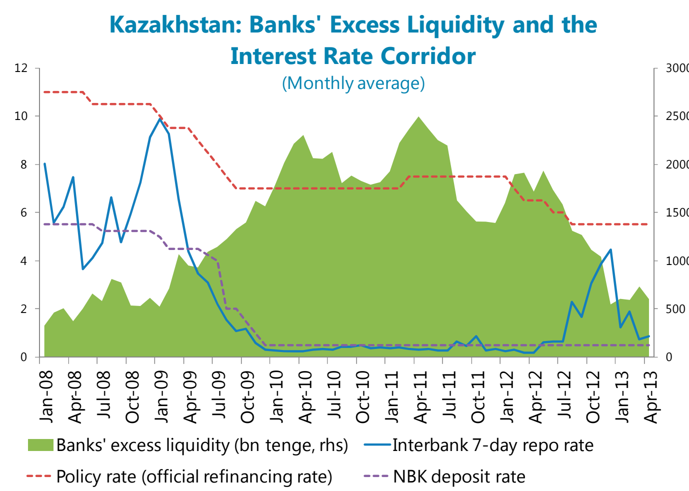
Kazakhstan: Banking Sector, Six Largest Banks

(December 2012)

	Assets (Tenge Bn, April 2013)	ROA (Percent, 2012)	NPLs (Percent of loans)	Provisions (Percent of NPLs)
Halyk	2,437	2.5	21.6	100
KKB	2,405	0.1	40.4	94
BTA	1,515	-22.3	87.0	99
BCC	1,084	0.0	16.3	99
SBER	838	2.2	5.5	95
ATF	785	-1.2	41.4	56
Sector	14,437	-1.5	29.8	94

Sources: Kazakhstani authorities, Halyk Finance, and IMF staff estimates.

9. The policy interest rate has been kept on hold since last summer. Following a cumulative 200 bps cut in the central bank's official refinancing rate (policy rate) early last year, the authorities have kept the rate on hold at 5½ percent since August 2012. Notwithstanding periodic spikes in interbank rates, for example during the second half of 2012 and reflecting seasonal factors, key money market rates have, for long periods, stayed very close to the bottom of the National Bank of Kazakhstan's (NBK) interest rate corridor (0.5 percent), accompanied by ample excess liquidity.[3]



10. The fiscal position worsened somewhat in 2012, mainly due to lower oil revenues. The overall fiscal surplus declined to 4.5 percent of GDP in 2012, from 5.9 percent of GDP in 2011 (Figure 3), while the nonoil deficit deteriorated only slightly from 8.8 to 9.0 percent of GDP, compared to an estimated sustainable level of 6 percent of GDP.[4] These developments reflected weaker performance in the oil sector as well as tax exemptions for new oil projects, accompanied by a rise in expenditures of 0.8 percent of GDP (driven mainly by non-wage current spending), partly offset by the continued increase in nonoil revenues. In early 2013 revenue performance was relatively weak

[3] Excess liquidity is defined as banks' reserve assets in excess of minimum reserve requirements plus holdings of NBK notes and deposits at the NBK.

[4] The sustainable level of non-oil deficit was estimated by staff using a Permanent Income Hypothesis annuity framework to be 7.5 percent of non-oil GDP, which is equivalent to 6 percent of total GDP.

while expenditures were also subdued. The oil export customs duty was increased by 50 percent in April 2013.

11. There have been two important reorganizations in the public sector. In early 2013, the responsibilities for fiscal planning were transferred from the Ministry of Finance to the newly reorganized Ministry of Economy and Budget Planning, while the Ministry of Finance continues to be responsible for implementation of the budget. In line with a recent presidential decree, a new extra-budgetary entity (Baiterek) was created to combine all the main development institutions, most of which were previously part of Samruk Kazyna state investment holding company (SK).

12. The unification of the pension funds has become a policy priority. In a step that could partly reverse earlier reforms,[5] Kazakhstan's 10 pension funds, with total assets of $22.5 billion (10 percent of GDP) are being unified with the aim of improving returns on the assets while maintaining individual accounts. The single pension fund will be owned by an independent government agency and managed largely by the NBK.

OUTLOOK AND RISKS

13. Medium-term growth prospects are strong, driven by a substantial projected increase in oil output. In 2013, GDP is expected to grow at 5¼ percent, only moderately above 2012, reflecting a recovery in oil and agricultural output. On the demand side, the negative impact of fiscal consolidation—including a freeze on public sector nominal wages, with implications for private sector wages and consumption—is expected to be more than offset by higher net external demand. Over the medium term, however, full scale production in the Kashagan oil field, projected to commence in 2015, will strengthen overall growth, while the small positive output gap in nonoil GDP closes as nonoil growth converges to 6 percent. Assets in the NFRK are projected to rise to 40 percent of GDP by 2018. The authorities' growth projections, both for 2013 and for the medium term, are more optimistic than the staff's. While the authorities' projections are relatively cautious regarding prospects for oil output, industrialization and diversification programs are assumed to help achieve and maintain 6¾ percent overall GDP growth over the medium-term.

[5] An early mover among CIS countries, Kazakhstan's pension system was transformed in 1998 from a single pay-as-you-go (PAYG) defined benefit system to a mix of PAYG, a mandatory defined-contribution scheme, and a privately managed voluntary scheme.

Kazakhstan: Growth and Oil Wealth Projections

	2012 Actual	2013 Proj.	2014-2018 (avg.) Proj.
Real GDP Growth 1/	5.0	5.2	5.6
Oil Output Growth	-2.2	3.1	2.4
Non-oil Growth	5.9	5.5	5.9
Non-oil Output Gap (% of potential non-oil GDP)	1.4	0.8	0.2
Inflation (e.o.p)	6.0	6.0	6.1
Gross International Reserve (% of	14.0	16.0	17.0
NFRK Assets (% of GDP)	29	33	37

Sources: Kazakhstani authorities; and IMF staff estimates.

1/ Overall growth in 2013-2017 is projected to be about 0.75 percentage points lower than in last year's Article IV staff report mostly because of lower expected growth in 2013 and more conservative oil output projections in the medium-term.

14. There are some downside risks to the outlook, primarily emanating from the external environment (see Annex I). A potential slowdown in the global economy and lower oil prices than currently projected would negatively affect external demand and growth. Close trade, investment, and financial links with Russia and China make Kazakhstan particularly vulnerable to shocks affecting these economies. Like other emerging market economies, Kazakhstan is also prone to reversal in short-term capital flows; however, the vulnerability associated with external borrowing by banks has declined markedly in recent years. Continued reliance on oil and the still unresolved NPLs issues in the banking sector are key sources of domestic vulnerabilities. The authorities agreed with staff's assessment of risk and were particularly concerned about prospects for the Russian economy. They also noted that the NFRK, in addition to ensuring intergenerational equity, could support stability by being used to arrest any sharp deceleration in growth in the event of large negative shocks.

POLICY DISCUSSIONS

15. Given the broadly stable macroeconomic conditions, policy discussions centered on the need to bolster policy frameworks. The external situation appears stable. Moreover, despite a somewhat lower-than-expected fiscal balance than originally budgeted for 2013, staff viewed fiscal and monetary policies as remaining broadly appropriate, with inflation under control and large spending cuts planned for 2013. However, if fiscal policy turns out looser than currently foreseen and inflationary pressures reemerge due to rapid expansion in private sector credit, the policy mix will need to be reevaluated. In view of relative stability, staff and the authorities discussed how to strengthen the macroeconomic policy framework, with a view to ensuring medium-term durable economic growth and alleviating vulnerabilities to shocks. While the primary near-term goal is to provide a lasting solution to the high stock of NPLs, medium-term objectives are to revamp the monetary policy and fiscal frameworks, and to use the oil wealth to diversify the economy.

A. Financial Sector

16. In view of limited progress on NPLs, the authorities have adopted an increasingly proactive posture (Box 1). Last year, the authorities established a centralized problem loans fund (PLF), funded by the NBK, and bank-run special purpose vehicles (SPVs). However, implementation of these measures has been slow, while continued weakness in private sector balance sheets contributed to persistently elevated NPLs ratios. The authorities are considering a more flexible approach to the design of the PLF, to make it more attractive to banks and to increase its size if necessary, working closely with the IMF resident advisor on this issue. Furthermore, and importantly, the authorities have recently introduced ceilings on NPLs—20 percent in 2013 and 15 percent in 2014. The NBK and staff agreed that to achieve meaningful traction, enforcement should be strict and applied on a consolidated basis (in particular to include SPVs). Specifically, banks with NPLs higher than current limits should present the supervisory authorities with specific action plans on how they intend to reduce their NPLs, and be held accountable for the realization of these plans. Finally, staff supported the authorities' intention to consider extending the tax exemptions on written-off loans for banks and buyers of distressed debt beyond 2013, and to make the administrative procedures less burdensome.

17. The government is planning to sell its stake in previously rescued banks.[6] Staff supported this decision, but suggested that to bolster the stability of the banking system as a whole and to avoid the emergence of new risks; the exit should reflect market-based principles and take place in a fully transparent manner. In particular, the announced proposed sale of BTA (third largest bank) to Halyk (largest bank) raises questions about the nature of the transaction and the potential resulting systemic risks. While details are still being worked out, Halyk Bank, which owns the largest pension fund, has received an offer from Samruk Kazyna (SK), the state-owned conglomerate, to swap its stake in BTA for Halyk's pension fund. If the deal goes through, Halyk's assets will exceed 25 percent of total banking system assets. Notwithstanding the recent recapitalization of BTA, its financial position remains fragile, with NPLs of about 87 percent as of end-December, 2012. The authorities assured staff that the transaction will satisfy the required criteria but viewed systemic risks as manageable.

18. Staff noted that potential risks from rapidly growing consumer lending requires strengthening of macroprudential tools. While the NBK did not view this as posing a significant threat to the banking system, it is contemplating new macroprudential rules to stem the growth in retail credit, for example, through introducing ceilings on loan-to-value and debt-to-income ratios. Staff welcomed this approach and, to avoid exacerbating the size of NPLs, called for early attention to the problem, including by bolstering on-site bank supervision, enhancing liquidity and credit risk

[6] During the crisis, the government took majority ownership stake in BTA, Alliance and Temir banks, which, combined, account currently for roughly 15 percent of banking system assets.

assessments, and stepping up the Early Warning System. The mission and the authorities also discussed the modalities of the upcoming FSAP update, currently planned for late 2013 or early 2014. The authorities welcomed the proposed full-scale update to include a ROSC on all financial institutions.

Box 1. Kazakhstan: Resolution of NPLs

High NPLs are a major legacy of the crisis for Kazakhstan's banks. They weaken banks' profits and cash flows and ultimately undermine their ability to lend, and consume significant human resources. NPLs also create uncertainty in wholesale funding markets due to concerns about banks' underlying positions. To address this long-outstanding issue, the authorities introduced a framework with options to sell NPLs to a central-bank funded PLF, transfer them to SPVs, or write them off using a temporary tax relief.

Progress has been limited and the NBK has followed up on its efforts with further action in recent months. The small size of the PLF (less than 1 percent of existing NPLs) and limited scope of loans it could purchase has been a shortcoming. Banks are also reluctant to sell their loans to the PLF at a discount in the hope of loans recovery. Moreover, the ability of SPVs to reduce NPLs in practice is limited because banks plan to transfer primarily the problematic real estate properties to them. Finally, due to burdensome procedures, those banks that are interested in writing off their loans claim that they will not be able to do so for all of them by end-2013 when tax exemptions expire. To address some of these issues, the authorities are making the PLF more flexible in scope and prices it can offer to banks. To incentivize banks to deal with their NPLs, the NBK has also introduced NPL ceilings (20 percent of total loans on January 1, 2013 and 15 percent on January 1, 2014). Further, to facilitate the resolution of NPLs, bankruptcy legislation has been improved in line with the recommendations of the MCM/LEG technical assistance mission of November 2010.

Still, to speed up the resolution of the problem, more decisive policy measures are needed.

- To become more effective, the PLF could consider extending the range of asset purchases to real estate and construction—areas that represent the bulk of problem loans. The PLF could offer banks the possibility of entering into profit-sharing agreements by providing them with the opportunity to gain from the potential of realized collateral. To make the PLF more attractive to banks and offer them better prospects to realize collateral, it could create and manage pools of similar types of assets and offer them to specialized investors on auctions. This could be done for assets either sold or commissioned to the PLF by banks. Similar applications to enhance the effectiveness of asset management companies where used by the Korea Asset Management Corporation, Malaysia's National Asset Management Company, and the Resolution Trust Corporation in the U.S.

- To ensure that NPL ceilings are effective, strict implementation is needed. Banks should be required to provide specific plans as to how they will lower their NPLs and the NBK should actively monitor these plans' implementation. Banks that fail to follow their plans to reduce NPLs should be required to raise more capital or risk limits on their operations or be subject to further supervisory action.

- As an additional incentive, the authorities could consider mandatory audits of assets quality for major banks at some specified period—say end-2014. This comprehensive review by independent parties could help ascertain asset quality at banks and provide assurance to markets that true restructuring has taken place. Strengthened inspections, including through on-site examinations, particularly of large banks, were instituted successfully in Japan and the U.S.

- Extension of the tax exemption on written-off loans and for buyers of NPLs beyond 2013, along with simplification of procedures, should provide banks with more time to utilize this approach.

B. Monetary and Exchange Rate Policy

19. The monetary policy stance remains appropriate. With headline inflation projected to hover around the midpoint of the authorities' objective range (6-8 percent) and core inflation to remain stable, the NBK is expected to keep its policy interest rate on hold in the coming months. This stance may need to be reevaluated if excess liquidity in the banking system translates into more rapid private sector credit expansion or if fiscal policy turns out looser than currently expected by staff.

20. The NBK explained the positive steps it has taken to enhance its regulation of liquidity in the banking system. In view of limited instruments for efficiently managing the buildup of excess liquidity in recent years, the NBK has introduced important changes to minimum reserve requirements (MRR). In particular, the new regulations exclude banks' cash on hand and correspondent accounts in foreign currency from reserve assets in order to provide a more accurate assessment of the size of tenge liquidity in the system. Moreover, in addition to conducting weekly auctions for the issuance of short-term notes, the NBK has begun to be more active in the provision of short-term liquidity to banks through repo operations to smooth seasonal fluctuations in liquidity conditions (e.g. relating to quarterly tax payments). Looking ahead, as stipulated in the 2013 monetary policy guidelines, the NBK plans to engage in more active open market operations (OMOs) for both the provision and withdrawals of liquidity, through changes to its standing facilitates and the introduction of a new repo rate between the two standing facilities' interest rates. Staff supported these initiatives and other measures envisaged to enhance the central bank's ability to control money market interest rates.

21. Strengthening monetary policy further will require introducing a policy rate that signals better the stance of policy and enhancing the communication strategy. The official refinancing rate– the NBK's policy interest rate– has played little role in guiding key market interest rates. Based on staff's analytical work, illustrating the benefits that the NBK can achieve from gaining greater control over key money market rates, staff suggested that the envisaged repo instrument could become the new policy rate, preferably within a narrower interest rate corridor. This rate should help guide better key money market rates, hence bolstering the signaling effects of monetary policy. While this may imply additional interest cost, this should be manageable. Moreover, to anchor expectations about policy intentions and operations, staff argued the importance of communicating more openly and clearly the transition plans to active OMOs and, more generally, elaborating on the factors guiding the interest rate decisions in the NBK's post-meeting communiqué and quarterly inflation reports. The NBK is well aware of the challenges involved in adopting a new policy rate through active OMOs, and agreed on the need to communicate the plans more openly to the public to ensure an effective transition process.

22. Looking ahead, the authorities agreed to consider the scope for allowing greater exchange rate flexibility over the medium term. While the economy's dollarization (roughly 40 percent of bank deposits are dollar denominated) complicates the operations of monetary policy and adopting formal inflation targeting may not be appropriate at this juncture, there is scope to take preparatory steps, including increasing the reliance on the interest rate lever and reducing the role of the exchange rate as a policy instrument within the broader monetary policy framework. The authorities argued that interventions in the foreign exchange market were not meant to counter a particular trend in the exchange rate, but rather to smooth sharp fluctuations in the supply and demand for foreign currency, including those impacting NBK's management of the NFRK. However, they agreed to consider staff's recommendations.

C. Fiscal Policy

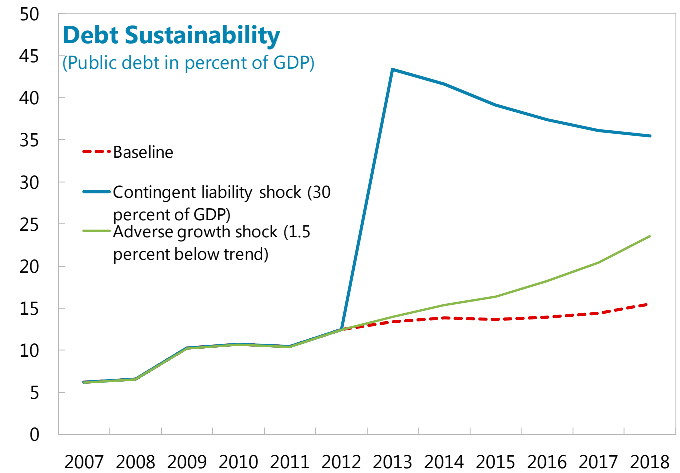
23. The revised 2013 budget (consolidated to include the NFRK) implies lower fiscal balances than initially planned. The weaker revenue performance observed in the first few months of 2013 is expected to continue throughout the year, largely reflecting lower-than-expected nominal GDP and oil prices. In response, the authorities have further cut planned spending by 0.2 percent of GDP relative to the original budget, resulting in an overall reduction in spending of 1.4 percent of GDP relative to 2012. Nevertheless, the overall balance is expected to stay broadly unchanged from last year compared with an improvement of 0.5 percent of GDP in the original budget. Since the fall in revenues appears to be mostly cyclical and the expenditure cuts are already large, staff did not recommend further spending cuts this year. However, it urged the authorities to ensure that spending remains within the revised budget and to adhere to their plans to make up for the shortfall next year.

24. While the authorities are committed to significant fiscal consolidation over the medium term, staff noted that the assumptions underlying their current official projections may be unrealistic. According to these projections, the state budget deficit net of the NFRK transfer will fall to 3 percent of GDP by 2020 (consistent with a sustainable consolidated nonoil deficit of 6 percent of GDP). However, there are several issues with these projections. In particular, the consolidation plans rely primarily on reducing expenditure in percent of GDP, and hence do not appear in line with announced (but still not fully well-defined or budgeted) large scale public spending plans related to the government's development and diversification programs. Furthermore, the assumptions underlying the revenue projections do not seem to include planned measures and are not fully aligned with a credible broader macroeconomic framework. Finally, the fiscal framework is partial and not defined on a consolidated basis.

25. The authorities discussed their plans to address some of these weaknesses in their revised medium-term fiscal framework by the end of this year. Some development and diversification spending plans will be included in the new framework (accompanied by some increases in transfer from the NFRK through 2018). Moreover, the framework is expected to ensure that tax revenue projections are consistent with a realistic macro framework, and that planned tax policy measures are incorporated. The latter aim at reducing the budget's medium-term reliance on oil, and include increasing excise taxes on alcohol and tobacco products; limiting the use of preferential tax regimes in agriculture and in the SME sector; introducing a new luxury tax; revising the personal income tax to make it more progressive; and streamlining the property tax. The authorities intend to keep their 2020 deficit target unchanged. The authorities believe that concentrating macroeconomic and budget planning within the Ministry of Economy and Budget Planning could help ensure consistency between macroeconomic and fiscal projections.

26. Staff also argued that the fiscal framework could be further enhanced, especially by improving transparency. Given that many of the development and diversification programs will continue to be carried out through quasi-fiscal institutions and private public partnerships, it is crucial that they are recorded in a transparent manner and that any contingent liabilities to the state are properly accounted for in the broader fiscal framework. Furthermore, the NFRK should be fully integrated in the fiscal accounts and the nonoil deficit of the consolidated budget should play a prominent role in guiding fiscal policy. The authorities acknowledged the deficiencies caused by excluding the NFRK from fiscal accounts and are looking forward to collaborating with a forthcoming IMF TA mission on improving the coverage of fiscal statistics and compliance with the GFS manual.

27. Gross public debt is projected to stay at low levels over the medium term, but unrecorded contingent liabilities may pose a risk. Due to continuing fiscal surpluses gross financing needs are negative, however, the government chooses to maintain a domestic debt market. Moreover, the Ministry of Finance plans to issue a Eurobond of $1 billion this year to establish a benchmark for national companies. While debt sustainability analysis suggests that the debt path is robust to standard shocks, contingent liabilities may pose a risk due to the large relative size of the quasi-fiscal sector.[7] In this respect, staff welcomed the authorities' intention to introduce provisions in the new budgetary legislation to keep the stock of the broader public sector debt under control, for example by setting ceilings for the total stock of government and quasi-fiscal debt.



Sources: Kazakhstani authorities and Fund staff calculations.

D. Structural Policy Issues

28. The authorities consider economic diversification a key long-term policy priority, given the long-term risks of excessive reliance on oil. Their envisaged plans, although not yet fully defined, focus on accelerating industrialization and development through improving infrastructure, encouraging investment and innovation, boosting productivity, as well as targeted support to help priority sectors. Staff urged the authorities to clarify in specific terms their diversification strategy and cautioned against the downsides of vertical policies of picking winners. It also urged the authorities to avoid further increasing the role of the state in the economy.

[7] SK assets and external debt are estimated, respectively, at about 50 percent of GDP and 30 percent of GDP.

29. Staff stressed the importance of implementing basic structural reform to improve the functioning of the economy alongside industrialization/diversification plans. For successful diversification, it is essential to focus on bolstering human capital and institutions—areas where Kazakhstan lags behind successful emerging market economies (Annex II). Moreover, an improved business environment and high-quality of public service delivery are key elements needed to enhance broad based and private-sector-led growth.[8]

30. In this regard, the authorities also agreed on the need to ensure continued commitment to prudent management of oil revenues and to carry out public investment in line with absorptive capacity and high standards of efficiency. Staff argued, based on the results of its analytical work, that while ambitious public investment programs may help boost growth, the cost may be high in terms of adverse macroeconomic outcomes (see Selected Issues Paper "Leveraging Oil Wealth for Development: Opportunities and Challenges"). In particular, excessive public spending could affect the competitiveness of the nonoil tradable sector negatively (Dutch disease) and thereby defeat the purpose of diversification. It would also risk wearing down the accumulated buffers or alternatively piling up costly external debt. Furthermore, to ensure that the government's development and diversification programs are efficient, staff urged the authorities to conduct careful cost-benefit analysis of envisaged projects as well as evaluation of outcomes in consultation with international financial organizations. This analysis should cover all programs implemented through various modalities, including the general government budget, quasi-fiscal institutions, and public-private partnerships. The authorities found staff's analytical work useful and broadly agreed with its implications.

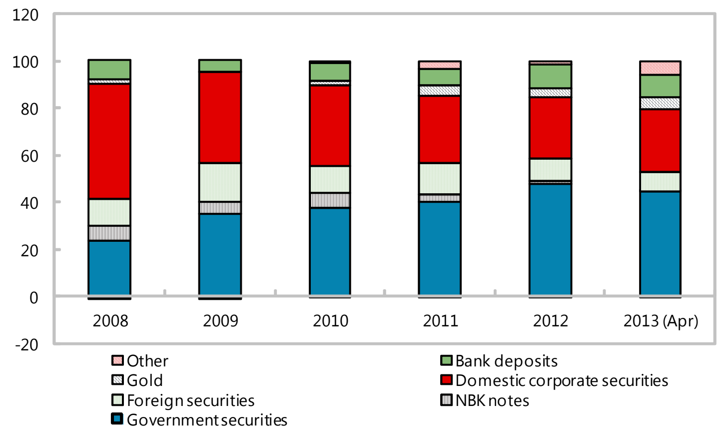
31. The systemic nature of SK requires enhanced transparency of its operations. The size of SK has grown over time, reaching $100 billion (50 percent of GDP) in assets last year; roughly three quarters of the assets are distributed among the oil, gas and financial sectors (Box 2). Given the large presence and reach of its activities across many sectors of the economy, concerted efforts are required to properly account for SK's financial operations, particularly including those involving the fiscal accounts (transfers of taxes and royalties to the budget, loans from the government, holding of government securities, treatment of contingent liabilities, foreign borrowing on behalf of public entities, etc.). Staff also argued that continued reliance on SK to channel public investments to the economy required development of risk metrics to fully and transparently account for the range of contingent liabilities to the state. The authorities broadly shared staff views and noted that the creation of Baiterek as a separate entity should help enhance the transparency of quasi-fiscal operations.

32. The mission and the authorities discussed the authorities' plans to unify Kazakhstan's private pension funds under state ownership and NBK management. The draft law to unify private pension funds has been approved by parliament. It will be essential to avoid exacerbating

[8] See, for example, the analysis in the Fall 2012 WEO, which suggests that higher growth in emerging and developing countries since 1990 is mostly tied to improvements in policy making and the buildup of policy space.

fiscal risks and undermining earlier reform efforts, including by making up for eliminating competition in the market for pension services. In response, the authorities noted that they intend to: (i) develop a clear and sound market-based investment strategy for the assets; (ii) secure management independence with arms-length contracts (preferably with reputable international advisors); and (iii) ensure that individual accounts are maintained. Staff urged the authorities to fully abide by these intentions. Notwithstanding the risks associated with unification, the expected increase in banks' and non-bank financial institutions' participation in the market for government paper, as demand for such paper from pension funds declines, could provide support to the NBK's move to more active OMOs. In this regard, the Ministry of Finance underscored the need for full collaboration with the NBK to secure successful outcomes. The authorities further argued that the unification of private pension funds should be seen as a means to cut unnecessary administrative costs, while promoting a more diversified investment portfolio geared at achieving higher rates of return on pension assets.

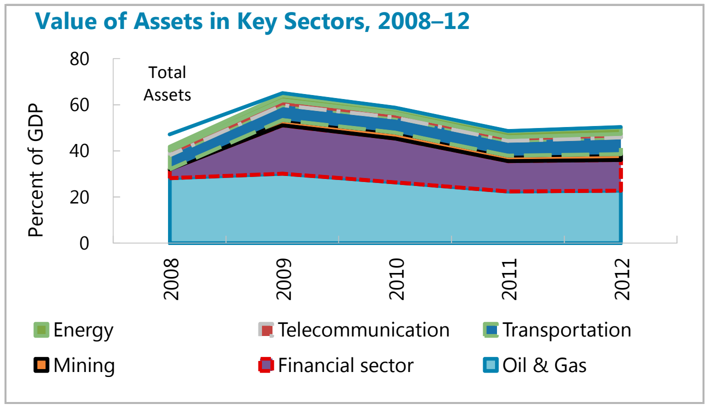
Structure of Pension Funds' Investment Portfolio (share in total, percent)



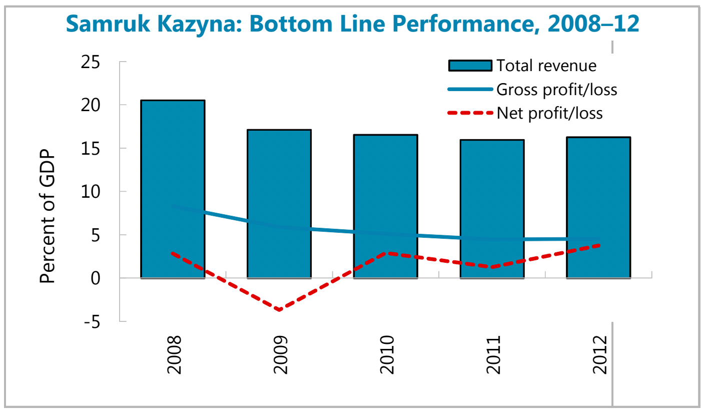
Box 2. Kazakhstan: Samruk Kazyna Operations

Samruk Kazyna (SK), Kazakhstan's state investment holding company – was established in October 2008 through a merger of Samruk (Kazakhstan Holding for the Management of State Assets) and Kazyna (the Sustainable Development Fund). As a joint stock company, SK acts as a holding company for SOEs, owning several entities (in part or in whole) across a number of sectors.

The size and importance of SK has grown over time. The Fund managed over $78 billion in assets in 2010, which rose to over $100 billion by end 2012 (about 50 percent of GDP). The bulk of SK's assets (72 percent) are shared between the oil and gas and the financial sectors. The liability profile exhibits a similar pattern in terms of composition (the bulk of liabilities–42 percent of the total—is shared between these sectors). Roughly one third of corporate deposits in banks belong to SK.



SK's profitability has been relatively strong across all sectors: SK-related operations have been realizing gross profits hovering around 1-1.3 trillion tenge, or 5 percent of GDP (2009-2012) as per SK's consolidated income statement. Revenues have been fuelled primarily by positive developments in the oil sector. Expenses have increased in tandem with the revenue model on the back of higher costs of materials and supplies. Profits were realized over the years (with the exception of 2009 on the back of the global financial crisis), yet the momentum has accelerated in 2012 with SK's bottom line posting a three-fold increase in profit of 1.1 trillion tenge (about 4 percent of GDP), albeit mainly related to income generated from restructuring of financial liabilities of BTA bank.



SK's involvement in the pension fund unification is expected to be small, although this is uncertain. For now, it is envisaged to play only a mediatory role by purchasing pension funds of the three large banks and transferring these over to the government's unified Fund.

The role of SK in the country's diversification strategy is expected to continue. In the framework of the government's development and diversification strategy SK's investment portfolio eyes 100 projects mostly in the non-oil sector, with a total value of $81 billion, to be financed through both SK's own budget and through partners. The timeframe for implementation began two years ago in line with the industrial modernization plan of the government; as of now, 27 projects worth $10 billion have been executed; the remainder is ongoing.

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33. Medium-term prospects are good, offering an excellent opportunity to bolster the policy architecture. Average growth of 8 percent over the past decade, supported by rising oil output and prices, has solidified Kazakhstan's position as a regional economic power. Following rapid economic recovery from the 2007-08 crisis, growth has decelerated but remains solid, and is expected to rise slightly in 2013 to around 5¼ percent. Medium-term growth prospects are stronger, driven by a substantial projected increase in oil output starting in 2015. The authorities should take advantage of the positive outlook to strengthen the policy frameworks with a view to achieving durable and inclusive growth and alleviating vulnerabilities to shock.

34. Greater determination is needed to resolve the NPLs problem and enhance supervision and macroprudential surveillance to counter financial stability risks. In view of slow progress on NPL resolution, the authorities should follow through on their consideration of redesigning the PLF, and taking additional action if necessary. The new ceilings on NPLs should be strictly enforced to ensure full compliance. The planned exit from troubled banks should ensure that transactions are market-based and transparent to bolster the stability of the banking system as a whole and to avoid the emergence of new risks. Given rapid growth in consumer lending, the authorities must ensure that risk management and lending practices are sufficiently robust to avoid exacerbating the NPLs problem. Further strengthening of supervision and macroprudential tools is critical. Among key measures, priority should be given to shoring up on-site supervision, enhancing liquidity and credit risk assessments, and stepping up the Early Warning System.

35. Further bolstering the monetary policy framework requires a new policy rate, enhancing communication, and reviewing the role of the exchange rate. With enhanced regulation of banking system liquidity underway and additional measures already taken by the NBK, introducing a policy rate that signals better the stance of policy is crucial. To anchor expectations about policy intentions and operations, the NBK should communicate more openly and clearly the transition plans to active open market operations and, more generally, elaborate on the factors guiding the interest rate decisions in its public communications. There is also scope to re-evaluate the role of the exchange rate and how it fits within the broader monetary policy framework, and allowing for greater flexibility over the medium term.

36. In line with NBK's intentions, the unification of the private pension funds must avoid exacerbating fiscal risks and undermining earlier reform efforts. In particular, the authorities should adopt a clear and sound market-based investment strategy for the assets, while ensuring that individual accounts are maintained. Moreover, close collaboration between the NBK and the Ministry of Finance will be essential to secure increased financial institutions' participation in the market for government paper, which would support active OMOs as a corner stone of the revamped monetary policy framework.

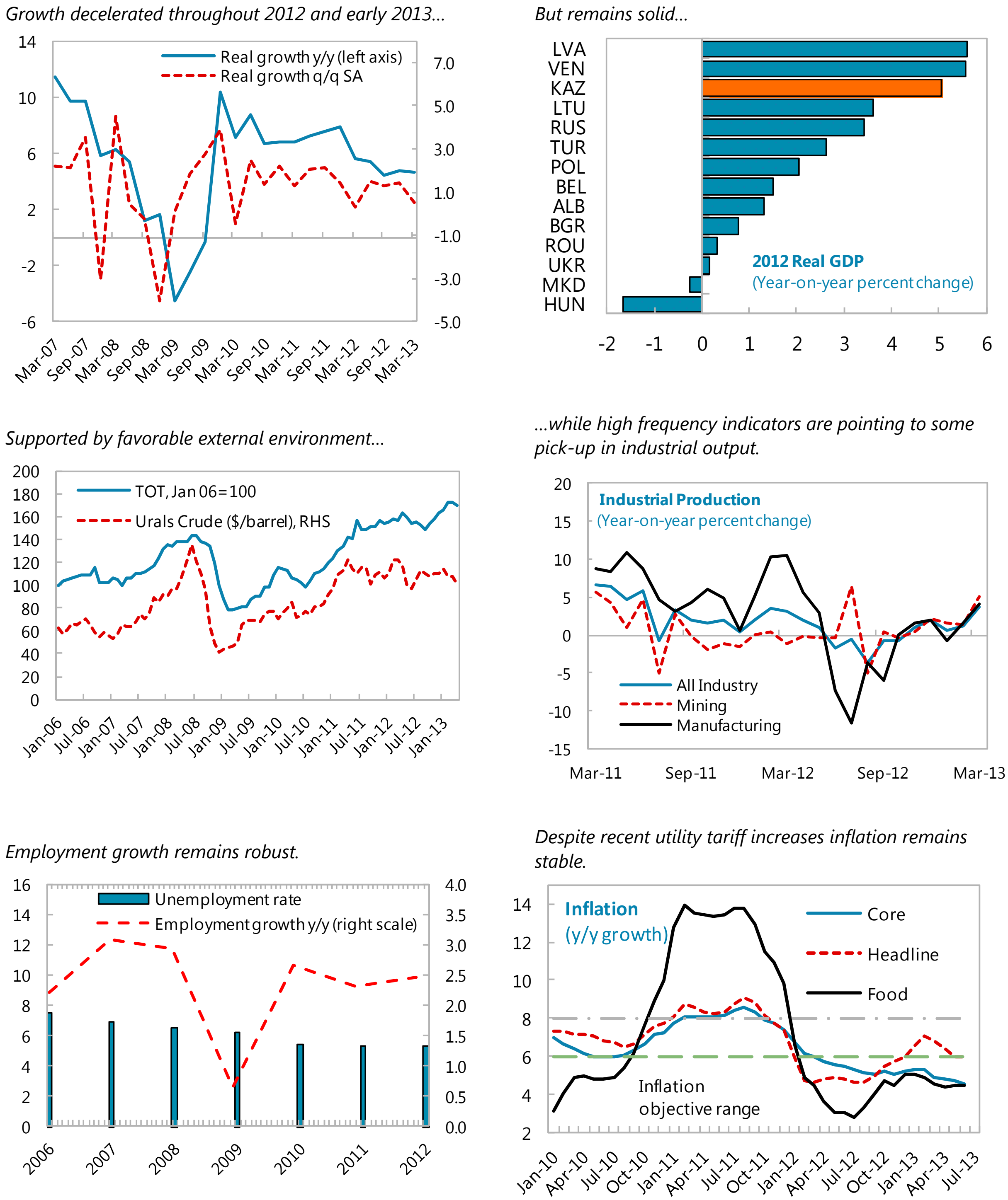
37. Lowering the non-oil deficit over the medium term is a key priority, which necessitates a credible fiscal consolidation strategy. The consolidation plans outlined in the current medium-term fiscal framework may be inconsistent with announced (but non-budgeted) large scale public spending plans related to the government's development and diversification programs. Furthermore, the assumptions underlying both expenditure and revenue projections need to be fully aligned with a macroeconomic framework that takes into account the effects of envisioned fiscal measures.

38. Further enhancing the fiscal framework requires improved coverage and transparency. The authorities should integrate fully the NFRK with fiscal accounts and use consolidated budget balances for guiding fiscal policy. Further, the large scale quasi-fiscal sector necessitates improved transparency of quasi-fiscal operations, including those related to the government's development and diversification programs. The authorities' recognition of the need for action in these areas, particularly the intention to monitor more closely the external debt of the quasi-fiscal sector, is welcome.

39. Reducing the economy's dependence on oil remains a primary long-term objective for the authorities. For successful diversification and to promote broad-based and private-sector led growth, it is crucial to bolster human capital, the business environment, and institutions. At the same time, it is essential to ensure continued commitment to prudent management of oil revenues and carrying out critical investment in line with absorptive capacity and high standards of efficiency.

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

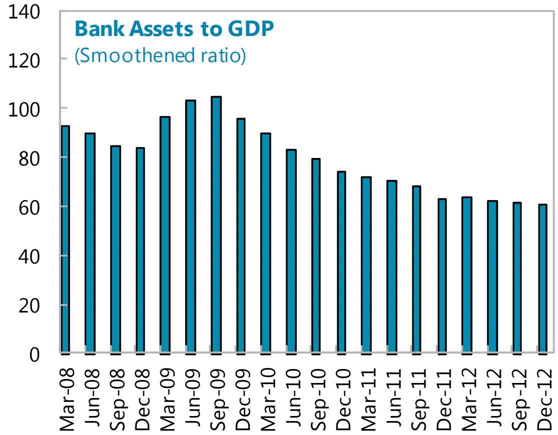
Figure 1. Kazakhstan: Recent Macroeconomic Developments



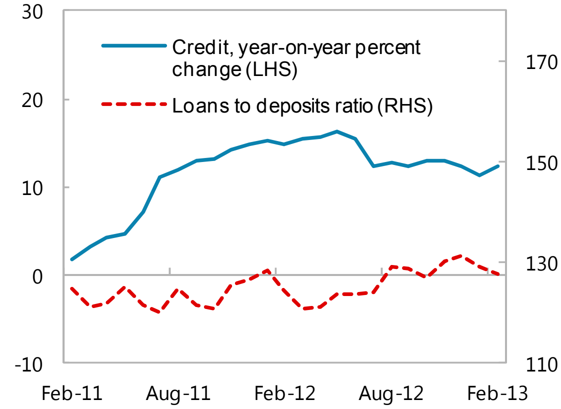
Sources: Kazakhstani authorities and IMF staff estimates.

Figure 2. Kazakhstan: Banking Sector Developments

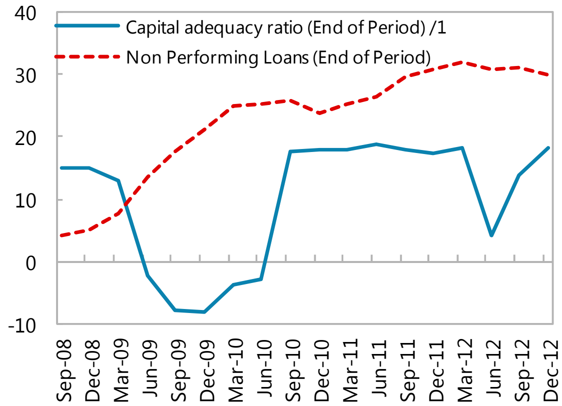
The size of the banking system has reached a more sustainable level following large deleveraging…



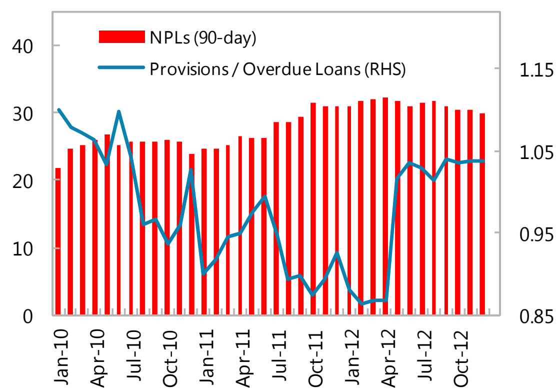
While credit growth is picking up after three years of stagnation…



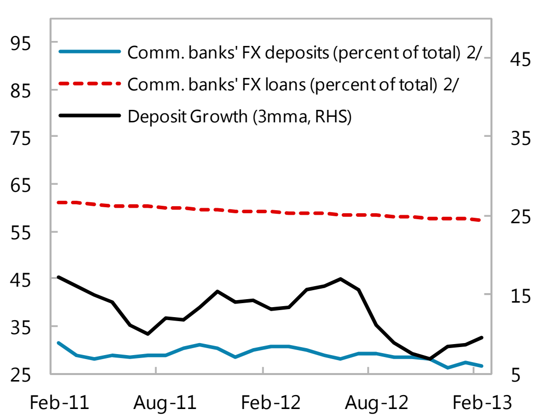
Capital adequacy ratio has reached pre-crisis levels, while the NPL ratio appears to have stabilized…



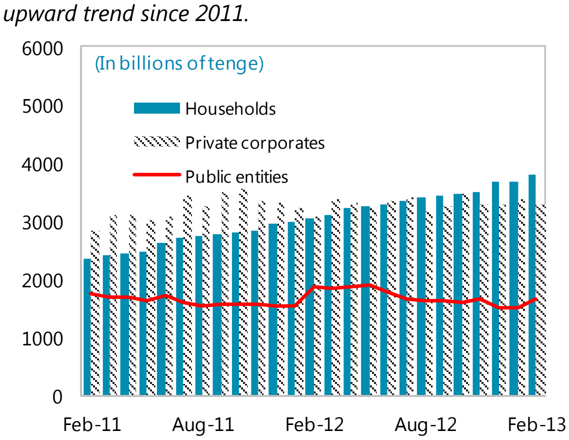
…while provisioning coverage has increased.



Confidence in the tenge has supported a moderate decline in foreign exchange deposits…



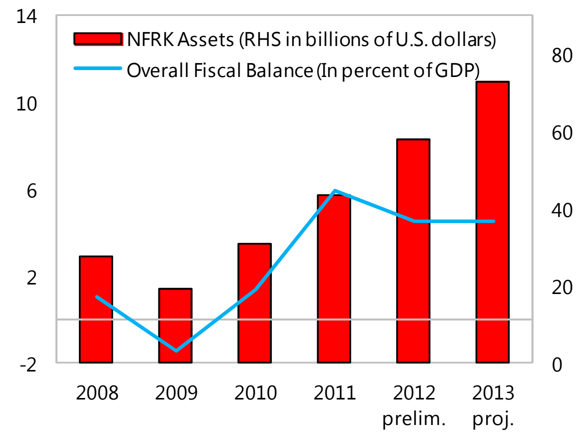
Large public sector deposits remain important for banks' balance sheets, while household deposits remain on an upward trend since 2011.



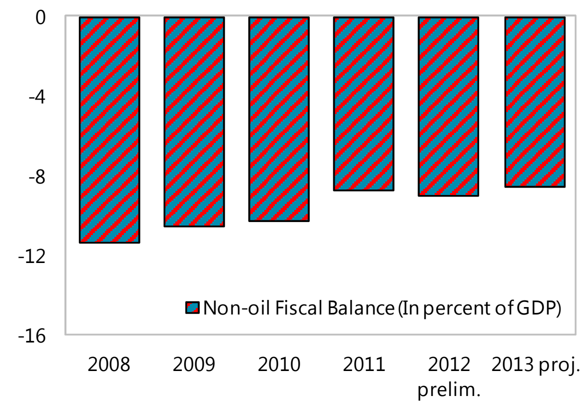
Sources: Kazakhstani authorities, GFSR, and IMF staff estimates.
1/ Authorities did not provide system-wide CAR data during BTA's second debt restructuring, hence the gap in the CAR graphs.
2/ Accounting for exchange rate valuation effects.

Figure 3. Kazakhstan: Fiscal Sector Developments and Outlook

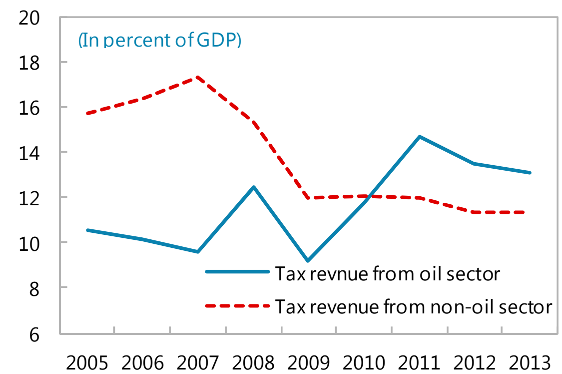
The overall budget surplus is expected to remain stable...



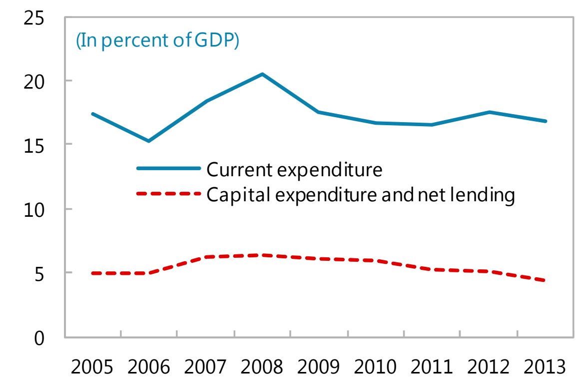
...while the non-oil deficit is expected to improve only marginally.



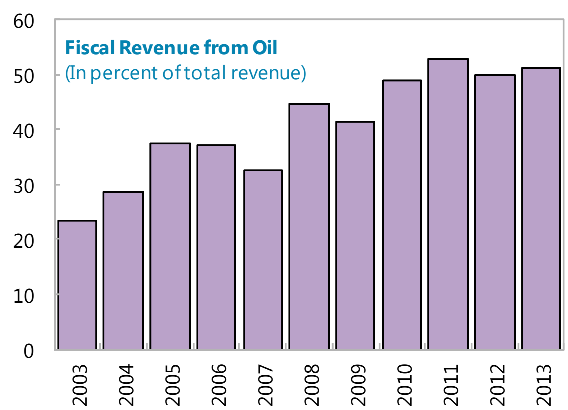
Revenue performance is not expected to improve in the near term...



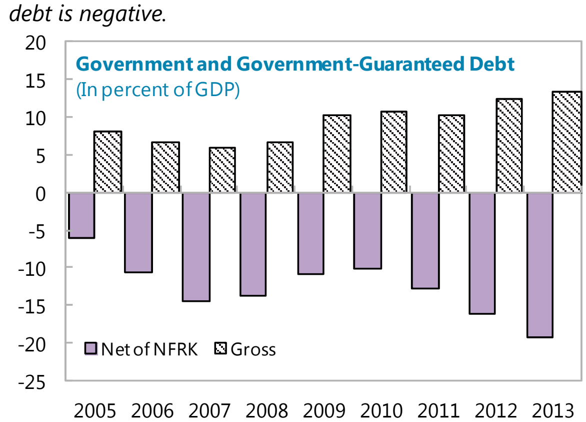
...while expenditures are expected to decline as a share of GDP.



Oil accounts for an increasingly large share of fiscal revenues.



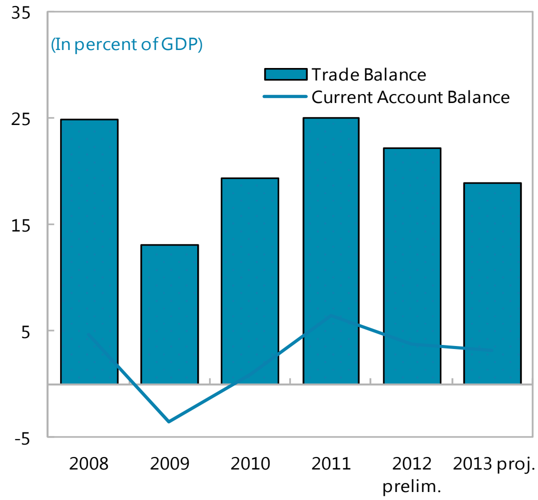
General government gross debt remains low, while net debt is negative.



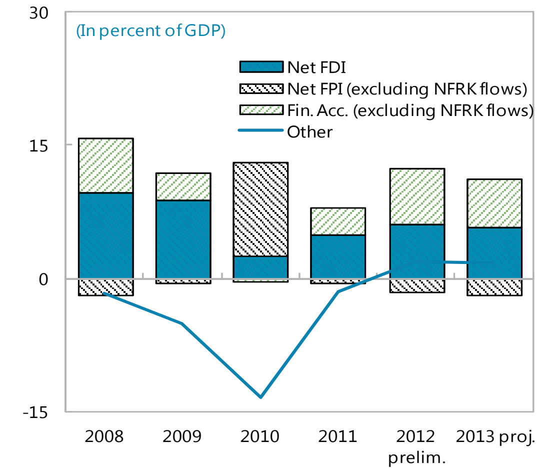
Sources: Kazakhstani authorities and IMF staff estimates.

Figure 4. Kazakhstan: External Sector Developments and Outlook

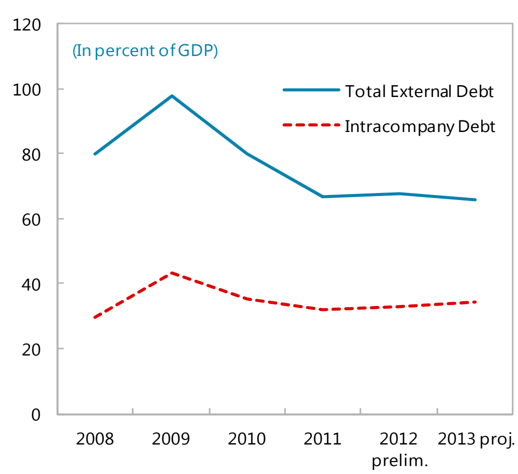
High commodity prices led to increased current account surplus, which is projected to decline slightly in 2013...



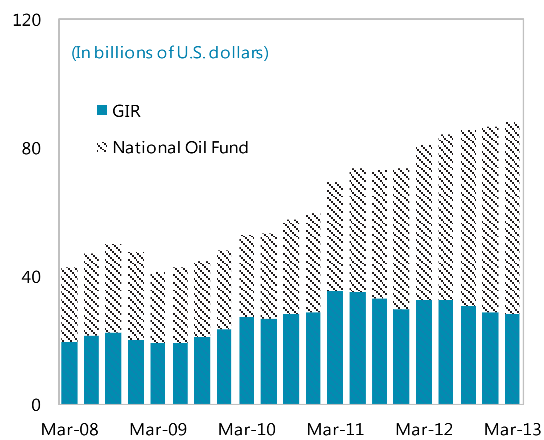
...and the financial account benefitted from FDI inflows.



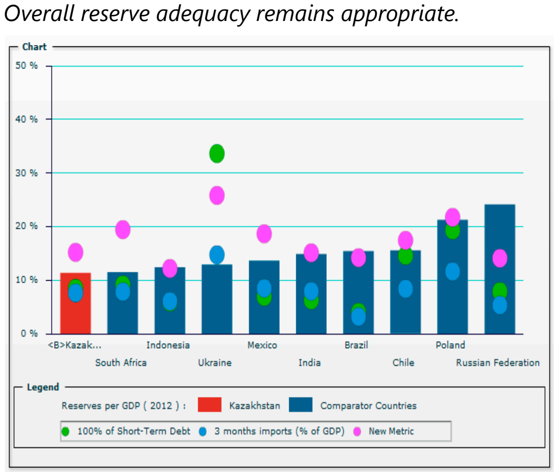
External debt continues to decline.



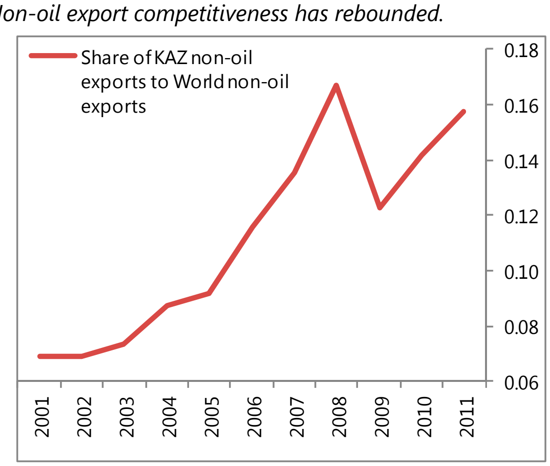
NBK foreign exchange reserves have declined slightly, while NFRK assets continued to increase.



Overall reserve adequacy remains appropriate.



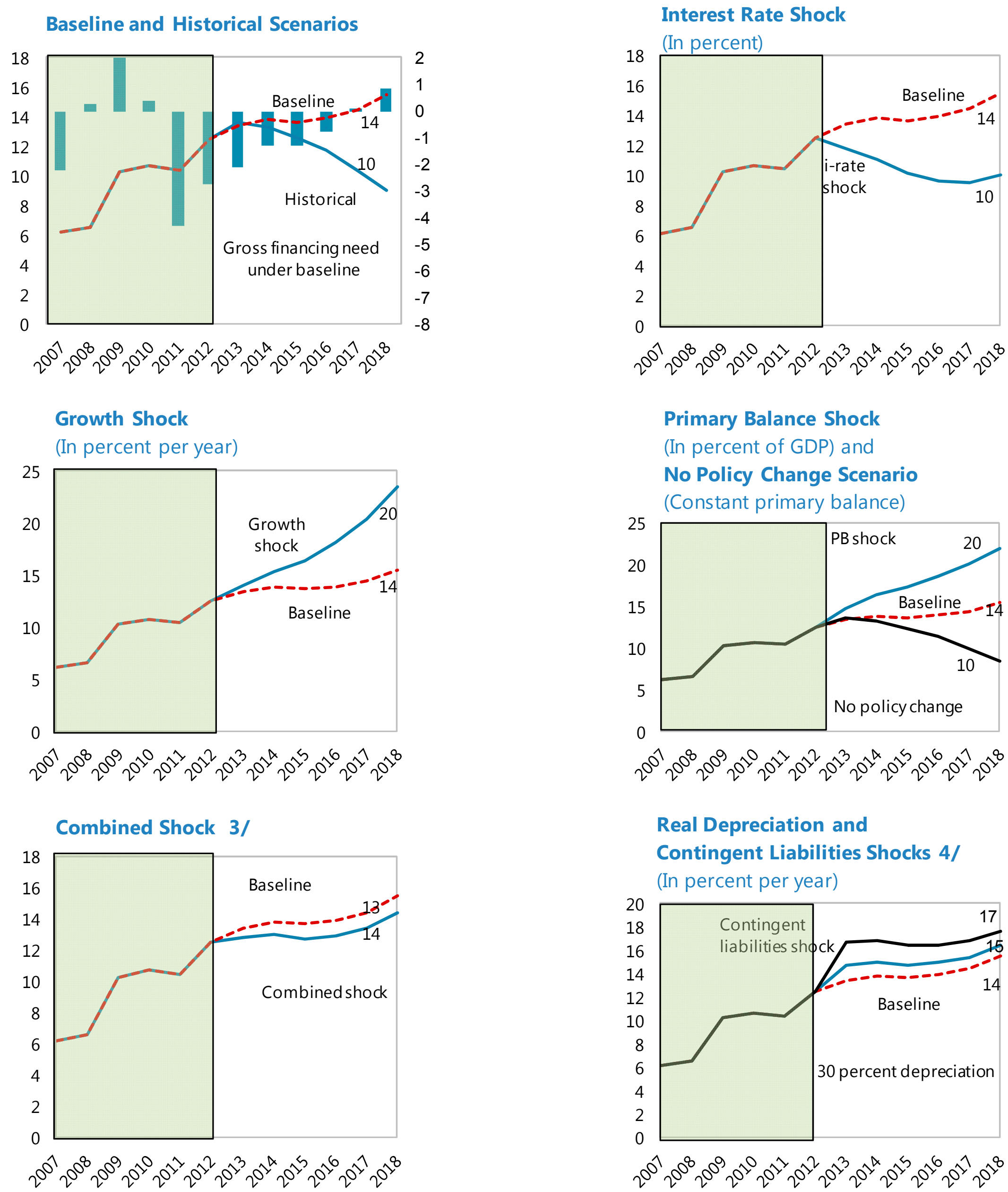
Non-oil export competitiveness has rebounded.



Sources: Kazakhstani authorities and IMF staff estimates.

Figure 5. Kazakhstan: Public Debt Sustainability: Bound Tests 1/ 2/

(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and IMF staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

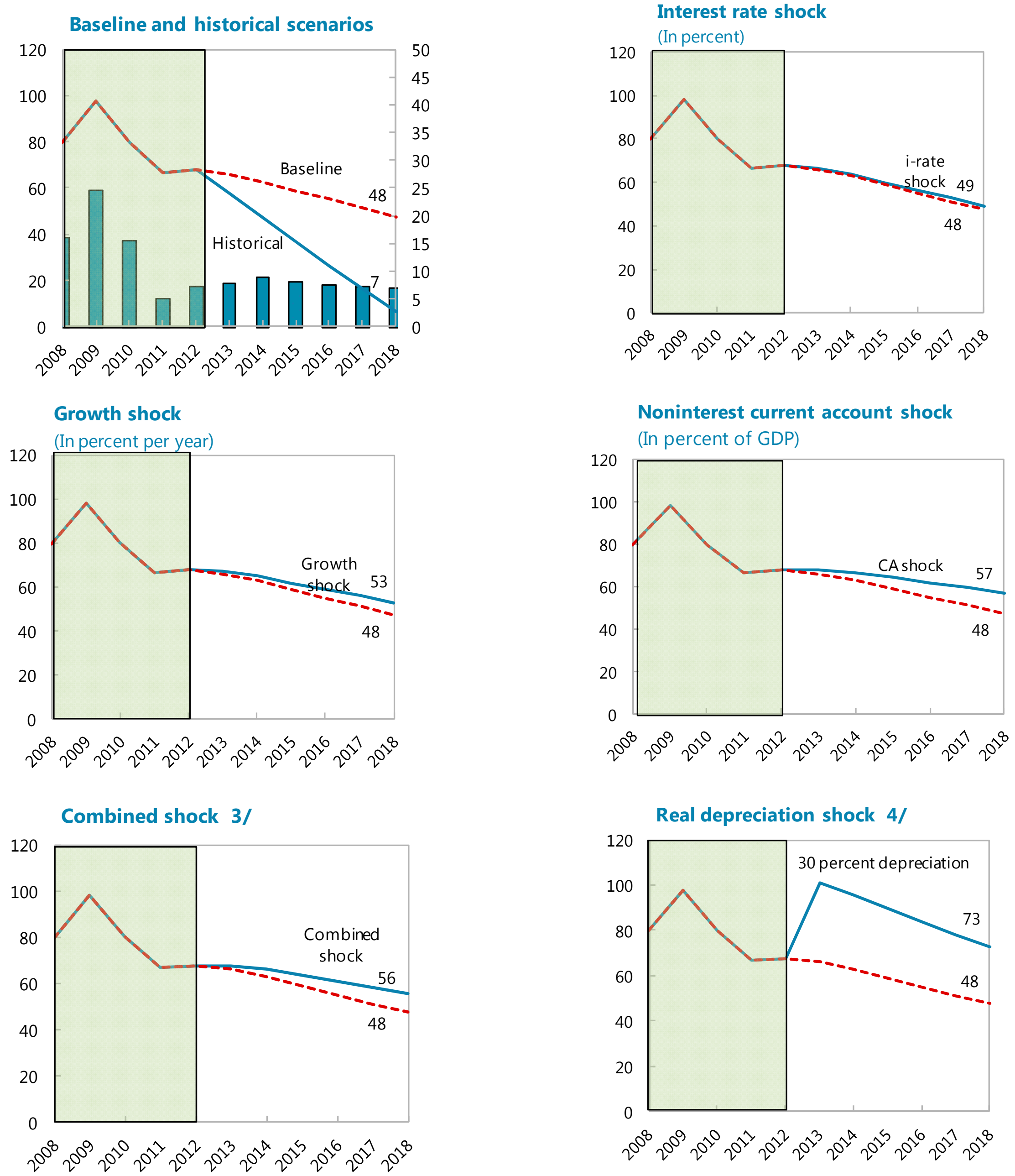
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 6. Kazakhstan: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2013.

Table 1. Kazakhstan: Selected Economic Indicators, 2009–18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
					Projections					
	(Annual percent change, unless otherwise indicated)									
National accounts and prices										
Real GDP	1.2	7.3	7.5	5.0	5.2	5.3	6.1	5.8	5.4	5.4
Real oil	7.1	7.3	1.0	-2.2	3.1	0.5	6.9	4.7	-0.4	0.0
Real non-oil	0.5	7.2	8.3	5.9	5.5	5.7	6.0	5.9	6.0	5.9
Nonoil output gap (in percent of potental nonoil GDP)	-2.9	-1.7	0.9	1.4	0.8	0.4	0.3	0.2	0.1	0.0
Crude oil and gas condensate production (million tons)	75	80	81	79	82	83	90	95	95	95
Consumer price index (eop)	6.2	7.8	7.4	6.0	6.0	6.2	6.3	6.0	6.0	6.0
Consumer price index (p.a)	7.3	7.1	8.3	5.1	6.3	6.3	6.2	6.0	6.0	6.0
Core Consumer Price Index (eop)	6.6	7.3	7.4	5.3	5.2	5.5	5.9	6.0	6.0	6.0
GDP Deflator	3.3	19.6	17.6	4.3	5.1	6.2	6.1	6.1	6.6	6.7
Exchange rate (tenge per U.S. dollars; eop)	22.9	-0.7	0.4	1.5	...	...	...	...		
	(In percent of GDP, unless otherwise indicated)									
General government fiscal accounts										
Revenues and grants	22.1	23.9	27.7	27.0	25.7	24.0	23.9	23.1	22.0	21.0
Of which: oil revenues	9.2	11.7	14.7	13.5	13.1	11.5	11.0	9.9	8.6	7.5
Expenditures and net lending	23.5	22.5	21.8	22.5	21.1	20.6	20.3	20.0	19.7	19.5
Overall fiscal balance	-1.4	1.4	5.9	4.5	4.6	3.4	3.6	3.1	2.3	1.5
Financing	1.6	-2.0	-5.2	-4.5	-4.6	-3.4	-3.6	-3.1	-2.3	-1.5
Domestic financing	2.8	1.8	1.5	2.5	1.9	2.0	1.6	1.8	2.1	2.8
Foreign financing	0.4	0.7	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0
NFRK	-1.7	-4.5	-6.7	-7.0	-6.7	-5.5	-5.1	-4.9	-4.4	-4.3
Non-oil fiscal balance (percent of GDP)	-10.6	-10.3	-8.8	-9.0	-8.5	-8.1	-7.4	-6.7	-6.3	-6.0
Non-oil fiscal balance (percent of non-oil GDP)	-14.2	-14.2	-12.9	-13.1	-11.9	-10.8	-9.6	-8.5	-7.7	-7.1
	(Annual percent change, unless otherwise indicated)									
Monetary accounts										
Reserve money	60.7	5.0	10.2	1.9	17.9	15.8	8.1	8.6	9.4	9.4
Broad money	17.9	15.7	14.1	9.1	10.8	13.8	12.5	12.3	12.4	12.4
Broad money velocity (annual average)	2.3	2.6	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Credit to the economy 1/	7.2	0.9	14.9	13.4	19.5	15.3	15.3	13.1	13.2	13.3
Credit to the economy (percent of GDP)	50.2	39.5	35.9	37.2	40.1	41.4	42.4	42.7	43.0	43.3
NBK refinance rate (eop; percent)	7.0	7.0	7.5	5.5	...	...	...	...	...	...
	(In billions of U.S. dollars, unless otherwise indicated)									
External accounts										
Current account balance (percent of GDP)	-3.6	0.9	6.5	3.8	3.1	1.9	2.2	2.2	1.8	1.6
Exports of goods and services	48.2	65.7	92.0	97.0	96.6	97.9	103.3	108.8	112.9	118.3
Oil and gas condensate	26.2	37.0	55.2	56.4	55.3	52.7	53.7	54.4	52.8	51.9
Imports of goods and services	-39.0	-44.3	-51.7	-60.1	-63.7	-68.1	-71.6	-76.3	-81.4	-86.8
Foreign direct investments (net, percent of GDP)	8.7	2.5	4.9	6.1	5.7	5.6	5.0	4.0	3.5	3.0
NBK gross reserves (eop) 2/	23.1	28.3	29.3	28.3	34.4	41.0	48.2	54.2	59.6	63.6
In months of next year's imports of goods and services	6.3	6.6	5.9	5.3	6.1	6.9	7.6	8.0	8.2	8.3
NFRK assets (eop)	24.4	31.0	43.6	57.8	72.8	86.5	100.9	116.4	131.9	149.0
Public external debt, incl. guaranteed (percent of GDP)	2.8	3.2	2.7	2.7	2.9	2.9	2.8	2.7	2.6	2.5
Total external debt	112.9	118.2	125.2	137.1	146.7	156.3	164.5	172.9	181.0	188.8
In percent of GDP	97.9	79.9	66.6	67.6	66.0	62.8	58.8	55.0	51.3	47.5
Excluding intracompany debt (percent of GDP)	54.8	44.5	34.5	34.8	31.8	28.4	24.6	21.5	18.7	16.2
Memorandum items:										
Nominal GDP (in billions of tenge)	17,008	21,815	27,572	30,219	33,426	37,378	42,056	47,227	53,066	59,717
Nominal GDP (in billions of U.S. dollars)	115.3	148.0	188.0	202.6	222.4	248.7	279.8	314.2	353.1	397.3
Crude oil, gas cnds. Production (millions of barrels/day) 3/	1.56	1.67	1.69	1.65	1.71	1.73	1.87	1.98	1.98	1.98
Oil price (in U.S. dollars per barrel)	61.8	79.0	104.0	105.0	100.1	95.4	92.0	89.5	87.5	86.0

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

1/ In 2009, credit growth would be -2.5 percent, if adjusted for the devaluation.
2/ Does not include NFRK.
3/ Based on a conversion factor of 7.6 barrels of oil per ton.

Table 2. Kazakhstan: Balance of Payments, 2009–18

(In Billions of U.S. dollars, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
					Projections					
Current account	-4.1	1.4	12.3	7.7	7.0	4.6	6.2	6.9	6.3	6.4
Trade balance	15.0	28.5	46.8	44.7	41.9	39.1	41.5	42.8	42.2	42.8
Exports (f.o.b.)	43.9	61.4	87.5	92.1	91.4	92.3	97.5	102.7	106.5	111.6
Oil and gas condensate	26.2	37.0	55.2	56.4	55.3	52.7	53.7	54.4	52.8	51.9
Non-oil exports	17.7	24.4	32.3	35.6	36.1	39.7	43.8	48.4	53.7	59.7
Imports (f.o.b.)	-29.0	-32.9	-40.7	-47.4	-49.5	-53.3	-56.0	-59.9	-64.3	-68.8
Oil and gas condensate	-1.4	-2.4	-2.5	-2.2	-2.0	-2.0	-2.0	-2.1	-2.1	-2.3
Non-oil, gas imports	-27.5	-30.5	-38.2	-45.2	-47.5	-51.2	-54.1	-57.9	-62.1	-66.4
Services and income balance	-18.4	-26.6	-34.2	-36.0	-33.7	-33.0	-33.6	-34.0	-33.8	-33.9
Services, net	-5.8	-7.1	-6.5	-7.8	-8.9	-9.3	-9.7	-10.2	-10.7	-11.3
Income, net	-12.6	-19.5	-27.8	-28.2	-24.8	-23.7	-23.9	-23.8	-23.0	-22.6
Of which: Income to direct investors	-10.4	-17.3	-24.9	-24.6	-22.7	-21.6	-21.8	-21.7	-21.1	-20.8
Current transfers	-0.7	-0.5	-0.3	-1.0	-1.2	-1.4	-1.6	-1.9	-2.2	-2.5
Capital and financial account	7.4	0.2	-6.4	-1.8	-1.0	2.0	0.9	-0.9	-0.9	-2.4
Foreign direct investment	10.1	3.7	9.3	12.4	12.8	13.9	13.9	12.6	12.2	11.9
Amortization of intracompany liabilities	-6.0	-7.5	-6.8	-8.2	-8.5	-7.8	-8.3	-8.2	-8.0	-7.9
Portfolio investment, net	3.0	8.5	-13.0	-17.7	-17.1	-15.4	-16.4	-17.1	-16.6	-17.8
Of which: National Fund	3.7	-7.1	-12.0	-14.5	-13.0	-11.2	-11.3	-12.0	-11.4	-12.5
Other investment	-5.8	-19.9	-2.8	3.6	3.7	3.7	3.7	3.6	3.5	3.5
Errors and omissions	-0.8	3.1	-5.6	-8.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.5	4.7	0.3	-2.8	6.0	6.6	7.2	6.0	5.4	4.0
Financing: Net international reserves of NBK	-2.5	-4.7	-0.3	2.8	-6.0	-6.6	-7.2	-6.0	-5.4	-4.0
Memorandum items: 1/				*(In percent of GDP)*						
Current account	-3.6	0.9	6.5	3.8	3.1	1.9	2.2	2.2	1.8	1.6
Exports of goods	38.1	41.5	46.6	45.4	41.1	37.1	34.9	32.7	30.2	28.1
Oil exports	22.7	25.0	29.3	27.9	24.8	21.2	19.2	17.3	14.9	13.1
Non-oil exports	15.4	16.5	17.2	17.6	16.2	16.0	15.7	15.4	15.2	15.0
Imports of goods	-25.1	-22.2	-21.7	-23.4	-22.3	-21.4	-20.0	-19.1	-18.2	-17.3
				(Annual growth rate, in percent)						
Exports	-39.0	39.8	42.5	5.2	-0.7	1.0	5.6	5.3	3.6	4.8
Non-oil exports	-37.7	37.5	32.7	10.2	1.4	9.8	10.4	10.4	11.0	11.1
Volume on non-oil exports	-24.0	7.4	15.2	24.0	7.8	5.1	6.1	5.7	5.9	3.9
Average price of non-oil exports	-18.0	28.1	15.2	-11.1	-1.3	-2.8	0.5	0.0	0.9	0.7
Imports	-24.7	13.7	23.7	16.3	4.5	7.6	5.2	7.0	7.2	7.0
Oil and gas imports	-47.8	66.1	4.2	-12.1	-9.5	2.9	-3.5	4.1	2.6	10.0
Non-oil imports	-22.9	10.9	25.3	18.2	5.2	7.8	5.5	7.1	7.4	6.9
Volume on non-oil imports	-13.0	-6.8	14.1	27.8	5.1	6.7	5.5	6.4	6.7	6.4
Average price of non-oil imports	-12.1	18.6	11.0	-7.8	-0.1	-1.2	0.0	0.5	0.7	0.8
Exports of oil and gas condensate (in MT)	67.3	67.5	69.6	68.1	70.0	70.0	74.0	77.0	76.5	76.5
NBK gross international reserves (in billions of U.S. dollars)	23.1	28.3	29.3	28.3	34.4	41.0	48.2	54.2	59.6	63.6
In months of next year's imports of g&n.f.s.	6.3	6.6	5.9	5.3	6.1	6.9	7.6	8.0	8.2	8.3
Excluding bank deposits in FX at NBK	21.8	28.0	...	...	...	...	...	...	...	...
National Fund (including interest), e.o.p.	24.4	31.0	43.6	57.8	72.8	86.5	100.9	116.4	131.9	149.0
External debt in percent of GDP	97.9	79.9	66.6	67.6	66.0	62.8	58.8	55.0	51.3	47.5
Excluding intra-company loans	54.8	44.5	34.5	34.8	31.8	28.4	24.6	21.5	18.7	16.2
World oil price (U.S. dollars per barrel)	61.8	79.0	104.0	105.0	100.1	95.4	92.0	89.5	87.5	86.0

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

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

Table 3. Kazakhstan: General Government Fiscal Operation, 2009–18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
					Projections					
					(In billions of tenge)					
Total revenue and grants	3,766	5,223	7,638	8,170	8,583	8,965	10,041	10,919	11,662	12,567
Tax revenue	3,598	5,185	7,337	7,507	8,186	8,494	9,487	10,286	10,944	11,762
Oil	1,563	2,555	4,042	4,076	4,376	4,303	4,609	4,655	4,548	4,505
Non-oil	2,035	2,630	3,295	3,431	3,809	4,191	4,878	5,632	6,396	7,257
Income from capital transactions	26	49	36	39	5	13	20	21	22	23
Nontax revenue	142	-11	265	624	392	458	534	612	697	781
Grants	0	0	0	0	0	0	0	0	0	0
Total expenditure and net lending	4,002	4,915	6,012	6,810	7,046	7,701	8,538	9,445	10,454	11,645
Total expenditure	3,971	4,805	5,872	6,676	6,957	7,601	8,426	9,320	10,313	11,486
Current expenditure	2,975	3,625	4,554	5,291	5,601	6,055	6,722	7,406	8,163	9,066
Capital expenditure	997	1,180	1,318	1,385	1,356	1,546	1,704	1,914	2,150	2,420
Net lending	31	110	140	134	89	99	112	125	141	159
Overall balance	-236	308	1,627	1,360	1,537	1,265	1,503	1,474	1,208	922
Non-oil balance	-1,799	-2,247	-2,415	-2,716	-2,840	-3,038	-3,105	-3,180	-3,340	-3,583
Statistical discrepancy	29	-126	197	0	0	0	0	0	0	0
Financing	265	-434	-1,429	-1,360	-1,537	-1,265	-1,503	-1,474	-1,208	-922
Domestic financing, net	469	380	411	741	639	725	655	862	1,122	1,660
Foreign financing, net	76	148	-1	-3	71	71	-4	-4	-4	-4
Privatization receipts	10	12	14	10	7	5	3	2	2	1
NFRK 1/	-290	-974	-1,854	-2,108	-2,254	-2,066	-2,158	-2,335	-2,328	-2,580
					(In percent of GDP)					
Total revenue and grants	22.1	23.9	27.7	27.0	25.7	24.0	23.9	23.1	22.0	21.0
Tax revenue	21.2	23.8	26.6	24.8	24.5	22.7	22.6	21.8	20.6	19.7
Oil	9.2	11.7	14.7	13.5	13.1	11.5	11.0	9.9	8.6	7.5
Non-oil	12.0	12.1	12.0	11.4	11.4	11.2	11.6	11.9	12.1	12.2
Income from capital transactions	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Nontax revenue	0.8	0.0	1.0	2.1	1.2	1.2	1.3	1.3	1.3	1.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	23.5	22.5	21.8	22.5	21.1	20.6	20.3	20.0	19.7	19.5
Total expenditure	23.4	22.0	21.3	22.1	20.8	20.3	20.0	19.7	19.4	19.2
Current expenditure	17.5	16.6	16.5	17.5	16.8	16.2	16.0	15.7	15.4	15.2
Capital expenditure	5.9	5.4	4.8	4.6	4.1	4.1	4.1	4.1	4.1	4.1
Net lending	0.2	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Overall balance	-1.4	1.4	5.9	4.5	4.6	3.4	3.6	3.1	2.3	1.5
Non-oil balance	-10.6	-10.3	-8.8	-9.0	-8.5	-8.1	-7.4	-6.7	-6.3	-6.0
Financing	1.6	-2.0	-5.2	-4.5	-4.6	-3.4	-3.6	-3.1	-2.3	-1.5
Domestic financing, net	2.8	1.7	1.5	2.5	1.9	1.9	1.6	1.8	2.1	2.8
Foreign financing, net	0.4	0.7	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0
Privatization receipts	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NFRK 1/	-1.7	-4.5	-6.7	-7.0	-6.7	-5.5	-5.1	-4.9	-4.4	-4.3
Memorandum items:										
Off-budget anti-crisis spending (percent of GDP) 2/	5.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3
Augmented overall balance (in percent of GDP) 2/	-6.6	0.7	5.9	4.5	4.6	3.4	3.6	3.1	2.0	1.3
Non-oil balance (in percent of non-oil GDP)	-14.2	-14.2	-12.9	-13.1	-11.9	-10.8	-9.6	-8.5	-7.7	-7.1
Non-oil revenues (in percent of non-oil GDP)	17.4	16.9	19.2	19.7	17.6	16.6	16.8	16.8	16.4	16.1
Gross official debt (percent of GDP)	10.2	10.7	10.4	12.4	13.4	14.1	14.1	14.3	14.9	16.0
NFRK assets (in billions U.S. dollars) 1/	24.4	31.0	43.6	57.8	72.8	86.5	100.9	116.4	131.9	149.0
Nominal GDP (in billions KZT)	17,008	21,815	27,565	30,219	33,426	37,378	42,056	47,227	53,066	59,717

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

1/ National Fund of the Republic of Kazakhstan. (-) is accumulation in the Fund.

2/ Includes expenditures financed by Samruk-Kazyna under the anti-crisis plan.

Table 4. Kazakhstan: Monetary Accounts, 2008–13

	2008	2009	2010	2011	2012	2013
						Projections
	(End of period, in billions of tenge)					
Monetary Survey						
Net Foreign Assets	757	2,681	4,504	5,262	5,871	5,878
Net Domestic Assets	5,509	4,827	4,166	4,962	5,258	8,715
Domestic Credit	8,695	9,443	10,083	11,564	13,081	15,540
Net claims on central government	227	94	158	300	482	n.a.
Net claims on other government	0	1	7	8	7	860
Credit to the private sector	6,055	7,008	7,673	8,771	9,566	13,414
Other claims on the economy	2,412	2,340	2,245	2,486	3,026	950
Other items, net	-3,185	-4,616	-5,917	-6,602	-7,823	-7,841
Broad money	6,266	7,386	8,546	9,751	10,522	11,783
Currency in circulation	858	914	1,148	1,366	1,528	874
Total deposits	5,409	6,473	7,398	8,385	8,994	10,909
Domestic currency deposits	3,492	3,645	4,808	5,756	6,311	6,967
Foreign currency deposits	1,917	2,828	2,590	2,630	2,683	3,942
Nonliquid liabilities						n.a.
Statistical discrepancy	0	122	123	473	607	n.a.
Accounts of National Bank of Kazakhstan						
Net foreign assets	2,343	3,350	4,056	4,268	4,171	5,674
Net international reserves 1/	2,343	3,364	4,089	4,269	4,182	5,181
Net domestic assets	-260	-576	-1,322	-950	-573	n.a.
Net domestic credit	-43	87	-527	-79	457	n.a.
Net claims on central government	18	-147	-241	-161	-118	n.a.
Net claims on other government	0	0	0	0	0	0
Net claims on the private sector	112	302	132	147	171	n.a.
Net claims on banks	-173	-69	-417	-64	403	n.a.
Other items, net	-216	-663	-795	-871	-1,029	n.a.
Reserve money	1,471	2,451	2,573	2,836	2,890	3,407
Currency in circulation	987	1,048	1,306	1,548	1,737	1,329
Liabilities to banks	274	949	722	728	724	1,280
Required reserves	241	460	292	631	665	1,171
Other liabilities	33	489	429	97	59	109
Demand deposits	211	454	545	560	429	799
Other deposits	0	0	0	0	0	0
Other liquid liabilities	612	201	38	9	102	286
Deposit money banks						
Net foreign assets	-1,587	-669	448	994	1,700	765
Net domestic assets	6,924	7,930	7,421	7,903	8,323	9,117
Domestic credit	9,181	10,729	11,735	12,812	14,045	n.a.
Net claims on central government	209	241	399	461	600	597
Net claims on other government	0	1	7	8	7	n.a.
Credit to the private sector	8,003	8,690	9,441	10,794	12,044	13,412
Banks' reserves	616	1,441	1,542	1,233	1,018	n.a.
Net claims on other financial corporations	352	355	346	316	376	-183
Other items, net	-2,257	-2,798	-4,314	-4,909	-5,722	-6,500
Banks' liabilities	5,337	7,261	7,869	8,897	10,023	n.a.
Demand deposits	1,148	1,733	2,112	2,762	2,600	n.a.
Other deposits	3,453	4,085	4,703	5,055	5,864	6,398
Other liabilities	737	1,443	1,054	1,080	1,559	164
Memorandum items:						
Reserve money (percent change, yoy)	4.2	66.6	5.0	10.2	1.9	17.9
Broad money (percent change, yoy)	35.4	17.9	15.7	14.1	7.9	12.0
Credit to the economy (percent change, yoy)						40.2
Velocity of broad money	2.6	2.3	2.6	2.8	2.9	2.8
Money multiplier	4.3	3.0	3.3	3.4	3.6	3.5
Foreign currency deposits (in percent of total deposits) 2,	35	44	35	31	30	n.a.
Foreign currency loans (in percent of total loans) 2/	44	48	42	36	29	34

Sources: Kazakhstani authorities, and Fund staff estimates and projections.
1/ Does not include oil fund resources.
2/ Commercial banks only.

Table 5. Kazakhstan: Selected Prudential Indicators of the Banking Sector, 2008–12

	2008	2009	2010	2011	2012	
					Q1	Q2
Capital adequacy ratio (K2, percent of risk weighted assets)	14.9	-8.2	17.9	17.4	18.7	17.5
Tier 2 capital (K1, percent of risk weighted assets)	11.6	-9.3	13.8	13.2	14.8	13.6
Non performing loans to total loans	8.1	36.5	32.6	35.1	-	-
Foreign (nonresident) assets (percent of total assets)	24.5	16.1	16.5	13.9	13.1	13.9
Net open position in FX (percent of capital)	3.9	-	-0.8	-1.2	3.6	3.6
Capital to Assets	12.2	-8.5	10.9	10.2	14.1	12.8
Share of resident deposits denominated in FX	40	43.9	35.6	31.7	31.4	33.7
Share of FX loans to residents	43.7	48.5	42.4	35.6	28	28.1
Securities (percent of total assets)	7.5	15.4	18.5	14.5	13.5	13.2
Liquid assets to total assets (Liquid Asset Ratio)	13.6	19.2	21.2	21	17.9	19
Highly liquid assets to short term liabilities к4 (min=0,3)	-	0.978	1.04	0.927	0.841	0.886
Highly liquid assets to short term liabilities к4-1 (min=1)	3.135	5.051	5.722	6.874	6.365	5.613
Liquid assets to short term liabilities к4-2 (min=0,9)	1.821	2.646	3.311	3.396	3.155	3.383
Liquid assets to short term liabilities к4-3 (min=0,8)	1.582	2.116	2.476	2.444	2.172	2.278
Loans in percent of customer deposits*	201.5	160.5	132.8	134.1	126	125.6
Share of liabilities in foreign exchange to total liabilities	59.7	53.8	44.3	40.5	36.2	37.2
Loan to deposit ratio, excluding deposits of nonresident legal entities*	206.5	167.3	134.7	135.8	128.3	127.7
FX loans in percent of FX deposits	254.2	192.7	179.2	181.5	140.1	130.1

* The sum of bank loans include loan balances due from banks and organizations providing individual types of banking operations, legal entities, individuals, small and middle-sized businesses; and reverse REPOs

The sum of clients' deposits is specified including current accounts, term accounts, demand accounts and contingent accounts, in accordance with the legislation of the Republic of Kazakhstan

Table 6. Kazakhstan: Public Sector Debt Sustainability Framework, 2008–18

					Projections							
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
	(In percent of GDP, unless otherwise indicated)											
Baseline: Public sector debt 1/	6.5	10.2	10.7	10.4	12.4	13.4	13.8	13.7	13.9	14.4	15.5	
Of which: Foreign-currency denominated	1.4	2.4	2.7	2.6	2.6	3.3	3.0	3.0	3.0	3.0	2.7	
Change in public sector debt	0.4	3.7	0.5	-0.3	2.0	1.0	0.4	-0.1	0.2	0.5	1.1	0.0
Identified debt-creating flows (4+7+12)	-2.6	1.4	-3.7	-8.2	-5.5	-5.8	-5.1	-5.3	-4.7	-3.9	-3.2	0.0
Primary deficit	-1.4	1.0	-1.8	-6.3	-4.9	-5.1	-4.1	-4.1	-3.6	-2.8	-2.1	1.2
Revenue and grants	27.9	22.1	23.9	27.7	27.0	25.6	24.3	24.0	23.2	22.0	21.1	
Primary (noninterest) expenditure	26.5	23.1	22.1	21.4	22.1	20.5	20.2	19.9	19.6	19.3	19.0	
Automatic debt dynamics 2/	-1.0	0.4	-1.8	-1.8	-0.5	-0.6	-1.0	-1.1	-1.1	-1.1	-1.1	-1.1
Contribution from interest rate/growth differential 3/	-1.0	0.1	-1.8	-1.8	-0.5	-0.6	-1.0	-1.1	-1.1	-1.1	-1.1	-1.1
Of which: Contribution from real interest rate	-0.8	0.2	-1.2	-1.2	0.0	0.0	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Of which: Contribution from real GDP growth	-0.2	-0.1	-0.6	-0.6	-0.5	-0.6	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7
Contribution from exchange rate depreciation 4/	0.0	0.3	0.0	0.0	...	...	...	...	...	...	...	0.0
Other identified debt-creating flows	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes (2-3) 5/	2.9	2.3	4.2	7.9	7.5	6.7	5.5	5.1	4.9	4.4	4.3	0.0
Public sector debt-to-revenue ratio 1/	23.4	46.2	44.6	37.6	46.0	52.4	56.8	56.9	60.0	65.4	73.4	
Gross financing need 6/	0.3	2.8	0.3	-4.3	-2.8	-2.1	-1.3	-1.3	-0.8	0.1	0.8	
In billions of U.S. dollars	0.4	3.2	0.5	-8.1	-5.6	-4.7	-3.3	-3.7	-2.5	0.2	3.3	
Scenario with key variables at their historical averages 7/					12.4	13.6	13.3	12.6	11.7	10.4	9.1	
Scenario with no policy change (constant primary balance) in 2012–17					12.4	13.6	13.2	12.3	11.3	9.8	8.4	For debt
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												stabilization
Real GDP growth (in percent)	3.2	1.2	7.3	7.5	5.0	5.2	5.3	6.1	5.8	5.4	5.4	5.4
Average nominal interest rate on public debt (in percent) 8/	7.9	6.5	5.4	5.2	4.5	5.2	3.5	3.4	3.5	3.5	3.6	3.5
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-16.8	3.2	-14.2	-12.3	0.2	0.1	-2.7	-2.7	-2.6	-3.2	-3.1	-3.2
Nominal appreciation (increase in US dollar value of local currency, in percent)	-0.4	-18.7	0.7	-0.4	...	...	...	...	...	...	... ...	
Inflation rate (GDP deflator, in percent)	24.7	3.3	19.6	17.5	4.4	5.1	6.2	6.1	6.1	6.6	6.7	6.6
Growth of real primary spending (deflated by GDP deflator, in percent)	12.4	-11.6	2.5	4.0	8.7	-2.5	3.6	4.5	4.2	3.7	4.1	
Primary deficit	-1.4	1.0	-1.8	-6.3	-4.9	-5.1	-4.1	-4.1	-3.6	-2.8	-2.1	

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

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium- and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 7. Kazakhstan: External Debt Sustainability, 2007–18

(In percent of GDP, unless otherwise indicated)

			Actual											
	2007	2008	2009	2010	2011	2012			2013	2014	2015	2016	2017	2018
Baseline: External debt	93.9	79.8	97.9	79.9	66.6	67.6			66.0	62.9	58.8	55.1	51.3	47.5
Change in external debt	2.6	-14.1	18.1	-18.0	-13.3	1.1			-1.7	-3.1	-4.0	-3.8	-3.8	-3.7
Identified external debt-creating flows (4+8+9)	-23.1	-36.6	5.8	-30.5	-30.9	-15.3			-13.0	-12.0	-11.9	-10.5	-9.0	-8.1
Current account deficit, excluding interest payment	4.3	-7.9	0.7	-2.7	-8.1	-5.3			-4.6	-3.3	-3.6	-3.5	-3.0	-2.8
Deficit in balance of goods and services	-6.7	-19.8	-7.9	-14.4	-21.4	-18.2			-14.8	-12.0	-11.4	-10.4	-8.9	-8.0
Exports	50.3	56.5	41.8	44.3	48.9	47.9			43.5	39.4	36.9	34.6	32.0	29.8
Imports	43.6	36.7	33.8	29.9	27.5	29.7			28.6	27.4	25.6	24.3	23.0	21.8
Net non-debt creating capital inflows (negative)	-11.6	-9.6	-11.5	-7.9	-7.4	-6.7			-6.6	-7.0	-6.3	-5.2	-4.5	-3.9
Automatic debt dynamics 1/	-15.8	-19.1	16.7	-19.9	-15.4	-3.3			-1.8	-1.7	-2.0	-1.8	-1.4	-1.3
Contribution from nominal interest rate	3.8	3.2	2.9	1.7	1.6	1.5			1.5	1.4	1.3	1.3	1.2	1.2
Contribution from real GDP growth	-6.4	-2.3	-1.1	-5.5	-4.7	-3.1			-3.2	-3.1	-3.4	-3.1	-2.6	-2.5
Contribution from price and exchange rate chang	-13.2	-20.0	14.9	-16.1	-12.3	-1.7			...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	25.7	22.5	12.2	12.5	17.6	16.4			11.3	8.9	7.9	6.7	5.2	4.3
External debt-to-exports ratio (in percent)	186.6	141.3	234.3	180.1	136.1	141.2			151.8	159.6	159.2	158.9	160.3	159.6
Gross external financing need (in billions of US dollars	38.4	21.6	28.2	22.8	9.6	14.6			17.3	22.3	22.4	23.2	25.3	28.1
in percent of GDP	37.3	16.0	24.4	15.4	5.1	7.2	10-Year	10-Year	7.8	9.0	8.0	7.4	7.2	7.1
Scenario with key variables at their historical averages 5/									57.8	47.4	36.8	26.3	16.1	6.7
							Historical	Standard						
Key Macroeconomic Assumptions Underlying Baseline							Average	Deviation						
Real GDP growth (in percent)	8.9	3.2	1.2	7.3	7.5	5.0	7.2	3.1	5.2	5.3	6.1	5.8	5.4	5.4
GDP deflator in US dollars (change in percent)	16.9	27.0	-15.7	19.7	18.1	2.6	16.0	13.5	4.3	6.2	6.1	6.1	6.6	6.7
Nominal external interest rate (in percent)	5.3	4.5	3.1	2.3	2.5	2.4	3.2	1.2	2.4	2.4	2.4	2.5	2.5	2.6
Growth of exports (US dollar terms, in percent)	24.9	47.2	-37.0	36.3	40.1	5.5	26.9	25.7	-0.4	1.3	5.6	5.3	3.7	4.8
Growth of imports (US dollar terms, in percent)	36.8	10.2	-21.3	13.5	16.8	16.3	19.3	18.1	5.9	7.0	5.1	6.5	6.7	6.5
Current account balance, excluding interest payments	-4.3	7.9	-0.7	2.7	8.1	5.3	2.1	4.0	4.6	3.3	3.6	3.5	3.0	2.8
Net non-debt creating capital inflows	11.6	9.6	11.5	7.9	7.4	6.7	8.6	2.5	6.6	7.0	6.3	5.2	4.5	3.9

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e>0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

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

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

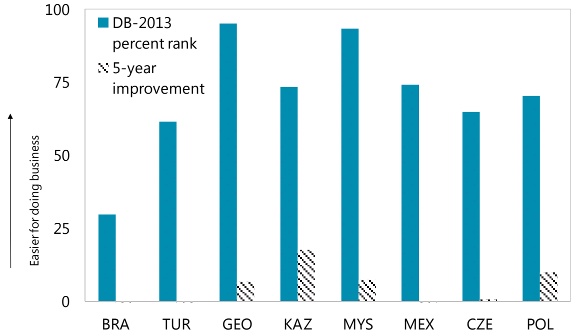
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP remain at their levels of the last projection year.

Annex I. Kazakhstan: Risk Assessment Matrix

Nature/source of main threats	**Likelihood of realization in the next three years**	**Expected impact on the economy if risk is realized**
Global slowdown affecting China and Russia Russia, China, and the EU are the main trading partners. Risk indicators tend to move in line with those of Russia. China is a major source of investment.	**Staff assessment: Medium** Latest Fund staff's projections suggest that growth in China and Russia is slowing. Risks to prolongation (or further weakening) of the Euro-area crisis remain an additional downside risk.	**Staff assessment: Medium** Kazakhstan would be affected through trade, finance, and investment channels. A deterioration of market conditions in the EU or Russia could have an impact on trade flows, FDI and portfolio inflows.
Large and prolonged decline in oil prices The economy remains highly dependent on oil for export proceeds and budget revenues.	**Staff assessment: Low** A global recession with a protracted slow growth could depress demand for energy and cause a sharp fall in oil prices.	**Staff assessment: High** While reserves are sufficient to contain an immediate shock, growth in the non-oil sectors would be negatively affected.
Failure to improve the health of the banking system The banking system is saddled with very high NPLs. A forced merger of Halyk and BTA banks could raise systemic risks.	**Staff assessment: Medium** Attempts to resolve banking sector issues have not been successful so far. Schemes to resolve the high NPLs need to be improved.	**Staff assessment: Medium** Financial sector stress could put pressure on deposits, leading to a possible credit crunch. Potential capital shortfalls represent a large contingent liability for the government.
Political uncertainty Political incentives may be misaligned with economic priorities.	**Staff assessment: Low to medium** Following episodes of social unrest in late 2011 the authorities succeeded in consolidating power. However, the recently proposed changes to the pension system have generated public discontent.	**Staff assessment: Medium to high** Political factors may hinder effective policymaking and affect growth and stability.

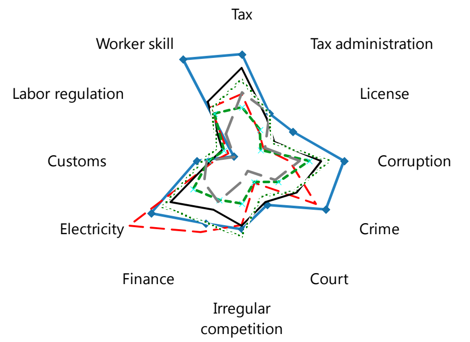
Annex II. Kazakhstan: Business Environment and Governance

Ease of Doing Business
(Percentile rank)



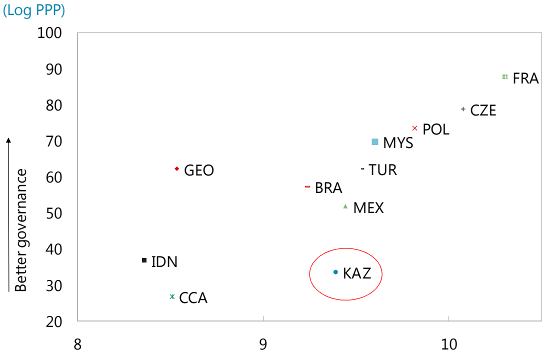
Source: Doing Business Indicators (2013)

Firm-level Business Constraints
(Percent of firms)



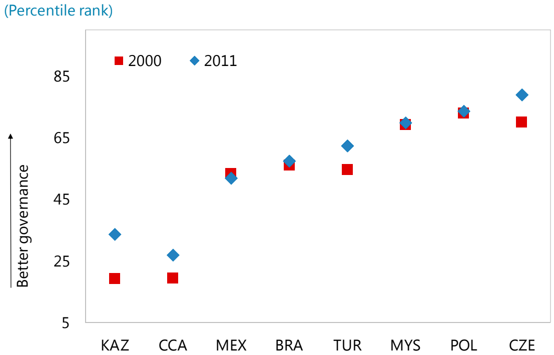
Source: Business Environment and Enterprise Performance Survey (BEEPS)

WGI-4 and GDP Per Capita
(Log PPP)



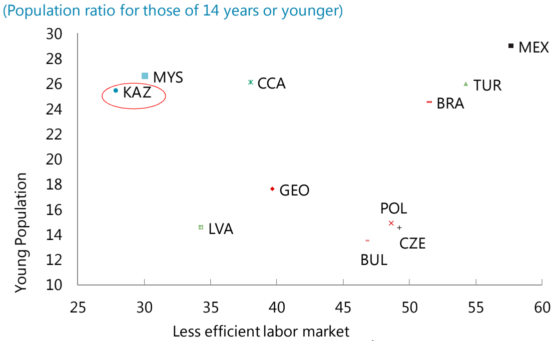
Sources: World Bank (Worldwide Governance 2011 and World Development Indicators 2012)

Changes in WGI-4
(Percentile rank)



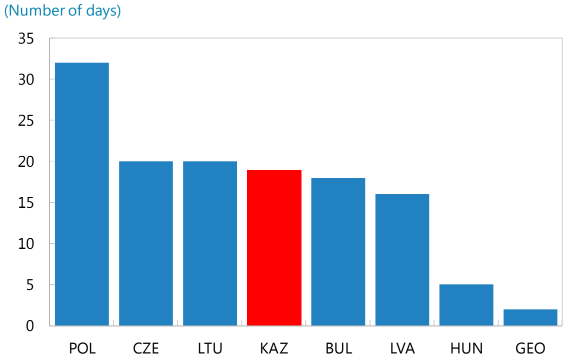
Source: Worldwide Governance Indicators (2011)

Labor Market Efficiency and Young Population Ratio
(Population ratio for those of 14 years or younger)



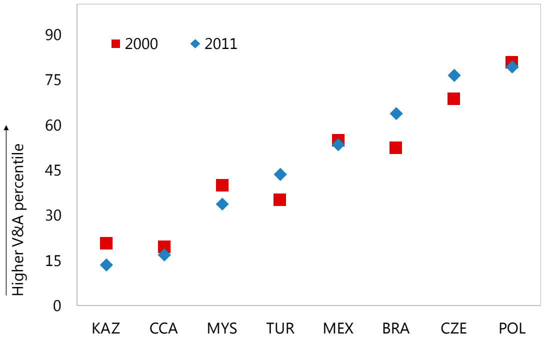
Sources: World Development Indicators (2012) and World Economic Forum Global Competitiveness Report (2012)

Starting a Business
(Number of days)



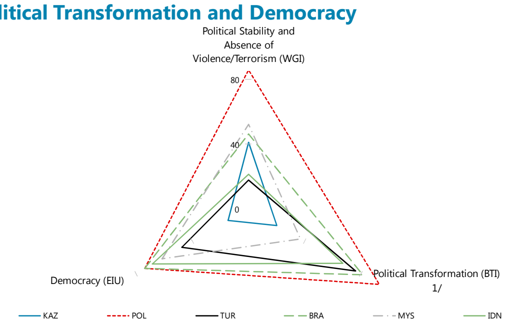
Source: Doing Business Indicators

Voice and Accountability
(Percentile rank)



Source: Worldwide Governance Indicators (2011)

Political Transformation and Democracy



1/ includes Stateness, Political Participation, Rule of Law, Stability of Democratic

Sources: Worldwide Governance Indicators (2011), Economist Intelligence Unit (2012) and Bertelsmann Transformation Index (2012)

Kazakhstan: Selected Transparency and Effectiveness Indicators	
SDDS/GDDS subscriber	SDDS since March 2003
Regularly publish IMF Staff Reports	Yes
Most recent FSAP/Update	March 1, 2008
Fiscal ROSC	April 1, 2003
Data ROSC	February 2008
AML/CFT ROSC	August 2004
Sovereign credit rating	S&P: BBB+, Stable; Fitch: BBB+, Positive; Moody's: Baa2 Stable; Dagong: BBB-, Stable;
Doing Business ranking	2013: 49 (out of 185)
WB World Governance Indicator Composite 1/	2011: 34 (0-100, higher is better); 2000: 22 (0-100)
WEF Global Competetiveness Indicator Ranking	2011: 51 (out of 144); 2011: 72 (out of 142); 2009: 67 (out of 133)
WEF Labor Market Composite 2/	2012: 38 (out of 144); 2011: 47 (out of 142)
Corruption Perception Index	2012: 38 (out of 144); 2011: 47 (out of 142)
Fiscal sector	
Comrehensive coverage of public finance statistics	Insufficient transparency of quasifiscal and SOE operations
Government reports on performance versus objectives	MTEF has limited impact on fiscal decision making
Sovereign Wealth Fund	Disclosure of assets, but not of investments
Extractive Industries	
Extractive Industries Transparency Initiative (ETI)	Membership expected by end of 2013
Financial sector	
Availibility of detailed bank data	Yes
Transparency on financial transactions of Central Bank	No reporting of interventions

Notes:
1/ Combines rankings from government effectiveness, regulatory quality, rule of law and control of corruption.
2/ Combines rankings from cooperation in labor-employment relations, flexibility in wage determination, hiring and firing practices, redundancy costs, pay and productivity, reliance on professional management in 2011 and 2012, as well as rigidity of employment in 2011 only.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

July 18, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Middle East and Central Asia Department
(In Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of May 31, 2013)

Membership Status

Joined: 07/15/92; Accepted Article VIII, Sections 2, 3, and 4 in 1996 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The de jure exchange rate arrangement is a managed float, while the de facto arrangement is classified as crawl-like.

General Resources Account

	SDR Million	Percent Quota
Quota	365.70	100.00
Fund holdings of currency	365.70	100.00
Reserve position in the Fund	0.01	0.00

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	343.65	100.00
Holdings	345.63	100.57

Outstanding Purchases and Loans

None

Latest Financial Arrangements

In millions of SDR

Type	Arrangement	Date	Amount Approved	Amount Drawn
ECF	12/13/99	3/19/02	329.10	0.00
ECF	7/17/96	7/16/99	309.40	154.70
Stand-By	6/05/95	6/04/96	185.60	185.60

Projected Payments to Fund

None

Safeguards Assessments

Not applicable to the National Bank of Kazakhstan (NBK) at this time.

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 30 other currencies on the basis of cross-rates. From late 1999 to October 2007, the exchange rate regime was a managed float with no preannounced path. From October 2007 the tenge was maintained within a narrow range against the U.S. dollar. In February 2009 the tenge was devalued by 18 percent against the US dollar, and a trading band of T150/US$ +/- 3 percent was established. In February 2010, the trading band was widened and set at an asymmetric T150/US$ +10/-15 percent. In February 2011, the trading band was officially abolished, and the de jure exchange rate arrangement was changed from a pegged exchange rate within horizontal bands to a managed float. The de facto exchange rate arrangement is classified as crawl-like, because the tenge has been consistently tracking a trend against the U.S. dollar within a 2 percent margin. The exchange rates at numerous exchange 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.

Article IV Consultation

Kazakhstan is on the standard 12-month consultation cycle, in accordance with the Decision on Article IV Consultation Cycles (Decision No. 14747-(10/96) (9/28/2010). The last consultation was concluded on June 18, 2012 (see IMF Country Report No. 12/164).

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, and IAIS Insurance Core Principles. An FSAP Update mission took place in February 2004 and a second FSAP Update mission took place in March 2008. 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. An update of the data ROSC was undertaken in 2006 and the report was published in February 2008 (Annex V).

AML/CFT Assessment

Kazakhstan's anti-money laundering and combating the financing of terrorism (AML/CFT) framework was recently assessed against the AML/CFT standard, the Financial Action Task Force (FATF) 40+9 Recommendations. The evaluation was conducted by the Eurasian Group on money laundering and financing of terrorism (EAG), the FATF-style regional body of which Kazakhstan is a member, and the final mutual evaluation report was adopted in June 2011. The report indicates that the main sources of criminal proceeds in Kazakhstan are crimes related to fraud and abuse of public office. The evaluators found that Kazakhstan had a relatively comprehensive AML/CFT framework in place, but that significant deficiencies nevertheless remained, notably with respect to customer due diligence measures and the reporting of suspicious transactions.

Technical Assistance

Kazakhstan has received technical assistance and training by the Fund in virtually every area of economic policy, including through about 90 technical assistance missions provided during 1993–2013 by FAD, LEG, MCM, STA, 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, to the Ministry of Finance, and a peripatetic expert to the Financial Supervision Agency. Other international agencies and governments, including the World Bank, EU TACIS, EBRD, UNDP, and OECD, also are providing a wide variety of technical assistance. The following list summarizes the technical assistance provided by the Fund to Kazakhstan since 2003.

Monetary and Capital Markets Department

Technical assistance has enabled steady progress in a number of areas 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.

1. September 2004: Bringing banking prudential regulation up to EU standards.
2. September 2004: Implementing inflation targeting: next steps.
3. November 2007: Strengthening banking supervision and risk assessment.
4. 2009–12: Developing banking sector stress testing. The initial mission in January 2009 was followed up by a number of visits by a peripatetic expert to the FSA over the course of 2009–12.
5. November 2010: Reducing nonperforming loans in the banking system (joint with LEG).
6. February 2013-2014: Resolving banking system problem assets. Posting of a long-term expert (one year) to the Fund for Problem Loans, financed by the Japanese government (JSA)."

Fiscal Affairs Department

The Fiscal Affairs Department has given advice to Kazakhstan in the areas of tax and expenditure administration, the establishment of a treasury system, public financial management, accounting reform, IT system functionality, and the introduction of a social safety net.

1. April 2003: Customs administration
2. September 2004: Treasury reform process
3. 2011-2013: Regular technical assistance provided by IMF regional advisor on Public Financial Management.

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), and national accounts.

1. January 2006: Real sector and balance of payments statistics.
2. August 2006: Real sector statistics.
3. December 2006: ROSC Update mission (and DQAF).
4. April 2008: GFSM 2001 implementation.
5. January 2009: Monetary statistics
6. April 2011: BOP statistics.

Legal Department

1. April 2008: Reforms to tax law
2. April 2010: Anti-money laundering and combating the financing of terrorism (jointly with the World Bank and United Nations Office on Drugs and Crime).
3. November 2010: Reducing nonperforming loans in the banking system (joint with MCM).
4. July 2011: Bankruptcy legislation

IMF Institute

Kazakhstani 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 others. In addition, the IMF Institute has conducted courses in the region. Seminars and training sessions have also been conducted by MCM and STA technical assistance missions.

Resident Representative

The position was terminated in August 2003, but the Fund maintains a local office in Almaty.

RELATIONS WITH THE WORLD BANK

(As of June 25, 2013)

Kazakhstan became a member of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) in July 1992 and a member of the International Finance Corporation (IFC) in September 1993. In 2010 Kazakhstan became an IDA donor under the IDA16 replenishment. Kazakhstan is the largest client of the IFC in Central Asia.

IBRD in Kazakhstan

The Bank's lending operations in Kazakhstan are aligned with the Country Partnership Strategy (CPS) for FY12-17, endorsed by the Board in May 2012. As of June 2013, the IBRD loan program comprised eleven active projects with a total commitment of $3.55 billion, of which $1.28 billion has been disbursed. While 90 percent of the commitments are concentrated in the on-going South-West roads project and the new East-West roads project (became effective on June 14, 2013), the portfolio remains diverse with two-thirds of the projects focused on institutional building. The other nine active projects are: forest protection and reforestation, technology commercialization, customs development, tax administration reform, health sector technology transfer and institutional reform, technical and vocational education modernization, statistical capacity building, Ust-Kamenogorsk environmental remediation, and Alma electricity transmission.

The Bank also provides extensive advisory and analytical services (AAA) to the Government through the Joint Economic Research Program (JERP). The JERP is instrumental in providing policy analysis, strategic planning expertise, and good practice options to assist the Government with the reform agenda in the field of economic and social development and the institutional capacity of the Government to conduct economic and sectoral work. The JERP for FY13 amounted to over $4.5 million and comprised 24 largely interrelated and programmatic activities focusing on the Government's strategic priorities in competitiveness agenda (including counter-cyclical macroeconomic policy options, trade integration, transport logistics and investment climate improvement, enterprise modernization, and insolvency regime); public finance management (including introduction of the result oriented budget, improvement of inter-budgetary relations, and internal audit system); and social modernization (including development of the framework for better human capital outcomes, improvement of social safety network, ensuring adequacy of pension income, and bringing the quality education to international standards).

IFC in Kazakhstan

In the context of the CPS for FY12-17, IFC's role is to contribute to the Government's development plans by supporting the private sector to advance economic diversification and growth agenda, particularly in the non-extractive sectors and frontier regions. In the short term IFC is focusing on strengthening the financial sector, both in the context of the post-crisis recovery and as a prerequisite to pursue the diversification agenda, and infrastructure development, including via Public Private Partnerships (PPPs). As regards to infrastructure, IFC's PPP Transaction Advisory team is helping the government structure the first PPP in the road sector for the Almaty Ring Road. In the medium term more efforts will be dedicated to the establishment of best practices in international banking, improvement of the corporate governance and the regulatory environment, SMEs development, increasing investments in value-added manufacturing, agribusiness and services, and supporting the energy efficiency.

IFC's investment program has been expanding in the context of the crisis response. It grew tenfold between FY05 and FY08 (to $110 million) and nearly doubled again in FY09. In FY10, IFC invested a record $336 million in five projects in the financial and agribusiness sectors, with vast majority provided to commercial banks. Post-crisis IFC's investment level has moderated and averaged at about $100 million per year in FY11-13. As of June 2013, Kazakhstan remains IFC's largest client in Central Asia with total committed portfolio of $385 million, of which $264 million has been disbursed. The investment portfolio is mostly concentrated in the financial sector and general manufacturing, although IFC has begun making investments in the agribusiness and infrastructure sectors.

RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

(As of July 5, 2013)

The European Bank for Reconstruction and Development (EBRD) is the largest investor outside the oil and gas sector in Kazakhstan and in 2013 will celebrate its 20th anniversary in the country. As of 30 June 2013, the EBRD's total investments in Kazakhstan, including co-financing, stood at €12 billion, with the Bank's own share totaling €4.8 billion (both these figures include approximately €1.3 billion in cumulative Trade Facilitation Program turnover). As of 30 June 2013, the EBRD's portfolio in Kazakhstan amounted to €1.9 billion. During 2012, the EBRD signed 18 projects, including regional ones, for a total amount of EBRD finance €374 million. During the first half of 2013, the EBRD signed seven operations with a total annual bank investment of €155 million.

In its country strategy, approved in 2010, the EBRD aims to assist Kazakhstan in promoting economic diversification and moving towards a more sustainable model of financial development. The EBRD's main operational objectives for 2013 are:

- **In the corporate sector**, support investment in the manufacturing and the agribusiness sectors to address immediate financing needs, while promoting the modernization and diversification of the economy, best business and environmental practices, and energy efficiency.

- **In the financial sector**, work with the Kazakhstani authorities and other IFIs to strengthen the country's financial sector; re-engage with partner banks; expand the partner banks group; and assist the authorities with resolving the banks' NPL problem and identifying and implementing policy reforms to promote de-dollarization, develop local capital markets, and increase the availability of sustainable local currency financing.

- **In the infrastructure sector**, restructure the national railway company and support its energy-efficiency improvement program; improve the infrastructure in Kazakh municipalities; expand activities into the solid waste and district heating sectors and support municipal sector reform, including innovative methods for developing and financing projects in the water segment.

- **In the power and energy sector**, support clean energy through the provision of financing to modern generating facilities, stemming losses in the distribution segment through rehabilitation of power lines and developing pilot renewable energy projects with private operators (subject to bankability and integrity).

Sector Business Group		**Commitments**	**Portfolio**
Energy	Private	257	182
	State	361	264
Financial Institutions	Private	2,098*	304
	State	0	0
Industry, Commerce, and Agribusiness	Private	895	439
	State	46	0
Infrastructure	Private	78	77
	State	853	604
TOTAL		**€ 4.8 billion**	**€1.9 billion**

Note: * Including € 1.3 billion in cumulative Trade Facilitation Program lines

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of July 1, 2013)

Kazakhstan became a member of the Asian Development Bank (ADB) in 1994. In the early years of transition from a centrally planned to a more market-driven economy, ADB focused on efforts to sustain a higher growth rate, promote environmental friendly development, support the private sector, and encourage regional integration.

As of 1 July, 2013, cumulative public sector loan commitments to Kazakhstan amounted to $2.68 billion, of which about $1.7 billion has been disbursed. Commitments cover 24 public sector loan operations in agriculture and natural resources, education, finance, transport and communications, water supply and sanitation, irrigation, and small and medium-sized enterprises (SME). These loans were complemented with 67 technical assistance (TA) projects amounting to about $30.5 million. Kazakhstan is no longer eligible for the concessional resources from the ADB's Asian Development Fund. Kazakhstan became a donor to the Asian Development Fund with a $5.2 million contribution in 2012.

ADB's new country partnership strategy (CPS) to guide operations during 2012–2016 aims to support economic diversification and increased competitiveness. The CPS envisages to support regional cooperation, private sector development and operations, inclusive growth, and knowledge solutions. ADB's focus is in the transport, finance, urban, and energy sectors. As knowledge solution is central to the new CPS, the government and ADB established the joint Knowledge and Experience Exchange Program (KEEP) in 2013. The KEEP, operationalized through a government-ADB Memorandum of Understanding, commits the parties to a 50% cost-sharing arrangement with a total financing of $2.5 million during 2013–2015.

Ongoing operations are in road transportation, SMEs, urban infrastructure, and energy efficiency sectors. ADB has been supporting Kazakhstan in realizing its transit potential and integration into the global transport network via two Multi Tranche Financing Facilities (MFF) totaling $1.5 billion to improve road networks in two regions of Kazakhstan (Zhambyl and Mangystau), along the CAREC Transport Corridors 1 and 2. Six projects are under implementation with some sections completed and in use. Once completed, the projects will contribute to increased external trade and economic development. As part of ADB's support to urban infrastructure development, a $300 million project for Astana Light Rail Transport (phase 1) is being prepared for 2013 approval. This LRT project is a first of its kind to be implemented in Kazakhstan and will require global experience in project implementation. LRT system once completed will become a backbone of Astana city's urban transport network in the future.

In 2010, ADB approved a $500 million MFF for the SME Investment Program to enhance efficiency and competitiveness of the financial sector and SMEs. Tranche 1 in the amount of $150 million was provided to DAMU Entrepreneurship Development Fund for onlending to 3 participating financial institutions (PFIs), and was fully disbursed in April 2013. A subsequent tranche 2 is being discussed for 2013.

In 2012, a $1 million technical assistance for preparing the Karaganda District Heating Network Rehabilitation project was approved. The project aims to ensure security of heat supply and enhance district heating systems in the city, and reduce technical and commercial energy losses.

Other technical assistance projects include: preparation of the CAREC road projects in 2009 ($825,000); capacity development to support SME development approved in 2010 (for $650,000); and preparation of the Astana Light Rail Transport project ($565,000) approved in 2011. Kazakhstan also participates in a number of ongoing regional TA projects.

Private sector operations of ADB in Kazakhstan began in 2006, with private sector financing to six entities in the financial and agribusiness sectors amounting to $415.2 million approved to-date. Near-term ADB private sector financing prospects are in private infrastructure and energy sectors.

Kazakhstan was one of the 4 founding partners of the CAREC Program in 1997 (together with the People's Republic of China, the Kyrgyz Republic, and Uzbekistan). Since then, six other countries have joined the partnership, and CAREC-related investments in the partner countries have totaled $21 billion, over the period 2001–12. Four of the six CAREC road and rail corridors traverse Kazakhstan, and developing these Central Asian corridors is a priority for achieving the vision of land bridges connecting Europe and Asia. In October 2013, Kazakhstan will host CAREC 12th Ministerial Conference in Astana which will bring together the ministers of the 10 member countries to discuss the progress of CAREC. In May 2014, Kazakhstan will host the ADB Annual Meeting of the Board of Governors. Over 3,000 participants are expected to attend the event and discuss global and regional development issues.

STATISTICAL ISSUES

(As of July 1, 2013)

I. Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings, but is broadly adequate for surveillance. The most affected areas are monetary and balance of payments statistics, with remaining deficiencies in coverage of fiscal statistics as well as national accounts.	
National accounts: The quality of GDP statistics is affected by the limited coverage of small businesses in selected activities such as retail and construction. While progress has been made in compiling and reporting GDP by final expenditure consistent with output-based measures, dissemination of quarterly GDP series is irregular.	
Government finance statistics: Progress has been made in the classification of the fiscal accounts consistent with the Fund's Government Finance Statistics Manual 2001 (GFSM 2001). However, statistics on the enlarged government (including public enterprises) is not available.	
Monetary statistics: The monetary statistics based on the Standardized Report Forms (SRFs) complied by the central bank have a few inconsistencies.	
Balance of payments:. The authorities are in the process of transitioning to the compilation of balance of payments in concordance with the sixth edition of Balance of Payments Statistics Manual (BPM6). However, deficiencies remain in foreign direct investment statistics as local branch offices of foreign companies operating in the construction sector are considered nonresident entities. This leads to discrepancies with national accounts statistics where this activity is treated as domestic production. In external debt statistics there are discrepancies between data compiled by different governmental agencies owing to methodological differences. Statistical treatment of trade within the customs union is not accurate, which has contributed to large and increasing errors and omissions. The authorities are cooperating with relevant agencies in the customs union partner countries to resolve these problems.	
II. Data Standards and Quality	
Participant in the Special Data Dissemination System (SDDS) since March 2003.	Data ROSC published in 2008.

Kazakhstan: Table of Common Indicators Required for Surveillance

(As of June 28, 2012)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]	Memo Items	
						Data Quality-Methodological Soundness[8]	Data Quality-Accuracy and Reliability[9]
Exchange Rates	06/25/13	06/25/13	D	D	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	05/31/13	06/07/13	M	M	M		
Reserve/Base Money	05/31/13	06/27/13	M	M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	05/31/13	06/27/13	M	M	M		
Central Bank Balance Sheet	05/31/13	06/27/13	M	M	M		
Consolidated Balance Sheet of the Banking System	05/31/13	06/25/13	M	I	I		
Interest Rates[2]	05/31/13	06/28/13	I	I	I		
Consumer Price Index	05/31/13	06/03/13	M	M	M	O, O, O, O	O, O, LO, O, O
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	04/30/13	06/06/13	M	M	M	O, LO, LO, LO	O, O, O, O, LNO
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	04/30/13	06/06/13	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q1/2013	05/06/13	Q	Q	Q		
External Current Account Balance	Q1/2013	04/30/13	Q	Q	Q	LO, O, O, O	O, O, O, O ,O
Exports and Imports of Goods and Services	Q1/2013	04/30/13	Q	Q	Q		
GDP/GNP	Q1/2013	04/30/13	Q	Q	Q	O, O, O, LO	LO, O, LO, O, O
Gross External Debt	Q1/2013	04/30/13	Q	Q	Q		
International Investment Position[6]	Q1/2013	04/30/13	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] Reflects the assessment provided in the update of the data ROSC published in February 2008, based on the findings of the mission that took place during November 29–December 13, 2006 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

[9] Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation with the Republic of Kazakhstan

On August 2, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Kazakhstan, and considered and endorsed the staff appraisal under the lapse of time procedure.[2]

Macroeconomic conditions remain solid, although growth has decelerated of late. Real GDP growth slowed from 7½ percent in 2011 to 5 percent in 2012, and further to a still-solid 4.6 percent year-on-year during the first quarter of 2013. The strong growth has allowed employment to expand at about 2½ percent annually over the last three years. Helped by moderating food prices, headline inflation has fallen to just below the 6-8 percent target range, while core inflation has remained stable at around 5-5½ percent.

Following a cumulative 200-basis points cut in the central bank's official refinancing rate early in 2012, the authorities have kept the rate on hold at 5½ percent since August 2012.

The financial sector is gradually recovering. Banks' profits have improved over the past year, but remain weak, with the return on assets ratio for the largest banks (excluding BTA and Alliance banks) reaching just 1 percent last year. The system's capital adequacy ratio increased from 17 percent to 18 percent in 2012, following the external debt restructuring and state-funded recapitalization of BTA. While private sector credit growth remains moderate overall, consumer lending, concentrated in small- and medium-sized banks, is expanding rapidly (from a low base). Efforts to resolve the large stock of nonperforming loans (NPLs) are ongoing, but with limited impact so far.

[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.

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

Concerning the non-bank sector, Kazakhstan's 11 pension funds, with total assets of US$21.2 billion (11 percent of GDP) are being unified under the partial management of the central bank, following a Presidential decree early in 2013.

The fiscal position worsened somewhat in 2012, mainly due to weaker performance in the oil sector as well as tax exemptions for new oil projects, accompanied by a rise in expenditures of 0.8 percent of GDP. The non-oil deficit deteriorated only slightly from 8.8 to 9.0 percent of GDP, compared to an estimated medium-term sustainable level of 6 percent of GDP. In early 2013, revenue performance was relatively weak while expenditures were also subdued. Over the medium term, the authorities are planning large investment projects in the broader public sector to boost economic development and diversification.

The growth outlook is solid. In 2013, GDP is expected to grow at 5¼ percent, only moderately above 2012, reflecting a recovery in oil and agricultural output. Over the medium term, full scale production in the Kashagan oil field, projected to commence in 2015, will strengthen overall growth. A potential slowdown in the global economy, particularly in Russia and China, and lower oil prices than currently projected are the main downside risks to growth.

Executive Board Assessment

In concluding the 2013 Article IV consultation with Kazakhstan, Executive Directors endorsed staff's appraisal, as follows:

Executive Directors welcomed Kazakhstan's sustained growth performance. They noted that average growth of 8 percent over the past decade, supported by rising oil output and prices, has solidified Kazakhstan's position as a regional economic power. Directors urged the authorities to take advantage of the positive outlook to strengthen the policy architecture with a view to achieving durable and inclusive growth and alleviating vulnerabilities to shocks.

Directors stressed that greater determination is needed to resolve the non-performing loan (NPL) problem and to counter financial stability risks. In particular, in view of slow progress on NPL resolution, the authorities should follow through on their consideration of redesigning the Problem Loans Fund and strictly enforce the new ceilings on NPLs to achieve full compliance. Given rapid growth in consumer lending, Directors called on the authorities to ensure that risk management and lending practices are sufficiently robust to avoid exacerbating the NPL problem. In this regard, further strengthening of supervision and macroprudential tools is critical, including shoring up on-site supervision, enhancing liquidity and credit risk assessments, and stepping up the Early Warning System. Directors cautioned that the planned exit from troubled banks should ensure that transactions are market-based and transparent to bolster the stability of the banking system as a whole and to avoid the emergence of new risks.

Directors welcomed the National Bank of Kazakhstan's (NBK) enhanced regulation of banking system liquidity. They urged the authorities to follow through on their plan to introduce a new policy interest rate that signals better the stance of policy. Directors also stressed that, to anchor expectations about policy intentions and operations, the NBK should communicate more openly and clearly the transition plans to active open market operations (OMOs) and more generally elaborate on the factors guiding the interest rate decisions in its public communications. In addition, they encouraged close collaboration between the NBK and the Ministry of Finance to secure increased financial institutions' participation in the market for government paper, which would support active OMOs as a cornerstone of the revamped monetary policy framework. Directors added that there is also scope to re-evaluate the role of the exchange rate and how it fits within the broader monetary policy framework, with a view to allowing for greater flexibility over the medium term.

Directors stressed that lowering the non-oil deficit over the medium term is a key priority, which necessitates a credible fiscal consolidation strategy. In this context, they noted that the consolidation plans outlined in the current medium-term fiscal framework will need to be consistent with announced (but non-budgeted) large scale public spending plans related to the government's development and diversification programs. Furthermore, the assumptions underlying both expenditure and revenue projections need to be fully aligned with a macroeconomic framework that takes into account the effects of envisioned fiscal measures.

Directors welcomed the authorities' plan to revamp the medium-term fiscal framework, and noted that this required improved coverage and transparency. The authorities should integrate fully the National Fund of the Republic of Kazakhstan (NFRK) with fiscal accounts and use consolidated budget balances to guide fiscal policy. Further, there is a need for improved transparency of quasi-fiscal operations, including those related to the government's development and diversification programs. In this regard, Directors welcomed the authorities' intention to monitor more closely the external debt of the broader public sector.

Directors also cautioned that the unification of the private pension funds must avoid exacerbating fiscal risks and undermining earlier reform efforts. In particular, the authorities should adhere to their intention to adopt a clear and sound market-based investment strategy for the assets, while ensuring that individual accounts are maintained.

Directors urged further action to reduce the economy's dependence on oil. In particular, they noted that successful diversification promoting broad-based and private-sector led growth requires bolstering human capital, the business environment, and institutions. Directors also highlighted the importance of carrying out critical public investment in line with absorptive capacity and high standards of efficiency and oversight.

Kazakhstan: Selected Economic Indicators, 2010–14

	2010	2011	2012	Proj. 1/ 2013	Proj. 1/ 2014
	(Changes in percent)				
Real economy					
Real GDP	7.3	7.5	5.0	5.2	5.3
CPI (end-of-period)	7.8	7.4	6.0	6.0	6.2
	(In percent of GDP)				
Public finance					
Government revenue and grants	23.9	27.7	27.0	25.6	24.3
Government expenditures (and net lending)	22.5	21.8	22.5	21.1	20.6
General government balance 2/	1.4	5.9	4.5	4.5	3.7
General government non-oil balance	-10.3	-8.8	-9.0	-8.6	-7.8
General government debt (end-of-period) 3/	10.7	10.4	12.4	13.4	13.8
	(Changes in percent)				
Money and credit 4/					
Base money	5.0	10.3	1.9	17.9	15.8
Broad money	13.3	15.0	7.9	10.8	13.8
Credit to the economy 5/	5.8	15.2	11.3	19.5	12.4
NBK refinance rate (end-of-period; percent)	7.0	7.5	5.5	...	...
	(In percent of GDP)				
Balance of payments 6/					
Trade balance	19.3	24.9	21.3	18.8	15.7
Current account balance	0.9	6.5	3	3.1	1.9
External debt	79.9	66.7	67.7	66.0	62.8
Excluding intra-company loans	44.5	34.5	34.9	31.8	28.4
Gross international reserves					
In billions of U.S. dollars, end of period	28.3	29.3	28.3	34.4	41.0
In months of next year's imports of goods and nonfactor services	6.6	5.7	5.3	6.1	6.9
	(Changes in percent)				
Exchange rate 7/					
Tenge vs. U.S. dollar (end of period)	-0.7	0.4	1.5	...	...
Real effective exchange rate (p.a) 8/	1.5	0.3	3.6	...	...

Sources: Kazakhstani authorities; and IMF staff estimates and projections.
1/ Staff projections.
2/ Privatization revenues are treated as a financing item.
3/ Gross domestic and external government debt, including government guaranteed debt.
4/ Reflects data available at the time of the mission.
5/ Source: Monetary Survey of the Banking System.
6/ The GDP in U.S. dollars is calculated using the period average exchange rate.
7/ A positive sign indicates appreciation.
8/ IMF staff estimates.