INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/277

REPUBLIC OF KAZAKHSTAN

September 2018

2018 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

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 2018 Article IV consultation with the Republic of Kazakhstan, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse of time basis following discussions that ended on June 27, 2018, with the officials of the Republic of Kazakhstan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 27, 2018.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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September 16, 2018

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IMF Executive Board Concludes 2018 Article IV Consultation with the Republic of Kazakhstan

On September 12, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the 2018 Article IV consultation[1] with the Republic of Kazakhstan, considering and endorsing the staff's appraisal without meeting.[2]

Growth has strengthened in Kazakhstan supported by higher oil production and increased activity in trade and manufacturing. Robust exports have contributed to an improvement of the external current account. Inflation has declined and remained within the target band of the National Bank of Kazakhstan (NBK). This, along with anchoring of inflationary expectations, has allowed the NBK to undertake several interest rate cuts. While medium-term growth prospects are favorable, there are also domestic and external risks.

Steps have been taken to address weaknesses in the banking sector, including purchase of non-performing assets, capital support, withdrawing licenses of banks that were in violation of prudential regulations and legal changes aimed at strengthening the NBK's supervisory powers.

With the winding down of fiscal stimulus programs and following the provision of funding to the banking sector in 2017, fiscal consolidation is envisaged. This is underpinned by improvements in tax administration and expenditure reforms, notably in health and education.

The authorities' structural reform agenda aims at addressing dependence on natural resources, including by making public administration more efficient and the business environment more favorable, addressing governance issues, advancing privatization, fostering greater competition, and investing in infrastructure.

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

[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.

Executive Board Assessment[3]

Recovery is continuing from shocks that began in 2014, with a pick-up of growth in 2017. The authorities' response of fiscal support, exchange rate flexibility, pursuit of inflation targeting, funding to stabilize the banking sector, and implementation of structural reforms has been instrumental and helped by increased exports of oil and metals..

Growth is expected to remain solid, although there are risks. Overall growth will likely slow as the increase of oil production moderates, but non-oil growth should increase further over the medium term, reflecting structural reforms and financial repair and deepening. Non-oil growth could be higher if far-reaching reforms are implemented decisively. Risks relate to commodity prices, due both to higher prices and prospects for a lower impulse for reforms, and to lower prices, lower export earnings and fiscal revenues, and pressures on the tenge. Policy slippages are another risk, along with slower growth in key trading partners (Russia and China), tighter or volatile global financial conditions, and a deepening of global trade or geopolitical tensions. On the upside, the Belt-Road Initiative (BRI) and reforms in next-door Uzbekistan provide an opportunity for greater integration, trade, investment, and diversification.

Fiscal consolidation is underway, as countercyclical spending has been completed and given the need to restore buffers. Ambitious and complex reforms are underway in health and education, public-private partnerships (PPPs) and outsourcing, and public employment; these should be carefully rolled out. The authorities are considering issuance of a tenge Eurobond; this could attract foreign investors and establish a benchmark.

Further fiscal adjustment is expected in the medium term, with the non-oil deficit reaching levels consistent with long-term sustainability. This is driven by higher revenues, mainly from tax administration gains from the VAT and enhanced technology. This is positive, although projected gains may be ambitious. The authorities' plan to reduce the personal income tax (PIT) rate for low-income earners is also positive; to further enhance progressivity, a moderate increase of PIT rates for high-income earners could be considered. Review of tax incentives and the tax regime for mining should be undertaken. The level of budgetary capital spending is low by international standards, and additional, high-quality outlays should be considered, in a deficit-neutral way, in tandem with higher non-oil revenues. Finally, efforts to further strengthen fiscal transparency and risk management, including monitoring of state-owned enterprises and PPPs, are needed.

The focus of monetary policy should remain on price stability. Declining inflation and stabilization of expectations have allowed the NBK to undertake interest rate cuts. This has

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

been broadly appropriate, given developments and the outlook, and is consistent with keeping real interest rates close to neutral levels. Going forward, a cautious approach to further accommodation is warranted, given the changing balance of risks. In addition, quasi-fiscal initiatives aimed at providing longer-term financing should be targeted and temporary, incorporate robust risk-sharing and market funding arrangements, and be undertaken by the budget and not the NBK. As the recovery gains momentum, bank balance sheet issues are resolved, and structural reforms advance, credit should pick up more broadly, allowing the large stock of NBK notes to be unwound.

Efforts to improve monetary operations and domestic financial markets should continue. NBK notes have helped manage liquidity and build the short end of the yield curve. Money-market rates have stayed within the NBK's corridor, close to the lower bound. There is scope for strengthening cooperation between the NBK and the government on liquidity management and market issues, including management of SOE funds. A review and changes to the complex system of reserve requirements are also warranted. The flexible exchange rate regime has served Kazakhstan well by helping to absorb changes in the macro environment and support dedollarization. The NBK would benefit from strengthening transparency and communications with respect to foreign exchange purchases and sales, including on behalf of the NFRK and the national pension fund (UAPF).

Despite extensive and costly financial support to banks, risks and challenges remain. Most importantly, Kazakhstan's banks need to adopt a strengthened business model, with enhanced governance, management, and operations. The sector continues to experience difficulties from weak credit-risk management and NPLs. Actions are needed, including in asset quality and governance, supervision and regulation, emergency liquidity assistance, credit subsidies, collateral and foreclosure, and disposal of distressed assets. Legal, institutional, and operational constraints affecting the Problem Loan Fund should be addressed. Further strengthening of the resilience of the banking sector will contribute to sound macro-financial linkages and growth, while reducing risks.

Reducing the state's footprint and advancing governance reforms are also critical. A thriving private sector is needed to realize the authorities' aspiration of joining the world's thirty most developed countries by 2050. This calls for decisive steps. While the various reform initiatives are ambitious and comprehensive, the state remains predominant. Progress is being made, but the challenge is to ensure that changes on paper lead to deep and meaningful changes in practice. With recovery now underway, extensive state support risks cementing a culture of reliance on subsidies. The growth impetus should move firmly to the private sector, with the state focusing on facilitating the business environment and enhancing infrastructure, connectivity, and inclusivity. Successful initial public offerings (IPOs) of "blue-chip" SOEs would send a strong signal, along with further efforts to modernize rail and road networks, liberalize trade, enhance domestic competition, and improve land use and agriculture infrastructure. Opportunities to enhance connectivity and diversify under the BRI should be seized. On governance, far-reaching and complex efforts to make the civil service more professional, enhance use of technology in public administration, and strengthen accountability are welcome and should proceed.

The next Article IV consultation is expected to take place on the standard 12-month cycle.

Kazakhstan: Selected Economic Indicators, 2015–19

Population (2017): 18.2 million
Quota: SDR 1,158.40 million
Main export: crude oil, metals, minerals
Key export markets: EU, China, Russia

Per capita GDP (2017 - est., US$): 8,762
Literacy rate: 99.8% (2015)
Poverty rate: 2.7% (2015)

	2015	2016	2017	2018 (proj.)	2019 (proj.)
Output					
Real GDP growth (%)	1.2	1.1	4.0	3.7	3.1
Real oil	-2.6	-1.2	10.7	3.3	1.1
Real non-oil	2.5	1.8	1.9	3.8	3.8
Crude oil and gas condensate production (million tons)	79	78	86	89	90
Employment					
Unemployment (%)	5.0	5.0	5.0	5.0	5.0
Prices					
Inflation (%)	13.6	8.5	7.1	6.0	5.2
General government finances 1/					
Revenue (% GDP)	16.6	16.1	18.8	20.3	20.4
Of which: oil revenue	6.6	4.1	6.2	7.6	7.6
Expenditures (% GDP)	22.9	21.5	25.2	18.8	19.0
Fiscal balance (% GDP)	-6.3	-5.4	-6.5	1.5	1.4
Non-oil fiscal balance (% GDP)	-12.9	-9.5	-12.7	-6.1	-6.1
Gross public debt (% GDP)	21.9	19.7	20.8	17.8	16.8
Money and credit					
Broad money (% change)	33.8	15.6	-1.7	1.5	9.5
Credit to the private sector (% GDP)	34.0	29.6	27.0	24.5	24.9
NBK policy rate (%, eop)	16.00	12.00	…	…	…
Balance of payments					
Current account (% GDP)	-2.8	-6.5	-3.4	-0.1	0.0
Net foreign direct investments (% GDP)	-1.7	-9.7	-2.4	-2.4	-2.4
NBK reserves (in months of next year's imports of G&S)	8.5	8.3	8.1	8.1	8.4
NFRK assets (in months of next year's imports of G&S)	19.5	17.2	15.3	15.6	15.9
External debt (% GDP)	83.2	119.2	105.1	96.7	95.3
Exchange rate					
Exchange rate (y-o-y percent chage; Tenge per U.S. dollar; eop)	86.2	-1.8	-0.3	…	…

1/ The fiscal accounts in 2017 include a state support to the banking sector of 4 percent of GDP.

Sources: Kazakhstani authorities and Fund staff estimates and projections.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

August 27, 2018

KEY ISSUES

Context: Recovery is gaining strength, while inflation has been declining and the tenge has continued to float. Export growth—driven by oil, metals, and mining—has reduced the current account deficit. State support to banks led to a higher fiscal deficit in 2017, although there was underlying adjustment. The 2018 budget foresees further adjustment and ambitious spending reforms. Consolidation is set to continue over the medium term to rebuild buffers. The authorities have taken major steps to secure financial sector stability, but actions have been costly financially and risks remain. More work is needed, especially to overhaul bank business models and address gaps in supervision. Progress is being made on flagship structural reforms (business climate, governance), although, in practice, the measures taken have yet to prove their effectiveness in full. Efforts should continue to support greater productivity, inclusivity, connectivity, and diversification. Risks relate to oil prices and slower growth in key trading partners (Russia, China, EU).

Focus and key recommendations: The authorities are transitioning from strong state support to consolidation, restoring buffers, reducing the state's footprint, and fostering a more dynamic and competitive private sector. State support is difficult to cut at once, but continuation risks cementing reliance on subsidies. The focus of the consultation was on the fiscal adjustment, the monetary framework and operations, the financial sector, and structural reforms. Key recommendations are that fiscal consolidation should involve higher non-oil revenues to protect and increase social and capital outlays, that state support programs should be targeted and phased out, that monetary accommodation should be resisted, that further efforts are needed to strengthen the financial sector, and that decisive structural reforms should proceed without delay, with actions to ensure that gains on high-level initiatives translate into real changes on the ground.

Previous consultation: Since the 2017 consultation, the authorities have followed Fund advice on strengthening the monetary policy framework, taking actions to ensure financial stability, and scaling back fiscal support with a view to restoring buffers. In particular, they have continued to allow ER flexibility while strengthening monetary operations and guiding inflation lower, enhanced communications on monetary and exchange rate issues, provided large financial support to shore up large banks, initiated work to address banking sector regulatory and supervisory gaps, embarked on fiscal adjustment (masked in 2017 by support for banks), and advanced on structural reforms.

Approved By
Juha Kähkönen (MCD) and Rupa Duttagupta (SPR)

Discussions took place in Almaty, Shymkent, and Astana, during June 14-27. The staff team comprised M. Horton (head), R. Rozenov, and M. Ghilardi (all MCD), A. Shah (FAD), and V. Prokopenko (MCM). The mission met Prime Minister Sagintayev, NBK Governor Akishev, Presidential Advisor Smailov, Minister of Finance Sultanov, Minister of National Economy Suleimenov, other officials, and representatives from the private sector, the diplomatic community and the media. O. Bissekeyeva (IMF office manager) supported the mission in the field, Y. Danenov (OED) attended the meetings, and J. Rigat, B. Laumann, and M. Toshmuhamedova provided support from HQ. The authorities agreed to publication of the mission's concluding statement.

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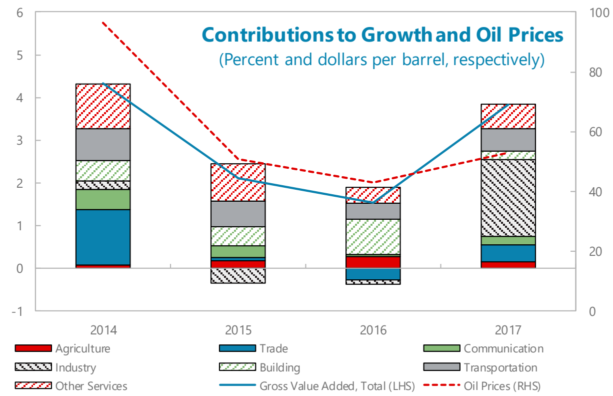
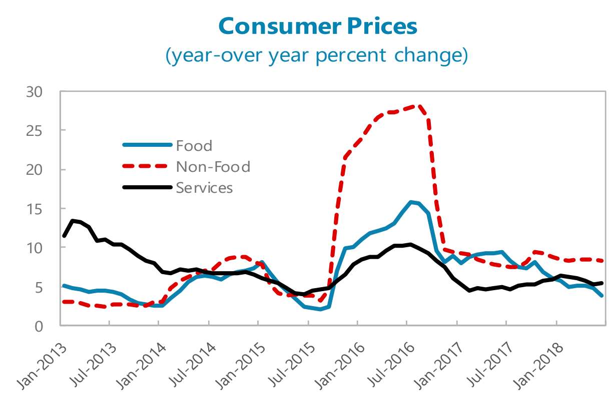
ANNEXES

CONTEXT

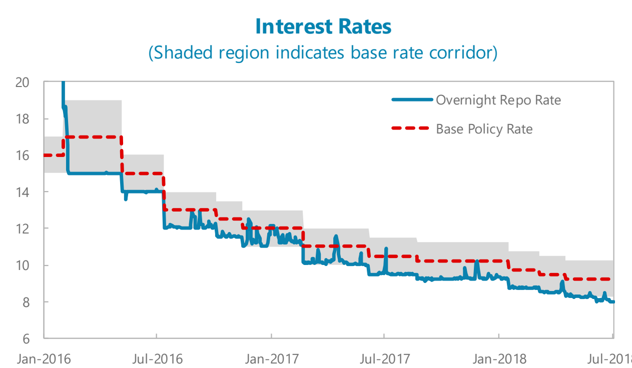
1. Economic recovery is gaining strength. After two years of subdued growth, economic activity increased in 2017, with GDP growing at 4 percent y/y, due to higher oil production and increased trade and manufacturing. However, consumption increased only modestly, reflecting flat employment and declining real wages. The reported unemployment rate has remained broadly constant at 5 percent. GDP growth increased to 4.1 percent in the first quarter of 2018, and high-frequency indicators through June pointed to a further strengthening in economic activity. Reforms in next-door Uzbekistan have provided a boost to cross-border trade, especially in south Kazakhstan.



2. Inflation has been on a declining path and within the target band of the National Bank of Kazakhstan (NBK). For most of 2017–18, inflation has followed a downward trend. In June, CPI inflation stood at 5.9 percent, close to the middle of the NBK's 5–7 percent target band. Recently, nonfood prices have increased faster than the overall CPI, while services inflation has lagged. Expectations have stabilized—a May 2018 survey pointed to expected inflation one year ahead of 6.0 percent.



3. With falling inflation and anchored expectations, the NBK has continued with policy easing. The NBK cut the base rate from 12 percent in early 2017 to 9 percent in June 2018, mostly this year. The target money-market rate has stayed within the NBK's interest rate corridor (base rate +/- 100 bps), but close to the lower bound, reflecting surplus liquidity. The liquidity situation is evident in the stock of NBK notes, which increased from KZT 2.7 trillion (US$8 billion) in September 2017 to over KZT 4.0 trillion (US$12



billion) in May 2018.[1] In addition to standard 7-day notes, the NBK has offered (small) issues with maturities up to one year to develop the short end of the yield curve. The tenge has continued to float, although the NBK has intervened in the market on occasion to curb excessive volatility, usually linked to oil prices or the Russian ruble. Most of the interventions took place in the summer and fall of 2017, with total net sales of US$620 million; since October the NBK's participation in the market has been neutral.

4. **Robust export growth has helped reduce the external current account deficit, but the external position in 2017 was moderately weaker than implied by fundamentals.** The current account deficit declined to 3.4 percent of GDP in 2017 from 6.5 percent a year earlier, as oil exports rose by 38 percent, reflecting both favorable prices and a sizeable increase of production. Non-oil exports increased by 26 percent, led by mining and metals. A countervailing factor for the current account improvement was primary income, which deteriorated by 2 percentage points of GDP, due to larger dividend withdrawals under production-sharing agreements. Staff assessment based on the IMF's Current Account model indicates that in 2017 Kazakhstan's external position was moderately weaker than implied by fundamentals and desirable policies (Annex I). In the financial account, a substantial decline in net FDI due to large repayments of intercompany debt and sale of foreign company shares by a resident was partially offset by increased inflows of portfolio investment, largely reflecting sales of securities by the National Fund (NFRK). Total external debt declined from 119 percent to 105 percent of GDP in 2017, while the net IIP remained broadly unchanged at -35 percent of GDP. NBK gross reserves increased by US$1 billion in 2017 to US$30.7 billion and are above the adequacy range for a floating exchange rate country. Finally, a new currency law was approved by parliament; the main change involves residency status of branches and offices of foreign entities, implying that transactions with other residents should be settled in tenge.[2]

5. **State support to banks led to a higher fiscal deficit in 2017, although there was underlying adjustment.** The government spent KZT 2 trillion (US$6 billion, 4 percent of GDP) to purchase assets from the largest bank, Kazkommertzbank (KKB), to facilitate its acquisition by the second-largest bank, Halyk.[3] Reflecting this and other developments, the overall deficit widened to 6.5 percent of GDP from 5.4 percent in 2016; the non-oil deficit rose to 12.6 percent of GDP from 9.5 percent in 2016. Other expenditures

Fiscal Indicators 2015-17
(in percent of GDP)

	2015	2016	2017
Total Revenues	16.6	16.1	18.8
Total Expenditures and Net Lending (w/o sectoral support)	21.1	21.5	21.3
Fiscal Balance (w/o sectoral support)	-4.5	-5.4	-2.5
Non-oil Fiscal Balance (w/o sectoral support)	-11.1	-9.5	-8.6
Sectoral Support 1/	1.8	-	4.0
Fiscal Balance (with sectoral support)	-6.3	-5.4	-6.5
Non-oil Fiscal Balance (with sectoral support)	-12.9	-9.5	-12.6

1/ Includes a transfer from KazMunaiGas of 1.8 percent of GDP in 2015 and support to the financial sector of 4 percent of GDP in 2017

[1] Long-term, low-interest rate subordinated loans under the NBK's "Bank Recovery Program," under which five large banks received financing of KZT 650 billion (US$2 billion) to invest in NBK notes, have been a factor behind the liquidity increase.

[2] Transactions with parent companies and companies operating under production sharing agreements are not affected by the change,

[3] The operation was financed by transfers from the NFRK (50 percent) and issuance of government securities (50 percent).

remained broadly constant as a share of GDP, while oil revenues picked up. Excluding bank support, the non-oil deficit declined from 9.5 percent of GDP in 2016 to 8.6 percent in 2017.

6. **The 2018 budget envisages adjustment and ambitious expenditure reforms**. With the phasing out of the Nurly Zhol stimulus initiative and spending on the Astana Expo, plus a favorable macro environment, the consolidated overall balance is expected to record a surplus of 1.4 percent of GDP this year. The improvement reflects higher oil revenues, as well as lower core spending via streamlining initiatives. This reflects, in turn, a scaling up of public-private partnerships (PPPs) and a new “capitation” approach for health and education spending to provide funding for services delivered by private providers. The authorities are also reviewing public sector jobs, aligning wages to private-sector indicators, and improving performance management. The non-oil deficit is expected to be reduced to 6.1 percent of GDP, from 8.6 percent in 2017 (excluding bank support), mostly through lower capital and current spending. The authorities are considering issuance of a tenge-denominated Eurobond to attract foreign investors and establish a new benchmark.

7. **Tax policy changes were introduced last year, mainly in natural resource taxation to encourage exploration.** For oil and gas, a key change was introduction of an optional, “alternative” tax, aimed at promoting exploration in high-cost, deep-water areas of the Caspian Sea and replacing production- and sector-specific profit-based instruments. Revisions also eliminated a discovery bonus and introduced more favorable treatment of exploration expenses. A licensing round for deep-water areas is planned later this year. For mining, changes included removal of an excess profits tax and increased reliance on (regressive) ad valorem royalties.

8. **The authorities have taken major—and costly—steps to secure the stability of the financial sector, although risks remain.** Many banks experienced significant trouble caused by deleveraging and depreciation of the exchange rate in 2015. Besides state support for the Halyk-KKB merger, five large banks received the equivalent of US$2 billion worth of capital support from the NBK via long-term (15 years), low-interest-rate subordinated loans (4 percent), which were used to purchase NBK securities carrying the interest yield of around 8 percent. Legal changes to enhance the NBK’s regulatory powers, particularly on use of supervisory judgment, were adopted by parliament in June. Still, NPLs remain elevated, and risks remain. The NBK withdrew or suspended licenses of several medium-sized and small banks that were in violation of prudential requirements. Long-term funding remains limited, and a number of initiatives are being rolled out, including NBK support for mortgage lending and purchase of bank bonds by the pension fund (UAPF).

9. **Private sector credit has resumed, largely consumer lending.** High NPLs and large volatility of deposits affected lending, and in 2017, private sector credit was flat. After the Halyk-KKB merger and NBK actions on smaller banks, there are signs that lending is picking up. While the May 2018 stock of private sector credit was only slightly higher than a year ago, this reflected write-offs, loan portfolio restructuring, and banks whose licenses were revoked. Taking these developments into account, credit growth stood at 11.5 percent, with the main driver being consumer loans to households. Insufficient demand by creditworthy borrowers, along with limited availability of long-term funding, are key constraints to a faster corporate credit growth.

10. Progress is being made on flagship structural reform initiatives to improve the business climate and governance. In 2015, the "100 Concrete Steps" initiative was launched, with reforms to modernize the civil service, strengthen rule of law, increase transparency and accountability, support diversification, industrialization, and growth, and boost nation-building. More than half of the 100 Steps were completed by June, and implementation of the remaining items is proceeding. However, some stakeholders suggested that the reforms may be moving more on paper than in practice. Small-scale privatization is advancing, and IPOs for the first group of "blue-chip" SOEs—in telecoms, aviation, and nuclear materials—are expected later this year or in 2019. The Astana International Financial Center (AIFC) was launched in July, with the aim of becoming a regional hub.

11. New reform initiatives have also been launched. Last November, the government adopted the "Kazakhstan 2025" strategic development plan, which gives a roadmap for a new, private-sector-led growth model and actions to increase productivity, human-capital development, competition, and investment. Quantitative indicators guide and measure progress. A program to advance Kazakhstan's ranking in the World Economic Forum's Global Competitiveness Index is underway, with over 200 specific measures being taken. In March, President Nazarbayev launched a "5 Social Initiatives" plan comprising: (i) the "7-20-25" mortgage program—7 percent interest rate, 20 percent down payment, 25 years repayment—to be implemented by the NBK[4]; (ii) reduction of the effective personal income tax (PIT) rate from 10 to 1 percent for low-income earners from 2019; (iii) improved higher education accessibility and quality; (iv) expanded microcredits; and (v) construction of a gas pipeline from south Kazakhstan to Astana/Karaganda to supply 2.7 million people, and ideally, to reduce reliance on coal-fired power plants.

OUTLOOK AND RISKS

12. Non-oil growth is projected to strengthen and inflation to decline. Non-oil growth is expected to increase further this year and reach 4 percent over the medium term, reflecting a better business climate and progress in public administration reforms, privatization, and bank repair. Overall growth is expected to slow in the next few years, as oil production gains moderate; a further large increase of production is expected in 2022-23 due to planned expansion of the big Tengiz field. On the demand side, consumption is projected to recover with a rebound of real wages and higher social payments. If reform implementation is decisive and the external environment is favorable, medium-term non-oil growth could be higher. The external current account is projected to improve in 2018 due to strong exports and remain close to balance over the medium term. In the absence of major shocks, inflation should decline gradually in line with the NBK's targets. [5]

13. Risks are mainly related to commodity prices and slower growth in Russia and China (Annex II). Lower commodity prices would affect exports, fiscal revenues, the tenge, and confidence;

[4] The NBK created a special mortgage company with capital of KZT 200 billion (approximately US$600 million) to implement the program.

[5] The NBK targets inflation between 4 and 6 percent in 2019 and below but close to 4 percent in 2020 and beyond.

sustained high prices may reduce the reform impetus. Tightening global financial conditions could lead to capital outflows, pressure on the tenge, and risks to inflation. Although risks from market turbulence are tempered by high oil prices and buffers, if developments in Russia are adverse, Kazakhstan would be affected. Uncertainties and spillovers from geopolitical and trade tensions, including sanctions against countries in the region, are another risk. Domestically, there are risks that in the absence of tangible tax revenue gains, fiscal consolidation may not proceed as planned, while lower social and capital spending may weaken economic prospects. Monetary policy loosening—possibly in response to accommodation pressures—could result in higher inflation. On the upside, the Belt-and-Road Initiative (BRI) provides an opportunity to deepen integration and boost transport, services, and processing. Further reforms in neighboring Uzbekistan are likely to open additional opportunities for trade and investment. The next presidential elections are due in 2020.

Authorities' views

14. The authorities broadly concurred with staff's views. The government sees potential for higher non-oil growth than in staff's baseline, especially over the medium term, due to continued efforts to support the economy, investment in mining and manufacturing, higher credit growth, emergence of AIFC, and structural reforms. Risks are seen mainly from the outside—commodity prices, geopolitical uncertainty, monetary tightening in advanced economies, and global trade tensions. The authorities reiterated their determination to pursue sound macro policies and a robust reform agenda to realize the aspiration of joining the world's 30 most advanced economies by 2050.

POLICY DISCUSSIONS

The authorities are transitioning from significant state support to the economy and banks. Although there is substantial fiscal space, there is also a strong case to consolidate, restore buffers, reduce the state's footprint, and foster a dynamic, competitive, and globally-integrated private sector. Public administration should be more transparent and efficient. While state support is difficult to turn off at once, there are risks of cementing reliance on government/NBK support after several years of stimulus and with the recovery of oil prices. Discussions focused on the 2018 fiscal stance, medium-term fiscal consolidation, the monetary framework and operations, actions to strengthen the financial sector, and structural reforms. Staff's views are that fiscal consolidation is warranted, that medium-term fiscal adjustment should incorporate higher non-oil revenues (to increase social and capital outlays), that support programs should be phased out, that monetary accommodation should be resisted, that further efforts are needed to strengthen the financial sector, and that key reforms should proceed without delay.

A. Fiscal Policy

15. Adjustment in the 2018 budget is in line with staff's advice and reflects ambitious spending reforms. The 2018 non-oil deficit is in line with staff's advice from last year's consultation and with the deficit reduction path outlined in the authorities' medium-term fiscal plan.[6] Reforms to health and education spending, public employment, and the wage bill offer prospects for greater efficiency and flexibility, but are complex and should be carefully planned and executed. The "5 Social Initiatives" are generally well-targeted, linked to long-term growth and social objectives, and incorporate risk-sharing or commercial elements, although staff noted that the 7-20-25 mortgage program should be undertaken not by the NBK, but by the government. In addition, following the conclusion of Nurly Zhol and other major projects (e.g., Astana Expo) budgetary capital spending will be low by international standards. While sizeable capital expenditures are undertaken by public enterprises—and in the future, via PPPs—high-quality budgetary investment outlays should be increased in a deficit-neutral manner to support medium-term growth. Staff sees merit in the authorities' planned issuance of a tenge-denominated Eurobond to deepen the market and set a benchmark for other issuers.

16. Further, gradual medium-term consolidation is planned. The non-oil deficit is expected to decline gradually to around 5 percent of GDP, in line with staff estimates of the sustainable long-term non-oil deficit.[7] The path is consistent with a gradual increase in net financial assets, which would help the authorities weather renewed oil price shocks or a materialization of contingent liabilities or other fiscal risks, and also increase intergenerational equity. The authorities noted that medium-term fiscal adjustment will be supported by measures to improve non-oil revenue administration, especially simplification and clarification of ambiguities, reducing taxpayer compliance burden, improving dispute resolution, and advancing digital initiatives (invoicing, tax filing, and compliance enforcement). Staff welcomed the planned adjustment, noting that it would help rebuild buffers. While expressing support for the authorities' revenue administration plans, staff noted that the projected gains—by 6 percent of GDP through 2025, to 25 percent of GDP—seem ambitious. Accordingly, staff encouraged the authorities to review and phase out tax holidays and exemptions, to consider a moderate increase in the PIT rate for higher-income earners (along with universal income declaration requirements), and to consider a lower VAT threshold and a moderate VAT rate increase once administrative gains have been secured. Finally, while recent revisions to the extractive industries fiscal regime are generally positive, further gains in the investment and regulatory environment are likely needed to secure major new investment, and as prospects for increased mining activity appear to be particularly favorable, a comprehensive tax regime review should be considered (Selected Issues Papers).

17. Kazakhstan has substantial fiscal space, which is expected to increase over the medium-term. With fiscal adjustment and higher oil prices and production, NFRK balances are expected to increase from just below US$60 billion at end-2017 to over US$80 billion in 2023. Government debt is projected to decline from 21 percent of GDP in 2017 to 15 percent in 2023

[6] This was presented in a December 2016 five-year "concept" paper for the NFRK, which aims to reduce reliance on oil revenues and rebuild buffers by cutting NFRK transfers to the budget.

[7] See "Republic of Kazakhstan: Selected Issues", IMF Country Report No. 17/109.

(Annex III), while public external debt will drop from 8 to 2 percent of GDP. However, external SOE debt is higher— 17.3 percent of GDP at end-2017—and bears continued close monitoring.

18. Further improvements in fiscal transparency and risk management practices are needed, in line with international best practice. The authorities have made significant steps in strengthening planning, accounting, and reporting, especially in accrual budgeting. Further improvements should include: fully adopting IMF *GFS* methodology to formulate, evaluate, and inform the public and markets about fiscal policy; enhancing risk management by analyzing and reporting on both macroeconomic and specific risks (e.g., SOE finances and debt), including through a detailed risk statement (Selected Issues Papers); and introducing a more elaborated medium-term fiscal framework to support the consolidation and anchor expectations, including in the context of scaling up of investment under the BRI. The authorities and investors are also encouraged to increase transparency around contractual arrangements in the natural resources area.

Authorities' views

19. The authorities reaffirmed their commitment to restoring buffers and rebuilding NFRK balances, now that shocks have receded. They agreed that non-oil revenues should be raised over the medium term, expressing confidence that efforts to improve compliance and efficiency via digital/IT enhancements would pay off. They noted that PIT and VAT rate increases would require more study, given possible adverse impacts. They also expressed interest in enhancing fiscal risk management to mitigate adverse effects of future volatility and shocks.

B. Monetary and Exchange Rate Policy

20. The NBK remains focused on price stability and improving transmission, although there are continuing calls for accommodation and funding support. Staff noted that the NBK should keep its commitment to policy neutrality, amidst calls for accommodation and continuing support to the economy. Staff shared the NBK's assessment that the balance of risks and current ample liquidity warrants a cautious approach to further easing. Moreover, given relatively stable inflationary expectations—recently at around 6 percent, it may prove difficult to converge to the medium-term objective of 4 percent if policy rate cuts continue. Some tightening may be needed if risks become more pronounced, or if fiscal policy is looser than envisaged. Staff also noted that efforts should be targeted at improving monetary transmission by reducing dollarization, phasing out subsidized lending, and deregulating deposit rates. While there are concerns with low corporate lending, unlocking such financing is best achieved through a dynamic private sector and stronger banks. Staff noted that quasi-fiscal activities (including bank recapitalization) should be undertaken by the budget and that conflicts may arise with the central bank's primary goal of maintaining price stability. Efforts to enhance long-term funding are unlikely to be fully effective given still-limited credit demand and bank balance-sheet issues. That said, measures under consideration such as the 7-20-25 mortgage program, sale by banks of a portion of the securities obtained through state support, and UAPF purchase of bank bonds could bring some benefits, provided that they remain targeted and temporary, and there are robust risk-sharing and market funding arrangements.[8]

21. The NBK is considering ways to further strengthen the monetary policy framework and operations. The NBK has made progress in enhancing its inflation targeting framework, analytical capacity and policy-relevant research, and communications with markets and the public. Staff and the NBK agreed that efforts should continue to enhance the efficiency and transparency of monetary policy, including through development and application of additional tools to help guide monetary policy (Selected Issues Papers). In addition:

- *Liquidity management*. With limited availability of government securities, NBK notes have continued to play the key role in mopping up surplus liquidity. In April, the NBK introduced a new tool for liquidity provision and withdrawal—a one-day FX swap—with the goal of reducing volatility of the interest rate in the swap market. Staff suggested that FX could be added as a collateral for open-market operations. Also, in view of banking-system liquidity, a review of reserve requirements (RRs) is warranted. In staff's view, there is a case to unify RRs for residents and non-residents and eliminate residency discrimination in line with the IMF's Institutional View on capital flows, increase RR rates from current levels, and introduce remuneration of RRs.[9] Keeping differentiated RR rates for FX and tenge deposits is advisable, as is gradual elimination of cash from eligible RR assets (Selected Issues Papers).[10]

- *Securities market development*. The securities market remains underdeveloped, and work is continuing to deepen the local market. A project between the NBK and Clearstream is welcome, as it will allow settlement of tenge-denominated government and NBK securities through the Clearstream platform, facilitating foreign investor access. There is scope for strengthening cooperation between the NBK and government on market and liquidity management issues, including management of treasury and SOE deposits.

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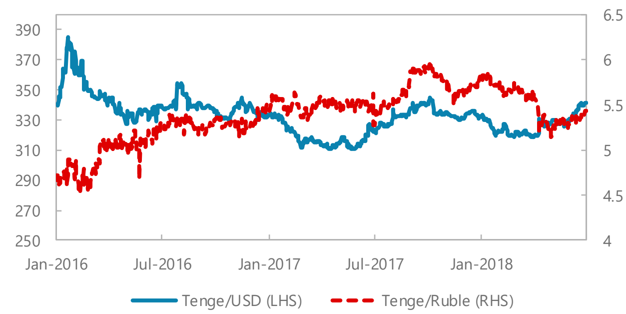
[8] A proposal has been put forward for the UAPF to invest KZT 200 billion (approximately US$600 million, from a portfolio of over US$20 billion) in bonds issued by domestic banks, provided that 50 percent of the issue is allocated to other investors.

[9] A differentiated reserve requirement is considered to be a capital flow management measure because it discriminates between residents and non-residents.

[10] Keeping differentiated rates would help reduce dollarization which is still relatively high for deposits (about 45 percent), although it has declined significantly from its peak levels in early 2016.

- *Exchange rate (ER) policy***.** Staff noted that the flexible ER is serving Kazakhstan well by helping to absorb changes in the macro environment and support dedollarization. ER changes have reflected fundamental factors, including oil prices and Russian ruble dynamics. The NBK would benefit from strengthening transparency and communications with respect to FX purchases and sales, including on behalf of the NFRK and UAPF.

Key Exchange Rates



- *Asset management.* The NBK is continuing to diversify investment portfolios of the NFRK and UAPF. For the NFRK, the process was delayed by a highly-publicized asset freeze involving an oil sector investment dispute.[11] For UAPF, the NBK is moving to increase the share of allocation to foreign assets. External managers have been hired for emerging market debt, and selection of managers for global equities is underway. Staff supported the engagement of private asset managers, with allocations based on risk-return considerations, to safeguard old-age savings and reduce potential conflicts of interest involving NBK management of the UAPF.

Authorities' views

22. The authorities broadly shared staff's assessment. They reconfirmed their commitment to inflation targeting, ER flexibility, and enhancements in analytics and communications. While noting limits of supply-side funding initiatives, they consider that banks and borrowers continue to need state support to secure less-expensive long-term funding, while actions are being taken to address structural issues. They consider that measures to share risks with the private sector—e.g., a requirement that banks secure market funding equivalent to UAPF bond purchases and provisions to keep the risk under the 7-20-25 mortgage program in originating banks—will limit the exposure of the state. In contrast to staff's views on the need for the budget to finance such measures, the government considers that the NBK should be in the lead, given its role in financial sector oversight. The NBK is considering changes to the system of reserve requirements, but noted concern with including FX among eligible collateral for open market operations which they perceive as going against the objective of de-dollarization.

C. Financial Stability

23. Although the authorities' actions have helped preserve systemic stability, state support has been costly, and important risks and challenges remain. The sector continues to experience difficulties from weak credit risk assessment and management and needs to adopt a substantially stronger business model, with enhanced governance, management, operations, and

[11] In late 2017, $22.6 billion of NFRK assets were frozen following court decisions in Belgium and the Netherlands. In May, the freeze was reduced to $500 million.

profitability. Further strengthening the resilience of the sector would contribute to sound macro-financial linkages, improve resource allocation, and limit risks of another round of state support (Selected Issues Papers). Stock market prices have increased significantly in recent years (Figure 4) but due to the relatively—limited investor base, staff does not foresee significant macro-financial implications, although developments warrant close monitoring.

24. Staff urged that policy actions be taken in several areas:

- Large banks—including those that received state support and NBK subordinated loans—should undergo a thorough balance sheet evaluation. A comprehensive asset quality review—ideally by an external party—would help define the magnitude of remaining potential problem loans. Further capital support should come from shareholders or new private investors.

- Banks that received state support and those with continuing constraints on portfolios and profitability should undertake operational restructuring to ensure sound governance and proper risk assessment. This would address moral hazard concerns.

- Recent amendments to the Law on the NBK and the Law on Banks and Banking Activity aim at reflecting international good practices in bank supervision and resolution. In particular, the amendments address a critical flaw in the regulatory framework—insufficient powers of the NBK to make supervisory judgments. However, the banks have expressed concern with how these new powers will be used. Accordingly, the NBK should prepare regulations to formalize its use of broader powers. Transparent identification and application of principles underlying supervisory judgment is key to ensuring trust. Another weakness relates to capital regulations, which allow banks to shift NPLs to non-bank subsidiaries that are not subject to consolidated capital requirements. This should be addressed.

- The framework for emergency liquidity assistance (ELA) to banks also needs attention. ELA should be provided only to institutions that are assessed as viable and should be adequately collateralized or provided under government guarantee.

- State-supported initiatives to stimulate bank lending—including the 7-20-25 mortgage program and other programs to provide support to SMEs and agriculture—should be targeted, transparent, and temporary and should not compromise credit assessment by banks. They should be rigorously evaluated for cost effectiveness. Where possible, existing agencies should be used—rather than creating new entities. The NBK should refrain from involvement in quasi-fiscal activities, and with economic recovery now underway, state support should be phased out.

- Further financial infrastructure improvements are needed, including in collateral valuation and foreclosure and disposal of distressed assets. Legal, institutional, and operational constraints impeding the operations of the Problem Loan Fund (PLF) should be addressed, so that the PLF can begin to make progress in resolving bad assets acquired as part of the Halyk-KKB merger and set an example for broader management and liquidation of bad assets.

Authorities' views

25. The authorities shared staff's views on the importance of preserving systemic stability. They agreed on the need to ensure sound governance in banks, and regard recent legal amendments to broaden the NBK's powers as particularly important to promptly and decisively address banking weaknesses. While recognizing the importance of ensuring that financial support initiatives do not generate fiscal risks, the government questioned staff's advice to limit the role of the NBK. The government also raised concern with staff's call for ELA to be provided under government guarantee, noting that it is the responsibility of NBK to ensure a stable and well-capitalized banking sector.

D. Structural Reforms and Governance

26. Achieving Kazakhstan's development goals focuses on reducing the state's footprint and boosting the private sector. "Kazakhstan 2050" calls for wide-ranging economic and administrative reforms that would place Kazakhstan among the world's 30 most developed countries in 30 years. Staff noted that while progress is being made, it is critical that changes on paper are translated into meaningful changes on the ground. An increased role of the private sector will be critical to raising productivity, reducing dependence on natural resources and the state, and making growth more inclusive. The authorities should foster a dynamic and competitive private sector by ensuring a favorable business environment, a strong financial sector, and modern infrastructure. The recovery provides an opportunity to move decisively with reforms, and efforts should focus on completing privatization—including successful IPOs and building a robust and diverse export sector through enhancing domestic competition, addressing governance and corruption, investing in health and education, and putting in place a strong regime for land that provides incentives to develop the enormous potential in agriculture (Selected Issues Papers). Reducing dependence on natural resources is key for increasing the economy's resilience to shocks. The BRI provides an important opportunity to modernize and upgrade infrastructure, increase connectivity, and diversify. Actions in all of these areas would help make growth less volatile and more durable and inclusive.

Box 1. Astana International Financial Center

The Astana International Financial Center (AIFC) opened officially in July and is intended to serve as a financial hub for the Eurasia region, bridging financial markets in Europe, China and East Asia, and the Middle East. The center will use English as its official language and will operate under a special constitutional and legal regime based on English common law, which will regulate disputes.

AIFC is intended to develop around six main activities: (i) capital markets, with a focus on a new exchange platform (AIX), created in partnership with the Shanghai Stock Exchange and NASDAQ; (ii) asset management; (iii) Islamic finance; (iv) Fintech startups; (v) private banking, oriented to the needs of high net-worth individuals, and (vi) "green" finance.

AIFC presents an opportunity and platform for Kazakhstan and the region to develop and deepen capital markets and attract foreign interest and investment. A transparent and market-friendly regulatory framework, modern infrastructure, and international-caliber human capital would help AIFC to achieve its goals and set an example of innovation, high-quality service provision and good governance for the Eurasia region. However, there are also challenges, including difficulties posed by past and current financial sector weaknesses in Kazakhstan and other countries in the region, the need to build a reputation for excellence, including for AML/CFT, and generate strong and sustained demand for AIFC's services given competition from already-established financial centers in the Middle East and Asia, headwinds from geopolitical tensions and sanctions, and dependence of the region on oil and other commodities.

27. Numerous initiatives target improved transparency, governance, and public administration efficiency. The authorities have incorporated anticorruption and governance measures into their reform plans under "Kazakhstan 2050," "100 Concrete Steps," and "Third Modernization." These include far-reaching and complex efforts to make the civil service more professional (recruitment, salary, performance, training), strengthen rule of law (judicial qualifications and accountability, police transparency, appeal processes), enhance use of technology in public administration (e-filing of tax statements, permits), improve competition (antimonopoly and ombudsman activities), and strengthen accountability (audit and assessment of programs, online access, devolution of decision-making to local governments). The authorities are also working to improve fiscal transparency to strengthen the AML/CFT framework and ensure its effective implementation. Staff noted that improved coordination among agencies, regular reporting on implementation, and comprehensive evaluation of results would enhance credibility of the reform agenda.

Authorities' views

28. The authorities attach great importance to their structural reform agenda. They underscored the key role of "Kazakhstan 2025" and its associated benchmarks and accountability framework. They agreed that the private sector should be the driver of growth and pointed to recent amendments to the entrepreneurial code aimed at streamlining regulations and liberalizing activity.

They view industrialization and digitalization initiatives as important for diversification, and noted that significant attention and resources are being devoted to human capital development, especially in education, in order to strengthen inclusivity of growth. The authorities noted that the BRI links up well with their own push on road, rail, and port development under the 2015-17 "Nurly Zhol" initiative. The launch of a large PPP to build a new ring road around Almaty was also cited as a key milestone and pilot, and the authorities expect AIFC to provide a platform for financial services and innovation for the Eurasia region (Box 1).

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29. Recovery is continuing from shocks that began in 2014. After two years of subdued activity, growth picked up in 2017. The authorities' response—fiscal support through Nurly Zhol and other initiatives, allowing exchange rate flexibility, pursuing inflation targeting, providing funding to stabilize the banking sector, and implementing structural reforms—was instrumental, although the resumption of growth has been driven by strong exports of oil and metals. The current account deficit is lower, and inflation has come down and remained within the target band; expectations have stabilized.

30. Growth is expected to remain solid, but there are risks. While overall growth will likely slow as the increase of oil production moderates, non-oil growth should increase further over the medium term, reflecting the impact of structural reforms and financial repair and deepening. Non-oil growth could be higher if far-reaching and ambitious reforms are implemented decisively. Risks relate to commodity prices—both high prices and the prospects for a lower impulse for reforms and lower prices and correspondingly lower export earnings and fiscal revenues, and pressures on the tenge. Slower growth in key trading partners—Russia and China—is another risk, along with tighter or volatile global financial conditions, a deepening of global trade or geopolitical tensions, and policy slippages. On the upside, the BRI and reforms in next-door Uzbekistan provides an opportunity for greater integration, trade, investment, and diversification.

31. Fiscal consolidation is underway. With the winding down of fiscal support and the more favorable environment, further adjustment is envisaged this year. Consolidation is warranted after countercyclical spending has been completed and by the need to restore buffers. Ambitious and complex reforms are underway in health and education, PPPs and outsourcing, and public employment; these should be carefully planned and rolled out. Issuance of a tenge Eurobond would help attract foreign investors and establish a new benchmark.

32. Further medium-term adjustment is expected, with the non-oil deficit reaching levels consistent with long-term sustainability. Adjustment is warranted and driven by higher revenues, mainly from tax administration gains in VAT and from enhanced technology. These are positive measures, although projected gains may be ambitious. Reduction of the PIT for low-income earners is also positive; to further enhance progressivity, a moderate increase of PIT rates for high-income earners could be considered. Review of tax incentives and the tax regime for mining should be undertaken. The level of budgetary capital spending is low by international standards, and additional, high-quality outlays should be considered, in a deficit-neutral way, in tandem with higher non-oil revenues. Efforts to further strengthen fiscal transparency and risk management, including monitoring of SOEs and PPPs, are needed.

33. **The focus of monetary policy should remain on price stability.** Declining inflation and stabilization of inflation expectations has allowed the NBK to undertake interest rate cuts, most recently in June. This has been broadly appropriate, given developments and the outlook and consistent with keeping real interest rates close to neutral levels. Going forward, the NBK should resist calls for accommodation, as the changing balance of risks warrants a cautious approach to further easing. Quasi-fiscal initiatives aimed at providing longer-term financing should be targeted and temporary, incorporate robust risk-sharing and market funding arrangements, and should be undertaken by the budget and not the NBK. As the recovery gains momentum, bank balance-sheet issues are resolved, and structural reforms advance, credit should pick up more broadly, allowing the large stock of NBK notes to be unwound.

34. **Efforts to improve monetary operations and domestic financial markets should continue.** NBK notes have helped manage liquidity and build the short end of the yield curve. Money-market rates have stayed within the NBK's corridor, close to the lower bound. There is scope for strengthening cooperation between the NBK and the government on liquidity management and market issues, including management of SOE deposits/funds. A review and changes to the complex system of reserve requirements are also warranted. The flexible exchange rate regime has served Kazakhstan well by helping to absorb changes in the macro environment and support dedollarization. The NBK would benefit from strengthening transparency and communications with respect to foreign exchange purchases and sales, including on behalf of the NFRK and the UAPF.

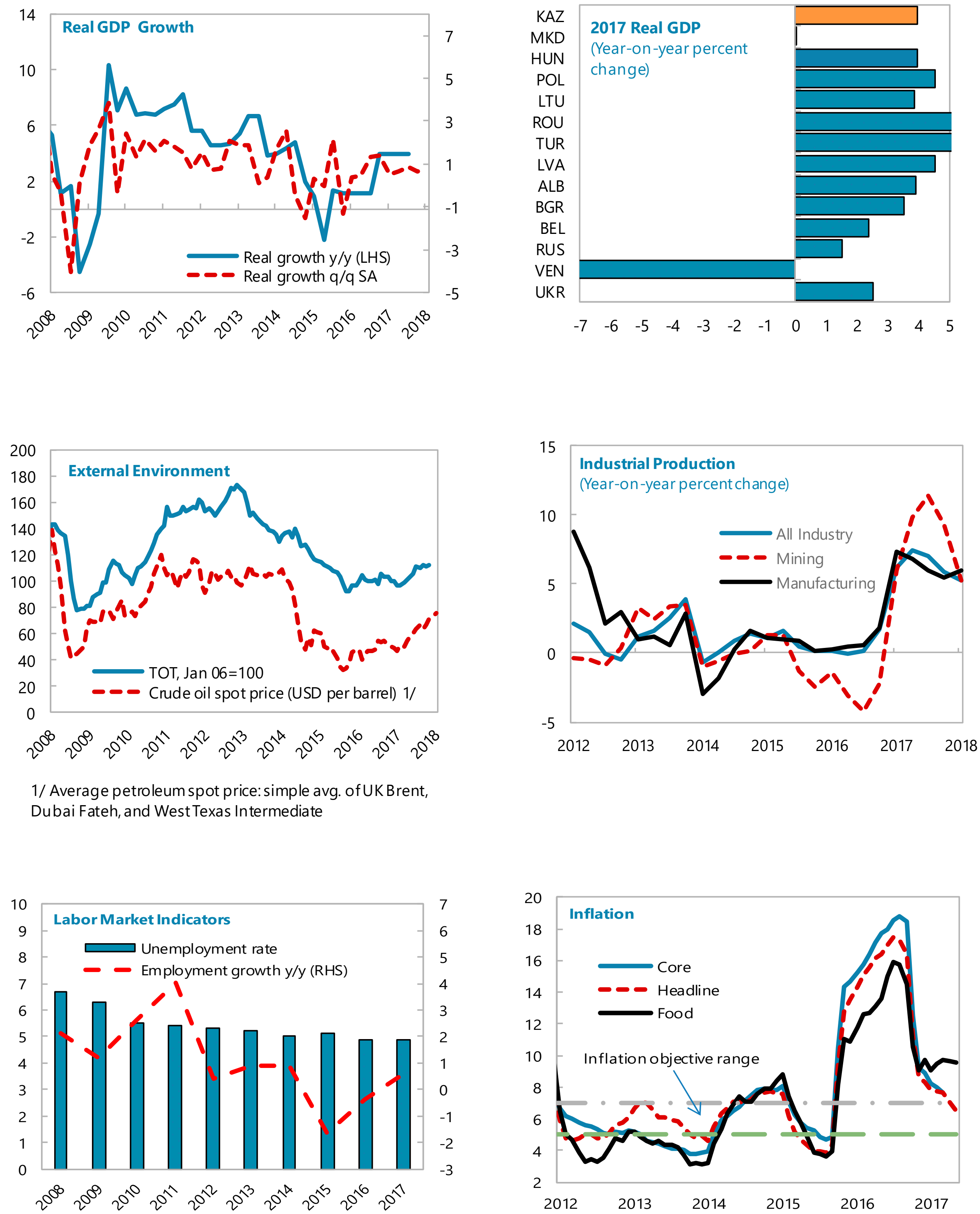
35. **Despite extensive and costly financial support to banks, risks and challenges remain**. Most importantly, Kazakhstan's banks need to adopt a strengthened business model, with enhanced governance, management, and operations. The sector continues to experience difficulties from weak credit-risk management and NPLs. Actions are needed, including in asset quality and governance, supervision and regulation, emergency liquidity assistance, credit subsidies, collateral and foreclosure, and disposal of distressed assets. Legal, institutional, and operational constraints affecting the Problem Loan Fund should be addressed. Further strengthening of the resilience of the banking sector will contribute to sound macro-financial linkages and growth, while reducing risks.

36. **Reducing the state's footprint and advancing governance reforms are also critical.** A thriving private sector is needed to realize the aspiration of joining the 30 most developed countries by 2050. This calls for decisive steps to foster private activity. While the various reform initiatives are ambitious and comprehensive, the state remains predominant. Progress is being made, but the challenge is to ensure that changes on paper lead to deep and meaningful changes in practice. With recovery now underway, extensive state support risks cementing a culture of reliance on subsidies. The growth impetus should move firmly to the private sector, with the state focusing on facilitating the business environment and enhancing infrastructure, connectivity, and inclusivity. Successful "blue-chip" IPOs would send a strong signal, along with further efforts to modernize rail and road networks, liberalize trade, enhance domestic competition, and improve land use and agriculture

infrastructure. Opportunities to enhance connectivity and diversify under the BRI should be seized. On governance, far-reaching and complex efforts to make the civil service more professional, enhance use of technology in public administration, and strengthen accountability are welcome and should proceed.

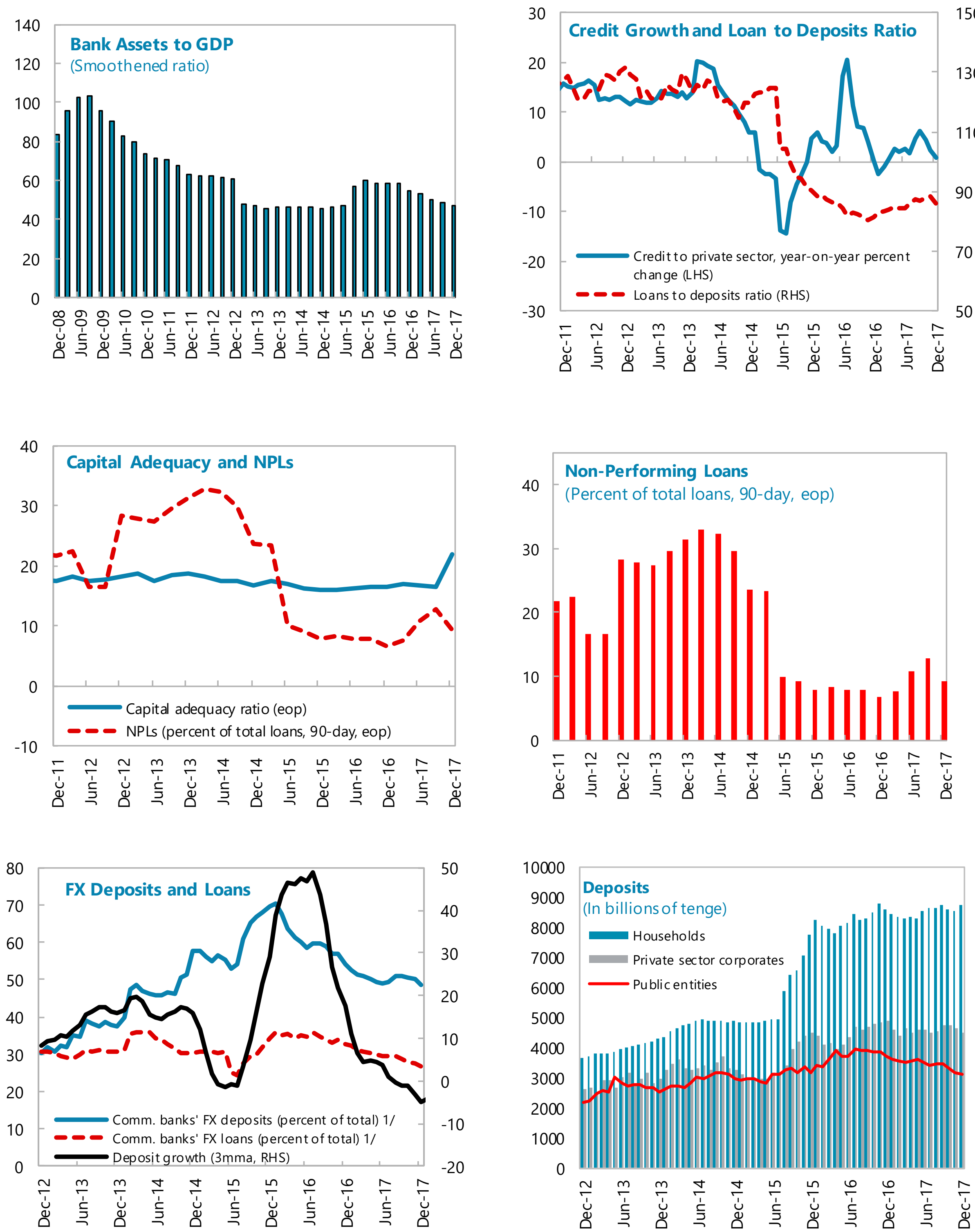
37. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Kazakhstan: Economic Developments



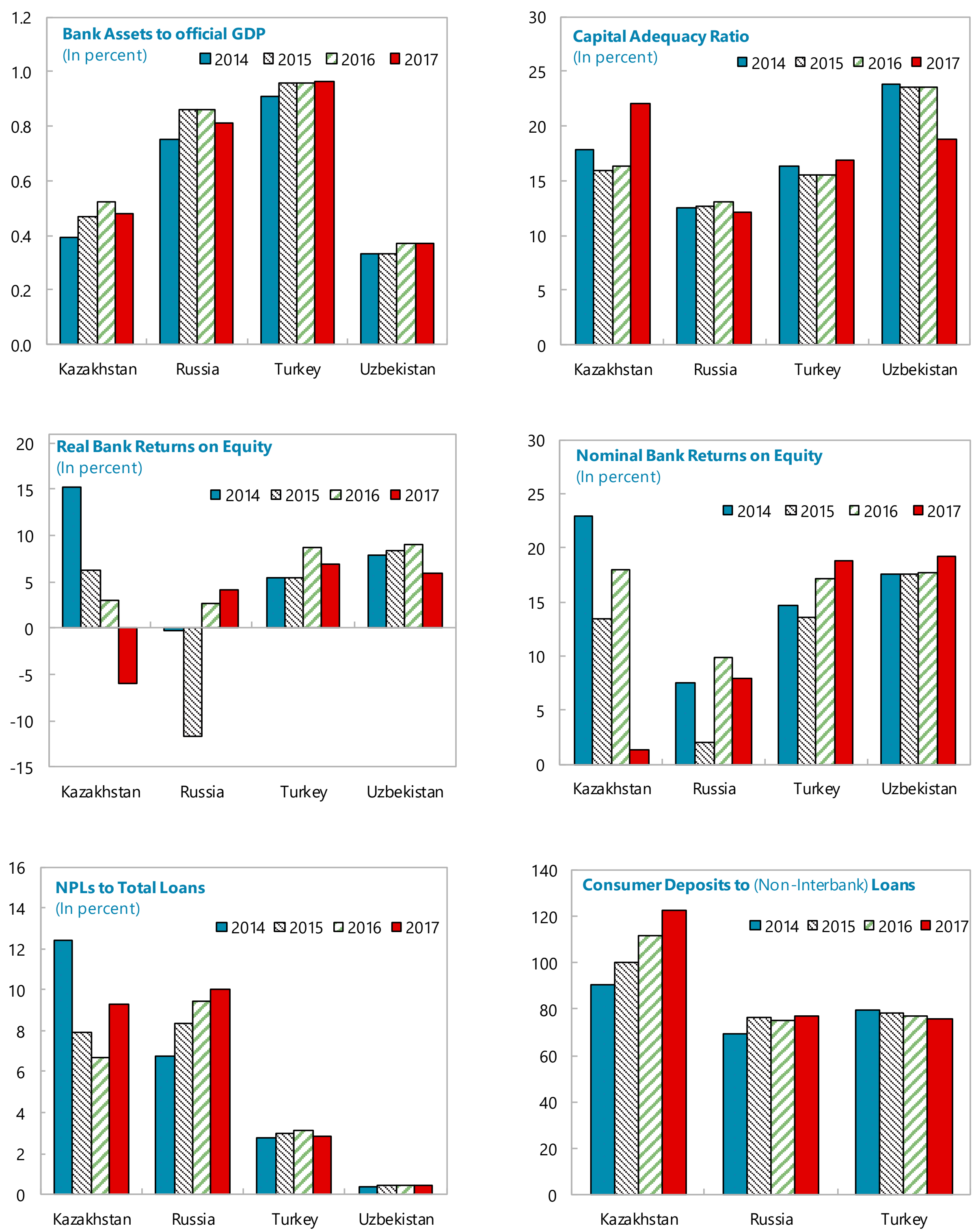
Source: Kazakhstani authorities and IMF staff estimates.

Figure 2. Kazakhstan: Banking Sector Developments



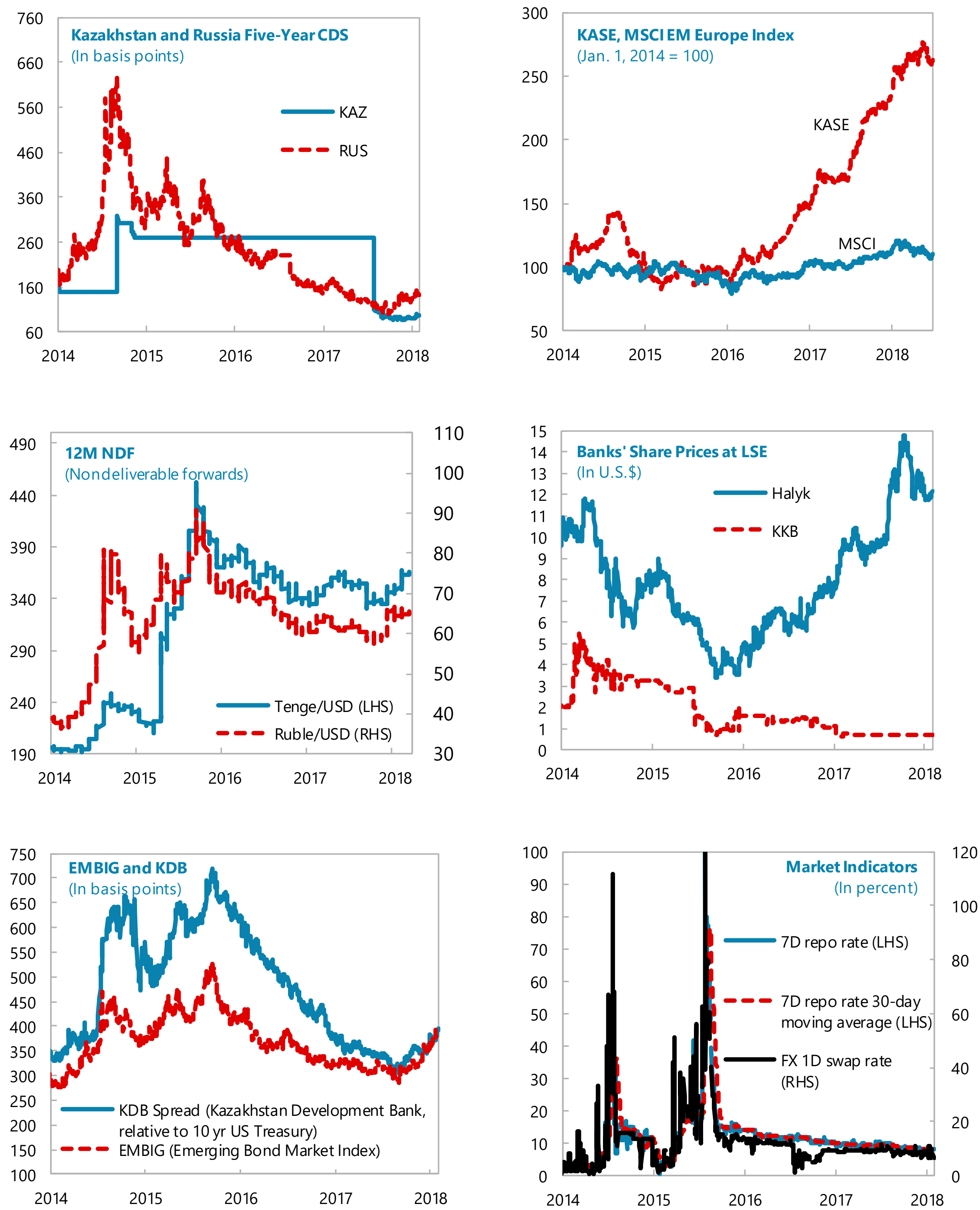
Source: Kazakhstani authorities and IMF staff estimates.

Figure 3. Kazakhstan: Key Financial Soundness Indicators, Cross-Country Comparison 1/



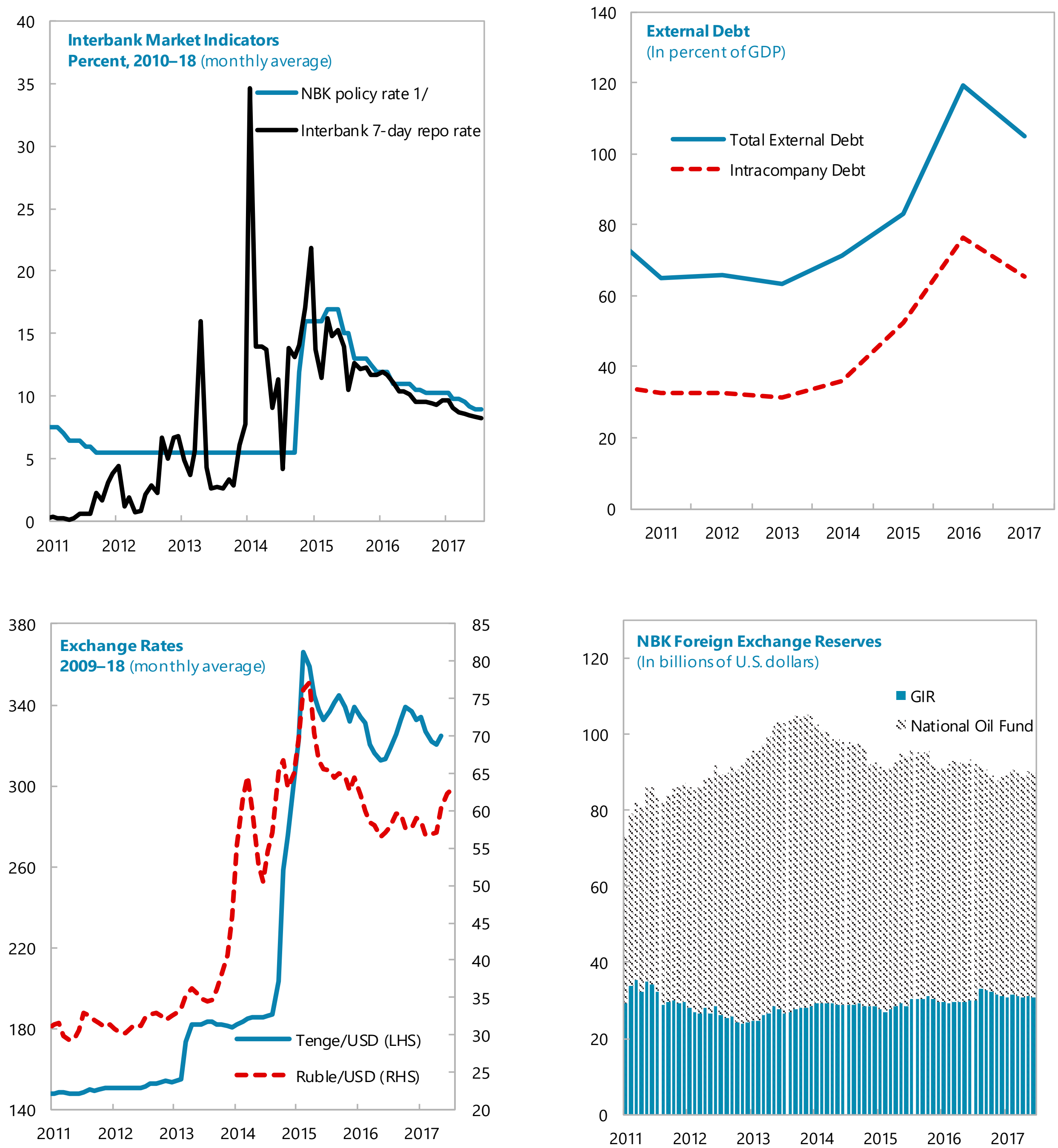
Source: Kazakhstani authorities and IMF staff estimates.
1/ Official data. Uzbekistan data from Q2 2017.

Figure 4. Kazakhstan: Capital Markets Indicators



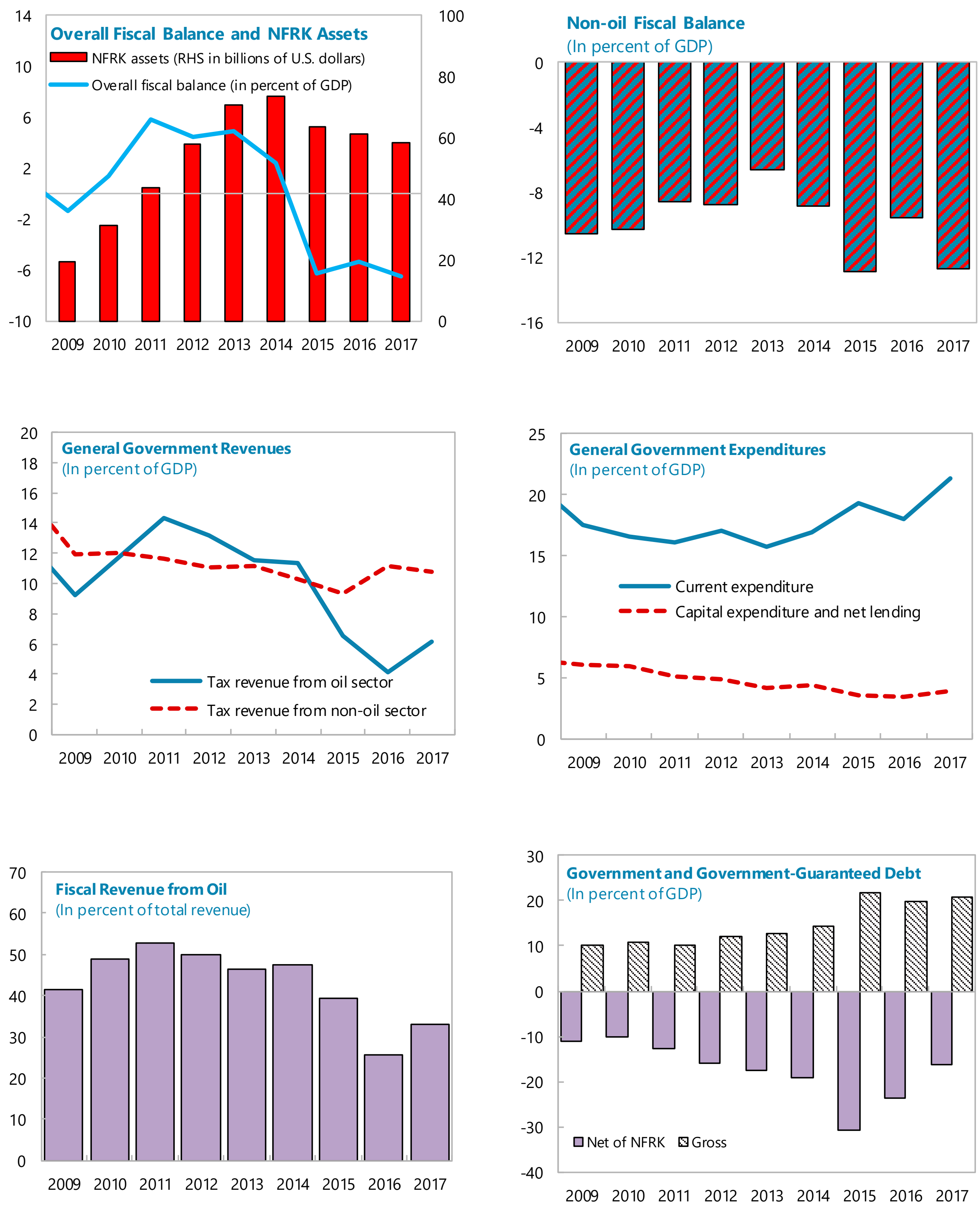
Source: Bloomberg, KASE, and IMF staff estimates

Figure 5. Kazakhstan: Monetary and External Sector Developments



Source: Kazakhstani authorities, Bloomberg, and IMF staff estimates.
1/ NBK policy rate is refinancing rate through September 2015, then base rate

Figure: 6. Kazakhstan: Fiscal Developments and Outlooks



Source: Kazakhstani authorities and IMF staff estimates.

Table 1. Kazakhstan: Selected Economic Indicators, 2014–23

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Projections					
	(Annual percent change, unless otherwise indicated)									
National accounts and prices										
Real GDP	4.3	1.2	1.1	4.0	3.7	3.1	3.2	3.3	3.3	4.6
Real oil	-1.3	-2.6	-1.2	10.7	3.3	1.1	1.1	1.1	1.1	6.5
Real non-oil	6.3	2.5	1.8	1.9	3.8	3.8	3.9	4.0	4.0	4.0
Real consumption	2.2	1.5	1.6	1.7	2.1	2.7	3.2	3.1	3.1	3.6
Real investment	7.9	5.0	2.7	2.5	2.4	4.3	3.7	3.9	3.8	4.3
Real exports	-3.1	-4.5	-4.4	2.3	6.2	2.7	2.9	3.1	3.2	5.7
Real imports	-4.6	-0.5	-1.9	-4.4	1.3	3.0	3.5	3.4	3.3	3.2
Output gap (in percent of potental GDP)	2.9	0.5	-1.8	-1.2	-0.7	-0.6	-0.4	-0.1	0.4	1.4
Consumer price index (eop)	7.4	13.6	8.5	7.1	6.0	5.2	4.1	4.0	4.0	4.0
GDP deflator	5.7	1.8	13.7	6.4	11.3	4.7	3.3	3.6	4.2	3.6
Official exchange rate (Tenge per U.S. dollar; eop)	18.7	86.2	-1.8	-0.3	...	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)									
General government fiscal accounts										
Revenues and grants	23.7	16.6	16.1	18.8	20.3	20.4	20.9	20.5	20.7	20.8
Oil revenues	11.3	6.6	4.1	6.2	7.6	7.6	7.6	7.0	6.8	6.4
Non-oil revenues	12.4	10.0	12.0	12.6	12.7	12.9	13.2	13.5	13.9	14.4
Expenditures and net lending	21.3	22.9	21.5	25.2	18.8	19.0	19.4	19.4	19.5	19.7
of which : Current expenditure 1/	16.9	19.3	18.0	21.3	15.9	15.9	16.2	16.1	16.1	16.2
Capital expenditure	4.2	3.2	2.8	3.3	2.5	2.6	2.7	2.9	3.0	3.0
Overall fiscal balance	2.4	-6.3	-5.4	-6.5	1.5	1.4	1.5	1.1	1.2	1.1
Statistical discrepancy	2.6	1.1	-0.1	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing	0.2	7.4	5.3	4.4	-1.5	-1.4	-1.5	-1.1	-1.2	-1.1
Domestic financing	0.0	-0.5	2.1	2.3	-0.3	0.2	0.4	0.5	0.6	0.6
Foreign financing	1.3	2.6	1.6	0.3	0.1	0.1	0.1	0.1	0.1	0.1
NFRK (net)	-1.1	5.3	1.7	1.8	-1.3	-1.8	-2.0	-1.8	-1.9	-1.8
Gross public debt (percent of GDP)	14.5	21.9	19.7	20.8	17.8	16.8	16.2	15.7	15.3	14.8
Non-oil fiscal balance (percent of GDP)	-8.9	-12.9	-9.5	-12.7	-6.1	-6.1	-6.1	-5.9	-5.6	-5.3
Non-oil fiscal balance (percent of non-oil GDP)	-11.9	-15.6	-11.8	-15.8	-8.1	-7.9	-7.7	-7.3	-6.8	-6.4
Structural non-oil fiscal balance (percent of non-oil GDP) 1/	-11.9	-13.8	-12.0	-10.7	-8.0	-8.0	-7.9	-7.6	-7.2	-7.5
	(Annual percent change, eop, unless otherwise indicated)									
Monetary accounts 2/										
Reserve money	20.8	39.2	8.7	7.3	2.5	7.6	6.6	7.4	7.7	8.5
Broad money	10.4	33.8	15.6	-1.7	1.5	9.5	7.7	8.1	9.0	9.6
Credit to the private sector	6.0	4.5	0.1	0.9	4.6	9.7	9.9	10.4	11.0	12.1
Credit to the private sector (percent of GDP)	33.5	34.0	29.6	27.0	24.5	24.9	25.6	26.5	27.3	28.2
NBK policy rate (eop; percent) 3/	5.5	16.0	12.0	...	...	...	...	...	...	...
	(In billions of U.S. dollars, unless otherwise indicated)									
External accounts										
Current account balance (percent of GDP)	2.8	-2.8	-6.5	-3.4	-0.1	0.0	-0.2	-0.3	-0.3	0.1
Exports of goods and services	86.9	53.0	43.6	55.7	70.8	71.7	71.9	72.5	73.5	76.8
Oil and gas condensate	53.6	26.8	19.3	26.6	38.2	38.2	36.5	35.2	34.4	35.7
Non-oil exports and services	33.3	26.2	24.3	29.1	32.6	33.5	35.4	37.3	39.1	41.1
Imports of goods and services	57.0	45.4	39.1	42.7	45.6	46.7	48.4	50.1	51.7	53.3
NBK gross reserves (eop)	29.2	27.9	29.7	30.7	31.5	32.6	33.7	34.8	35.9	36.9
NFRK assets (eop)	73.2	63.5	61.2	58.3	60.7	64.1	68.2	72.1	76.7	81.4
Total external debt (percent of GDP) 4/	71.2	83.2	119.2	105.1	96.7	95.3	95.1	93.3	91.1	88.2
Excluding intracompany debt (percent of GDP)	35.2	30.8	42.9	39.5	36.1	36.3	38.2	38.7	38.9	38.7
Memorandum items:										
Nominal GDP (in billions of tenge)	39,676	40,884	46,971	51,967	59,984	64,779	69,091	73,910	79,533	86,136
Nominal GDP (percentage change)	10.2	3.0	14.9	10.6	15.4	8.0	6.7	7.0	7.6	8.3
Nominal GDP (in billions of U.S. dollars)	221.4	184.4	137.3	159.4	184.5	195.5	208.5	223.1	240.1	260.0
Total Transfers from the NFRK (in billions of U.S. dollars)	11.0	11.1	8.3	10.2	8.0	6.9	6.0	6.0	6.0	6.0
Exchange rate (tenge per U.S. dollar; eop)	182.4	339.5	333.3	332.3	...	...	...	...	...	...
Saving-Investment balance (percent of GDP)	2.8	-2.8	-6.5	-3.4	-0.1	0.0	-0.2	-0.3	-0.3	0.1
Crude oil, gas cnds. production (millions of barrels/day) 5/	1.68	1.64	1.62	1.79	1.85	1.87	1.89	1.92	1.94	2.06
Oil price (in U.S. dollars per barrel)	96.2	50.8	42.8	52.8	70.3	69.6	65.7	62.7	60.6	59.1

Sources: Kazakhstani authorities and Fund staff estimates and projections.

1/ For 2015 it includes a transfer of USD 4.5 billion (2.4 percent of GDP) to KazMunaiGaz to make external debt payments. For 2017 it includes the support of the banking sector of about $6.4 (4 percent GDP) billion.

2/ The presentation of monetary accounts has been revised based on Standardized Report Form (SRF). Transactions carried out by the NBK on behalf of the government; in particular, custodian transactions related to the NFRK management are excluded. Credit to the private sector comprises credit to non-financial private enterprises and other resident sectors (mainly households).

3/ Refinancing rate through 2014 and base interest rate of the NBK from 2015.

4/ Gross debt, including arrears and other short-term debt.

5/ Based on a conversion factor of 7.6 barrels of oil per ton.

Table 2. Kazakhstan: Balance of Payments, 2014–23

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Projections					
	(In billions of USD)									
Current account	6.1	-5.1	-8.9	-5.4	-0.3	-0.1	-0.4	-0.6	-0.7	0.3
Trade balance	36.2	12.7	9.2	17.4	29.5	29.5	27.9	26.9	26.3	28.0
Exports (f.o.b.)	80.3	46.5	37.3	49.3	63.6	64.3	64.1	64.2	64.9	67.7
Oil and gas condensate	53.6	26.8	19.3	26.6	38.2	38.2	36.5	35.2	34.4	35.7
Non-oil exports	26.7	19.7	18.0	22.7	25.4	26.1	27.6	29.0	30.5	32.0
Imports (f.o.b.)	44.1	33.8	28.1	31.8	34.0	34.9	36.1	37.4	38.6	39.7
Non-oil, gas imports	43.9	33.8	28.1	31.8	34.0	34.8	36.1	37.3	38.5	39.7
Services and income balance	-28.8	-16.3	-17.7	-22.3	-29.2	-28.9	-27.6	-26.7	-26.1	-26.7
Services, net	-6.3	-5.1	-4.8	-4.4	-4.4	-4.5	-4.5	-4.5	-4.5	-4.5
Income, net	-22.5	-11.2	-12.9	-17.9	-24.8	-24.4	-23.1	-22.2	-21.6	-22.2
Of which: Income to direct investors	19.8	9.2	11.5	16.3	22.7	21.9	20.2	18.8	17.7	17.6
Current transfers	-1.3	-1.6	-0.4	-0.5	-0.6	-0.7	-0.8	-0.9	-1.0	-1.1
Capital account	0.0	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Financial account	-2.8	-10.0	-8.7	-7.3	0.0	0.2	-0.1	-0.3	-0.4	0.6
Foreign direct investment ("-"= inward)	-4.6	-3.1	-13.3	-3.8	-4.5	-4.7	-5.0	-5.4	-5.8	-6.3
Portfolio investment, net	1.0	-5.9	0.7	-5.4	1.1	2.6	4.2	3.3	3.6	3.9
Of which: National Fund	6.8	-8.4	-2.6	-5.8	0.6	1.6	2.2	1.9	2.4	2.3
Other investment, net	-3.5	-0.2	4.1	3.4	2.5	1.1	-0.5	0.5	0.6	1.7
Reserve assets, net	4.3	-0.8	-0.3	-1.6	0.7	1.2	1.1	1.1	1.0	1.1
Errors and omissions	-9.0	-5.0	-0.1	-2.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items: 1/	(In percent of GDP)									
Current account	2.8	-2.8	-6.5	-3.4	-0.1	0.0	-0.2	-0.3	-0.3	0.1
Exports of goods	36.3	25.2	27.1	30.9	34.5	32.9	30.7	28.8	27.0	26.1
Oil exports	24.2	14.5	14.1	16.7	20.7	19.5	17.5	15.8	14.3	13.7
Non-oil exports	12.1	10.7	13.1	14.2	13.8	13.4	13.2	13.0	12.7	12.3
Imports of goods	19.9	18.4	20.4	20.0	18.5	17.8	17.3	16.7	16.1	15.3
	(Annual growth rate, in percent)									
Exports	-6.2	-42.1	-19.9	32.3	29.0	1.2	-0.4	0.2	1.0	4.4
Non-oil exports	-5.9	-26.0	-9.0	26.4	11.9	2.8	5.6	5.3	5.0	5.0
Volume on non-oil exports	0.8	-9.8	0.3	12.0	4.0	4.5	5.0	5.0	5.0	5.0
Average price of non-oil exports	-6.6	-18.0	-9.2	12.8	7.6	-1.6	0.6	0.3	0.0	0.0
Imports	-13.3	-23.2	-17.1	13.5	6.9	2.4	3.7	3.4	3.2	3.0
Non-oil imports	-8.5	-22.9	-17.0	13.4	6.9	2.4	3.7	3.4	3.2	3.0
Volume on non-oil imports	-5.1	-13.4	-12.2	5.4	3.0	3.0	3.0	3.0	3.0	3.0
Average price of non-oil imports	-3.8	-11.0	-5.7	7.9	3.8	-0.6	0.7	0.4	0.2	0.0
Exports of oil and gas condensate (in MT)	68.2	63.6	62.2	68.7	74.1	75.0	75.8	76.6	77.5	82.5
NBK gross international reserves (in billions of U.S. dollars	29.2	27.9	29.7	30.7	31.5	32.6	33.7	34.8	35.9	36.9
In months of next year's imports of g&n.f.s.	7.7	8.5	8.3	8.1	8.1	8.4	8.4	8.3	8.3	8.3
National Fund (including interest), e.o.p.	73.2	63.5	61.2	58.3	60.7	64.1	68.2	72.1	76.7	81.4
External debt in percent of GDP	71.2	83.2	119.2	105.1	96.7	95.3	95.1	93.3	91.1	88.2
Public external debt (percent GDP)	3.7	6.6	9.4	8.2	6.6	5.7	4.6	3.6	2.7	1.9
Private external debt (percent GDP)	67.4	76.6	109.8	96.9	90.1	89.6	90.5	89.7	88.4	86.2
Excluding inter-company loans (percent GDP)	35.2	30.8	42.9	39.5	36.1	36.3	38.2	38.7	38.9	38.7
World oil price (U.S. dollars per barrel)	96.2	50.8	42.8	52.8	70.3	69.6	65.7	62.7	60.6	59.1

Sources: Kazakhstani authorities and Fund staff estimates and projections.

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

Table 3. Kazakhstan: Financial Soundness Indicators of the Banking Sector, 2014–17

	2014	2015	2016	2017
Capital adequacy	*(In percent)*			
Regulatory Capital to Risk-Weighted Assets	18	16	16	22
Regulatory Tier 1 Capital to Risk-Weighted Assets	14	13	14	17
Capital to Assets	14	10	11	12
Asset quality				
Non-performing Loans to Total Gross Loans	12	8	7	9
Provisions as percent of NPL	52	66	72	89
Non-performing Loans Net of Provisions to Capital	31	17	10	5
Large Exposures to Capital	182	288	248	159
Earnings and profitability				
Return on Assets	3	2	2	0
Return on Equity	23	13	18	1
Interest Margin to Gross Income	57	70	67	55
Trading Income to Total Income	2	-3	4	-2
Non-interest Expenses to Gross Income	36	47	43	34
Personnel Expenses to Non-interest Expenses	39	36	37	35
Liquidity				
Liquid Assets to Total Assets (Liquid Asset Ratio)	19	21	25	35
Liquid Assets to Short Term Liabilities	58	69	76	98
Foreign-Currency-Denominated Loans to Total Loans	31	43	40	26
Foreign-Currency-Denominated Liabilities to Total Liabilities	54	67	50	44
Customer Deposits to Total (Non-interbank) Loans	90	100	112	123
Sensitivity to market risk				
Gross Asset Position in Financial Derivatives to Capital	7	47	17	7
Gross Liability Position in Financial Derivatives to Capital	6	12	5	5
Net Open Position in Foreign Exchange to Capital	-1	3	2	0
Memorandum items		*(in billions of USD)*		
Total Regulatory Capital	14	9	10	11
Total Assets	86	56	74	75
Risk-Weighted Assets	79	57	59	52

Source: IMF Financial Soundness Indicators (FSI) database, National Bank of Kazakhstan

Table 4. Kazakhstan: Monetary Accounts, 2014–23

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Projections					
	(End of period, in billions of tenge)									
Monetary Survey										
Net Foreign Assets	7,582	9,286	10,857	11,412	11,010	11,676	12,068	12,317	12,728	13,078
Net Domestic Assets	5,499	8,280	9,361	8,546	9,241	10,455	11,736	13,380	15,226	17,520
Domestic Credit	12,939	14,900	15,594	14,927	15,373	16,864	18,507	20,404	22,667	25,397
of which										
Net claims on government	-763	-1,150	-297	816	752	785	856	972	1,120	1,272
Credit to the private sector 1/	13,302	13,904	13,917	14,046	14,689	16,117	17,718	19,555	21,699	24,330
Other items, net	-7,440	-6,621	-6,234	-6,381	-6,132	-6,409	-6,771	-7,025	-7,440	-7,877
Broad money	12,801	17,126	19,799	19,456	19,749	21,629	23,303	25,195	27,453	30,097
Currency in circulation	1,122	1,237	1,749	1,946	1,954	2,110	2,250	2,407	2,590	2,805
Total deposits	11,679	15,889	18,050	17,510	17,795	19,519	21,052	22,788	24,863	27,291
Nonliquid liabilities	280	440	419	501	501	501	501	501	501	501
Accounts of NBK										
Net foreign assets 2/	5,373	9,485	10,054	10,113	10,375	10,764	11,120	11,486	11,831	12,186
Net international reserves 2/	5,151	9,170	9,652	9,909	10,172	10,560	10,916	11,282	11,627	11,982
Net domestic assets 2/	-1,930	-4,662	-4,398	-3,981	-4,307	-4,162	-4,115	-4,036	-3,818	-3,534
Net domestic credit	-504	-2,079	-1,971	-2,042	-2,628	-2,538	-2,427	-2,288	-2,121	-1,926
of which										
Net claims on central government	-1,470	-1,968	-967	-1,096	-1,117	-1,105	-1,082	-1,043	-994	-943
Net claims on banks	888	-937	-1,818	-1,718	-2,318	-2,318	-2,318	-2,318	-2,318	-2,318
Claims on non-financial public corporations	73	826	814	770	805	883	971	1,071	1,189	1,333
Credit to the private sector 1/	5	1	1	2	2	2	2	2	2	2
Other items, net	-1,426	-2,583	-2,427	-1,939	-1,679	-1,624	-1,688	-1,748	-1,697	-1,608
Reserve money	3,414	4,751	5,163	5,539	5,678	6,107	6,512	6,991	7,531	8,174
Currency in circulation	1,382	1,495	2,050	2,257	2,266	2,447	2,610	2,792	3,004	3,253
Liabilities to banks	1,500	2,836	2,680	2,693	2,753	2,978	3,194	3,436	3,721	4,059
Required reserves	1,399	2,756	2,311	2,317	2,377	2,604	2,818	3,061	3,346	3,683
Other liabilities	101	80	370	376	376	374	376	375	375	375
Demand deposits	532	420	432	588	659	683	708	763	806	862
Other liquid liabilities	29	73	493	587	384	488	487	453	476	472
Deposit money banks										
Net foreign assets	2,209	-199	803	1,298	634	912	948	831	897	892
Net domestic assets	9,189	16,035	16,740	15,531	16,620	17,941	19,417	21,246	23,190	25,572
Domestic credit	15,252	20,183	20,833	20,014	21,245	22,881	24,711	26,945	29,363	32,327
of which										
Net claims on government	707	819	670	1,912	1,869	1,890	1,938	2,015	2,114	2,215
Credit to the private sector 1/	13,297	13,903	13,915	14,044	14,687	16,115	17,716	19,554	21,697	24,329
Net claims on other financial corporations	-544	1,291	980	-1,277	-1,262	-520	-1,019	-933	-824	-926
Banks' reserves	1,156	4,124	4,999	4,997	5,733	5,120	5,798	6,053	6,106	6,440
Other items, net	-6,063	-4,148	-4,094	-4,483	-4,625	-4,940	-5,294	-5,700	-6,173	-6,755
Banks' liabilities	11,398	15,836	17,543	16,829	17,254	18,853	20,365	22,077	24,087	26,464
Demand deposits	2,971	3,786	4,603	4,487	4,797	5,439	6,091	6,842	7,731	8,791
Other deposits	8,148	11,610	12,521	11,847	11,962	12,918	13,778	14,739	15,861	17,178
Non-liquid liabilities	280	440	418	495	495	495	495	495	495	495
Memorandum items:										
Reserve money (percent change, y-o-y)	20.8	39.2	8.7	7.3	2.5	7.6	6.6	7.4	7.7	8.5
Broad money (percent change, y-o-y)	10.4	33.8	15.6	-1.7	1.5	9.5	7.7	8.1	9.0	9.6
Credit to private sector (percent change, y-o-y)	6.0	4.5	0.1	0.9	4.6	9.7	9.9	10.4	11.0	12.1
Exchange rate KZT/USD (eop)	182.4	339.5	333.3	332.3						
Exchange rate KZT/USD (period average)	179.2	221.7	342.1	326.0						
Velocity of broad money	3.1	2.4	2.4	2.7	3.0	3.0	3.0	2.9	2.9	2.9
Money multiplier	3.7	3.6	3.8	3.5	3.5	3.5	3.6	3.6	3.6	3.7
Foreign currency liabilities (in percent of total liabilities)	54	67	50	44						
Foreign currency loans (in percent of total loans)	31	43	40	26						

Sources: Kazakhstani authorities and Fund staff estimates.

1/ Private sector includes nonfinancial private enterprises and other resident sectors (mainly households).

2/ Does not include oil fund resources.

Table 5a. Kazakhstan: General Government Fiscal Operations, 2014–23 1/

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
							Projections			
					(In billions of tenge)					
Total revenue and grants	9,420	6,791	7,574	9,766	12,161	13,233	14,412	15,180	16,489	17,910
Tax revenue	8,583	6,497	7,153	8,812	11,211	12,215	13,323	14,011	15,237	16,568
Oil 2/	4,486	2,683	1,934	3,213	4,539	4,891	5,273	5,191	5,423	5,526
Non-oil	4,097	3,814	5,220	5,599	6,672	7,324	8,050	8,820	9,814	11,042
Of which : Income Tax	3,030	2,391	2,567	3,072	3,861	4,172	4,475	4,788	5,295	5,878
VAT	1,198	944	1,496	1,675	1,876	2,176	2,525	2,727	3,054	3,055
Nontax revenue 3/	786	242	376	906	902	969	1,040	1,120	1,203	1,294
Total expenditure and net lending	8,457	9,367	10,102	13,113	11,285	12,295	13,378	14,360	15,548	16,978
Total expenditure	8,367	9,223	9,789	12,820	11,016	12,005	13,068	14,029	15,191	16,592
Current expenditure	6,701	7,901	8,463	11,095	9,535	10,305	11,175	11,914	12,835	13,990
Of which : Wages	1,113	1,153	1,360	1,395	1,534	1,718	1,890	2,003	2,184	2,424
Goods and services	2,357	2,529	2,873	3,202	2,399	2,591	2,764	2,956	3,181	3,484
Other Current Expenditures 4/	481	1,418	813	2,796	659	712	759	812	874	946
Net transfers to other levels of government	0	1	13	25	934	1,008	1,075	1,151	1,238	1,341
Capital expenditure	1,666	1,321	1,326	1,725	1,481	1,700	1,893	2,115	2,356	2,602
Net lending	90	145	313	294	269	291	310	331	357	386
Overall balance	963	-2,577	-2,542	-3,376	876	938	1,034	820	941	932
Statistical discrepancy	1,035	448	-61	-1,091	0	0	0	0	0	0
Financing	71	3,025	2,480	2,286	-876	-938	-1,034	-820	-941	-932
Domestic financing, net	-16	-206	948	1,170	-209	118	231	389	494	505
Foreign financing, net	505	1,054	732	154	76	76	76	76	76	78
NFRK 5/	-439	2,159	783	945	-760	-1,148	-1,357	-1,301	-1,527	-1,531
Memorandum items:										
Nurly Zhol Package	598	1,070.8	1,104.4	1,528.9	-	-	-	-	-	-
Non-oil balance (in billions of tenge)	-3,523	-5,259	-4,462	-6,561	-3,662	-3,953	-4,239	-4,371	-4,482	-4,595
Non-oil balance (in percent of GDP)	-8.9	-12.9	-9.5	-12.6	-6.1	-6.1	-6.1	-5.9	-5.6	-5.3
Non-oil balance (in percent of non-oil GDP)	-11.9	-15.6	-11.8	-15.7	-8.1	-7.9	-7.7	-7.3	-6.8	-6.4
Non-oil revenues (in percent of non-oil GDP)	16.7	12.2	14.9	15.7	16.8	16.7	16.7	16.6	16.7	17.2
Structural Balance 6/	963	-1,050	-2,542	-1,283	876	938	1,034	820	941	932
excluding the Nurly Zhol Package	1,561	21	-1,437	246	876	938	1,034	820	941	932
Structural Non-oil Balance 6/	-3,523	-3,731	-4,462	-4,468	-3,662	-3,953	-4,239	-4,371	-4,482	-4,595
excluding the Nurly Zhol Package	-2,925	-2,661	-3,357	-2,939	-3,662	-3,953	-4,239	-4,371	-4,482	-4,595
Gross public debt (percent of GDP) 7/	14.5	21.9	19.7	20.8	17.8	16.8	16.2	15.7	15.3	14.8
NFRK assets (in billions U.S. dollars)	73.2	63.5	61.2	58.3	60.7	64.1	68.2	72.1	76.7	81.4
Nominal GDP (in billions KZT)	39,676	40,884	46,971	51,967	59,984	64,779	69,091	73,910	79,533	86,136

Sources: Kazakhstani authorities and Fund staff estimates and projections.

1/ General government includes republican and local budgets plus the NFRK.

2/ Oil revenues include items such as royalties, export duties on oil, and corporate income and social taxes levied on oil companies.

3/ Non-tax revenues include items such as income from business activities and properties as well as the interest earned by the NFRK

4/ Includes expenses related to business trips, education and social expenses, as well as the 2015 transfer to KazMunaiGas and the 2017 support to the banking

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

6/ For 2015 it excludes a transfer of USD 4.5 billion (2.4 percent of GDP) to KazMunaiGaz to make external debt payments.

For 2017 it excludes the support to the banking sector of about $6.4 billion (4 percent GDP) .

7/ General government, including republican and local budgets.

Table 5b. Kazakhstan: General Government Fiscal Operations, 2014–23 1/

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
					Projections					
	(In percent of GDP, unless otherwise specified)									
Total revenue and grants	23.7	16.6	16.1	18.8	20.3	20.4	20.9	20.5	20.7	20.8
Tax revenue	21.6	15.9	15.2	17.0	18.7	18.9	19.3	19.0	19.2	19.2
Oil 2/	11.3	6.6	4.1	6.2	7.6	7.6	7.6	7.0	6.8	6.4
Non-oil	10.3	9.3	11.1	10.8	11.1	11.3	11.7	11.9	12.3	12.8
Of which : Income Tax	7.6	5.8	5.5	5.9	6.4	6.4	6.5	6.5	6.7	6.8
VAT	3.0	2.3	3.2	3.2	3.1	3.4	3.7	3.7	3.8	3.5
Nontax revenue 3/	2.0	0.6	0.8	1.7	1.5	1.5	1.5	1.5	1.5	1.5
Total expenditure and net lending	21.3	22.9	21.5	25.2	18.8	19.0	19.4	19.4	19.5	19.7
Total expenditure	21.1	22.6	20.8	24.7	18.4	18.5	18.9	19.0	19.1	19.3
Current expenditure	16.9	19.3	18.0	21.3	15.9	15.9	16.2	16.1	16.1	16.2
Of which : Wages	2.8	2.8	2.9	2.7	2.6	2.7	2.7	2.7	2.7	2.8
Goods and services	5.9	6.2	6.1	6.2	4.0	4.0	4.0	4.0	4.0	4.0
Other Current Expenditures 4/	1.2	3.5	1.7	5.4	1.1	1.1	1.1	1.1	1.1	1.1
Net transfers to other levels of government	0.0	0.0	0.0	0.0	1.6	1.6	1.6	1.6	1.6	1.6
Capital expenditure	4.2	3.2	2.8	3.3	2.5	2.6	2.7	2.9	3.0	3.0
Net lending	0.2	0.4	0.7	0.6	0.4	0.4	0.4	0.4	0.4	0.4
Overall balance	2.4	-6.3	-5.4	-6.5	1.5	1.4	1.5	1.1	1.2	1.1
Statistical discrepancy	2.6	1.1	-0.1	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing	0.2	7.4	5.3	4.4	-1.5	-1.4	-1.5	-1.1	-1.2	-1.1
Domestic financing, net	0.0	-0.5	2.0	2.3	-0.3	0.2	0.3	0.5	0.6	0.6
Foreign financing, net	1.3	2.6	1.6	0.3	0.1	0.1	0.1	0.1	0.1	0.1
NFRK 5/	-1.1	5.3	1.7	1.8	-1.3	-1.8	-2.0	-1.8	-1.9	-1.8
Memorandum items:										
Nurly Zhol Package	1.5	2.6	2.4	2.9	-	-	-	-	-	-
Non-oil balance	-8.9	-12.9	-9.5	-12.6	-6.1	-6.1	-6.1	-5.9	-5.6	-5.3
Non-oil balance (in percent of non-oil GDP)	-11.9	-15.6	-11.8	-15.7	-8.1	-7.9	-7.7	-7.3	-6.8	-6.4
Non-oil revenues (in percent of non-oil GDP)	16.7	12.2	14.9	15.7	16.8	16.7	16.7	16.6	16.7	17.2
Structural Balance 6/	2.4	-2.6	-5.4	-2.5	1.5	1.4	1.5	1.1	1.2	1.1
excluding the Nurly Zhol Package	3.9	0.1	-3.1	0.5	1.5	1.4	1.5	1.1	1.2	1.1
Structural Non-oil Balance 6/	-8.9	-9.1	-9.5	-8.6	-6.1	-6.1	-6.1	-5.9	-5.6	-5.3
excluding the Nurly Zhol Package	-7.4	-6.5	-7.1	-5.7	-6.1	-6.1	-6.1	-5.9	-5.6	-5.3
Gross public debt 7/	14.5	21.9	19.7	20.8	17.8	16.8	16.2	15.7	15.3	14.8
NFRK assets (in billions U.S. dollars)	73.2	63.5	61.2	58.3	60.7	64.1	68.2	72.1	76.7	81.4
Nominal GDP (in billions KZT)	39,676	40,884	46,971	51,967	59,984	64,779	69,091	73,910	79,533	86,136

Sources: Kazakhstani authorities and Fund staff estimates and projections.

1/ General Government includes republican and local budgets plus the NFRK.

2/ Oil Revenues include items such as royalties, export duties on oil, and corporate income and social taxes levied on oil companies.

3/ Non-tax revenues include items such as income from business activities and properties as well as the interest earned by the NFRK

4/ Includes expenses related to business trips, education and social expenses, as well as the 2015 transfer to KazMunaiGas and the 2017 support to the banking

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

6/ For 2015 it excludes a transfer of USD 4.5 billion (2.4 percent of GDP) to KazMunaiGaz to make external debt payments.
For 2017 it excludes the support to the banking sector of about $6.4 billion (4 percent GDP) .

7/ General government, including republican and local budgets.

Table 6. Kazakhstan: Oil Indicators, 2014–2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
							Projections			
Oil GDP - Billion Tenge	11205	7232	7958	10244	14655	14941	14279	13772	13451	13973
Oil GDP - Billion Dollars	62.5	32.6	23.3	31.4	45.1	45.1	43.1	41.6	40.6	42.2
Oil GDP / Total GDP	*28.2*	*17.7*	*16.9*	*19.7*	*24.4*	*23.1*	*20.7*	*18.6*	*16.9*	*16.2*
Oil Production (millions metric tons)	80.8	79.0	78.0	86.2	89.0	90.0	91.0	92.0	93.0	99.0
Oil Production (millions barrels per day)	1.7	1.6	1.6	1.8	1.9	1.9	1.9	1.9	1.9	2.1
Oil Exports (millions of USD)	53627	26773	19296	26584	38180	38204	36511	35214	34394	35730
Percentage of GDP	*24.2*	*14.5*	*14.1*	*16.7*	*20.7*	*19.5*	*17.5*	*15.8*	*14.3*	*13.7*
Percentage of Total Exports	*66.8*	*57.6*	*51.8*	*53.9*	*60.0*	*59.4*	*57.0*	*54.8*	*53.0*	*52.8*
WEO Oil Price	96.2	50.8	42.8	52.8	70.3	69.6	65.7	62.7	60.6	59.1
Oil Fiscal Revenues (Billion Tenge)	4486	2683	1934	3213	4539	4891	5273	5191	5423	5526
Oil Fiscal Revenues (Billion USD)	25.0	12.1	5.7	9.9	14.0	14.8	15.9	15.7	16.4	16.7
Percentage of GDP	*11.3*	*6.6*	*4.1*	*6.2*	*7.6*	*7.6*	*7.6*	*7.0*	*6.8*	*6.4*
Percentage of Total Revenues	*47.6*	*39.5*	*25.5*	*32.9*	*37.3*	*37.0*	*36.6*	*34.2*	*32.9*	*30.9*
NFRK				*(In billions of USD)*						
Assets	73.2	63.5	61.2	58.3	60.7	64.1	68.2	72.1	76.7	81.4
Inflows Total	30.0	32.9	3.7	8.0	10.3	10.4	10.1	10.0	10.6	10.7
Receipts from oil companies 1/	19.6	7.4	2.5	6.1	8.6	8.6	8.2	7.9	8.5	8.4
Investment income 1/	3.2	0.0	1.2	1.8	1.7	1.8	1.9	2.0	2.2	2.3
Outflows Total	11.0	11.1	10.7	9.5	8.0	6.9	6.0	6.0	6.0	6.0
Guaranteed Transfer To The Budget 2/	8.3	7.7	6.2	8.8	8.0	6.9	6.0	6.0	6.0	6.0
Targeted Transfers To The Budget 2/	2.7	3.5	2.2	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Quasifiscal Transfers For Diversification/Industrialization Projects	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Net Income	-8.0	-6.0	2.3	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Net addition to NFRK 3/	19.0	21.8	-7.0	-1.5	2.3	3.5	4.1	3.9	4.6	4.6

Sources: Kazakhstani authorities and Fund staff estimates.

1/ The IMF staff framework records receipts from oil companies (including oil export duties) and investment income as oil revenues.

2/ Guaranteed and targeted transfers are recorded as oil revenues in the authroities' presentation of the fiscal accounts.

3/ In GFSM, the changes in the stock of assets in the NFRK - net of exchange rate effects - is recorded as a financing item (i.e. below the line).

Annex I. External Sector Assessment

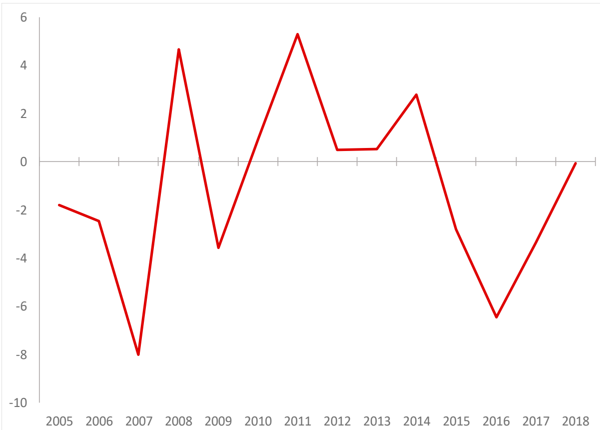
The external position in 2017 was moderately weaker than implied by fundamentals and desirable policies. The external current account improved considerably with improved terms of trade and higher exports and is expected to strengthen further over the medium term. Reserves are above the adequacy level for a country with a floating exchange rate (ER) regime. While total external debt is projected to decline relative to GDP, it remains vulnerable to ER depreciation.

1. Kazakhstan's net international investment position (NIIP) remains negative. In 2017, liabilities to non-residents exceeded foreign assets held by residents by US$56 billion (35 percent of GDP), up from US$46 billion (33 percent of GDP) at the end of 2016. The main contributors to the change were increases in direct and portfolio investment on the liability side, and a decline of FDI abroad on the asset side. Over the last five years, the IIP has deteriorated significantly relative to GDP, reflecting an increase in liabilities and a decline in U.S. dollar-denominated GDP. Yet, risks to external sustainability are moderate, as more than 70 percent of external liabilities are related to direct investment in Kazakhstan.

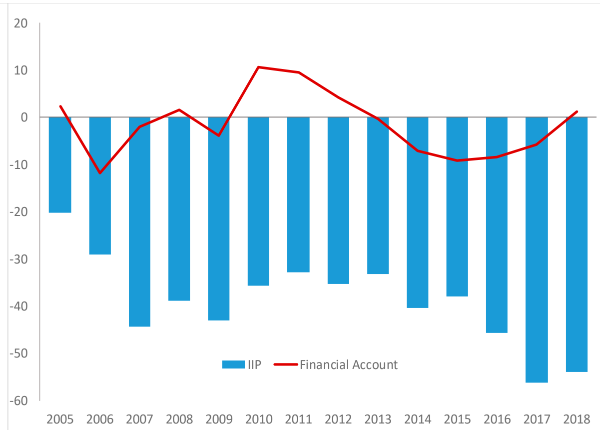
2. Robust export growth has helped reduce the external current account deficit; further improvement is expected in the medium term. The current account deficit was reduced by almost half in 2017 (3.4 vs. 6.5 percent of GDP in 2016). Oil exports increased by 38 percent, driven by more favorable prices and production from the big new Kashagan field. Non-oil exports rose by 26 percent, with strong performance of metals. Imports grew relatively strongly, by 13 percent, but less than exports, and the trade surplus increased by US$8 billion (5 percent of GDP). The balance on services improved slightly, but primary income deteriorated, from US$13 billion to US$18 billion, due to higher dividends and withdrawals related to FDI; this trend is likely to continue. Going forward, Kazakhstan's current account is expected to strengthen and remain close to balance. The tightening of fiscal policy, along with implementation of the privatization and structural reform programs should support external adjustment. However, there is considerable uncertainty on the outlook, both on external factors, such as energy prices, and domestic policies.

3. The drop in net FDI in 2017 was only partially offset by higher portfolio investment. FDI decreased by nearly US$10 billion on a net basis due to large repayments of intercompany debt and sale of foreign company shares by a resident; gross FDI inflows remained broadly the same. There was a significant increase in FDI in oil and metals; in other mining subsectors and agriculture, FDI declined. The net outflow from direct investment was partially compensated by the inflow of portfolio investment, reflecting sales of securities by the NFRK and issuance of Eurobonds by companies in oil and gas.

Kazakhstan: Current Account Deficit
(in percent of GDP)



Kazakhstan: International Investment Position (IIP) and Capital Flows
(in US$ billion)



Source: National Bank of Kazakhstan and IMF staff projections

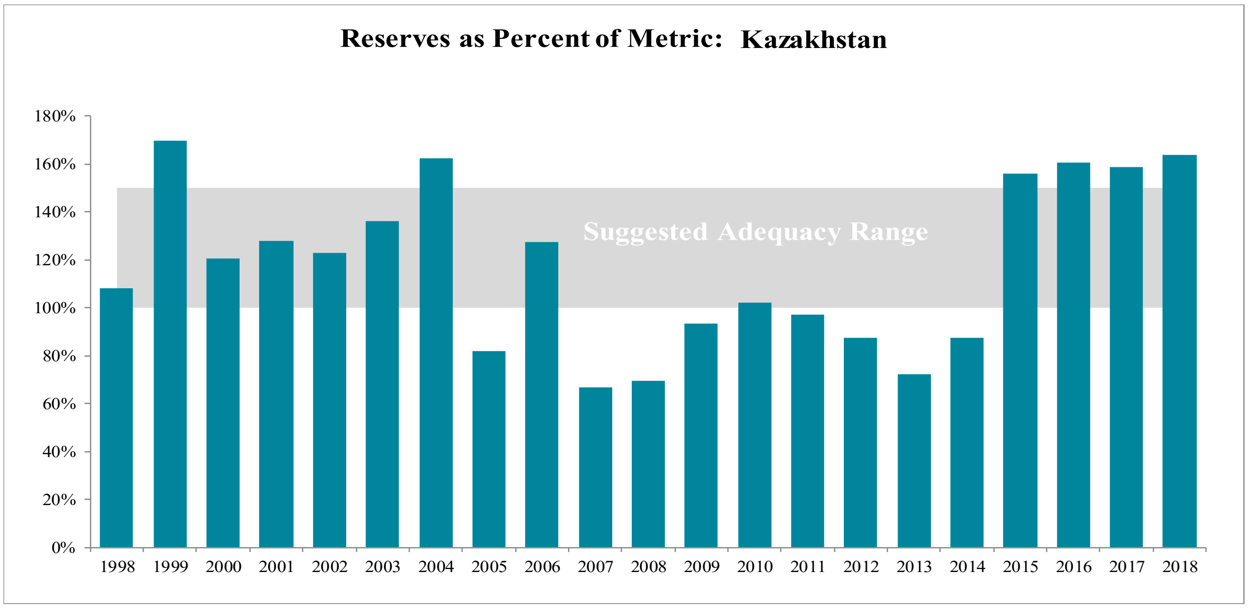
4. **Staff assesses Kazakhstan's external position in 2017 as moderately weaker than implied by economic fundamentals and desirable policies.** The CA model of the Fund's EBA-lite framework estimates a cyclically-adjusted current account norm of -2.3 percent of GDP, compared to an estimated actual balance of -3.7 percent in 2017, implying an overall gap of 1.4 percent of GDP. This translates into a REER overvaluation of 6 percent using the standard export and import elasticities. The external sustainability approach and the real ER model suggest undervaluation of the tenge. While the different approaches to the external sector assessment point to contradicting conclusions on ER misalignment, staff's assessment is consistent with the results from the CA method, which is usually, although not always, considered more informative and reliable. It is important to note that these models have limitations when applied to commodities exporters that face large swings in the terms of trade. Going forward, the current account is projected to improve significantly in 2018 with higher export prices and volumes, and remain close to balance over the medium term. Accordingly, Kazakhstan's external position is expected to strengthen and become more aligned with fundamentals.

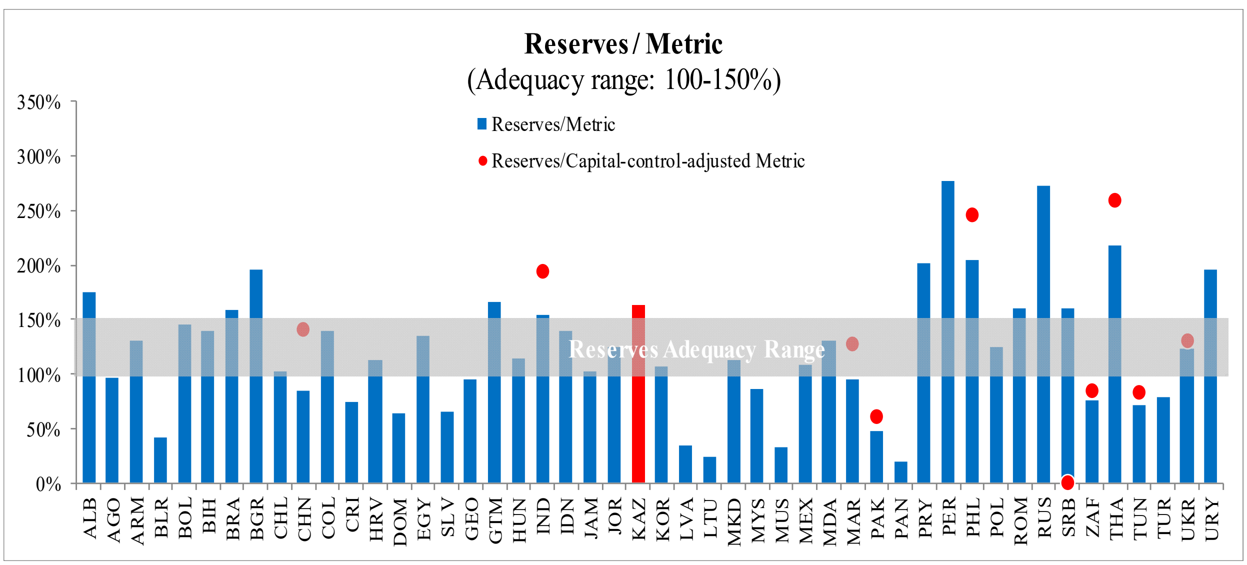
Kazakhstan: EBA-Lite CA Estimates	
Actual CA	-3.4
Cyclically-adjusted CA	-3.7
CA norm	-2.0
Cyclically-adjusted CA norm	-2.3
CA gap	-1.4
o/w policy gap	3.2
Elasticity	-0.2

5. **Recent changes in the real effective exchange rate (REER) have been driven mostly by inflation differentials.** During 2017, the tenge continued to float, following an appreciating trend in the first half of the year, but starting from June pressures began to emerge, and at the end of the year the nominal ER to the dollar was very close to the level at end-2016. Changes in the ER to the ruble were less pronounced. The NBK intervened in the market on occasion to support the tenge. The first intervention was in June, when the central bank sold US$101 million on a net basis amidst

market tensions caused by declining oil prices and weakening of the ruble. Additional net sales of FX took place in August-October to contain volatility. Despite overall NBK net sales of US$620 million in 2017, foreign reserves increased by about US$1 billion.

6. **Gross reserves are above the suggested adequacy range for a country with a floating ER**. Based on the IMF's ARA methodology, NBK gross reserves (excluding foreign assets of the NFRK) exceed the suggested adequacy range of 100–150 percent of the metric, but are somewhat lower that the average for emerging market commodity exporters. Reserves cover about 8 months of imports of goods and services, 200 percent of short-term debt and 50 percent of broad money. The accumulated assets of the NFRK, currently US$58 billion (as of June), provide an additional buffer.





Source: IMF staff calculations

7. **External debt declined as percent of GDP in 2017.** Total external debt increased by US$3.8 billion in 2017, but as percent of GDP, declined from 119 percent to 105 percent. While the external debt ratio remains relatively high, there are mitigating factors: (i) over 95 percent of total debt is medium and long-term debt and (ii) over 60 percent of total debt is intercompany debt (debt to parent companies) related to FDI, mainly in the resource sector. Staff's baseline projections envisage a decline of the external debt ratio to less than 100 percent of GDP in 2018, and further reduction over the medium term.

8. **The sustainability of external debt is sensitive to real ER shocks.** Standard shocks to growth, interest rates, and the non-interest current account have a moderate impact on the external debt ratio, increasing its level by up to 8 percentage points at the end of the projection horizon. A combined shock has a similar effect. However, a real ER depreciation of 30 percent would result in a significant increase in the debt ratio— over 40 percent of GDP over the baseline, which underscores Kazakhstan's vulnerability to large ER movements.

Kazakhstan: External Sustainability Framework, 2013–23

(in percent of GDP, unless otherwise indicated)

	Actual							Projections							
	2013	2014	2015	2016	2017			2018	2019	2020	2021	2022	2023		Debt-stabilizing non-interest current account 6/
Baseline: External debt	63.4	71.2	83.2	119.2	105.1			**96.7**	**95.3**	**95.1**	**93.3**	**91.1**	**88.2**		**-7.0**
Change in external debt	-2.4	7.8	12.0	36.0	-14.1			-8.4	-1.4	-0.2	-1.7	-2.2	-2.9	0.0	
Identified external debt-creating flows (4+8+9)	-11.9	-0.4	15.4	25.3	-15.6			-5.6	-5.2	-5.1	-5.1	-5.0	-6.4	0.0	
Current account deficit, excluding interest payments	-2.1	-4.6	0.3	3.0	-0.1			-3.7	-3.5	-2.9	-2.5	-2.1	-2.3	7.0	
Deficit in balance of goods and services	-11.7	-13.5	-4.1	-3.2	-8.2			-13.6	-12.8	-11.2	-10.0	-9.1	-9.1		
Exports	38.4	39.3	28.7	31.7	35.0			38.4	36.7	34.5	32.5	30.6	29.5		
Imports	26.7	25.7	24.6	28.5	26.8			24.7	23.9	23.2	22.5	21.5	20.5		
Net non-debt creating capital inflows (negative)	-3.4	-2.0	-1.7	-9.7	-2.4			-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4	
Automatic debt dynamics 1/	-6.4	6.1	16.8	32.0	-13.1			0.5	0.7	0.2	-0.2	-0.5	-1.6	-4.6	
Contribution from nominal interest rate	1.6	1.8	2.5	3.4	3.4			3.9	3.5	3.1	2.7	2.4	2.2	2.2	
Contribution from real GDP growth	-3.5	-2.9	-1.0	-1.2	-4.1			-3.3	-2.9	-2.9	-2.9	-2.9	-3.8	-3.7	
Contribution from price and exchange rate changes 2/	-4.5	7.3	15.3	29.8	-12.5			...	...	...	...	...	...	-3.0	
Residual, incl. change in gross foreign assets (2-3) 3/	9.5	8.2	-3.4	10.7	1.5			-2.8	3.8	4.9	3.3	2.8	3.4	0.0	
External debt-to-exports ratio (in percent)	164.9	181.3	289.5	375.6	300.5			252.1	259.7	275.8	287.3	297.5	298.5		
Gross external financing need (in billions of US dollars) 4/	24.0	20.1	29.3	26.3	24.1			21.9	24.6	24.7	25.4	27.2	28.1		
in percent of GDP	10.1	9.1	15.9	19.2	15.1	10-Year	10-Year	11.9	12.6	11.8	11.4	11.3	10.8		
Scenario with key variables at their historical averages 5/								**96.7**	**93.3**	**91.7**	**88.8**	**85.9**	**83.4**		**-7.3**
						Historical	Standard							For debt	
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							stabilization	
Real GDP growth (in percent)	6.0	4.3	1.2	1.1	4.0	4.1	2.4	3.7	3.1	3.2	3.3	3.3	4.6	4.6	
GDP deflator in US dollars (change in percent)	7.3	-10.3	-17.7	-26.3	11.7	1.7	17.8	11.6	2.8	3.3	3.6	4.2	3.6	3.6	
Nominal external interest rate (in percent)	2.7	2.6	2.9	3.1	3.3	2.8	0.4	4.3	3.9	3.5	3.1	2.8	2.7	2.7	
Growth of exports (US dollar terms, in percent)	-0.8	-4.5	-39.0	-17.8	27.9	0.5	28.9	27.0	1.3	0.3	0.8	1.4	4.5		
Growth of imports (US dollar terms, in percent)	2.8	-9.9	-20.3	-13.9	9.1	-0.5	16.1	6.9	2.4	3.7	3.4	3.2	3.0		
Current account balance, excluding interest payments	2.1	4.6	-0.3	-3.0	0.1	2.1	3.3	3.7	3.5	2.9	2.5	2.1	2.3		
Net non-debt creating capital inflows	3.4	2.0	1.7	9.7	2.4	4.9	3.1	2.4	2.4	2.4	2.4	2.4	2.4		

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.

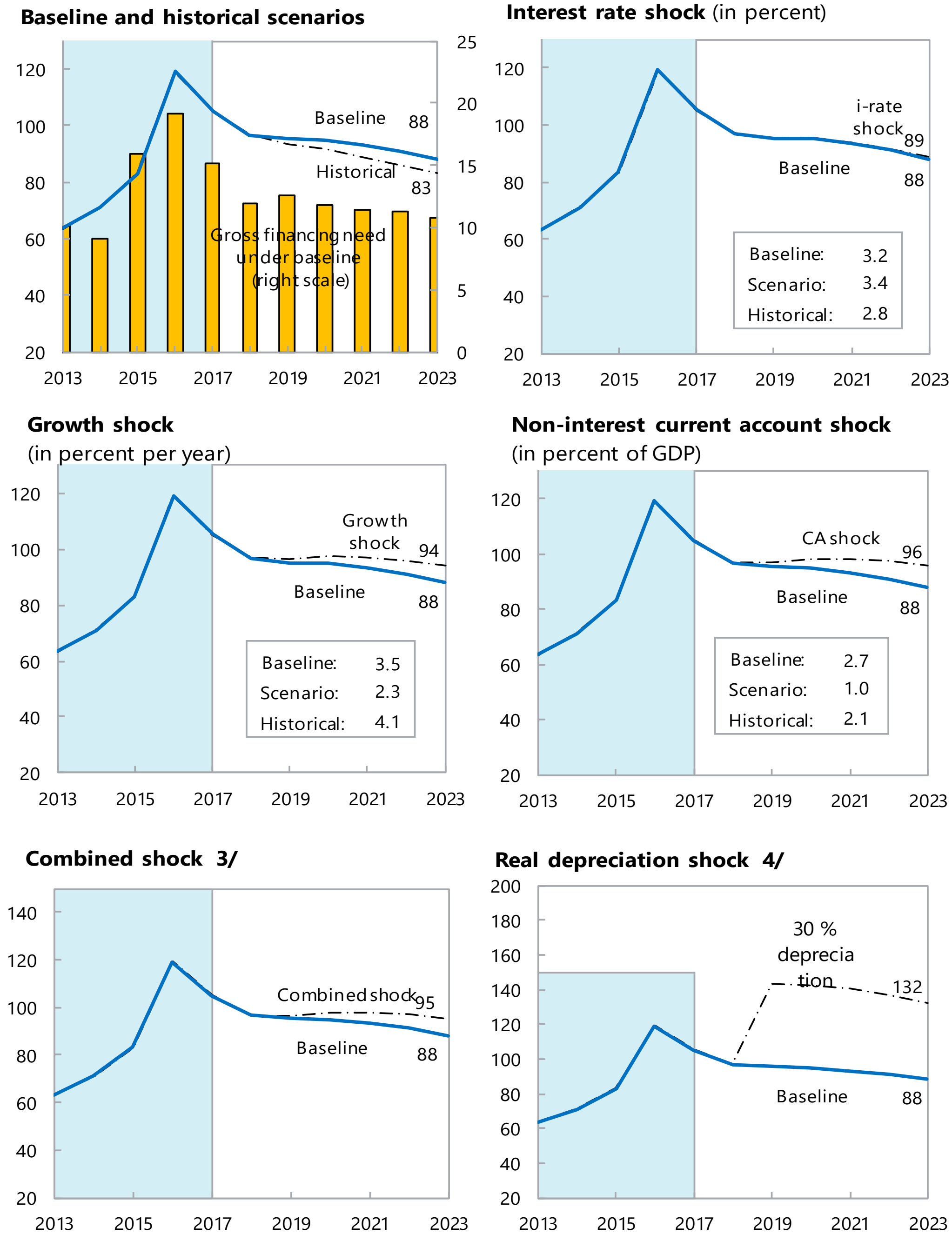
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

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 2017

Annex II. Risk Assessment Matrix

Risk	Likelihood/ Time horizon	Expected Impact if Risk Realized	Recommended Policy Response
Global risks:			
Rising protectionism and retreat from multilateralism. Global imbalances and fraying consensus about the benefits of globalization lead to escalating and sustained trade actions and spreading isolationism. This threatens the global trade system, regional integration, labor mobility, as well as global and regional policy and regulatory collaboration. In the short term, increased uncertainty about growth triggered by escalating trade tensions leads to increased financial market volatility. Negative consequences for growth are, in turn, exacerbated by adverse changes in market sentiment and investment.	**High / Short-Medium Term**	**Medium** Reduced cross-border trade and investment could result in balance of payment (BOP) tensions.	Allow the ER to adjust to potential pressures and step up implementation of structural reforms aimed at increasing competition and improving the business environment.
Unsustainable macroeconomic policies. Policies in systemically important countries to boost near-term activity beyond sustainable levels (due to domestic political pressures or in response to external policy spillovers) exacerbate underlying vulnerabilities and, in some cases, backfire by hurting confidence and global growth.	**Medium/ Short-Medium Term**	**Medium** Political and economic uncertainty could reduce the growth momentum. **Medium** Increased vulnerabilities and reduced global growth would affect growth in Kazakhstan.	Slow pace of fiscal adjustment to support activity and ensure decisive implementation of structural reforms. Allow the ER to adjust with the changes in economic fundamentals.
Sharp tightening of global financial conditions causes higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; capital account pressures; and a broad-based downturn. Tighter financial conditions could be triggered by a sharper-than-expected increase in U.S. interest rates (prompted by	**High/ Short-Term**	**Medium** Tightening in the global financial conditions may trigger capital outflows and pressures on the exchange rate.	Maintain ER flexibility and provide guidance through NBK communications.

Risk	Likelihood/ Time horizon	Expected Impact if Risk Realized	Recommended Policy Response
higher-than-expected inflation) or the materialization of other risks.			
Weaker-than-expected global growth. • **Euro Area:** Progress on fiscal adjustment, on addressing legacy banking-sector problems, and on other structural reforms slows or reverses, raising debt sustainability concerns, steadily pushing up borrowing costs, and undermining medium-term growth prospects. • **U.S.:** As capacity constraints become more binding and the economy pushes further through full employment, the risks of a sharper-than-expected slowdown increase. • **China:** Disorderly deleveraging adversely affects near-term growth (low likelihood). In the medium term, insufficient progress in deleveraging and rebalancing reduces growth, with additional credit stimulus postponing the slowdown, but making it sharper (medium likelihood).	**Medium/ Medium term** **Medium / Medium Term** **Low -Medium/ Short-Medium Term**	**Medium** Lower growth in key trading partners and a decline in commodity prices would affect exports and capital flows. This could lead to slowdown of domestic demand and ER pressures.	Allow the ER to adjust; if pressures are high, use buffers to smooth short-term volatility. Utilize available fiscal space to support activity, continue close monitoring of financial sector and SOE risks. Continue with the implementation of structural reforms.
Intensification of the risks of fragmentation/security dislocation in parts of the Middle East, Africa, Asia, and Europe, leading to socio-economic and political disruptions.	**High/ Short-Medium Term**	**Medium** Disruptions in crude oil production may create upside risks for oil.	Allow the ER to adjust and absorb the shocks.
Sizeable deviations from baseline energy prices. Risks to oil prices are broadly balanced. Prices could rise sharply due to steeper-than-anticipated export declines in some producers, possibly prompted by political disruptions, amid supply bottlenecks. Prices could drop significantly if downside global growth risks materialize or supply exceeds expectations, possibly due to faster-than-expected U.S. shale production growth, or, over	**Medium / Short-Medium Term**	**High** External and ER pressures, as well as budgetary pressures, although somewhat mitigated by the NFRK transfer rule. Pressures on the financial sector via the ER and slower growth.	Allow the ER to adjust; if pressures are high, use buffers to smooth short-term volatility. Utilize available fiscal space to support activity, continue close monitoring of financial sector and SOE risks. Continue with the implementation of structural reforms.

Risk	Likelihood/ Time horizon	Expected Impact if Risk Realized	Recommended Policy Response
the medium term, higher OPEC/Russia production. While, on aggregate, lower oil prices would benefit global growth, they would negatively affect oil exporters.			
Country-specific risks:			
Intensified geopolitical tensions, affecting the region.	**Medium/Short term**	**Medium** External and ER pressures, heightened market volatility and slowdown of growth in affected sectors.	Allow ER to adjust, use buffers to smooth short-term volatility and utilize available fiscal space to support economic activity.
Slowdown of reforms and delays in privatization.	**Medium/Short-Medium Term**	**Medium** Decreased investors' confidence, low level of competition, lack of diversification and high vulnerability to external shocks.	Step up the implementation of the structural reform initiatives and proceed with the IPOs of Samruk Kazyna's largest assets as planned.
Fiscal and monetary policy slippages.	**Medium/ Short-Medium Term**	**Medium** Failure to generate additional revenue may jeopardize fiscal adjustment and/or lead to lower capital spending, thus weakening growth prospects. Loose monetary policy would result in higher inflation.	Implement additional revenue measures to protect productive spending while continuing with consolidation. Resist pressures for monetary accommodation.

Annex III. Public Debt Sustainability Analysis

Kazakhstan Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP unless otherwise indicated)

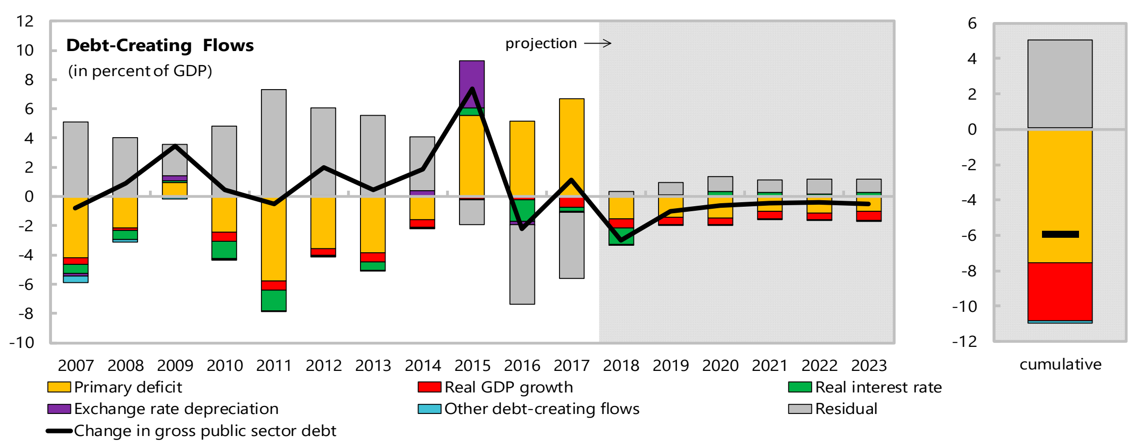
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023
Nominal gross public debt	11.6	19.7	20.8	17.8	16.8	16.2	15.7	15.3	14.8
Public gross financing needs	-0.7	6.1	7.2	-1.3	-1.3	-1.4	-1.0	-1.1	-1.0
Public debt (in percent of potential GDP)	11.7	19.3	20.5	17.7	16.7	16.1	15.7	15.4	15.1
Real GDP growth (in percent)	5.0	1.1	4.0	3.7	3.1	3.2	3.3	3.3	4.6
Inflation (GDP deflator, in percent)	11.4	13.7	6.4	11.3	4.7	3.3	3.6	4.2	3.6
Nominal GDP growth (in percent)	17.1	14.9	10.6	15.4	8.0	6.7	7.0	7.6	8.3
Effective interest rate (in percent) [4/]	5.5	5.8	5.0	5.6	5.5	5.5	5.6	5.6	5.7

As of March 23, 2017		
Sovereign Spreads		
Bond Spread (bp) 3/	236	
5Y CDS (bp)	158	
Ratings	Foreign	Local
Moody's	Baa3	Baa3
S&Ps	BB-	BB-
Fitch	BBB	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.7	-2.2	1.1	-3.0	-1.0	-0.6	-0.4	-0.4	-0.5	-5.9	
Identified debt-creating flows	-2.4	3.2	5.6	-3.3	-1.9	-1.6	-1.3	-1.4	-1.4	-10.9	
Primary deficit	-1.9	5.2	6.7	-1.5	-1.4	-1.4	-1.0	-1.1	-1.0	-7.5	-0.4
Primary (noninterest) revenue and gra	24.2	15.2	17.6	19.3	19.5	19.9	19.6	19.8	19.9	118.1	
Primary (noninterest) expenditure	22.3	20.4	24.3	17.8	18.1	18.5	18.6	18.7	18.9	110.6	
Automatic debt dynamics [5/]	-0.4	-1.9	-1.1	-1.8	-0.4	-0.2	-0.2	-0.3	-0.4	-3.2	
Interest rate/growth differential [6/]	-0.8	-1.7	-1.0	-1.8	-0.4	-0.2	-0.2	-0.3	-0.4	-3.2	
Of which: real interest rate	-0.4	-1.5	-0.3	-1.1	0.1	0.3	0.3	0.2	0.3	0.1	
Of which: real GDP growth	-0.4	-0.2	-0.7	-0.7	-0.5	-0.5	-0.5	-0.5	-0.6	-3.3	
Exchange rate depreciation [7/]	0.4	-0.2	-0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	
Please specify (1) (e.g., privatization r	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., other debt flo	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	4.1	-5.4	-4.5	0.3	0.8	1.0	0.8	1.0	0.9	5.0	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG (bp).

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ) times previous period debt ratio, with r = effective nominal interest rate; π = 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

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

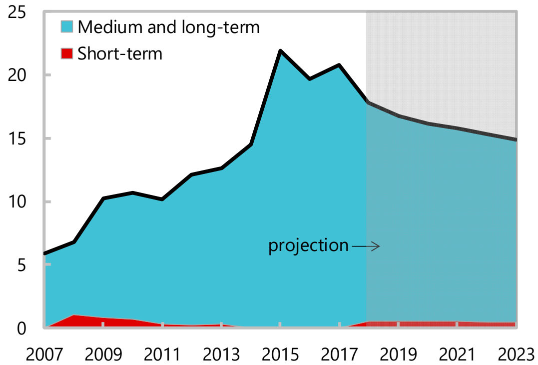
8/ Includes asset changes in the oil fund.

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.

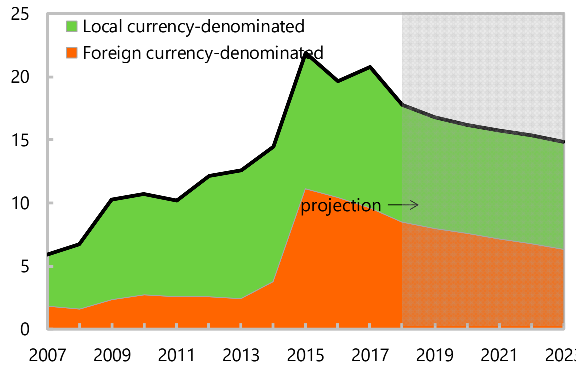
Kazakhstan Public Sector DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



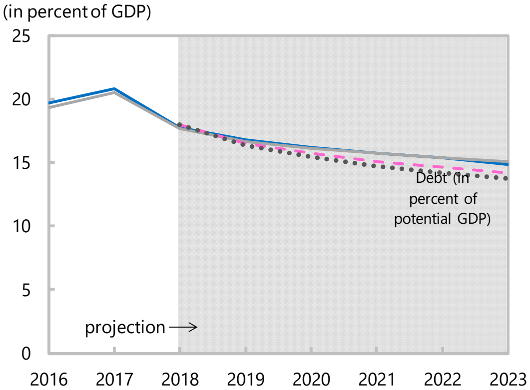
By Currency
(in percent of GDP)



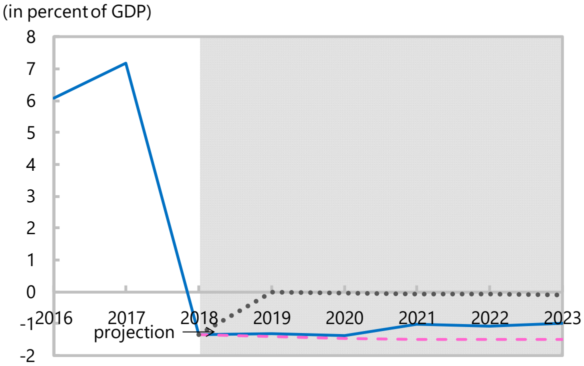
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt [1/]
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.7	3.1	3.2	3.3	3.3	4.6
Inflation	11.3	4.7	3.3	3.6	4.2	3.6
Primary Balance	1.5	1.4	1.4	1.0	1.1	1.0
Effective interest rate	5.6	5.5	5.5	5.6	5.6	5.7
Constant Primary Balance Scenario						
Real GDP growth	3.7	3.1	3.2	3.3	3.3	4.6
Inflation	11.3	4.7	3.3	3.6	4.2	3.6
Primary Balance	1.5	1.5	1.5	1.5	1.5	1.5
Effective interest rate	5.6	5.5	5.6	5.7	5.9	6.0

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	3.7	4.1	4.1	4.1	4.1	4.1
Inflation	11.3	4.7	3.3	3.6	4.2	3.6
Primary Balance	1.5	0.1	0.1	0.1	0.1	0.1
Effective interest rate	5.6	5.5	5.6	5.7	5.9	6.0

Source: IMF staff.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

August 27, 2018

STAFF REPORT FOR THE 2018 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 June 30, 2018)

Membership status:

Joined: July 15, 1992. 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 (ER) arrangement is free floating; the de facto arrangement is classified as floating.

General Resources Account:

	SDR Million	Percent Quota
Quota	1,158.40	100.00
Fund holdings of currency	960.23	82.89
Reserve position in the Fund	198.18	17.11

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	343.65	100.00
Holdings	348.49	101.41

Outstanding Purchases and Loans: None

Latest Financial Arrangements (in millions of SDR):

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

Projected Payments to Fund: None

Safeguards Assessments: Not applicable.

Exchange Rate Arrangements: Kazakhstan's de jure exchange rate arrangement is free floating, and its de facto exchange rate arrangement is classified as floating. Participation by the National Bank of Kazakhstan (NBK) in currency trading was not systematic during 2017 and ~~it~~ was dictated exclusively by the need to smooth out sharp destabilizing fluctuations. The tenge followed an appreciating trend through May 2017, supported by a favorable external environment and rising exports. A decline in oil prices and weakening of the Russian ruble in June caused pressures in the foreign exchange (FX) market and the exchange rate depreciated by 5.6 percent between May 30 and June 23. The NBK intervened by selling US$101 million on a net basis – the first intervention since August 2016. Another bout of high volatility occurred in August-October, triggered by depreciation expectations and increased demand for foreign currency by the population. Amidst rising FX market instability, the NBK continued to intervene to prevent sharp movements in the exchange rate. Total net sales by the central bank during the three months amounted to US$519.5 million, of which US$379.8 million were carried out in October. The tenge regained part of its value thereafter and at the end of the year, the exchange rate stood at 332.33 tenge to the US dollar – very close to the level a year earlier. The NBK started publishing monthly data on foreign exchange interventions on a regular basis from 2016. The exchange regime is free of restrictions and multiple currency practices.

Article IV Consultation:

Kazakhstan is on the standard 12-month consultation cycle. The last consultation was concluded on April 28, 2017 (see IMF Country Report No. 17/108). The current Article IV consultation was delayed by IMF staffing issues.

FSAP Participation and ROSCS:

Kazakhstan first participated in the Financial Sector Assessment Program (FSAP) in 2000. FSAP updates were conducted in 2004, 2008, and 2014, with a Financial Sector Stability Assessment issued in August 2014 (see IMF Country Report 14/258). A fiscal transparency ROSC report was published in 2003, and a report on the update of the data ROSC was published in 2008.

AML/CFT Assessment:

Kazakhstan's AML/CFT framework has been assessed against the AML/CFT standard, the Financial Action Task Force (FATF) 40+9 Recommendations. The evaluation was conducted by the Eurasian Group on money laundering and financing of terrorism (EAG), the FATF-style regional body of which Kazakhstan is a member. The final mutual evaluation report was adopted in 2011. The report indicated that the main sources of criminal proceeds in Kazakhstan were crimes related to fraud and abuse of public office. The evaluators found that Kazakhstan had a relatively comprehensive AML/CFT framework in place, but that deficiencies remained, notably with respect to customer due diligence and reporting of suspicious transactions. Kazakhstan is tentatively scheduled to undergo its next AML/CFT assessment by the EAG in April 2020.

Technical Assistance and Training:

Kazakhstan has received IMF TA and training in all areas of economic policy during 1993-2018. The Fund has also provided resident or peripatetic advisors to the NBK, the Committee on Statistics, the Ministry of Finance, and the former Financial Supervision Agency. Other international agencies and governments also provide TA (e.g., the World Bank, EBRD, UNDP, ADB, OECD, USAID). The following list summarizes Fund TA to Kazakhstan since 2010.

Monetary and Capital Markets Department

IMF TA has enabled progress in several monetary and capital markets areas, including monetary and ER policy and operations, central bank accounting, payments system reform, central bank organization and management, banking legislation, banking supervision, statistics, and money-market development. Recent missions have included:

1. 2009–12: Bank stress testing—initial mission in 2009, followed by expert visits in 2009–12.
2. November 2010: Reducing nonperforming loans in the banking system (joint with LEG).
3. February 2013–14: Resolving problem assets, including posting of a long-term expert to the Problem Loans Fund (financed by the Japanese government).
4. November 2014: Enhancing the monetary policy framework.
5. March 2015: Liquidity forecasting.
6. March-April 2015: Enhancing the monetary policy framework.
7. June-July 2015: Modeling and forecasting.
8. August 2015: Monetary and exchange rate policy and operations.
9. November 2015: Monetary and exchange rate policy and operations.
10. June 2016: Monetary and exchange rate policy and operations.
11. July 2016: Banking issues.
12. April 2018: Management of distressed assets.
13. April 2018: Foreign exchange operations.

Fiscal Affairs Department

The IMF Fiscal Affairs Department has given advice to Kazakhstan in revenue administration and public financial management, including treasury operations, accounting, IT systems, and the introduction of a social safety net.

1. 2011–17: TA by IMF regional advisor on PFM issues.
2. May 2014: Fiscal risk management, IPSAS and accrual accounting.
3. September-October 2014: Accrual accounting and reporting for tax and customs revenues.
4. May-June 2015: Accrual budgeting and public-private partnership (PPP) issues.

Statistics

1. April 2011: BOP statistics.
2. July 2013: Government finance statistics.
3. November 2014: Government finance statistics.
4. April 2015: Monetary and financial statistics.
5. June 2015: National accounts statistics.
6. August 2015: External sector statistics.
7. January 2017: National accounts statistics.
8. April 2018: Government finance statistics

Legal Department

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

Training

Officials from Kazakhstan have participated in IMF courses and workshops in Washington, at the Joint Vienna Institute, and in the region in macroeconomic management, monetary and exchange policy and operations, central bank communications, budgetary expenditure control, financial programming, taxation, and statistics.

Local Office

The IMF maintains a local office in Almaty.

RELATIONS WITH THE WORLD BANK GROUP

(As of July 14, 2018)

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 and contributed to the IDA17 replenishment in 2017. 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 2012. The new Country Partnership Framework (CPF) is expected to be considered by the Bank's Board of Directors at the end of 2018. As of July 2018, the IBRD loan program comprised thirteen projects with a total commitment of US$3.7 billion, of which US$2.4 billion has been disbursed. While 82 percent of the commitments are concentrated in the on-going South-West and East-West roads projects, the portfolio remains diverse, with two-thirds of the projects focused on institutional building. The other thirteen projects are: SME competitiveness, fostering productive innovations, tax administration reform, justice sector institutional strengthening, statistical capacity building, health sector technology transfer and institutional reform, social health insurance, education modernization, skills and jobs, Youth Corp, catastrophe risk insurance, energy efficiency, and second irrigation and drainage.

The Bank also provides extensive advisory services and analytics (ASA) 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 FY18 amounts to US$1.75 million and comprises eight interrelated stand-alone and programmatic activities focusing on the government's strategic priorities and supporting key institutional reforms.

IFC in Kazakhstan

In the context of the CPS for FY12–17, the IFC's role is to contribute to the government's development plans by supporting the private sector and thereby advance the economic diversification and growth agenda, particularly in the non-extractive sectors and frontier regions. In the short term, the IFC is focusing on: (i) strengthening the financial sector, both in the context of the post-crisis recovery and as a prerequisite to pursue the diversification agenda; and, (ii) infrastructure development, including through public private partnerships (PPPs). In the medium term, more efforts will be dedicated to the establishment of best practices in international banking, improvement of corporate governance and the regulatory environment, SME development, increasing investments in value-added manufacturing, agribusiness and services, and supporting energy efficiency.

The IFC's investment program has been expanding in the context of the response to the global financial crisis. It grew tenfold between FY05 and FY08 (to US$110 million) and nearly doubled again in FY09. In FY10, the IFC invested a record US$336 million in five projects in the financial and agribusiness sectors, with a vast majority provided to commercial banks. The post-crisis IFC's investment level has moderated and averaged about US$100 million per year in FY11–13. The IFC invested US$174 million between FY13 and FY16. Kazakhstan remains IFC's largest client in Central Asia. The investment portfolio is mostly concentrated in the financial sector, infrastructure, general manufacturing and consumer services, although the IFC has begun making investments in the agribusiness sector as well.

RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

(As of May 31, 2018)

In May 2014, EBRD and the government signed an Enhanced Partnership Framework Agreement ("EPFA"), which took the historic co-operation between the EBRD and Kazakhstan to a new level both in terms of investment and policy dialogue. In December 2017, EPFA was extended by 3 years with key focus on new areas of engagement, including privatizations and renewables. The new Country Strategy for 2017-2021 has been approved with the following priorities:

Balancing the roles of the public and private sectors. The Bank will continue to support the growth of private enterprises, which are still outweighed by the public sector. By investing in the private sector, including small and medium-sized enterprises (SMEs), in agribusiness and the non-extractive sectors, the EBRD hopes to improve the economy's competitiveness. The Bank remains interested in the privatization program announced by the government. At the same time, the Bank will continue to support the reform of Kazakhstan's public sector and the commercialization of state-owned enterprises.

Broadening access to finance, strengthening the banking sector and developing local capital markets. Many firms continue to suffer from insufficient access to finance. The EBRD will work on improving the resilience of Kazakhstan's financial sector, which will in turn help relieve pressures on businesses, especially SMEs and the non-extractive sector.

Inter-regional connectivity and international integration. Investing in Kazakhstan's infrastructure remains an important focus of the EBRD. By supporting inter-regional and cross-border rail and road projects, the Bank seeks to enhance connectivity and boost the economic inclusion of remote regions of the country.

Green economy transition. The EBRD is the largest investor in sustainable energy in Kazakhstan, covering both renewable energy and energy-efficient technologies. It will continue to combine investment with policy engagement in order to further help the country develop a supportive regulatory framework for sustainable energy, water and resource use. Decreasing Kazakhstan's carbon footprint is crucial for the country's sustainable development across all sectors, notably in agriculture, energy and industry.

EBRD activity in Kazakhstan to date

244 Number of projects	**119** Number of active portfolio projects
€7,457 million Cumulative EBRD investment	**€2,534 million** Current portfolio of projects
€5,129 million Cumulative disbursements	**€1,781 million** Operating assets
42% Private sector share of portfolio	**6%** Equity share of portfolio

Data valid as of: 31 May 2018

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of July 19, 2018)

OVERVIEW

Kazakhstan became a member of the Asian Development Bank (ADB) in 1994. In the early years of the country's transition from a centrally-planned to a market-driven economy, the ADB focused its support on agriculture, education, finance, and delivery of social services. In recent years, ADB sovereign-lending operations in Kazakhstan have focused on financing credit lines for small and medium-sized enterprises (SMEs) and road transport sector projects, mainly highways under the Central Asia Regional Economic Cooperation (CAREC) program. In 2012, Kazakhstan became a donor to the Asian Development Fund—the ADB's concessional financing resource—contributing a total of about US$8.6 million to date.

During 1994–2017, the ADB approved over US$5 billion in sovereign loans, non-sovereign loans, and guarantees for Kazakhstan, of which US$2.1 billion was disbursed over the last five years (2013–2017), including US$1 billion as budget support. The ADB's private sector operations in Kazakhstan began in 2006, with financing amounting to a total of US$587.2 million approved to date. Recent private sector financing operations involved trade finance and projects in agribusiness and energy, including a project in renewable energy.

The ADB has also expanded knowledge support under the Knowledge Experience Exchange Program (KEEP), jointly financed with the government of Kazakhstan, which delivers reports, policy advisory services, and capacity building programs. In addition to KEEP, the ADB's knowledge work includes financial literacy and financial inclusion, and Sustainable Development Goals among other topics.

ADB's new 2017–2021 country partnership strategy aims to support Kazakhstan's economic diversification, sustainable development, and inclusive growth.

ADB has been assisting Kazakhstan in realizing its transit potential and integration into the global transport network. In 2016, works were completed on more than 600 kilometers of roadway in Zhambyl oblast, along the international transit corridor running between Western Europe and the west of the People's Republic of China. In Mangistau oblast, ADB assistance has helped reconstruct 400 km of the road from Aktau to Beineu, reducing the average travel time between the cities from 12 to 5 hours. In October 2017, works commenced on the road from Aktobe to Makat to help Kazakhstan increase its trade links with markets in East Asia, Europe, and the Caspian Sea subregion.

In the financial sector, the ADB has been supporting Kazakhstan's SMEs by providing financial institutions with liquidity in local currency, channeled through DAMU, a fund established under Baiterek, one of the three large public holding companies in Kazakhstan (along with Samruk Kazyna and KazAgro). Improved access to finance has been helping to drive investment, increase employment, and generate income for SMEs, particularly those located in regions outside Astana and Almaty and operated by women entrepreneurs. In late 2017, a new ADB loan became effective to extend this financial support program to micro enterprises, providing much-needed access to finance for rural entrepreneurs.

In the energy sector, the ADB has been providing TA to help develop renewable energy generation through the introduction of an auction mechanism, adoption of technical tools to integrate renewable energy into the national electricity grid, and capacity building for development of performance-based energy-saving contracts. The ADB is also providing TA to Astana city in developing its low-carbon growth strategy. In 2017, the ADB approved a non-sovereign lending assistance to support business transformation of the SOE, Samruk Energy, cofinanced with the EBRD. In 2018, ADB also approved non-sovereign lending support to the Baikonur solar power plant, cofinanced by EBRD and the Clean Technology Fund.

ADB actively supported development of Kazakhstan's agricultural sector until 2010. ADB is now re-approaching the sector with a variety of operations, including developing a new livestock value-chain development program and infrastructure for wholesale markets for horticulture, dairy products, meat, and fish.

In water, the ADB is working on projects to rehabilitate irrigation canals in several oblasts. The ADB is also actively supporting the Ministry of Agriculture in establishing a Kazakhstan Knowledge Centre on Integrated Water Resource Management and in preparing an integrated water resource masterplan for Astana city.

In urban infrastructure, the ADB, in collaboration with the World Bank, is providing TA to the government in creating a Kazakhstan Urban Infrastructure Modernization Program and Finance Facility to address the country's urban infrastructure rehabilitation needs.

The ADB is also providing transaction advisory services for the preparation of a public-private partnership project to construct and operate a hospital at the Karaganda State Medical University in the health sector, and by acting as a transaction advisor for Shymkent and Saryagash bypass projects in the road sector.

Kazakhstan was one of the four founding partners of the CAREC Program in 1997 (together with the People's Republic of China, the Kyrgyz Republic, and Uzbekistan). Since then, seven other countries (Tajikistan, Azerbaijan, Turkmenistan, Mongolia, Afghanistan, Pakistan, Georgia) have joined. By the end of 2017, CAREC-related investments in partner countries have totaled US$31.6 billion in the region, covering transport, energy, trade policy, and trade facilitation. Four of the six CAREC road and rail corridors traverse Kazakhstan. Developing these Central Asian corridors is a priority for achieving CAREC's goal of land bridges connecting Europe and Asia.

With adoption of the CAREC Strategy 2030 in 2017, the program has expanded to support regional economic and financial stability as well as regional initiatives in developing agriculture, water resources, health, education, tourism, and economic corridors.

STATISTICAL ISSUES

(As of July 2018)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. The most affected areas are the balance of payments and national accounts.
National accounts: The Committee on Statistics (CS) under the Ministry of National Economy has made considerable progress in improving the statistical infrastructure and updating the business register with full coverage of legal entities and individual entrepreneurs. Annual estimates of oil and gas sector are compiled and disseminated following international standards, but only in Russian. The CS also compiles quarterly GDP, but on a cumulative basis—instead of a discrete basis—and using "comparable prices" instead of fixed base or previous year prices. In addition to supporting migration to a discrete basis, an IMF STA mission (January 2017) identified the need to revise the method used to compile volume movements for taxes on products used to construct movements in real GDP.
Price statistics: Kazakhstan has a monthly Consumer Price Index (CPI). The quality of consumer price statistics is affected by occasional use of administrative price controls. Typically, for each good or service administrative controls are imposed on the variety that is included in the CPI basket. Since producers/importers are not compensated by the government for any losses due to the price controls, they may switch to non-controlled varieties and/or compensate by increasing the prices of non-controlled varieties.
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). The authorities have expanded coverage of data reported for the IMF government Finance Statistics Yearbook to include both the National Fund of the Republic of Kazakhstan and State Social Insurance Fund, and consequently are now able to report annual data for the whole of the consolidated general government, including a financial balance sheet. However, statistics on the enlarged government (including public enterprises) are not available.
Monetary statistics: The National Bank of Kazakhstan (NBK) reports the Standardized Report Forms (SRFs) 1SR for the central bank and 2SR for other depository corporations (ODCs) on a monthly basis for publication in the IMF's *International Financial Statistics (IFS)* with a lag of about one month. Following IMF TA, the NBK developed a framework for compiling SRF 4SR for other financial corporations (OFCs) and started publishing quarterly data from March 2015. While good progress has been made on data compilation and dissemination, more efforts are needed to address remaining inconsistencies in the reporting of inter-bank positions, which are due to the lack of information on the counterpart sector of certain transactions.

Financial sector surveillance: Kazakhstan participates in the IMF's Coordinated Direct Investment Survey (CDIS), and Coordinated Portfolio Investment Survey (CPIS). The country reports 34 financial soundness indicators (FSIs) for posting on the IMF's FSI website on a quarterly basis—all 12 core FSIs and 11 of the 13 encouraged FSIs for deposit takers, and 11 encouraged FSIs for other sectors and markets (two FSIs for OFCs, four FSIs for nonfinancial corporations, two FSIs for households, and three FSIs for real estate markets).
Balance of payments: The authorities have transitioned to the compilation of balance of payments in concordance with the sixth edition of the IMF Balance of Payments Statistics Manual (BPM6) starting in 2013. The NBK is reporting quarterly BOP and IIP data and the Reserves Template, and it participates in the World Bank's Quarterly External Debt Statistics (QEDS). Deficiencies remain in direct investment statistics as local branch offices of foreign companies are considered nonresident entities. This leads to discrepancies with national accounts statistics where this activity is treated as domestic production. A new Law on Currency regulation and Currency Control, adopted in July 2018, changes the status of branches and representative offices of foreign companies from nonresident to resident. In external debt statistics, there are discrepancies between data compiled by different governmental agencies owing to methodological differences, including coverage of external debt of publicly-owned corporations. Statistical treatment of trade within the Eurasian Customs Union (ECU) is not accurate, which has contributed to large and increasing errors and omissions. The authorities are cooperating with relevant agencies in the ECU partner countries to resolve these problems.

II. Data Standards and Quality	
Kazakhstan has subscribed to the Special Data Dissemination Standard (SDDS) since March 2003.	Data ROSC published in 2008.

Kazakhstan: Table of Common Indicators Required for Surveillance

(As of July 20, 2018)

	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]	Memo Items: Data Quality-Accuracy and Reliability[9]
Exchange Rates	7/20/2018	7/20/2018	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May/2018	6/29/2018	M	M	M		
Reserve/Base Money	May/2018	6/25/2018	M	M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	May/2018	6/25/2018	M	M	M		
Central Bank Balance Sheet	Jun/2018	7/10/2018	M	M	M		
Consolidated Balance Sheet of the Banking System	May/2018	6/29/2018	M	M	M		
Interest Rates[2]	Jun/2018	7/10/2018	M	M	M		
Consumer Price Index	Jun/2018	7/3/2018	M	M	M	O, O, O, O	O, O, LO, O, O
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	6/1/18	7/5/18	M	M	M	O, LO, LO, LO	O, O, O, O, LNO
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	6/1/18	7/5/18	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	4/1/18	7/5/18	M	M	M		
External Current Account Balance	Q1/2018	6/29/2018	Q	Q	Q	LO, O, O, O	O, O, O, O ,O
Exports and Imports of Goods and Services	Q1/2018	6/29/2018	Q	Q	Q		
GDP/GNP	Q1/2018	4/23/2018	Q	Q	Q	O, O, O, LO	LO, O, LO, O, O
Gross External Debt	Q1/2018	6/29/2018	Q	Q	Q		
International Investment Position[6]	Q1/2018	6/29/2018	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.