INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/32

REPUBLIC OF KAZAKHSTAN

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

January 2020

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 2019 Article IV consultation with the Republic of Kazakhstan, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its December 19, 2019 consideration of the staff report that concluded the Article IV consultation with the Republic of Kazakhstan
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 27, 2020, following discussions that ended on November 12, 2019, 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 December 19, 2019.
- 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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

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

Press Release No. 20/24
FOR IMMEDIATE RELEASE
January 29, 2020

IMF Executive Board Concludes 2019 Article IV Consultation with the Republic of Kazakhstan

On January 27, 2020, the Executive Board of the International Monetary Fund (IMF) concluded the 2019 Article IV consultation[1] with the Republic of Kazakhstan.

Kazakhstan's recovery has continued, with growth estimated at 4.5 percent in 2019 (preliminary). High domestic demand driven by major oil and gas investments and government and household consumption supported by wage increases and consumer lending has underpinned the economy's strong performance. Headline inflation picked up, but has remained within the National Bank of Kazakhstan's target band of 4–6 percent and stabilized in recent months. Lower oil prices and higher imports have weakened the external position, and the current account balance has deteriorated. The exchange rate depreciated in the second half of 2018, but has been relatively stable since then in the absence of large shocks. Over the next few years, growth is expected to slow down, largely reflecting flat oil production; non-oil growth is expected to remain robust. Risks are on the downside, reflecting trade tensions and commodity price volatility.

Inflation targeting and tenge flexibility have helped to absorb shocks. In response to demand pressures and inflationary risks, the NBK raised the policy rate by 25 basis points in September and kept it at 9.25 percent in December. Liquidity in the banking sector remains ample and credit growth is concentrated in the retail sector. Efforts have continued to clean up the banking sector, including through additional financial support from the state and a recently-concluded asset quality review. Notwithstanding strong non-oil revenue performance, a looser fiscal stance is expected in 2019, due to new spending initiatives, including higher public sector wages, financial support to the vulnerable, and regional development initiatives.

Progress is being made with structural reform implementation, with many of the flagship "100 Concrete Steps" completed and the remaining ones broadly on track. The first public offering of

[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.

a blue-chip public company took place in late 2018, KazAtomProm, and preparations for privatization of other large state-owned enterprises are underway. Steps have been taken to improve governance and address corruption vulnerabilities, but challenges remain.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They noted Kazakhstan's robust economic growth performance in 2019 supported by strong consumption and investment. They also welcomed the progress made in addressing long-standing financial sector issues and implementing structural reforms aimed at promoting private sector development and inclusive growth. At the same time, Directors recognized the challenges and risks the economy of Kazakhstan is facing, including from commodity price volatility.

Directors noted the pick-up of inflationary pressures in 2019 and concurred that the focus of monetary policy should remain on inflation. They noted that inflation targeting and exchange rate flexibility have helped to absorb shocks. Directors encouraged the National Bank of Kazakhstan to continue to strengthen its monetary and exchange rate framework, including through greater independence, better coordination with the government, reducing dollarization, and improved effectiveness of monetary policy transmission. Increasing the transparency of policy and operations and further strengthening communications would boost credibility.

Directors supported the recently completed asset-quality review, which will help understand better the financial situation in the banking sector and identify corrective measures. Such measures could help lead to a strengthening of the sector. Directors underscored that any additional state support should go only to large and viable banks, subject to robust safeguards and in line with international best practices. Directors noted that Kazakhstan's banks need to adopt a new business model with less reliance on state programs and funding and improved risk management and lending practices. Directors welcomed the formation of the new Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan. They noted that reorganization of the financial supervisory architecture could entail risks in the transition period, which should be managed carefully. Independence and adequate resourcing are key to establishing a strong financial regulator. Directors encouraged the authorities to request an FSAP assessment.

Directors agreed that a return to growth-friendly fiscal consolidation is necessary—following an easing of the fiscal stance in 2019 to accommodate social support and regional development outlays—while underscoring the importance of improving spending and investment efficiency.

---

[2] 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 summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

They supported the efforts to increase revenue collections through tax and customs administration reforms and urged the authorities to consider complementing these measures with tax policy changes to broaden the tax base and enhance progressivity. The authorities' intentions to upgrade Kazakhstan's fiscal policy framework are welcome and should be guided by the principles of simplicity and clarity, broad coverage, flexibility, and enforceability. The revamped framework would benefit from supporting public financial management (PFM) reforms and greater transparency. Directors noted that a PFM assessment and a fiscal transparency evaluation would be useful.

Directors reiterated the importance of decisive structural reform implementation in the context of the authorities' economic diversification agenda. They emphasized the pivotal role of continuing improving business climate, investing in infrastructure, strengthening property rights, enhancing competition, and streamlining state support. Further improvements in governance and reducing corruption vulnerabilities would help to attract additional investment and promote private-sector-led inclusive growth.

Kazakhstan: Selected Economic Indicators, 2017-21

Population (2018): 18.4 million
Quota: SDR 1,158.40 million
Main export: crude oil, metals, minerals
Key export markets: EU, China, Russia

Per capita GDP (2018 - est., US$): 9,401
Literacy rate: 99.8% (2015)
Poverty rate: 2.5% (2017)

	2017	2018	2019 (proj.)	2020 (proj.)	2021 (proj.)
Output					
Real GDP growth (%)	4.1	4.1	4.1	3.6	3.8
Real oil	8.7	8.4	-0.3	0.0	1.4
Real non-oil	2.7	2.7	5.6	4.8	4.5
Crude oil and gas condensate production (million tons)	86	90	90	90	91
Employment					
Unemployment (%)	4.9	4.9	4.9	4.9	4.9
Prices					
Inflation (%)	7.3	5.3	5.6	5.5	5.0
General government finances 1/					
Revenue (% GDP)	19.8	21.4	19.9	20.1	20.4
Of which: oil revenue	5.9	7.4	6.8	6.4	6.1
Expenditures (% GDP)	24.1	18.9	20.1	20.1	19.7
Fiscal balance (% GDP)	-4.3	2.5	-0.2	0.1	0.6
Non-oil fiscal balance (% GDP)	-10.2	-4.9	-7.0	-6.4	-5.4
Gross public debt (% GDP)	19.9	20.3	20.7	21.0	20.7
Money and credit					
Broad money (% change)	-1.7	7.0	0.8	5.6	5.8
Credit to the private sector (% GDP)	25.8	22.7	21.4	21.5	21.8
NBK policy rate (%, eop)	10.3	9.3	…	…	…
Balance of payments					
Current account (% GDP)	-3.1	-0.2	-2.8	-2.8	-3.2
Net foreign direct investments (% GDP)	-2.3	-2.7	-3.6	-3.6	-3.6
NBK reserves (in months of next year's imports of G&S)	8.0	7.5	7.2	7.3	7.3
NFRK assets (in months of next year's imports of G&S)	15.1	14.1	14.7	14.9	15.2
External debt (% GDP)	100.2	88.5	91.2	87.0	82.5
Exchange rate					
Exchange rate (y-o-y percent change; Tenge per U.S. dollar; eop)	-0.3	15.6	…	…	…

Sources: Kazakhstani authorities and Fund staff estimates and projections.

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

December 19, 2019

KEY ISSUES

Context: The political transition has increased the focus on social conditions and regional and rural development. Growth has been buoyed by new spending, retail credit, and oil and gas investments. Inflation has picked up, and the current account has deteriorated. Renewed fiscal consolidation is planned from 2020. Non-oil growth is expected to moderate to 4 percent (potential), as construction, fiscal stimulus, and household borrowing ease. Growth could be higher if decisive reforms drive productivity gains. The state continues to play a strong role in the economy, and the authorities face challenges ensuring that measures are well targeted and effective in promoting private sector growth. The challenges include oil volatility and dependency, reliance on subsidies and other state support, still-impaired banks, and governance vulnerabilities. The authorities are exploring ways to strengthen the fiscal framework, assessing monetary and exchange policies, undertaking a bank asset quality review (AQR), and establishing an independent financial sector regulator. Progress is being made on headline reforms, but ensuring decisive changes on the ground remains a challenge. Risks relate to oil prices and trading partner growth.

Key recommendations: Discussions focused on enhancing the inflation-targeting (IT) framework, bank soundness, the fiscal framework, structural reforms, and governance. Key recommendations are that: the authorities should continue with IT and tenge flexibility, while enhancing transparency and NBK independence; fiscal consolidation should resume with tax policy changes to complement revenue administration gains; the fiscal framework should be improved, with a focus on coverage and transparency; the AQR should be followed by actions to address long-standing banking issues; state credit support should be phased out; and the new financial architecture should be carefully designed and rolled out. Efforts to promote a smaller state footprint should continue, with actions to improve governance and mitigate corruption vulnerabilities.

Previous consultation: Since the 2018 consultation, the authorities have followed Fund advice on strengthening the monetary framework and on actions to ensure financial stability (AQR). The establishment of an independent supervisor was not foreseen; related risks should be carefully managed. The authorities did not pursue fiscal consolidation in 2019, as expected, but responded to heightened social concerns with new initiatives. Staff supports the intention to resume consolidation from 2020, with a focus on assessing the efficiency and effectiveness of spending programs.

Approved By:
Juha Kähkönen (MCD) and Martin Sommer (SPR)

Discussions took place in Almaty and Nur-Sultan during October 30-November 12, 2019. The team comprised M. Horton (head), R. Rozenov, W. Shi, and S. Mirzayev (all MCD), V. Prokopenko (MCM), K. Kao (LEG), R. Ossowski (consultant), and O. Bissekeyeva (Almaty office manager). The mission met Prime Minister Mamin, First Deputy Prime Minister and Minister of Finance Smailov, NBK Governor Dossaev, Minister of National Economy Dalenov, other officials, and representatives from the private sector, the diplomatic community and the media. P. Inderbinen and Y. Danenov (OED) attended the meetings, and L. Nigmatullina, G. Gedrimaite, and J. Hatem provided support from IMF HQ. The authorities agreed to publication of the mission's concluding statement.

CONTENTS

CONTEXT 4

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS 4

POLICY DISCUSSIONS 8

A. Monetary and Exchange Rate Policy 8

B. Financial Stability 9

C. Fiscal Policy 11

D. Structural Reforms 14

E. Governance 16

STAFF APPRAISAL 18

BOXES

1. Advancing Structural Reforms: 100 Concrete Steps 7
2. Financial Supervisory Architecture: Inside or Outside the Central Bank? 11
3. Agriculture Sector: Opportunities and Challenges 15

FIGURES

1. Business Environment and Governance 17
2. Economic Developments 20
3. Banking Sector Developments 21
4. Capital Markets and Expected Default Frequencies 22
5. Monetary and External Sector Developments 23
6. Fiscal Sector Developments and Outlook 24

TABLES

1. Selected Economic Indicators, 2016–25 ____ 25
2. Balance of Payments, 2016–25 ____ 26
3. Financial Soundness Indicators of the Banking Sector, 2016–19 Q1 ____ 27
4. Monetary Accounts, 2016–25 ____ 28
5a. General Government Fiscal Operations, 2016–25 (In billions of tenge) ____ 29
5b. General Government Fiscal Operations, 2016–25 (In percent of GDP) ____ 30
6. Oil Indicators, 2016–25 ____ 31

ANNEXES

I. External Sector Assessment ____ 32
II. Public Debt Sustainability Analysis ____ 37
III. Risk Assessment Matrix ____ 39
IV. Addressing Corruption Vulnerabilities and Improving the Rule of Law ____ 41

CONTEXT

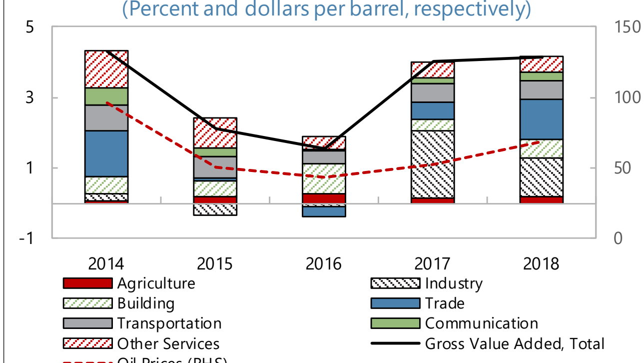
1. A historic political transition is underway. After dismissing the cabinet in February 2019 over slow progress in raising living standards, President Nazarbayev resigned in March. Interim President Tokayev won early elections in June. The transition has increased the authorities' focus on social conditions, including regional and rural development, and led to new spending initiatives. In a September address, President Tokayev emphasized continuity, enhanced dialogue, rule of law, and governance. He stressed assessing the monetary and fiscal policy frameworks, increasing public wages and social payments, modernizing the tax system and the agriculture sector, reducing the number of state enterprises (SOEs), and stimulating SMEs. Mr. Nazarbayev remains head of the National Security Council, with a lead role in strategic decisions.

2. The economy has performed well in a challenging environment. Oil prices fell in late 2018 and have recovered only partially. Trading partner growth has slowed further, while trade tensions have affected capital flows and investment decisions. Still, the economy has maintained momentum, due to strong domestic demand. Fiscal consolidation has been postponed to accommodate new social spending measures. Monetary policy has remained focused on inflation, and the tenge has continued to float with limited intervention. Implementation of reforms to promote private sector development and economic diversification remains a key challenge, along with tackling banking issues and governance vulnerabilities. Subsidies and other forms of state support remain widespread, and business environment improvements captured by various surveys are yet to translate into tangible gains.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

3. Growth remains strong. Real GDP grew by 4.1 percent in 2018 and 4.3 percent in January-September 2019, led by construction and services, resulting in a positive output gap. Drivers have been oil and gas investments and government and household consumption, supported by wage hikes[1] and retail lending.

Contributions to Growth and Oil Prices
(Percent and dollars per barrel, respectively)



Sources: Kazakhstani authorities and IMF staff estimates.

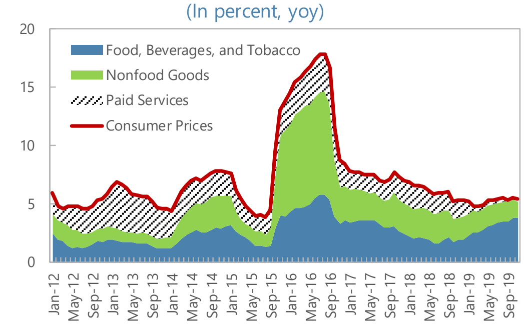
4. The external position is moderately weaker than implied by fundamentals and desirable policies; reserves are adequate. Higher oil production and prices led dollar exports to rise by 26 percent in 2018, closing the current account deficit. The current account deteriorated in 2019, with lower hydrocarbon exports and higher imports. Debt payments and investments abroad contributed to lower reserves in H1:2019, with partial recovery in Q3. External debt is 10 percent of GDP lower than end-2017, mostly due to repayments by the private sector and state-owned enterprises. Staff projects the 2019 external

[1] Average wages grew by 18 percent through Q3 (yoy); minimum wages were raised by 50 percent in January, and average salaries of doctors, nurses and teachers by 30 percent.

position to be moderately weaker than implied by fundamentals and desirable policies, with reserves adequate for a floating currency (Annex I).

5. Inflation has picked up, but stayed within the 4–6 percent target band. Headline inflation was 5.5 percent in October 2019, up from 4.8 percent in March, driven by food and market services; regulated services prices were cut in January. Core inflation (excluding fruit, vegetables, fuels, utilities) has been rising since late 2018 and has exceeded 7 percent. Inflation expectations remain stable. The tenge was under pressure in H2:2018, due to global conditions and Russian ruble depreciation; it has been stable in 2019. The NBK intervened in September 2018 and March 2019.

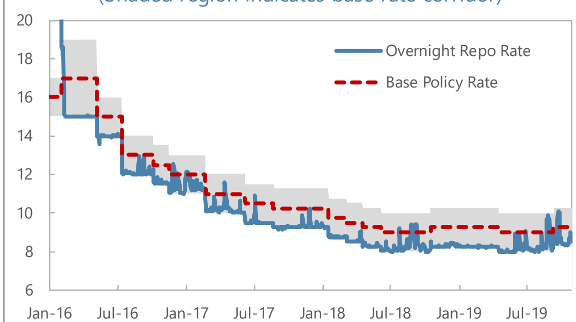
Consumer Price Index
(In percent, yoy)



Sources: Haver Analytics and IMF staff calculation.

6. The NBK increased its policy rate in September, due to rising inflation risks. After a rate cut in April and no change in two subsequent meetings, the NBK raised the rate back to 9.25 percent in September, noting risks from domestic demand. The target money-market rate has stayed within the corridor, but mostly at the lower bound. Liquidity remains ample; despite some decrease, the stock of NBK open market operations exceeds KZT 4 trillion (6 percent of GDP) in H1:2019. In July, President Tokayev called for increased transparency and confidence in the tenge and asked the NBK and government to assess the monetary and exchange regime, with international support.

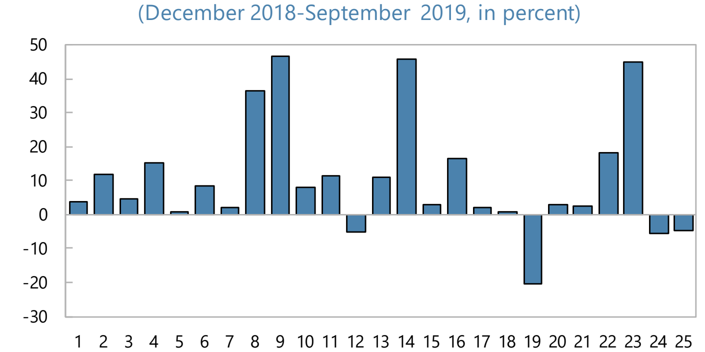
Interest Rates
(Shaded region indicates base rate corridor)



Source: Kazakhstani authorities.

7. Bank clean-up efforts have continued. In late 2018-early 2019, the authorities revoked licenses of three banks and provided support (KZT 1 trillion, 2 percent of GDP) to Tsesnabank, then the second-largest bank, with ownership transferred to a new investor. An asset quality review (AQR) was launched in August, with support from a global consultancy and Big 4 accounting firms; results are expected in early 2020. The AQR covers the 14 largest banks (70 percent of system assets). Credit has picked up in 2019, despite loan write-offs, with the increase driven mainly by retail lending (22 percent growth yoy through September); corporate credit remains sluggish. Loan growth is distributed unevenly among banks, with lending of some smaller banks expanding by over 40 percent since end-2018.

Individual Banks' Loan Portfolio Growth 1/
(December 2018-September 2019, in percent)



Source: The National Bank of Kazakhstan.
1/ Excludes Citibank and First Heartland Jysan Bank (former Tsesnabanak). Banks are ranked by assets.

8. **The financial supervisory architecture is being overhauled**. In April, the authorities announced the split of the NBK and creation of a new financial regulation, supervision, and development agency to launch operations in Almaty in 2020. The NBK will relocate to Nur-Sultan.

9. **The fiscal balance improved in 2018, but new initiatives affected the stance in 2019.** The overall balance was in surplus in 2018, with higher oil prices and winding down of the "Nurly Zhol" investment program. The non-oil deficit was close to 5 percent of GDP. In 2019, the budget was revised twice to incorporate new social and regional initiatives of the former and new presidents—higher wage for lower-paid public employees, housing and other support for vulnerable households, debt relief for low-income borrowers, and regional and rural infrastructure. Despite strong non-oil revenues—from the VAT, trade taxes, and non-oil corporate income taxes—the non-oil deficit is expected to be higher, around 7 percent of GDP, with financing from larger National Fund (NFRK) transfers—KZT 2.7 trillion versus KZT 2 trillion—and a Eurobond. Government debt remains sustainable (Annex II).

10. **Structural reforms are proceeding.** Many of the flagship "100 Concrete Steps" have been completed (Box 1). The first initial public offering (IPO) of a big state-owned enterprise (SOE), Kazatomprom—the world's largest uranium producer—took place in 2018. Preparations for IPOs for Air Astana, KazMunaiGas, and Kazakhtelekom are underway, although the timeline is not set. Kazakhstan improved its scores on the World Economic Forum's Competitiveness Index and the World Bank Doing Business Report in 2019; the authorities have focused on reforms to strengthen public administration efficiency, although governance challenges and vulnerabilities remain.

11. **Looking forward, non-oil growth will drive overall growth.** Oil production is expected to remain flat until 2023-24, when a $50 billion investment in the main Tengiz field will come online. Non-oil growth is expected to moderate to 4 percent—estimated potential—as construction, fiscal stimulus, and household borrowing ease. Non-oil growth could be higher if decisive reforms drive diversification and productivity gains. Inflation will likely remain elevated next year as pressures from wages and spending continue and regulated price cuts fade. Over the medium term, inflation should slow to 4 percent. A current account deficit of around 3 percent of GDP is expected in the medium term.

12. **Risks are on the downside**. External risks include heightened trade tensions, slower trading partner growth, and commodity prices (Annex III). Domestic risks involve policy slippages, including further fiscal loosening—possibly related to bank support, and slow structural reform progress. A prolonged period of low commodity prices would lead to external and fiscal pressures; higher prices could lead to complacency. Substantial external and fiscal buffers are a mitigating factor.

Box 1. Advancing Structural Reforms: 100 Concrete Steps

Kazakhstan has several strategies and programs that underpin long-term development goals. Structural reforms are built on three pillars. The first is "Kazakhstan 2050," an overarching long-term vision. "Strategic Plan 2025" defines the implementation strategy and guides programs. A second pillar lays out strategies for specific industries and sectors, with 15 state programs. The third pillar defines specific ministry, SOE, and local government strategies and targets. Strategies and programs are reviewed bi-annually.

The "100 Concrete Steps" initiative has taken center stage in recent years. It links to "Kazakhstan 2050" and includes five major streams: civil service (15 steps), rule of law (19), industrialization and growth (50), national identity and unity (3), and accountability (10). Fifty-eight steps have been completed, 39 are underway, and 3 were transferred to another program. Progress has been made in all areas, although industrialization and economic growth measures have required more time. For example, private land ownership was postponed. Work on single-window customs procedures is near completion. Electronic invoices now apply to all taxpayers, but introduction of universal asset and property declarations has been postponed to 2025. Importantly, the competition law was harmonized with OECD standards, and civil aviation management is being upgraded, including through Open Skies. The subsoil use code was streamlined in line with best practices to attract investment and foster job creation.

Reforms completed under the other four pillars include:

Effective Civil Service	A new career model introduced to improve recruitment of candidates to public sector
	25 thousand civil servants were put through certification process
Rule of Law	Judicial system switched from5 to 3 tier system: first instance, appeal court, and Supreme Court
	International Arbitration Center established to investigate investment disputes
	A Public Council created to consider complaints about police actions
	Strategy for social rehabilitation of citizens approved
National Identity and Unity	The idea of "Eternal Country" enshirined in the Law on Assembly of People of Kazakhstan
Accountable Government	The requirements for the development of new state programs tightened
	A new evaluation system approved, which allows for independent external evaluation
	The institute for certification of state auditors established
	Local governments given more budget autonomy, and a mechanism introduced to allow for citizen participation in the discussion of draft local budget

Authorities' Views

13. The authorities broadly shared staff's views. They concurred with staff's assessment of the recent developments and external sector outlook. The government forecasts higher medium-term growth, 5–5.5 percent—connected with a goal of increasing investment from 20 to 30 percent of GDP over five years. The authorities see risks coming mainly from outside.

POLICY DISCUSSIONS

Discussions focused on the monetary policy framework and operations, the financial sector, fiscal policy, structural reforms, and governance. Staff sees scope for greater monetary policy effectiveness through enhanced NBK independence and improved transmission and communications. The AQR is a key opportunity to address long-standing banking issues. Medium-term fiscal consolidation remains a key objective, and there is a strong case to upgrade the fiscal framework. Progress on business climate, governance, and public administration reforms is critical for strong, sustained, inclusive growth.

A. Monetary and Exchange Rate Policy

14. Monetary policy has responded appropriately to demand pressures, although further action may be needed. Decisions on the base rate have been based on inflation developments and risks. The September hike was appropriate, given demand pressures. The NBK should be ready to tighten further if warranted. More broadly, staff noted that the framework of inflation targeting (IT) and exchange rate (ER) flexibility has served Kazakhstan well, helping absorb shocks and contributing to lower inflation. Still, strengthening of the monetary policy framework should continue to increase transparency and confidence. This should involve:

- *Increasing NBK independence*. NBK independence is key to credibility. The impending NBK split provides an opportunity to strengthen governance arrangements. Divesting non-core NBK assets would reduce balance-sheet risk and pressures to engage in quasi-fiscal activities.

- *Improving coordination*. Further strengthening fiscal and monetary policy coordination is important to achieving a well-balanced policy mix and avoiding instances where changes or slippages in one area require compensating measures in the other.

- *Developing financial markets*. Developing domestic financial markets is key to strengthening passthrough of policy rate changes to market rates. Progress has been made, as NBK-government market coordination has increased, and investor access to tenge instruments has improved. This should continue.

- *Reducing dollarization*. Deposit dollarization remains high—45 percent—impeding monetary policy effectiveness. Further dedollarization will require sustained policies, along with two-sided ER flexibility. Targeted measures may be helpful (e.g., affecting FX liabilities and lending).

- *Phasing out credit subsidies*. Transmission would be enhanced by reducing subsidized credit. An evaluation of extensive credit support programs for households, businesses, and regions is needed; poorly-targeted or ineffective programs should be discontinued.

- *Further strengthening analytics and communications*. The NBK has made good progress in enhancing analytical work and communications. Further efforts should focus on discussing developments, prospects, risks, and policy responses.

15. Changes to monetary operations have aimed at improving liquidity management; further actions would be helpful. The NBK replaced 7-day notes with deposit auctions, extended the average maturity of notes, and changed reserve requirements (RRs) in line with staff advice to limit use of vault cash and abolish residency rules (eliminating a capital flow management measure). Although the stock of NBK notes has declined, it remains large, posing challenges. Further reduction will depend mainly on structural reform progress and a corporate-lending pickup. Besides FX sales in September 2018 and March 2019, the NBK has not carried out direct intervention. It has, however, continued to execute conversions for the NFRK. These have fed perceptions that the NBK is actively managing the tenge. Staff reiterated advice to report systematically on these transactions and to introduce regular, pre-announced auctions for NFRK conversions to increase transparency and predictability.

Authorities' Views

16. The authorities reaffirmed their commitment to IT and a flexible ER. The NBK noted risks to inflation but saw the current stance as adequate. There was broad agreement with staff's view that the policy rate has limited impact on corporate credit, given lack of creditworthy borrowers (low capital, high debt). To improve transparency, credibility, and effectiveness, the NBK is developing a new, long-term monetary policy strategy, drawing on international experience with IT.

B. Financial Stability

17. State support to banks has contributed to stability, but at high cost. Soundness indicators now portray well-capitalized, liquid, and profitable banks, but concerns remain, given past evergreening and transfer of bad assets to off-balance sheet entities. Staff estimates support to the banking system since 2017 of KZT 4.3 trillion (7 percent of GDP), provided by the budget, NFRK, and NBK.[2] Audited statements of the state Problem Loan Fund (PLF) show that the fair value of assets acquired from troubled banks was just one-tenth of the book/acquisition value. Enhanced NBK supervisory powers granted via regulatory changes in 2018 aim to address misreporting, but have not been fully deployed. Rapidly-growing consumer lending may reflect financial deepening, given low household indebtedness. Given potential risks, the NBK is tightening regulatory requirements. Measures to be implemented from 2020 include higher risk weights for uncollateralized consumer loans and strengthened household-debt-burden calculations.

18. The AQR provides an opportunity to address long-standing issues and boost confidence. Disclosure of AQR procedures and results will be important, and the NBK indicated that it will introduce comprehensive follow-up actions, if higher provisions, new capital, or changes in operations and management are needed. Staff noted that further state support—if any—should be only for large, viable banks and subject to safeguards in line with good practices, including shareholder contributions, changes in management, restructuring plans, strict oversight, exit strategy, and public disclosure. State support should not come from NBK. More broadly, following the AQR,

[2] Most state support came via face-value asset purchases by the Problem Loan Fund; additional funding was provided via subsidized loans from the NBK to several large banks, with proceeds used to buy NBK notes.

banks will need to put in place a new, sustainable business model, with less reliance on funding of deposits by SOEs and improved risk management and lending practices.

19. The NBK move and split pose challenges. These include a possible reduction of supervisory capacity during or after the transition, and the need to ensure effective coordination among agencies on macroprudential oversight and contingency issues via an enhanced Financial Stability Council (Box 2). The new architecture should comply with best practices and core principles of effective supervision. Given substantial changes over the last five years in the monetary and exchange framework, the financial sector, and supervision, staff encouraged the authorities to request a new review under the IMF-World Bank Financial Sector Assessment Program (FSAP).

20. State credit-support programs should be evaluated and streamlined. In recent years, the government and NBK have adopted a variety of initiatives that target sectors, purchases (e.g., vehicles), products (e.g., mortgages), and borrowers (e.g., SMEs). These were complemented in June by one-time debt relief for low-income borrowers. Extensive state credit support has made banks and borrowers reliant on subsidies, impeding development of credit risk assessment and management. In staff's view, programs should be evaluated for effectiveness and streamlined. Structural reforms should enhance financial inclusion in a market-friendly manner, with social support coming from the budget.

Authorities' Views

21. The authorities expressed determination to address financial sector challenges. They agreed that state-support costs had been high, but did not rule out follow-up aid, depending on AQR findings. Credit support programs would be reviewed for effectiveness, and those failing to achieve goals would be discontinued. The authorities recognized the need for robust corrective measures to ensure sound bank governance. They also agreed with staff's advice to design the new supervisory agency in line with best practices and to ensure strong inter-agency coordination via the Financial Stability Council.

Box 2. Financial Supervisory Architecture: Inside or Outside the Central Bank?

Reorganization of financial supervision raises important questions: should supervision be inside or outside the NBK? What are key challenges in adopting a new structure? Are there lessons from the global financial crisis? There are no strong theoretical arguments in favor of a specific architecture for all countries. Countries have experimented through various models. Some have integrated supervision in the central bank; others established independent agencies.

The view that supervision should be separated from the central bank is often based on several concerns: (i) conflict of interests, when conduct of monetary policy may be affected by financial stability considerations; (ii) reputational risk, when financial distress may affect the central bank's reputation and credibility in conducting monetary policy; and (iii) concentration of power, with concerns about entrusting too much power to a single institution.

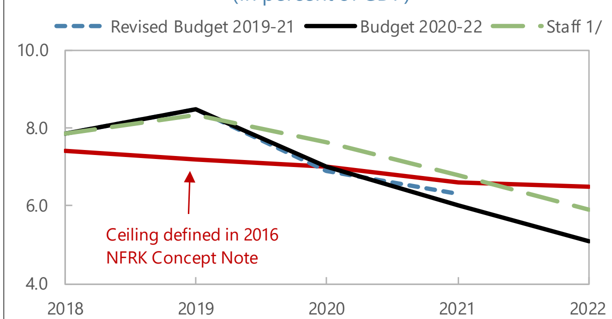
The global financial crisis brought to light several shortcomings in the organization of supervision. While the prevailing view remains that there is no single arrangement best suited for all countries, the crisis underscored the importance of having robust macroprudential oversight and effective arrangements for crisis preparedness and management. Central banks should be prepared to play a lead role in these matters, even when not in charge of microprudential supervision.

Reforming the supervisory framework brings about important challenges. Aside from direct, initial reorganization costs, there are risks of reduction in supervisory capacity from staff turnover, resource adequacy, supervisory authority or independence, and corrective power. It is critical to ensure that arrangements are in line with international principles of effective supervision, including in the areas of coordination, macroprudential oversight, crisis preparedness, safety net, and resolution.

C. Fiscal Policy

22. Near-term priorities have focused on social support, including regional development, with a relaxation of the non-oil deficit. Measures have targeted support for households, SMEs, regions, and public employees in the health, education, and social sectors. In September, President Tokayev called for a strengthening of the fiscal framework, streamlining public employment, and making taxes more equitable and efficient. Staff noted that while it sees merit in supporting vulnerable groups, it did not favor the procyclical stance in 2019. In addition, some measures may have benefitted from further consideration (e.g., debt relief, a three-year ban on SME tax audits, new income tax exemptions).

Non-Oil Deficit
(In percent of GDP)



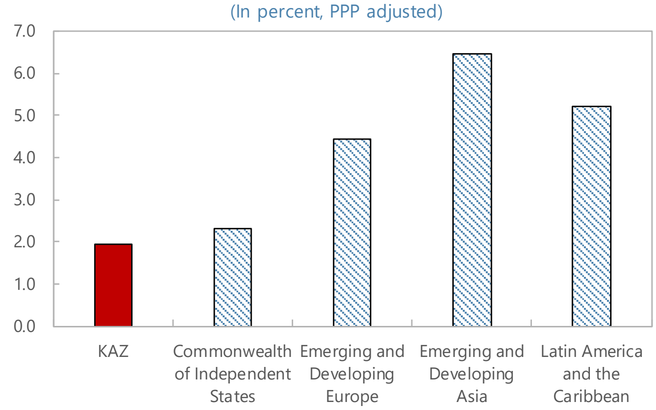
Sources: National authorities and IMF staff projection.
1/ Excluding the investment income of the NFRK.

23. Consolidation is expected to resume in 2020 and continue over the medium term. Despite new spending initiatives, the draft 2020–22 budget envisages a lower non-oil deficit, due to higher non-oil revenues from enhanced administration and spending moderation (erosion) after increases in 2019. Staff welcomed the return to consolidation at a time of sound economic performance and recommended that medium-term fiscal policy be guided by an anchor on gross public debt (moderately declining), in addition to the existing floor on NFRK assets and an operational target on non-oil deficit. The planned fiscal path will stabilize gross debt, limit reliance on oil revenues, while maintaining NFRK buffers (in percent of GDP) and help reduce the external imbalance. The targeted non-oil deficit in 2024–25 (5 percent of non-oil GDP) is consistent with staff's estimates for long-term sustainability and intergenerational equity.[3] Meanwhile, staff continues to see a need for additional, high-quality capital and social expenditures to support non-oil growth. Despite ample fiscal space, this will necessitate higher non-oil revenues—in staff's view, the fiscal space should be maintained as a buffer.

- ***Revenue.*** The authorities have set ambitious goals to increase tax collections from 18 to 25 percent of GDP by 2025. Efforts to strengthen VAT administration (e.g., e-invoice) and custom controls have yielded positive results in 2019. Further steps are planned to enhance risk-based compliance, reduce the informal economy through digitalization, and upgrade the large taxpayer unit. Staff welcomed these, but flagged risks that ambitious targets may not be met, including as 2019 administration gains may be one-time and new tax incentives and the audit ban may weaken compliance. Staff continues to see scope for tax policy changes, including on the VAT (lowering the threshold, increasing the rate, addressing restrictive refund practices) and personal income taxes (e.g., higher taxation of capital income—see Selected Issues Paper). Removal of tax exemptions and holidays would broaden the tax base, and with favorable mining prospects, it would be useful to review the mining tax regime.

- ***Expenditure.*** Infrastructure investments under Nurly Zhol have started to show positive results for firm performance (Selected Issues Paper). Given the infrastructure gap, the authorities will launch a second phase of Nurly Zhol, with stepped-up public-private partnerships (PPPs). They are also pursuing plans to convert spending units into independent legal entities (legal entities in public law, or LEPLs) that receive per capita transfers and are considering devolving greater fiscal responsibility to local governments. Staff noted that these reforms are complex and far reaching and require careful planning and execution (robust accounting, controls, disclosure, risk management, matching devolved revenues with spending). IMF TA would be helpful. Staff also noted that ongoing efforts to review and improve state program efficiency would create room for investment; strong investment management practices and a robust PPP management framework

Average Government Investment to GDP, 1990-2015
(In percent, PPP adjusted)



Sources: IMF Investment and Capital Stock Dataset, 2017, and IMF staff calculations.

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

would help ensure high-quality projects. The President's call to improve the efficiency of public administration, including assessing scope to reduce public employment, is welcome, and should be accompanied by reforms to wage policy, which has involved large, occasional adjustments followed by erosion.

24. The fiscal framework has provided guidance on policies and supported maintenance of buffers, but has shortcomings. The framework includes several rules and a forward-looking orientation through a medium-term budget exercise and five-year forecasts. However, the system of rules and targets is complex, the framework lacks comprehensive institutional coverage, and rules have been subject to frequent amendments that have not always been clearly communicated. The changes have often involved ad hoc actions and sometimes led to procyclical policies.

25. Staff welcomed the authorities' intention to upgrade the fiscal framework. The reforms are complex and should involve thorough preparatory work (Selected Issues Paper). Key principles to guide reforms include:

- ***Simplicity.*** The upgraded system should have few, clear, and mutually-consistent rules to guide policy, along with a sustainability anchor.

- ***Broad coverage.*** Institutional coverage of the framework and rules should be broadened to encompass the general government, with further efforts needed in classification and reporting provisions to ensure coverage of quasi-fiscal activities (QFAs), SOEs, and risks. Publishing regular, comprehensive reports on the NFRK, with externally-audited financial statements, is advisable.

- ***Flexibility.*** The rules system should include flexibility elements, including robust escape clauses and periodic reassessments, to make it resilient to shocks and changing circumstances.

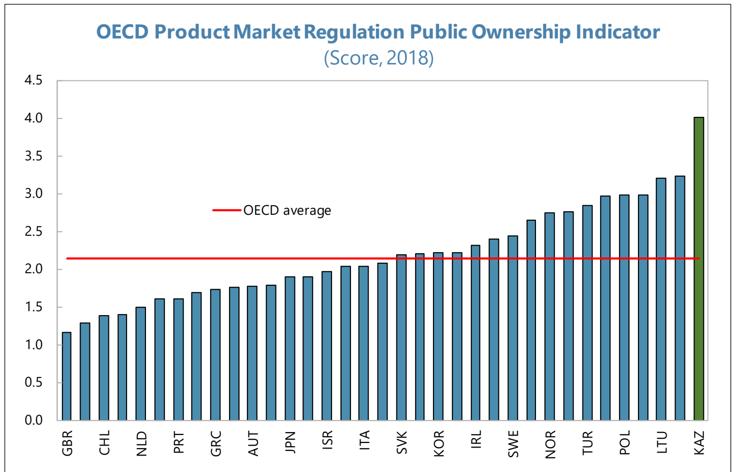
- ***Enforceability.*** Rules should be supported by strong transparency provisions, robust communications, correction mechanisms, and effective external scrutiny.

26. Efforts to upgrade the framework should include measures to enhance public financial management (PFM) practices and transparency. Staff noted that a thorough PFM assessment would be advisable, along with an IMF Fiscal Transparency Evaluation, which would help benchmark to peers and best practices and set the reform agenda. The aim to produce a fiscal risk statement for the 2021 budget is welcome and will require further preparatory work, possibly with IMF TA support.

Authorities' Views

27. The authorities agreed with staff's assessment and advice, especially on strengthening the fiscal framework. The authorities remain firm in their commitment to fiscal sustainability, higher non-oil revenues, enhanced spending efficiency, and closing the infrastructure gap, and see strong merit in strengthening the fiscal framework to support these objectives.

D. Structural Reforms



Source: OECD 2018 PMR database.

28. The goal of strong, sustainable, inclusive growth will require further efforts to create a conducive environment for private sector participation. While reforms are advancing, including through legal and administrative changes (with gains in international rankings), this should be reflected in tangible changes on the ground. The state's footprint remains large—well above comparators. Creating more space for private activity is crucial for diversification and inclusion. The authorities have focused on infrastructure, enhancing business conditions, and encouraging entrepreneurship, with special attention to SMEs and agriculture.[4] President Tokayev has called for a review of operations of Samruk Kazyna, a state holding managing most SOEs (energy, transportation, utilities). Staff agreed that strengthening SOE governance and efficiency, including advancing IPOs for big SOEs in transport, communications, and energy, would boost credibility, reduce corruption vulnerabilities, and support growth, along with enhancing protection of property rights and bankruptcy procedures.

29. More effective policies are needed to unlock potential in agriculture. With ample arable land and proximity to major markets in China and Russia, agriculture could be a key driver of non-oil growth and rural/regional development. However, the sector continues to underperform, reflecting deep-seated problems—outdated and depreciated infrastructure (transport, irrigation) and constraints on access to land, technology, services, and finance. Enhanced infrastructure investment and better targeting of state support to diverse needs across the country would help boost productivity, competitiveness, and quality. At the same time, policies should aim to reduce dependency on state financial support, while emphasizing policy continuity (Box 3).

Authorities' Views

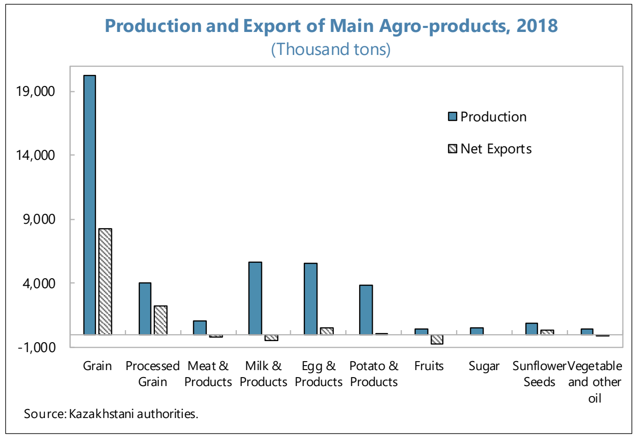
30. The authorities underscored the importance they attach to structural reforms. They pointed to higher Doing Business and Competitiveness Index rankings as signs of success. They expressed a commitment to the IPOs for major SOEs and to completing outstanding "Concrete Steps". They see agriculture as a priority sector, especially for rural development and employment, and emphasized differing conditions in south (small producers of fruit, vegetables and livestock) and

[4] Two new initiatives announced in September are a "business roadmap" to support entrepreneurs (KZT 250 billion, $0.7 billion) and infrastructure investments in 3,000 villages to raise agricultural productivity (KZT 120 billion, $0.3 billion).

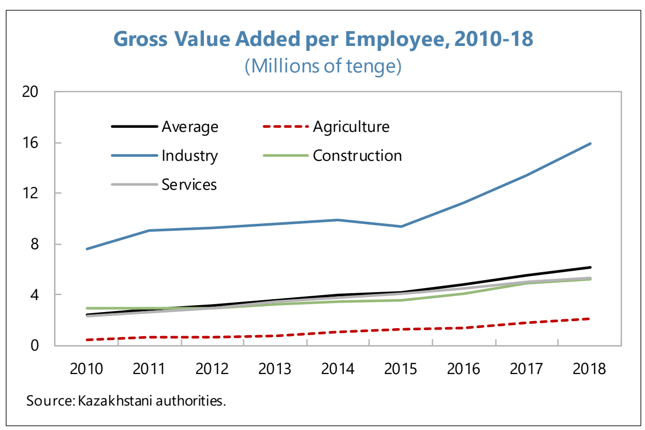
north Kazakhstan (large-scale grain producers). They pledged to continue reforms to address long-standing problems by increasing competitiveness, productivity, and exports.

Box 3. Agriculture Sector: Opportunities and Challenges

Agriculture could be a major engine for diversification and growth. Kazakhstan has the world's second-highest per capita availability of arable land and is situated between two major markets—China and Russia. Tapping this potential could turn the sector into a powerhouse for non-oil exports.



Deep-seated problems hold the sector back. Infrastructure and irrigation gaps, poor access to technology and financing, and inefficient use of resources weigh heavily. Farms are fragmented and small in south, and larger yet heavily indebted in north Kazakhstan. Both regions are characterized by low productivity, limited irrigation (1 percent of land) and poor training and access to technology hamper productivity. Wide spatial dispersion and poor connectivity and market access elevate costs. Credit is expensive and limited due to lack of collateral (1 percent of total bank loans). Shortcomings in certification, licensing, and phytosanitary control are export bottlenecks: Kazakhstan remains a net food importer despite being one of the world's largest wheat exporters. Productivity and output in the sector grew on average at 0.6 and 2 percent during 2006–15, respectively, both below world averages. The share of agriculture in GDP is 4.5 percent, although 45 percent of the population lives in rural areas and 18 percent of the working age population is employed in the sector.



The state has been active in addressing constraints, but outcomes are uneven. The State Program for Agro-Industrial Complex Development (2017–21) targets boosting labor productivity and exports by 2.5 times at a cost of KZT 2.7 trillion (US$7 billion). Some progress has been made but more is needed to achieve these ambitious goals. Streamlining support mechanisms, better targeting financial support, and shifting the balance from direct subsidies to incentivizing investment and market-oriented means may deliver better results. The diverse nature of farming in north and south calls for a flexible approach. In the medium term, efforts should be geared to reducing dependency on state support. Lastly, continuity and careful execution of state programs are critical to investment and growth.

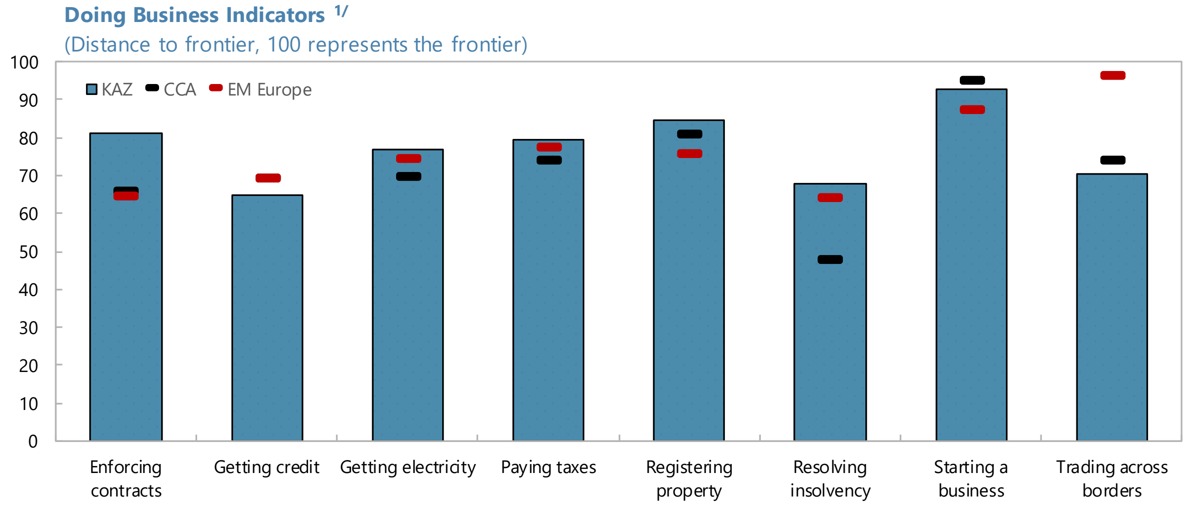
E. Governance

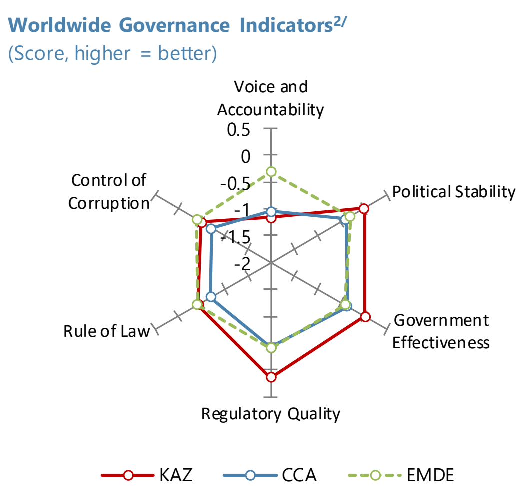
31. Strengthening governance is an important part of the authorities' reform agenda, with further gains needed to address corruption risks (Annex IV). Kazakhstan has made several high-level commitments to improve governance and combat corruption, including in the "100 Concrete Steps" and the 2015–2025 National Anti-Corruption Strategy (NACS). Gains include moves to e-governance in tax administration and procurement (limiting single-source purchases) and legal amendments to enhance the identification and seizure of corruption proceeds. Staff noted that further harmonization of the legal framework is needed to meet commitments under the UN Convention Against Corruption, while the asset declaration system should be strengthened through enhanced verification. A move to publication of declarations of high-level officials and political appointees is encouraged. On enforcement, targeting high-level and grand corruption, as well as high-risk sectors, would more effectively mitigate corruption risks. The authorities should criminalize additional corruption offences (e.g., offering or soliciting bribes) and revisit immunity for some high-level officials and entities. AML/CFT tools should be leveraged to support corruption detection and recovery of proceeds. Independence of key agencies should be strengthened.

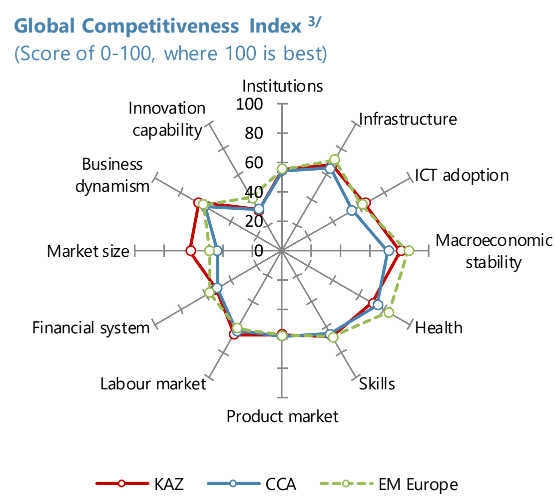
Authorities' Views

32. The authorities reiterated their commitment to improving governance and addressing corruption risks. They reaffirmed their aspiration to implement international best practices and pointed to public administration and legal reforms that promote transparency and efficiency and participation in international forums and consultations. They are optimistic that judiciary reforms will contribute to progress. They acknowledged the need to address high-level corruption and noted steps to address corruption vulnerabilities in SOEs. They agreed that the legal framework could benefit from improved provisions on investigation, prosecution, and recovery of proceeds. They are committed to strengthening the AML/CFT regime, recognizing that AML/CFT measures play an important role in corruption enforcement.

Figure 1. Kazakhstan: Business Environment and Governance







Sources: World Bank Ease of Doing Business, Worldwide Governance Indicators, WEF Global Competitiveness Indicators,
1/ Survey-based indicators reflect investors' perceptions on the business environment.
2/ Survey-based indicators summarize perceptions of quality of governance, higher scores indicate better governance.
3/ Uses both official data and survey responses from executives on areas of competitiveness, higher is better.

STAFF APPRAISAL

33. Strong performance has continued, but risks are on the downside. A pick-up of consumption and investment are drivers of growth, reflecting fiscal support, retail lending, and oil and gas investments. Headline inflation has increased, but remains within the 4–6 percent target band; core inflation is higher. The external position is moderately weaker than implied by fundamentals and desirable policies, and reserves are adequate. Non-oil growth is expected to remain strong at 4 percent, the estimated potential level, over the medium term. It could be higher if reforms result in productivity gains and higher investment. Inflation is expected to remain elevated next year, including as the effect of utility rate cuts dissipates. The balance of risks is negative, reflecting vulnerability to commodity prices and trade tensions.

34. Decisive reforms are needed to overcome long-standing challenges. The political transition has been smooth and the authorities' policy agenda signals continuity. Progress is being made in many areas, but important challenges need to be addressed to unlock Kazakhstan's potential. These include ensuring that structural reform measures are well targeted and effective in promoting private sector growth, reducing dependency on oil and state support, resolving outstanding issues in the banking sector, and strengthening governance.

35. The NBK has remained rightly focused on inflation. Risks continue, due to strong demand, and further policy action may be needed. Although the stock of NBK notes has declined, banking sector liquidity remains significant. This reflects structural issues in the banking and real sectors, notably insufficient credit demand by companies in good financial standing.

36. Efforts should continue to strengthen the monetary and exchange rate framework. Inflation-targeting and a flexible ER have served Kazakhstan well, and the focus should be on enhancing the existing framework. This means strengthening NBK independence, further increasing coordination with the government, and improving monetary transmission by resolving issues in the banking sector, phasing out subsidized lending, deepening capital markets, and reducing dollarization. Greater transparency, including through more explanation of developments, prospects, risks, and policy responses and publication of additional information on FX transactions on behalf of the NFRK and UAPF, would boost understanding and confidence.

37. The AQR should help Kazakhstan move on from costly state support for banks. The review will be instrumental to understanding the financial health of banks and identifying needed actions. Further state support, if any, should go only to large and viable banks subject to robust safeguards, including shareholder contributions and adoption of comprehensive restructuring plans. It should not come from the NBK. More broadly, a new business model is urgently needed for the sector, which has relied on SOE deposits, NBK notes, government securities, and lately, on retail lending. State credit-support initiatives should be scaled back so the growth impetus moves firmly to the private sector.

38. The redesign of the financial supervisory architecture should be carefully considered and executed to avoid gaps. The split of the NBK, relocation to Nur-Sultan, and establishment of a new financial regulation and development agency carry risks that must be addressed. The new architecture should comply with core principles and best practices, particularly for independence, powers, and inter-agency cooperation on macroprudential and safety net, contingency, and resolution issues. The appointment of strong management, adequate resources, and adoption and implementation of credible restructuring plans, if needed, following the AQR, will be essential for the new agency to establish a strong track record. A new FSAP assessment would be important to take stock of substantial changes, benchmark to comparator countries and best practices, and guide reform efforts.

39. Fiscal consolidation should resume. After easing the fiscal stance in 2019 for social outlays, a return to consolidation is needed at a time of strong performance and to stabilize gross debt, limit reliance on oil revenues, and sustain buffers. Efforts to assess and strengthen spending efficiency and discontinue ineffective programs are welcome, along with ongoing actions to enhance revenue administration. Further actions to enhance risk-based tax compliance, including upgrading the large taxpayer unit, would be important. Removal of exemptions and holidays would help broaden the tax base. Scope for tax policy changes (VAT, income taxes) should be explored to enhance equity and progressivity and meet ambitious revenue targets.

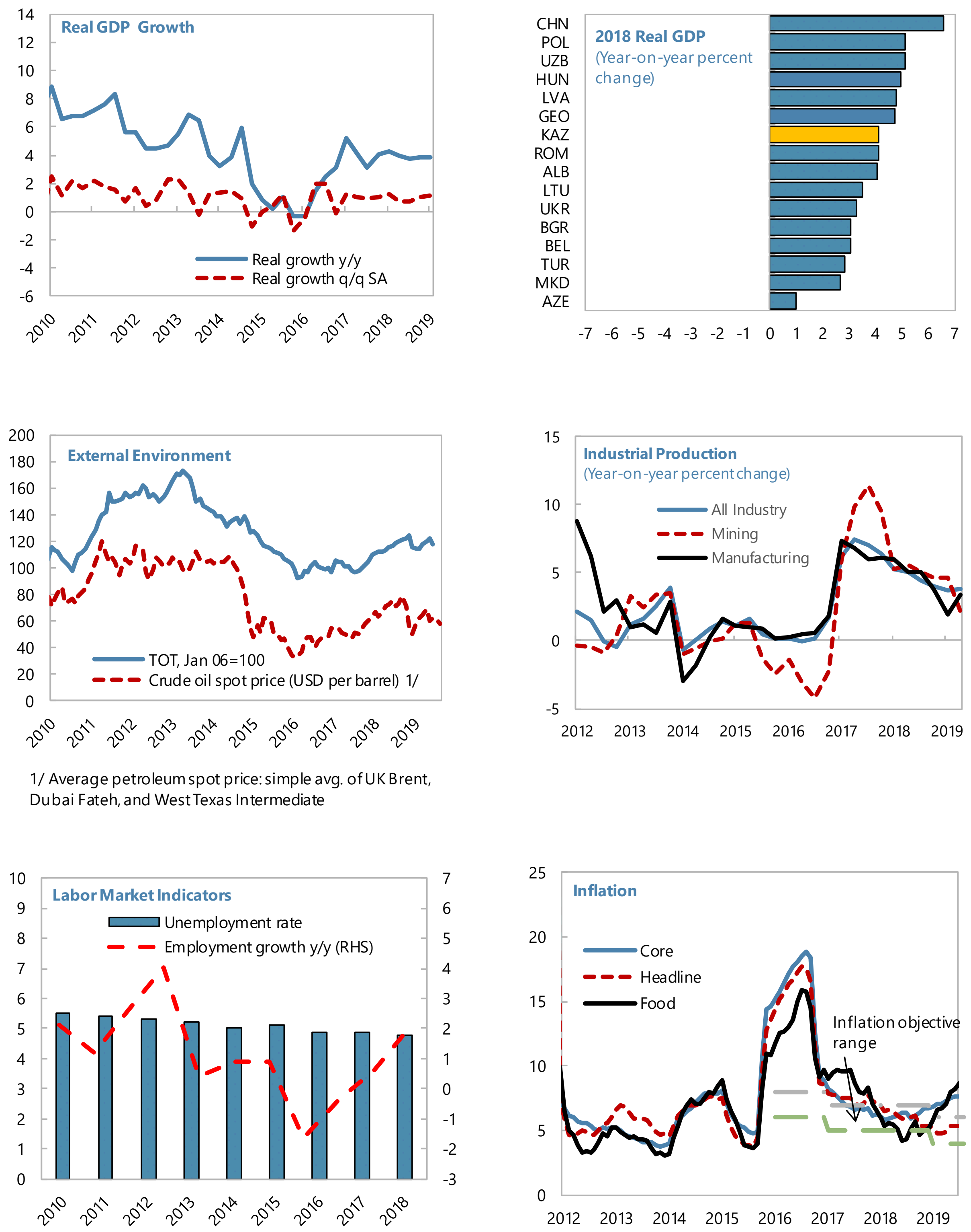
40. The aim to assess and upgrade the fiscal policy framework, including rules, is welcome. While the framework has provided guidance and helped sustain buffers, there are shortcomings and challenges. Changing the framework is multidimensional and complex and requires significant preparatory work. Changes should be guided by key principles of simplicity, broad coverage, flexibility, and enforceability. Upgrading the framework would benefit from an IMF PFM assessment and Fiscal Transparency Evaluation. Greater use of PPPs, conversion of spending units into independent legal entities, and subnational fiscal changes are complex and far-reaching initiatives, requiring careful planning and execution. IMF TA would also be helpful in these areas.

41. Maintaining structural reform momentum is critical for diversification and strong, sustainable, inclusive growth. The authorities are focused on the right areas: competition and investment; productivity; further improving the business climate; and governance and public administration. Careful monitoring of state programs is needed to ensure that they achieve the goal of creating a conducive environment for investment and growth. Conclusion of additional IPOs for blue-chip SOEs will send a strong signal and boost credibility. Enhancing protection of property rights and bankruptcy procedures is also important. Further efforts are needed to overcome structural constraints in agriculture.

42. Sound governance arrangements are also key to inclusive growth and reducing corruption risks. Progress is being made, but further gains are needed. Areas for further work include access to information, criminalization of additional corruption offences, revisiting the scope of immunities, and leveraging AML/CFT tools to support anti-corruption efforts. Asset declarations would benefit from enhanced verification and publication, while independence of key agencies should be strengthened. Judicial reforms will help strengthen property rights, rule of law, and investment.

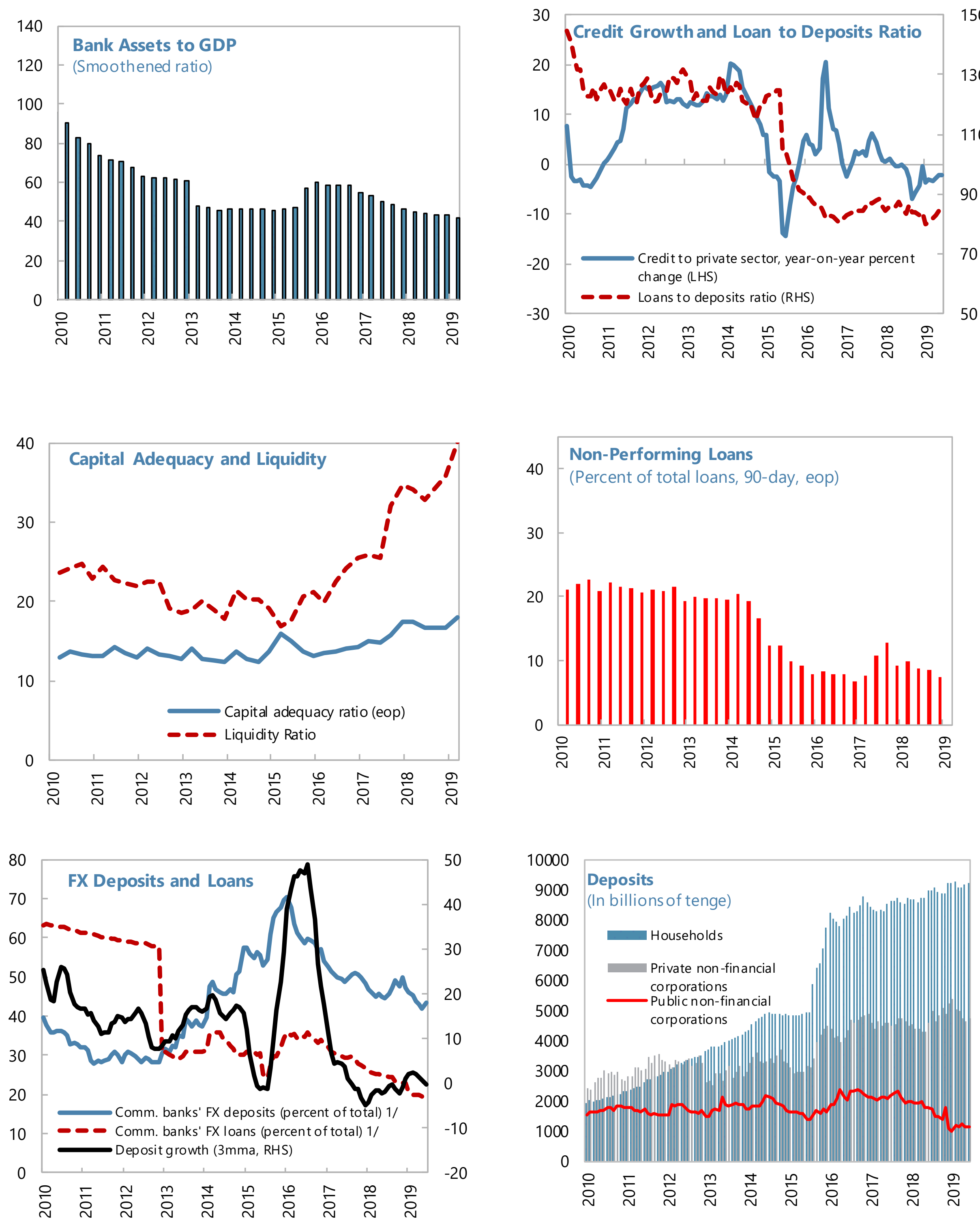
43. It is proposed that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 2. Kazakhstan: Economic Developments



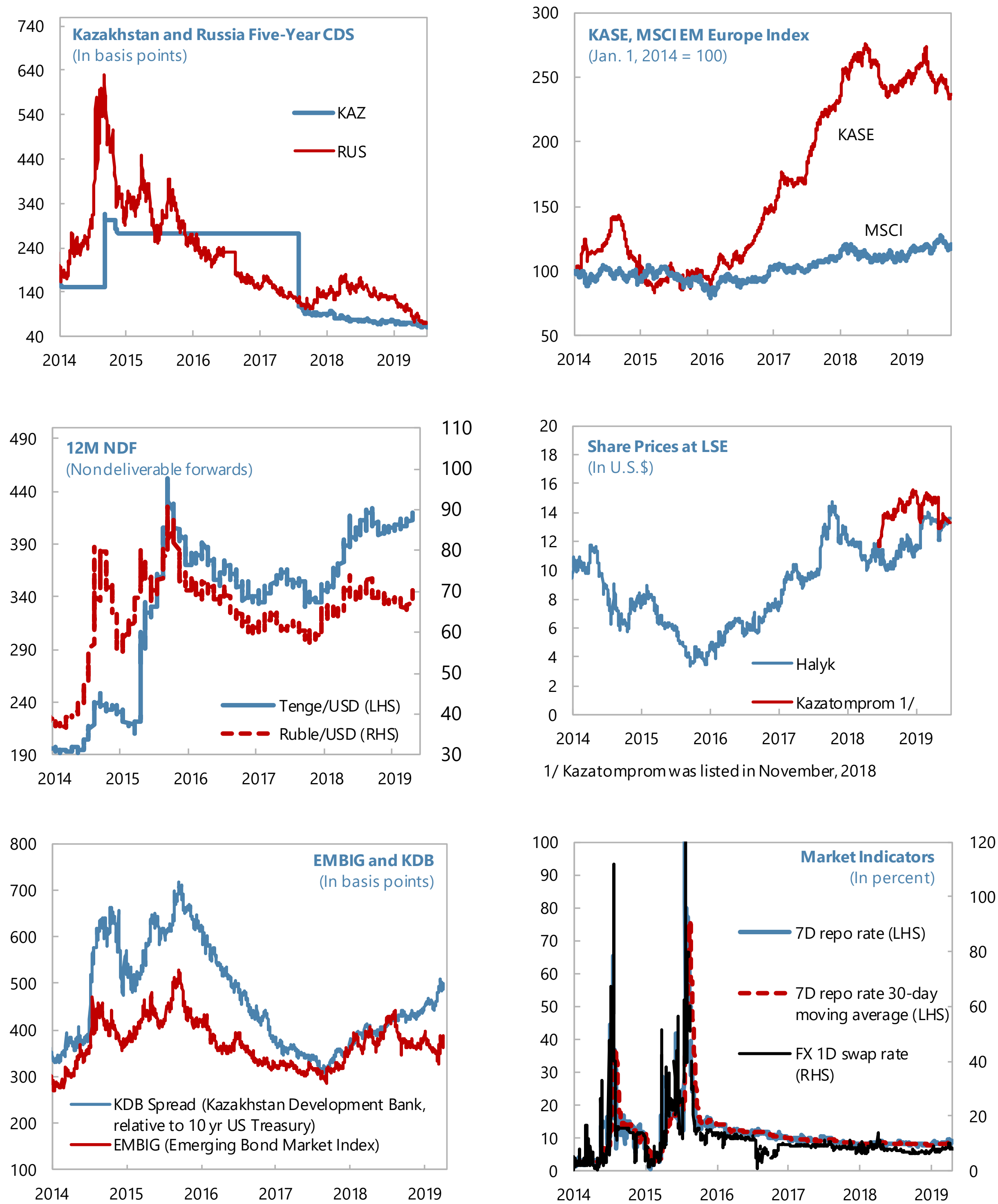
Source: Kazakhstani authorities and IMF staff estimates.

Figure 3. Kazakhstan: Banking Sector Developments



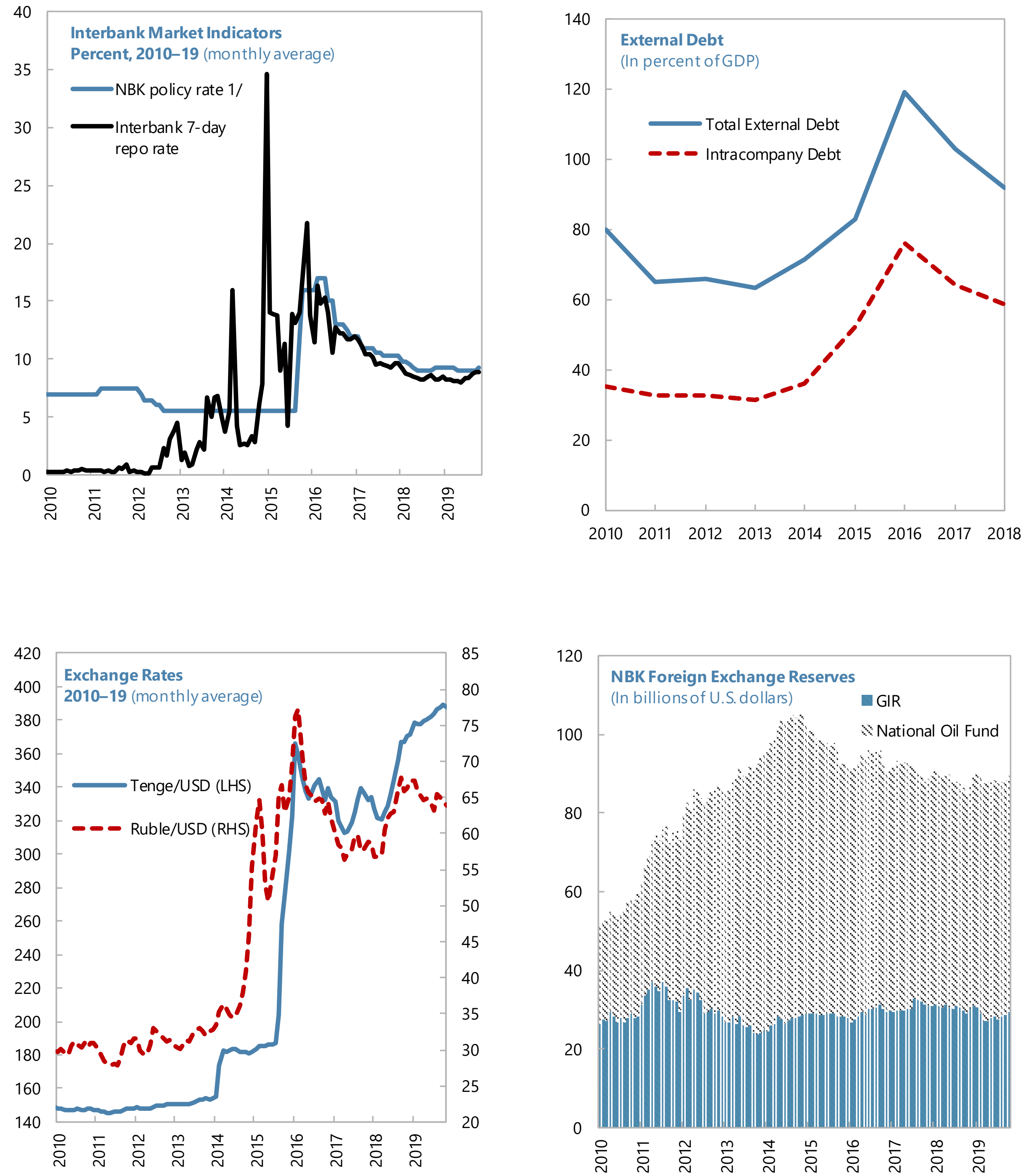
Source: Kazakhstani authorities and IMF staff estimates.

Figure 4. Kazakhstan: Capital Markets and Expected Default Frequencies



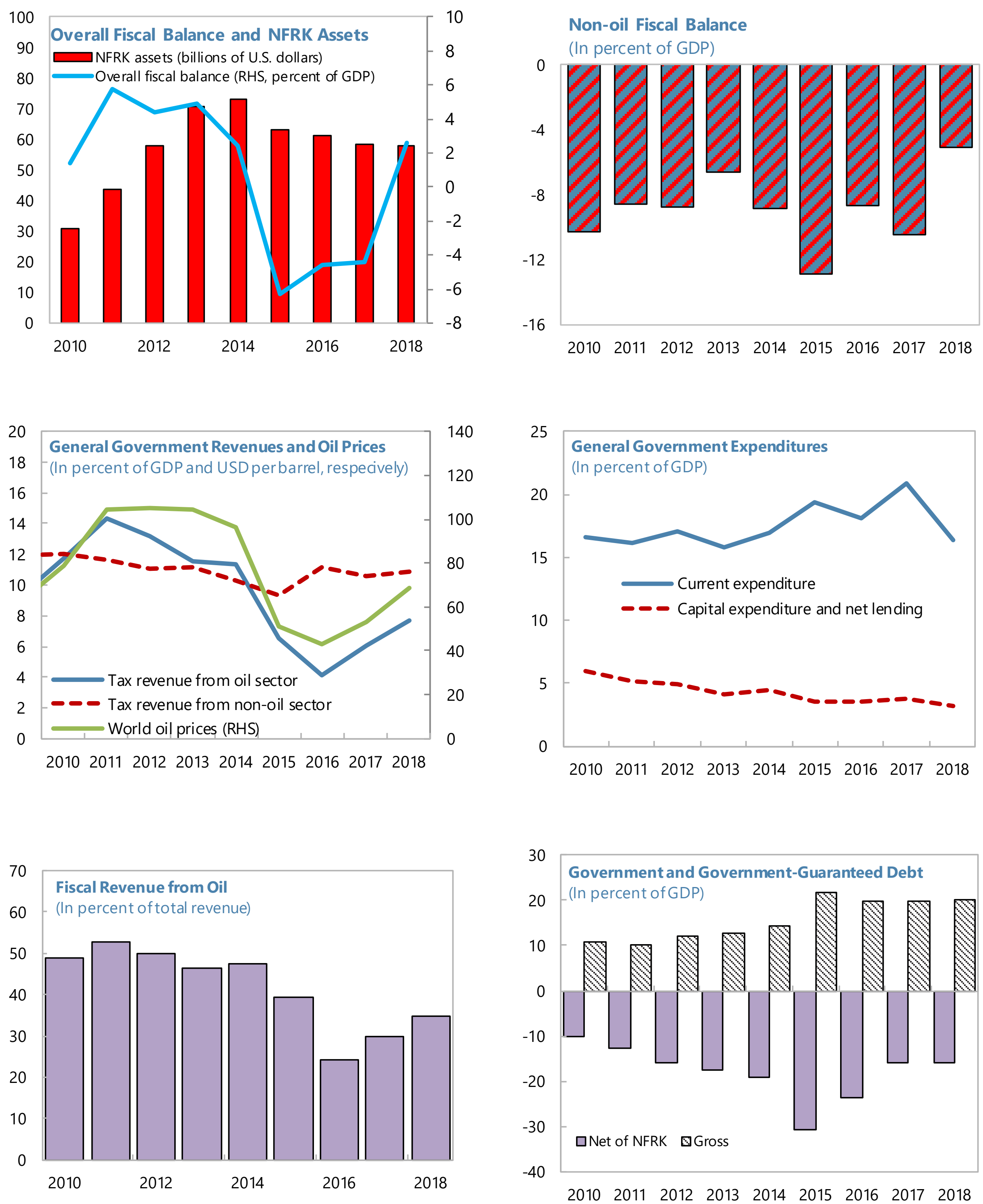
Source: Kazakhstani authorities and IMF staff estimates

Figure 5. Kazakhstan: Monetary and External Sector Developments



Source: Kazakhstani authorities and IMF staff estimates

Figure 6. Kazakhstan: Fiscal Sector Developments and Outlook



Source: Kazakhstani authorities and IMF staff estimates

Table 1. Kazakhstan: Selected Economic Indicators, 2016–25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Projections						
				(Annual percent change, unless otherwise indicated)						
National accounts and prices										
Real GDP	1.1	4.1	4.1	4.1	3.6	3.8	3.4	5.3	3.1	3.1
Real oil	-2.9	8.7	8.4	-0.3	0.0	1.4	0.4	10.0	0.0	-0.1
Real non-oil	2.4	2.7	2.7	5.6	4.8	4.5	4.3	4.0	4.0	4.0
Real consumption	1.6	1.4	2.5	6.4	4.3	4.1	3.6	3.4	3.0	3.0
Real investment	2.7	2.4	-0.6	4.3	5.1	4.1	4.5	5.5	4.7	4.8
Real exports	-4.3	6.5	12.3	1.2	2.0	3.1	2.5	7.8	2.3	2.3
Real imports	-1.8	-1.3	4.0	5.9	5.0	4.0	4.0	4.0	4.0	4.0
Output gap (in percent of potental GDP)	-1.7	-0.8	-0.2	0.3	0.2	0.1	-0.5	0.7	-0.1	0.0
Consumer price index (eop)	8.5	7.1	5.3	5.6	5.5	5.0	4.5	4.0	4.0	4.0
GDP deflator	13.6	11.2	9.2	5.0	4.4	4.4	5.1	5.2	5.4	5.8
Real effective exchange rate	-26.7	7.0	-0.8	…	…	…	…	…	…	…
				(In percent of GDP, unless otherwise indicated)						
General government fiscal accounts										
Revenues and grants	17.0	19.8	21.4	19.9	20.1	20.4	20.7	20.8	20.9	20.6
Oil revenues	4.1	5.9	7.4	6.8	6.4	6.1	5.8	5.8	5.8	5.3
Non-oil revenues	12.9	13.9	14.0	13.1	13.7	14.3	14.9	15.0	15.1	15.2
Of which : Income Tax	5.5	5.6	6.3	6.1	6.1	6.1	6.1	6.2	6.2	6.1
VAT	3.2	3.1	3.3	3.7	3.9	4.1	4.3	4.3	4.4	4.4
Expenditures and net lending	21.6	24.1	18.9	20.1	20.1	19.7	19.4	19.3	19.3	19.3
Current expenditure 1/	18.0	20.4	15.8	16.9	16.8	16.4	16.1	16.0	16.0	16.0
Of which : Wages	2.9	2.6	2.5	2.7	2.8	2.8	2.7	2.7	2.7	2.7
Goods and services	6.1	5.9	4.1	4.2	4.1	4.0	3.9	3.9	3.9	3.9
Capital expenditure	2.8	3.2	2.7	2.8	2.9	2.9	2.9	2.9	2.9	2.9
Overall fiscal balance	-4.5	-4.3	2.5	-0.2	0.1	0.6	1.3	1.5	1.6	1.3
Excluding the financial support to SOEs and banks	-4.5	-0.5	2.5	-0.2	0.1	0.6	1.3	1.5	1.6	1.3
Statistical discrepancy	-1.0	-0.4	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing 2/	3.6	3.9	0.3	0.2	-0.1	-0.6	-1.3	-1.5	-1.6	-1.3
Domestic financing	2.0	2.2	-0.5	2.4	2.0	1.6	1.7	1.8	1.8	2.1
Foreign financing	-0.1	-0.1	0.6	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3
NFRK (net)	1.6	1.7	0.2	-2.0	-1.9	-2.0	-2.7	-3.0	-3.1	-3.0
Gross public debt (percent of GDP)	19.7	19.9	20.3	20.7	21.0	20.7	20.5	20.0	19.9	19.9
Non-oil fiscal balance (percent of GDP)	-8.7	-10.2	-4.9	-7.0	-6.4	-5.4	-4.5	-4.4	-4.2	-4.1
Non-oil fiscal balance (percent of non-oil GDP)	-10.4	-12.6	-6.5	-9.1	-8.0	-6.6	-5.3	-5.2	-5.0	-4.7
Structural non-oil fiscal balance (percent of non-oil GDP)	-10.4	-7.7	-6.2	-9.0	-8.0	-6.7	-5.4	-5.2	-5.0	-4.7
				(Annual percent change, eop, unless otherwise indicated)						
Monetary accounts 3/										
Reserve money	8.7	7.3	20.1	2.8	6.9	7.5	7.2	9.6	8.3	8.8
Broad money	15.6	-1.7	7.0	0.8	5.6	5.8	5.3	8.0	7.7	8.6
Credit to the private sector	0.1	1.0	-0.2	3.4	8.8	9.9	10.1	11.8	9.7	10.0
Credit to the private sector (percent of GDP)	29.6	25.8	22.7	21.4	21.5	21.8	22.1	22.3	22.5	22.7
NBK policy rate (eop; percent) 4/	12.0	10.3	9.3	9.3	…	…	…	…	…	…
				(In billions of U.S. dollars, unless otherwise indicated)						
External accounts										
Current account balance (percent of GDP)	-5.9	-3.1	-0.2	-2.8	-2.8	-3.2	-3.4	-2.8	-3.0	-3.2
Exports of goods and services	41.6	53.8	67.1	64.3	63.1	63.7	65.2	70.6	72.9	75.3
Oil and gas condensate	19.3	26.6	37.8	33.1	31.4	30.2	29.7	33.1	33.1	33.2
Non-oil exports and services	22.3	27.2	29.3	31.3	31.7	33.5	35.5	37.5	39.8	42.1
Imports of goods and services	36.1	40.7	46.2	49.3	50.3	52.4	54.9	57.5	60.5	63.6
NBK gross reserves (eop)	29.7	31.0	30.9	29.5	30.6	32.0	33.5	35.0	36.9	38.7
NFRK assets (eop)	61.2	58.3	58.0	61.5	65.1	69.3	75.3	82.6	90.9	99.7
Total external debt (percent of GDP) 5/	119.0	100.2	88.5	91.2	87.0	82.5	78.4	72.5	68.7	64.8
Excluding intracompany debt (percent of GDP)	42.9	37.8	32.2	33.6	32.8	32.3	31.9	30.2	29.3	28.3
Memorandum items:										
Nominal GDP (in billions of tenge)	46,971	54,379	61,820	67,597	73,170	79,288	86,162	95,501	103,778	113,146
Nominal GDP (percentage change)	14.9	15.8	13.7	9.3	8.2	8.4	8.7	10.8	8.7	9.0
Nominal GDP (in billions of U.S. dollars)	137.3	166.8	179.3	176.6	188.3	204.1	221.8	245.8	267.1	291.2
Total Gross Transfers from the NFRK (in billions of U.S. dollars)	8.4	10.2	7.6	7.1	6.9	6.7	5.1	5.1	5.1	5.1
Crude oil, gas cnds. production (millions of barrels/day) 6/	1.60	1.77	1.86	1.85	1.85	1.88	1.88	2.07	2.07	2.07
Oil price (in U.S. dollars per barrel)	42.8	52.8	68.3	60.6	58.0	55.3	54.6	54.7	55.2	55.9

Sources: Kazakhstani authorities and IMF staff estimates and projections.

1/ For 2017 it includes the support of the banking sector of about $6.4 (4 percent GDP) billion.

2/ Does not include revenues from IPOs.

3/ The presentation of monetary accounts has been revised based on Standardized Report Form (SRF). Transactions carried out by the NBK on behalf of the 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).

4/ Refinancing rate through 2014 and base interest rate of the NBK from 2015. For 2019, latest available observation.

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

6/ Based on a conversion factor of 7.5 barrels of oil per ton.

Table 2. Kazakhstan: Balance of Payments, 2016–25
(In billions of U.S. dollars, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Projections						
				(In billions of USD)						
Current account	-8.1	-5.1	-0.3	-5.0	-5.3	-6.4	-7.5	-7.0	-8.1	-9.2
Trade balance	9.3	16.7	25.5	19.3	17.1	15.7	14.8	17.7	17.3	16.8
Exports (f.o.b.)	35.5	47.3	59.8	56.5	55.2	55.3	56.3	61.2	63.0	64.8
Oil and gas condensate	19.3	26.6	37.8	33.1	31.4	30.2	29.7	33.1	33.1	33.2
Non-oil exports	16.2	20.7	22.0	23.5	23.8	25.1	26.6	28.2	29.9	31.6
Imports (f.o.b.)	26.2	30.6	34.2	37.3	38.1	39.6	41.5	43.5	45.7	48.0
Non-oil, gas imports	26.2	30.6	34.2	37.2	38.0	39.6	41.5	43.5	45.7	48.0
Services and income balance	-17.2	-21.7	-26.7	-25.2	-23.3	-23.0	-23.2	-25.5	-26.0	-26.7
Services, net	-3.8	-3.6	-4.7	-4.2	-4.4	-4.5	-4.6	-4.7	-4.8	-5.0
Income, net	-13.5	-18.1	-22.1	-20.9	-18.9	-18.5	-18.6	-20.8	-21.2	-21.6
Of which: Income to direct investors	11.9	16.5	20.4	19.0	16.8	16.2	15.9	17.7	17.8	17.8
Current transfers	-0.2	-0.1	0.9	0.9	0.9	0.9	0.8	0.7	0.7	0.6
Capital account	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Financial account	-8.0	-6.8	1.1	-4.8	-5.1	-6.3	-7.4	-6.8	-7.9	-9.1
Foreign direct investment ("-"= inward)	-13.7	-3.8	-4.9	-6.4	-6.8	-7.3	-8.0	-8.9	-9.6	-10.5
Portfolio investment, net	0.7	-5.4	2.6	2.2	0.9	0.5	-0.5	-1.2	-2.0	-2.5
Of which: National Fund	-2.6	-5.8	-0.9	0.9	0.9	1.1	2.8	3.7	4.3	4.4
Other investment, net	5.1	3.6	4.7	0.7	-0.4	-0.9	-0.5	1.6	1.7	2.0
Reserve assets, net	-0.1	-1.4	-1.5	-1.4	1.1	1.4	1.5	1.6	1.9	1.7
Errors and omissions	-0.1	-2.1	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items: 1/				*(In percent of GDP)*						
Current account	-5.9	-3.1	-0.2	-2.8	-2.8	-3.2	-3.4	-2.8	-3.0	-3.2
Exports of goods	25.8	28.4	33.3	32.0	29.3	27.1	25.4	24.9	23.6	22.3
Oil exports	14.1	15.9	21.1	18.7	16.7	14.8	13.4	13.5	12.4	11.4
Non-oil exports	11.8	12.4	12.3	13.3	12.6	12.3	12.0	11.5	11.2	10.9
Imports of goods	19.1	18.3	19.1	21.1	20.2	19.4	18.7	17.7	17.1	16.5
				(Annual growth rate, in percent)						
Exports	-20.8	33.3	26.4	-5.4	-2.4	0.3	1.8	8.7	2.9	2.9
Non-oil exports	-10.3	28.0	6.1	6.7	1.3	5.7	5.9	5.8	6.0	5.8
Volume on non-oil exports	-0.9	14.9	1.9	6.0	5.0	5.0	5.0	5.0	5.0	5.0
Average price of non-oil exports	-9.5	11.4	4.1	0.7	-3.5	0.7	0.9	0.8	1.0	0.8
Imports	-21.0	16.5	12.0	8.8	2.1	4.2	4.7	4.8	5.2	5.0
Non-oil imports	-21.0	16.5	12.0	8.8	2.1	4.2	4.7	4.8	5.2	5.0
Volume on non-oil imports	-16.8	9.8	8.0	8.0	5.0	4.0	4.0	4.0	4.0	4.0
Average price of non-oil imports	-5.2	6.4	3.7	0.7	-2.7	0.2	0.6	0.8	1.1	1.0
Exports of oil and gas condensate (in MT)	62.2	68.7	69.8	73.0	72.4	73.0	72.8	80.9	80.2	79.5
NBK gross international reserves (in billions of U.S. dollars)	29.7	31.0	30.9	29.5	30.6	32.0	33.5	35.0	36.9	38.7
In months of next year's imports of g&n.f.s.	8.8	8.0	7.5	7.2	7.3	7.3	7.3	7.3	7.3	7.3
National Fund (including interest), e.o.p.	61.2	58.3	58.0	61.5	65.1	69.3	75.3	82.6	90.9	99.7
External debt in percent of GDP	119.0	100.2	88.5	91.2	87.0	82.5	78.4	72.5	68.7	64.8
Public external debt (percent GDP)	9.4	7.8	6.9	7.2	6.9	6.8	6.6	6.2	6.0	5.7
Private external debt (percent GDP)	109.6	92.5	81.7	83.9	80.1	75.8	71.7	66.3	62.7	59.0
Excluding inter-company loans (percent GDP)	42.9	37.8	32.2	33.6	32.8	32.3	31.9	30.2	29.3	28.3
World oil price (U.S. dollars per barrel)	42.8	52.8	68.3	60.6	58.0	55.3	54.6	54.7	55.2	55.9

Sources: Kazakhstani authorities and IMF 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, 2016–19 Q1

	2016	2017	2018	2019Q1
Capital adequacy		*(In percent)*		
Regulatory Capital to Risk-Weighted Assets	16.3	21.8	21.9	23.2
Regulatory Tier 1 Capital to Risk-Weighted Assets	14.3	17.5	16.8	17.9
Capital to Assets	11.1	12.5	11.8	12.2
Asset quality				
Non-performing Loans to Total Gross Loans	6.7	9.3	7.4	8.6
Provisions as percent of NPL	72.2	89.2	75.1	83.4
Non-performing Loans Net of Provisions to Capital	10.2	4.5	8.4	6.1
Large Exposures to Capital	248.1	158.7	142.2	…
Earnings and profitability				
Return on Assets	1.9	0.1	3.2	0.6
Return on Equity	17.9	1.3	25.6	4.6
Interest Margin to Gross Income	66.9	54.8	52.7	29.4
Trading Income to Total Income	4.0	-2.0	4.2	-0.4
Non-interest Expenses to Gross Income	42.9	34.4	42.4	20.8
Personnel Expenses to Non-interest Expenses	36.6	35.3	30.5	35.8
Liquidity				
Liquid Assets to Total Assets (Liquid Asset Ratio)	25.4	34.7	35.8	40.1
Liquid Assets to Short Term Liabilities	75.7	97.7	90.8	116.1
Foreign-Currency-Denominated Loans to Total Loans	39.9	26.5	23.3	20.4
Foreign-Currency-Denominated Liabilities to Total Liabilities	50.3	44.0	42.7	40.1
Customer Deposits to Total (Non-interbank) Loans	111.7	122.9	124.3	128.2
Sensitivity to market risk				
Gross Asset Position in Financial Derivatives to Capital	16.9	7.3	17.4	15.2
Gross Liability Position in Financial Derivatives to Capital	5.4	4.8	12.9	11.9
Net Open Position in Foreign Exchange to Capital	1.8	0.0	2.5	0.0
Memorandum items		*(In billions of USD)*		
Total Regulatory Capital	9.7	11.3	10.1	10.0
Total Assets	73.7	74.8	63.5	64.1
Risk-Weighted Assets	59.2	51.9	46.1	42.9

Source: IMF Financial Soundness Indicators (FSI) database.

Table 4. Kazakhstan: Monetary Accounts, 2016–25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections				
				(End of period, in billions of tenge)						
Monetary Survey										
Net Foreign Assets	10,857	11,489	13,329	13,523	14,080	14,772	15,528	16,369	17,310	18,225
Net Domestic Assets	9,361	8,470	7,948	7,916	8,525	9,125	9,607	10,729	11,840	13,404
Domestic Credit	15,594	14,937	14,784	13,772	14,638	15,718	16,897	18,417	19,813	21,400
of which										
Net claims on government	-297	823	317	-1,104	-1,574	-2,090	-2,677	-3,469	-4,171	-4,967
Credit to the private sector 1/	13,917	14,049	14,015	14,493	15,763	17,322	19,075	21,333	23,394	25,737
Other items, net	-6,234	-6,467	-6,837	-5,857	-6,113	-6,592	-7,290	-7,688	-7,974	-7,996
Broad money	19,799	19,456	20,813	20,976	22,141	23,434	24,672	26,634	28,686	31,166
Currency in circulation	1,749	1,946	2,260	2,471	2,675	2,899	3,150	3,492	3,794	4,137
Total deposits	18,050	17,510	18,553	18,504	19,466	20,535	21,522	23,142	24,892	27,029
Nonliquid liabilities	419	503	464	464	464	464	464	464	464	464
Accounts of NBK										
Net foreign assets 2/	10,054	10,190	12,230	11,821	12,237	12,775	13,359	13,964	14,697	15,377
Net international reserves 2/	9,652	9,993	11,579	11,171	11,587	12,125	12,708	13,314	14,046	14,726
Net domestic assets 2/	-4,398	-4,060	-4,445	-4,231	-4,095	-4,012	-4,108	-3,878	-3,838	-3,650
Net domestic credit	-1,971	-2,119	-2,589	-1,806	-1,688	-1,621	-1,601	-1,674	-2,059	-2,677
of which										
Net claims on central government	-967	-1,089	-1,746	-2,685	-3,000	-3,346	-3,735	-4,264	-4,732	-5,263
Net claims on banks	-1,818	-1,802	-1,592	130	495	824	1,149	1,489	1,467	1,261
Claims on non-financial public corporations	814	770	708	734	798	877	966	1,080	1,185	1,304
Credit to the private sector 1/	1	2	40	15	19	25	19	21	22	21
Other items, net	-2,427	-1,940	-1,856	-2,425	-2,407	-2,392	-2,508	-2,204	-1,779	-973
Reserve money	5,163	5,537	6,651	6,838	7,311	7,857	8,421	9,231	9,995	10,878
Currency in circulation	2,050	2,257	2,619	2,864	3,100	3,359	3,650	4,046	4,396	4,793
Liabilities to banks	2,680	2,691	3,264	3,243	3,433	3,640	3,873	4,206	4,546	4,956
Required reserves	2,311	2,315	2,608	2,326	2,441	2,565	2,705	2,911	3,139	3,422
Other liabilities	370	376	655	916	992	1,075	1,168	1,295	1,407	1,534
Demand deposits	432	589	768	732	779	859	898	979	1,053	1,128
Other liquid liabilities	493	587	1,113	731	811	885	809	835	843	829
Deposit money banks										
Net foreign assets	803	1,298	1,099	1,702	1,842	1,996	2,169	2,404	2,613	2,849
Net domestic assets	16,740	15,532	16,015	15,789	16,486	17,243	18,096	19,374	20,832	22,673
Domestic credit	20,833	20,016	20,581	20,964	21,961	23,086	24,355	26,168	28,115	30,510
of which										
Net claims on government	670	1,912	2,063	1,581	1,427	1,256	1,059	795	561	296
Credit to the private sector 1/	13,915	14,047	13,975	14,478	15,744	17,297	19,056	21,312	23,372	25,716
Net claims on other financial corporations	980	-1,277	-1,640	-1,640	-1,519	-1,600	-1,586	-1,568	-1,585	-1,580
Banks' reserves	4,999	4,997	5,595	6,021	5,708	5,479	5,144	4,870	4,949	5,199
Other items, net	-4,094	-4,485	-4,566	-5,175	-5,475	-5,843	-6,259	-6,794	-7,282	-7,838
Banks' liabilities	17,543	16,830	17,114	17,491	18,329	19,239	20,265	21,778	23,445	25,522
Demand deposits	4,603	4,487	5,214	5,416	5,570	5,734	5,919	6,233	6,908	7,532
Other deposits	12,521	11,847	11,457	11,632	12,316	13,063	13,903	15,103	16,094	17,547
Non-liquid liabilities	418	496	443	443	443	443	443	443	443	443
Memorandum items:										
Reserve money (percent change, y-o-y)	8.7	7.3	20.1	2.8	6.9	7.5	7.2	9.6	8.3	8.8
Broad money (percent change, y-o-y)	15.6	-1.7	7.0	0.8	5.6	5.8	5.3	8.0	7.7	8.6
Credit to private sector (percent change, y-o-y)	0.1	1.0	-0.2	3.4	8.8	9.9	10.1	11.8	9.7	10.0
Exchange rate KZT/USD (eop)	333.3	332.3	384.2	…	…	…	…	…	…	…
Exchange rate KZT/USD (period average)	342.1	326.0	344.7	…	…	…	…	…	…	…
Velocity of broad money	2.4	2.8	3.0	3.2	3.3	3.4	3.5	3.6	3.6	3.6
Money multiplier	3.8	3.5	3.1	3.1	3.0	3.0	2.9	2.9	2.9	2.9
Foreign currency liabilities (in percent of total liabilities)	50	44	43	…	…	…	…	…	…	…
Foreign currency loans (in percent of total loans)	40	26	23	…	…	…	…	…	…	…

Sources: Kazakhstani authorities and IMF 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, 2016–25 1/

(In billions of tenge)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Projections						
Total revenue and grants	7,989	10,779	13,246	13,429	14,724	16,156	17,834	19,882	21,698	23,286
Tax revenue	7,153	8,812	11,091	12,091	13,279	14,563	16,129	17,998	19,635	21,021
Oil 2/	1,934	3,213	4,592	4,570	4,694	4,807	4,963	5,584	5,993	6,036
Non-oil	5,220	5,599	6,499	7,521	8,586	9,756	11,165	12,414	13,642	14,985
Of which : Income Tax	2,567	3,072	3,900	4,102	4,457	4,818	5,295	5,934	6,457	6,914
VAT	1,496	1,665	2,034	2,511	2,869	3,265	3,722	4,130	4,550	5,027
Nontax revenue 3/	791	1,919	2,083	1,267	1,374	1,522	1,634	1,813	1,992	2,193
Grants	0	0	0	0	0	0	0	0	0	0
Total expenditure and net lending	10,125	13,119	11,672	13,592	14,679	15,648	16,715	18,467	20,060	21,854
Total expenditure	9,802	12,820	11,405	13,300	14,363	15,305	16,343	18,055	19,612	21,365
Current expenditure	8,477	11,095	9,748	11,438	12,267	13,034	13,875	15,319	16,640	18,125
Of which : Wages	1,360	1,395	1,515	1,795	2,035	2,191	2,363	2,574	2,776	2,999
Goods and services	2,873	3,202	2,507	2,809	2,967	3,136	3,322	3,682	4,001	4,362
Other Current Expenditures 4/	813	2,796	687	852	849	841	914	1,013	1,101	1,200
Net transfers to other levels of government	13	25	936	956	961	1,042	1,132	1,255	1,363	1,487
Capital expenditure	1,326	1,725	1,657	1,862	2,096	2,271	2,468	2,735	2,972	3,241
Net lending	323	300	267	292	316	342	372	412	448	489
Overall balance	-2,136	-2,340	1,573	-163	45	508	1,119	1,415	1,638	1,432
Statistical discrepancy	-461	-239	1,783	0	0	0	0	0	0	0
Financing	1,675	2,101	210	163	-45	-508	-1,119	-1,415	-1,638	-1,432
Domestic financing, net	948	1,177	-300	1,592	1,498	1,280	1,426	1,698	1,883	2,338
Foreign financing, net	-37	-37	369	-114	-150	-190	-232	-279	-328	-383
NFRK 5/	744	940	119	-1,337	-1,415	-1,620	-2,335	-2,855	-3,214	-3,408
Memorandum items:										
Nurly Zhol Package	1,104	1,529	…	…	…	…	…	…	…	…
Non-oil balance (in billions of tenge)	-4,070	-5,554	-3,019	-4,733	-4,648	-4,299	-3,844	-4,168	-4,355	-4,604
Non-oil balance (in percent of GDP)	-8.7	-10.2	-4.9	-7.0	-6.4	-5.4	-4.5	-4.4	-4.2	-4.1
Non-oil balance (in percent of non-oil GDP)	-10.4	-12.6	-6.5	-9.1	-8.0	-6.6	-5.3	-5.2	-5.0	-4.7
Non-oil revenues (in percent of non-oil GDP)	15.5	17.2	18.7	16.9	17.2	17.5	17.9	17.9	17.9	17.8
Structural Balance 6/	-2,136	-247	1,573	-163	45	508	1,119	1,415	1,638	1,432
excluding the Nurly Zhol Package	-1,031	1,282	1,573	-163	45	508	1,119	1,415	1,638	1,432
Structural Non-oil Balance 6/	-4,070	-3,460	-3,019	-4,733	-4,648	-4,299	-3,844	-4,168	-4,355	-4,604
excluding the Nurly Zhol Package	-2,965	-1,932	-3,019	-4,733	-4,648	-4,299	-3,844	-4,168	-4,355	-4,604
Gross public debt (percent of GDP) 7/	19.7	19.9	20.3	20.7	21.0	20.7	20.5	20.0	19.9	19.9
NFRK assets (in billions U.S. dollars)	61.2	58.3	58.0	61.5	65.1	69.3	75.3	82.6	90.9	99.7
Nominal GDP (in billions KZT)	46,971	54,379	61,820	67,597	73,170	79,288	86,162	95,501	103,778	113,146

Sources: Kazakhstani authorities and IMF 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 2017 support to the banking sector.

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

6/ 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, 2016–25 1/

(In percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Projections						
Total revenue and grants	17.0	19.8	21.4	19.9	20.1	20.4	20.7	20.8	20.9	20.6
Tax revenue	15.2	16.2	17.9	17.9	18.1	18.4	18.7	18.8	18.9	18.6
Oil 2/	4.1	5.9	7.4	6.8	6.4	6.1	5.8	5.8	5.8	5.3
Non-oil	11.1	10.3	10.5	11.1	11.7	12.3	13.0	13.0	13.1	13.2
Of which : Income Tax	5.5	5.6	6.3	6.1	6.1	6.1	6.1	6.2	6.2	6.1
VAT	3.2	3.1	3.3	3.7	3.9	4.1	4.3	4.3	4.4	4.4
Nontax revenue 3/	1.7	3.5	3.4	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	21.6	24.1	18.9	20.1	20.1	19.7	19.4	19.3	19.3	19.3
Total expenditure	20.9	23.6	18.4	19.7	19.6	19.3	19.0	18.9	18.9	18.9
Current expenditure	18.0	20.4	15.8	16.9	16.8	16.4	16.1	16.0	16.0	16.0
Of which : Wages	2.9	2.6	2.5	2.7	2.8	2.8	2.7	2.7	2.7	2.7
Goods and services	6.1	5.9	4.1	4.2	4.1	4.0	3.9	3.9	3.9	3.9
Other Current Expenditures 4/	1.7	5.1	1.1	1.3	1.2	1.1	1.1	1.1	1.1	1.1
Net transfers to other levels of government	0.0	0.0	1.5	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Capital expenditure	2.8	3.2	2.7	2.8	2.9	2.9	2.9	2.9	2.9	2.9
Net lending	0.7	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Overall balance	-4.5	-4.3	2.5	-0.2	0.1	0.6	1.3	1.5	1.6	1.3
Statistical discrepancy	-1.0	-0.4	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	3.6	3.9	0.3	0.2	-0.1	-0.6	-1.3	-1.5	-1.6	-1.3
Domestic financing, net	2.0	2.2	-0.5	2.4	2.0	1.6	1.7	1.8	1.8	2.1
Foreign financing, net	-0.1	-0.1	0.6	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3
NFRK 5/	1.6	1.7	0.2	-2.0	-1.9	-2.0	-2.7	-3.0	-3.1	-3.0
Memorandum items:										
Nurly Zhol Package	2.4	2.8	…	…	…	…	…	…	…	…
Non-oil balance	-8.7	-10.2	-4.9	-7.0	-6.4	-5.4	-4.5	-4.4	-4.2	-4.1
Non-oil balance (in percent of non-oil GDP)	-10.4	-12.6	-6.5	-9.1	-8.0	-6.6	-5.3	-5.2	-5.0	-4.7
Non-oil revenues (in percent of non-oil GDP)	15.5	17.2	18.7	16.9	17.2	17.5	17.9	17.9	17.9	17.8
Structural Balance 6/	-4.5	-0.5	2.5	-0.2	0.1	0.6	1.3	1.5	1.6	1.3
excluding the Nurly Zhol Package	-2.2	2.4	2.5	-0.2	0.1	0.6	1.3	1.5	1.6	1.3
Structural Non-oil Balance 6/	-8.7	-6.4	-4.9	-7.0	-6.4	-5.4	-4.5	-4.4	-4.2	-4.1
excluding the Nurly Zhol Package	-6.3	-3.6	-4.9	-7.0	-6.4	-5.4	-4.5	-4.4	-4.2	-4.1
Gross public debt 7/	19.7	19.9	20.3	20.7	21.0	20.7	20.5	20.0	19.9	19.9
NFRK assets (in percent of GDP)	44.6	35.0	32.3	34.8	34.6	34.0	34.0	33.6	34.0	34.2
Nominal GDP (in billions KZT)	46,971	54,379	61,820	67,597	73,170	79,288	86,162	95,501	103,778	113,146

Sources: Kazakhstani authorities and IMF 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 2017 support to the banking sector.

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

6/ 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, 2016–25

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections				
Oil GDP (Billion Tenge)	7987	10312	15611	15316	14871	14371	14238	15692	15839	15998
Oil GDP (Billion Dollars)	23.3	31.6	45.3	40.0	38.3	37.0	36.6	40.4	40.8	41.2
Oil GDP / Total GDP	*17.0*	*19.0*	*25.3*	*22.7*	*20.3*	*18.1*	*16.5*	*16.4*	*15.3*	*14.1*
Oil Production (Millions metric tons)	78.0	86.2	90.3	90.0	90.0	91.3	91.7	100.8	100.8	100.7
Oil Production (Millions barrels per day)	1.6	1.8	1.9	1.8	1.8	1.9	1.9	2.1	2.1	2.1
Oil Exports (Millions of USD)	19296	26584	37796	33080	31396	30183	29699	33062	33136	33220
Percentage of GDP	*14.1*	*15.9*	*21.1*	*18.7*	*16.7*	*14.8*	*13.4*	*13.5*	*12.4*	*11.4*
Percentage of Total Exports	*54.4*	*56.2*	*63.2*	*58.5*	*56.9*	*54.6*	*52.7*	*54.0*	*52.6*	*51.2*
WEO Oil Price	42.8	52.8	68.3	60.6	58.0	55.3	54.6	54.7	55.2	55.9
Oil Fiscal Revenues (Billion Tenge)	1934	3213	4592	4570	4694	4807	4963	5584	5993	6036
Oil Fiscal Revenues (Billion USD)	5.7	9.9	13.3	11.9	12.1	12.4	12.8	14.4	15.4	15.5
Percentage of GDP	*4.1*	*5.9*	*7.4*	*6.8*	*6.4*	*6.1*	*5.8*	*5.8*	*5.8*	*5.3*
Percentage of Total Revenues	*24.2*	*29.8*	*34.7*	*34.0*	*31.9*	*29.8*	*27.8*	*28.1*	*27.6*	*25.9*
NFRK					*(In billions of USD)*					
Assets	61.2	58.3	58.0	61.5	65.1	69.3	75.3	82.6	90.9	99.7
Inflows Total	4.5	11.2	14.7	10.5	10.6	10.9	11.2	12.5	13.4	13.9
Receipts from oil companies 1/	3.3	6.2	9.3	7.9	7.8	7.8	7.9	8.9	9.5	9.6
Investment income 1/	1.2	4.9	5.4	2.6	2.8	3.1	3.3	3.6	4.0	4.4
Outflows Total	10.1	6.3	0.2	7.1	6.9	6.7	5.1	5.1	5.1	5.1
Guaranteed Transfer To The Budget 2/	6.2	8.8	7.5	7.1	6.9	6.7	5.1	5.1	5.1	5.1
Targeted Transfers To The Budget 2/	2.2	1.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Net Income	1.7	-3.9	-7.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net addition to NFRK 3/	-2.2	-2.9	-0.3	3.5	3.6	4.2	6.0	7.3	8.3	8.8

Sources: Kazakhstani authorities and IMF staff estimates.

1/ The IMF staff framework (Table 5a and 5b) records export duties in addition to receipts from oil companies as oil revenues.

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

3/ Including valuation.

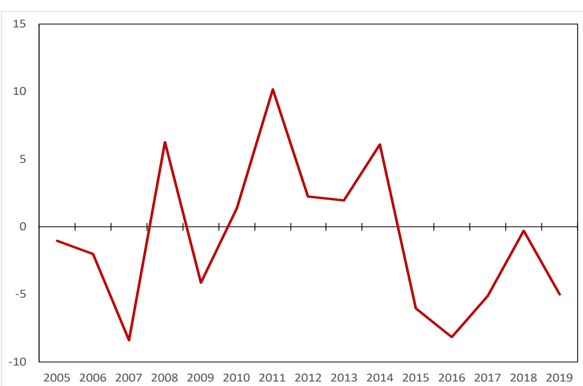
Annex I. External Sector Assessment

Kazakhstan's external position in 2019 is moderately weaker than implied by fundamentals and desirable policies. The current account deficit has increased due to higher imports and terms-of-trade deterioration. Reserves are at an adequate level for a floating ER regime. External debt is projected to decline further as a percent of GDP, but it remains vulnerable to ER depreciation.

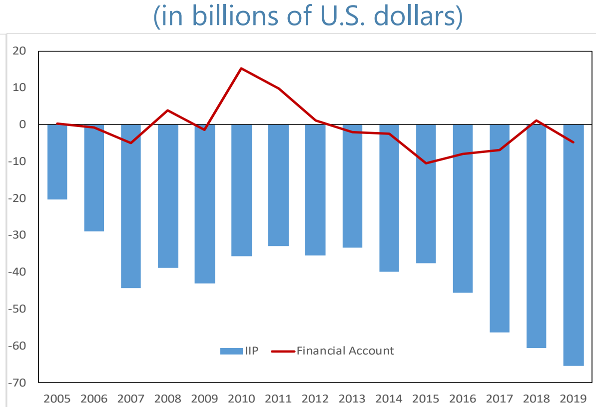
1. **Kazakhstan's net international investment position (NIIP) has stabilized.** In 2018, it reached $-61 billion (34 percent of GDP), compared to $-56 billion as of end-2017. The change was driven mainly by a sizable decrease in assets (by almost $13 billion), reflecting a reduction in residents' direct and portfolio investment. External liabilities also declined (by $8 billion) due to share buybacks and redemption of Eurobonds by Kazakh companies. As of end-June 2019, the NIIP stood at $-59 billion. Over 70 percent of liabilities to non-residents are related to direct investments in Kazakhstan, a mitigating factor.

2. **The current account was broadly in balance in 2018, but pressures have reemerged.** Expansion of production capacity and favorable prices gave a boost to exports of oil and gas, which increased by 42 percent last year. Non-oil exports rose by 6 percent, with growth spread across most product groups. The impact of the larger trade surplus on the current account was partially offset by a 24 percent increase in income payments related to FDI. Deterioration of the terms of trade since the beginning of 2019 has reversed the positive trend; the current account posted a deficit of $4.7 billion in January-September 2019 (2.7 percent of projected annual GDP). Under staff baseline projections, the current account will remain in deficit over the medium term, although there is significant uncertainty on the outlook due to commodity price volatility and other risks. Tighter fiscal policy and acceleration of structural reforms leading to increased productivity and higher non-oil exports would help contain the deficit.

Kazakhstan: Current Account Deficit
(in percent of GDP)



Kazakhstan: International Investment Position (IIP) and Capital Flows
(in billions of U.S. dollars)



Source: National Bank of Kazakhstan and IMF staff estimates.

3. **Staff assesses Kazakhstan's external position in 2019 as moderately weaker than implied by economic fundamentals and desirable policies.** The CA model of the IMF's EBA-lite framework estimates a (multilaterally-consistent) cyclically-adjusted current account norm of -0.9 percent of GDP, compared to an actual cyclically-adjusted balance of -3.0 percent of GDP, implying a gap of about -2.1 percentage points.[1] This translates into a REER overvaluation of about 9 percent using the standard export and import elasticities. The IREER model, on the other hand, suggests that the real exchange rate is undervalued by about 26 percent, but this result is strongly influenced by the demographic variables in the regression which have a longer-term impact. While staff's assessment is aligned with the results from the CA method, it is important to note that all models have limitations when applied to commodity exporters that face large swings in the terms of trade.

Kazakhstan: EBA-Lite CA Estimates

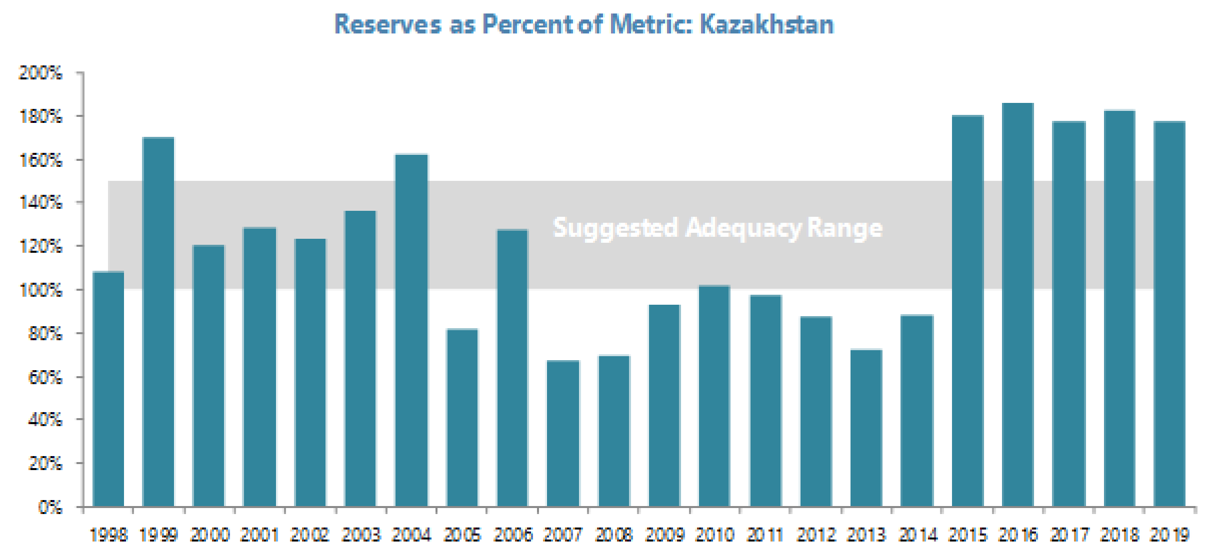
CA-Actual	-2.8%
Cyclical Contributions (from model)	0.2%
Cyclically adjusted CA	-3.0%
CA-Norm	-1.4%
Cyclically adjusted CA Norm	-1.5%
Multilaterally Consistent Cyclically adjusted CA Norm	-0.9%
CA-Gap	-2.1%
of/which Policy gap	2.7%
Elasticity	-0.2
REER Gap	8.8%
CA-Fitted	1.1%
Residual	-3.9%
Natural Disasters and Conflicts	-0.2%

4. **The real exchange rate has been on a depreciating trend.** Since mid-2018, the tenge has weakened, initially reflecting tightening of global financial conditions, and more recently, lower oil prices and domestic factors. The NBK has largely stayed out of the market and allowed the tenge to adjust.

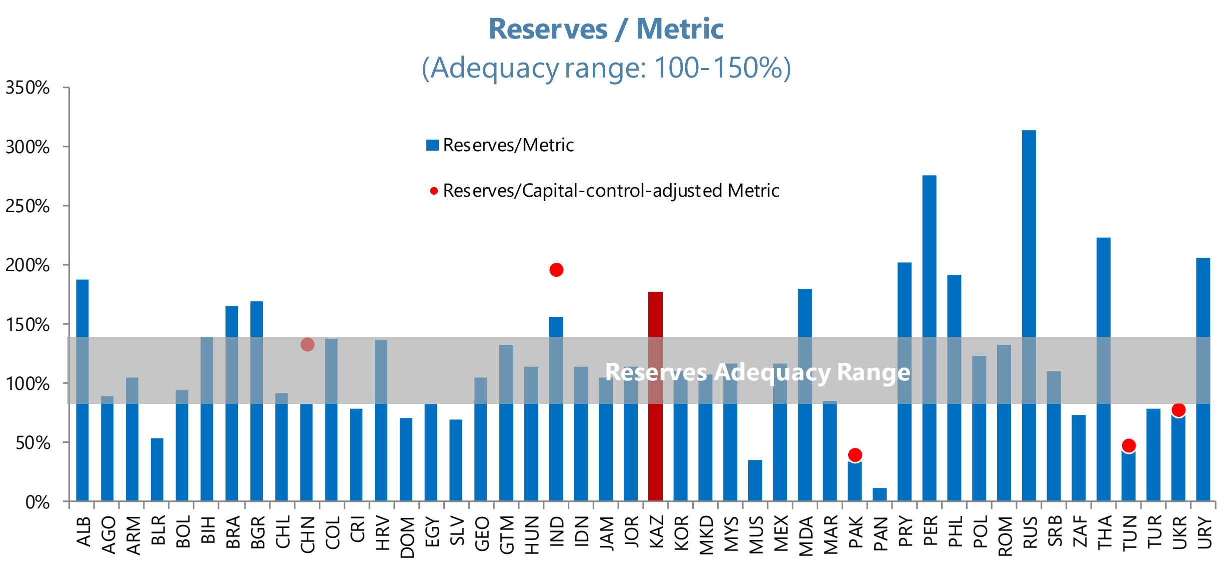
5. **Gross reserves exceed the suggested adequacy range for a country with a floating ER**. Based on the IMF's ARA methodology, in 2019 the NBK's gross reserves are projected to be above the suggested range of 100–150 percent of the metric, which is typical for commodity exporters. Reserves stood at close to $30 billion in October and covered about 7 months of imports of goods and services, over 200 percent of short-term debt and 50 percent of broad money. Since the beginning of 2019, reserves have declined, reflecting portfolio investment outflows and government

[1] The drivers of the positive policy gap are the level and growth of private credit (1.2 and 1.0 percent, respectively), and the fiscal balance (gap of 1.4 percent of GDP), reflecting a smaller deviation of Kazakhstan's fiscal deficit from its desirable level relative to the world-average deviation. The relatively-large residual (-3.9 percent) captures the deviation of the projected 2019 current account balance from the fitted value derived from the IMF's CA model. This deviation is largely explained by one-off factors affecting the current account in 2019, notably higher imports of capital goods related to major non-government investment projects (oil production, gas pipeline). Other factors—high wage growth in 2019 (+18 percent through Q3 versus 8 percent in 2018 and 5 percent in 2017) and strong retail lending growth (22 percent, versus 14 percent in 2018)—also contributed to higher imports. Imports of machinery, equipment, vehicles, and parts increased by $3.2 billion or 41 percent (1.8 percent of 2019 GDP) during January-October 2019 relative to same period of 2018. These factors—and their impacts on import growth—are expected to moderate from 2020, although oil prices will be lower and oil production flat.

and quasi-sovereign debt repayments, but they remain at a comfortable level. The assets of the NFRK, currently at $60 billion, provide an additional buffer.



Source: IMF staff calculations.



Source: IMF staff calculations.

6. **External debt has declined further but remains vulnerable to real ER shocks.** Total external debt declined by $8.4 billion in 2018, from 100.2 to 88.5 percent of GDP, mostly due to a reduction in private sector and SOE debt, including intracompany debt related to FDI. Staff baseline projections envisage a further decline of the debt ratio over the medium term. Debt remains sustainable, but sensitive to real ER shocks; a real depreciation of 30 percent would raise the debt ratio considerably—by over 30 percent of GDP more compared to the baseline scenario.

Table 1. Kazakhstan: External Sustainability Framework, 2014–24
(in percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2014	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	Debt-stabilizing non-interest current account 6/
Baseline: External debt	71.0	83.0	119.0	100.2	88.5			**91.2**	**87.0**	**82.5**	**78.4**	**72.5**	**68.7**	**-3.8**
Change in external debt	7.6	12.0	36.0	-18.7	-11.7			2.6	-4.1	-4.5	-4.2	-5.9	-3.9	
Identified external debt-creating flows (4+8+9)	0.9	16.5	32.6	-18.5	-6.9			-1.9	-1.1	-0.7	0.0	-1.8	0.0	
Current account deficit, excluding interest payments	-5.2	0.2	1.6	-1.0	-4.0			-1.3	-0.8	-0.2	0.3	-0.2	0.1	
Deficit in balance of goods and services	-13.4	-3.7	-4.0	-7.9	-11.6			-8.5	-6.8	-5.5	-4.6	-5.3	-4.7	
Exports	38.9	27.7	30.3	32.3	37.4			36.4	33.5	31.2	29.4	28.7	27.3	
Imports	25.4	23.9	26.3	24.4	25.8			27.9	26.7	25.7	24.7	23.4	22.7	
Net non-debt creating capital inflows (negative)	-0.4	-0.5	-0.7	-0.7	0.2			-1.0	-0.8	-0.8	-0.8	-0.9	-1.0	
Automatic debt dynamics 1/	6.5	16.8	31.8	-16.8	-3.1			0.4	0.5	0.3	0.5	-0.7	0.8	
Contribution from nominal interest rate	2.4	3.0	4.3	4.1	4.1			4.1	3.6	3.3	3.1	3.1	2.9	
Contribution from real GDP growth	-2.8	-1.0	-1.2	-4.0	-3.8			-3.7	-3.1	-3.0	-2.6	-3.8	-2.0	
Contribution from price and exchange rate changes 2/	6.9	14.8	28.7	-16.9	-3.4			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	6.7	-4.5	3.4	-0.2	-4.8			4.5	-3.1	-3.8	-4.1	-4.1	-3.8	
External debt-to-exports ratio (in percent)	182.5	300.0	392.8	310.8	236.7			250.2	259.9	264.6	266.8	252.5	251.4	
Gross external financing need (in billions of US dollars) 4/	10.6	20.4	19.3	17.3	13.9			18.9	18.5	19.6	21.4	21.5	22.9	
in percent of GDP	4.8	11.1	14.1	10.4	7.7	10-Year	10-Year	10.7	9.8	9.6	9.6	8.7	8.6	
Scenario with key variables at their historical averages 5/								**91.2**	**87.1**	**83.4**	**79.8**	**76.0**	**72.4**	**-0.7**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	4.2	1.2	1.1	4.1	4.1	4.1	2.4	4.1	3.6	3.8	3.4	5.3	3.1	
GDP deflator in US dollars (change in percent)	-10.2	-17.7	-26.4	16.7	3.3	0.2	16.7	-5.4	2.9	4.4	5.1	5.2	5.4	
Nominal external interest rate (in percent)	3.6	3.6	3.9	4.2	4.4	4.1	0.4	4.6	4.3	4.2	4.1	4.3	4.3	
Growth of exports (US dollar terms, in percent)	-5.5	-40.7	-18.5	29.4	24.7	2.7	28.8	-4.1	-2.0	1.0	2.3	8.3	3.3	
Growth of imports (US dollar terms, in percent)	-11.0	-21.7	-18.2	12.7	13.7	0.6	16.8	6.6	2.1	4.2	4.7	4.8	5.2	
Current account balance, excluding interest payments	5.2	-0.2	-1.6	1.0	4.0	2.8	2.8	1.3	0.8	0.2	-0.3	0.2	-0.1	
Net non-debt creating capital inflows	0.4	0.5	0.7	0.7	-0.2	0.5	0.3	1.0	0.8	0.8	0.8	0.9	1.0	

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.

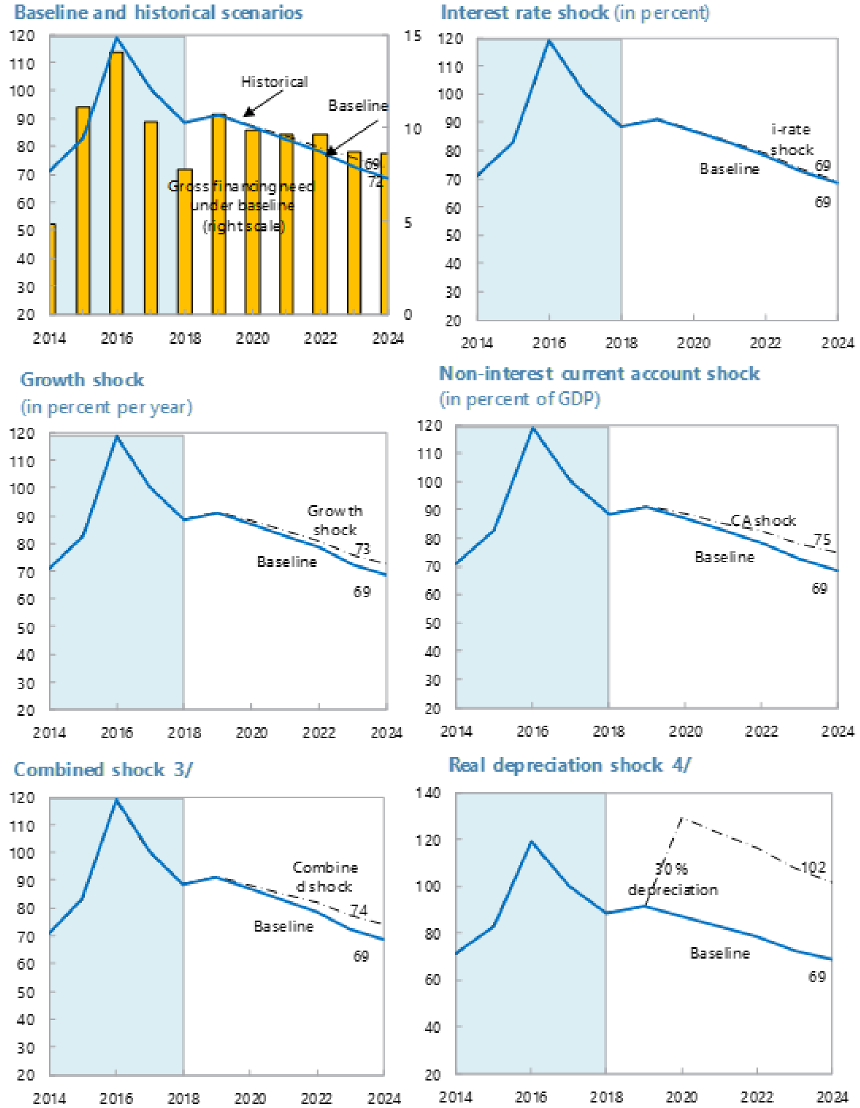
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

Figure 1. 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 2010.

Annex II. Public Debt Sustainability Analysis

Figure 1. Kazakhstan: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(in percent of GDP unless otherwise indicated)

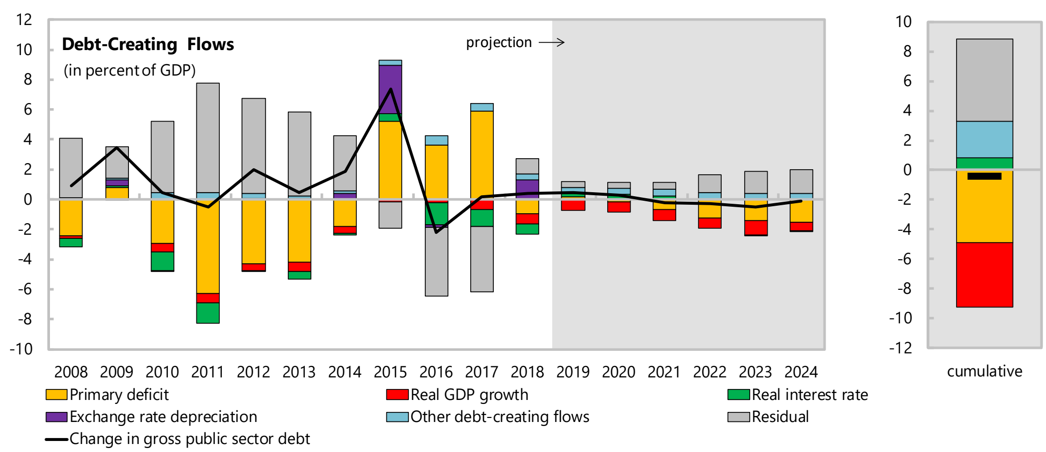
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	13.2	19.9	20.3	20.7	21.0	20.7	20.5	20.0	19.9
Of which: guarantees	0.5	0.9	1.1	1.0	0.9	0.8	0.8	0.7	0.6
Public gross financing needs	-0.2	4.5	-2.1	0.7	0.4	-0.2	-0.9	-1.1	-1.2
Public debt (in percent of potential GDP)	13.2	19.7	20.2	20.8	21.0	20.8	20.4	20.1	19.8
Real GDP growth (in percent)	4.1	4.1	4.1	4.1	3.6	3.8	3.4	5.3	3.1
Inflation (GDP deflator, in percent)	11.2	11.2	9.2	5.0	4.4	4.4	5.1	5.2	5.4
Nominal GDP growth (in percent)	15.8	15.8	13.7	9.3	8.2	8.4	8.7	10.8	8.7
Effective interest rate (in percent) [4/]	5.9	5.2	5.7	6.5	6.3	5.9	5.4	5.5	5.6

As of December 11, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		375
5Y CDS (bp)		61
Ratings	Foreign	Local
Moody's	Baa3	Baa3
S&Ps	BBB-	BBB-
Fitch	BBB	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.5	0.2	0.4	0.5	0.3	-0.2	-0.3	-0.5	-0.1	-0.4	
Identified debt-creating flows	-1.5	4.6	-0.6	0.0	-0.1	-0.7	-1.5	-2.0	-1.7	-6.0	
Primary deficit	-1.4	5.9	-0.9	0.1	-0.2	-0.7	-1.2	-1.4	-1.5	-4.9	-0.2
Primary (noninterest) revenue and grants	22.9	16.9	18.4	18.4	18.7	18.9	19.2	19.3	19.4	113.9	
Primary (noninterest) expenditure	21.5	22.7	17.5	18.5	18.5	18.2	18.0	17.9	17.9	109.0	
Automatic debt dynamics [5/]	-0.5	-1.8	-0.1	-0.5	-0.4	-0.5	-0.6	-1.0	-0.6	-3.6	
Interest rate/growth differential [6/]	-0.9	-1.8	-1.4	-0.5	-0.4	-0.5	-0.6	-1.0	-0.6	-3.6	
Of which: real interest rate	-0.5	-1.1	-0.7	0.2	0.3	0.3	0.0	0.0	0.0	0.8	
Of which: real GDP growth	-0.4	-0.7	-0.7	-0.8	-0.7	-0.7	-0.7	-1.0	-0.6	-4.4	
Exchange rate depreciation [7/]	0.4	0.0	1.3	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.3	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	2.4	
GG: Privatization Proceeds (negative)	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net lending	0.4	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4	2.6	
Residual, including asset changes [8/]	3.0	-4.4	1.0	0.4	0.4	0.5	1.2	1.5	1.6	5.6	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as state guaranteed debt or liabilities of state subsidiaries (5 percent as of July 2019).

2/ Based on available data.

3/ EMBIG.

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 = 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).

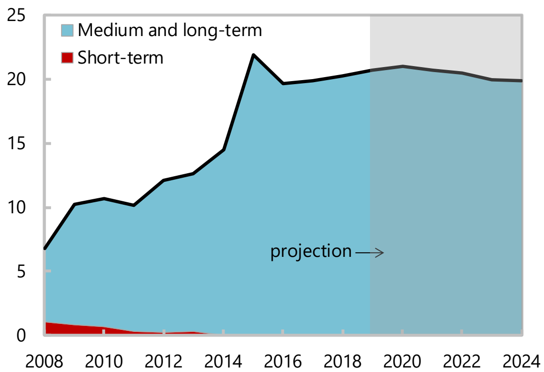
8/ Includes changes in the stock of guarantees, asset (including the NFRK) changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

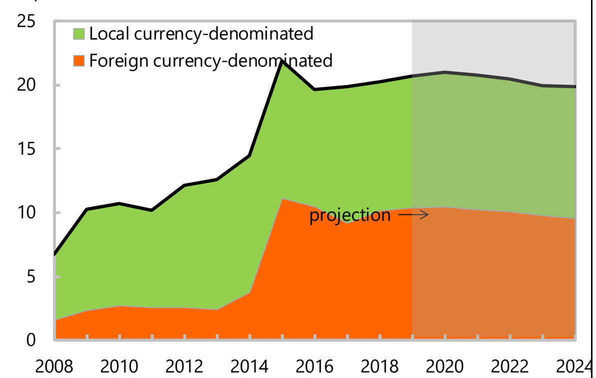
Figure 2. Kazakhstan: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



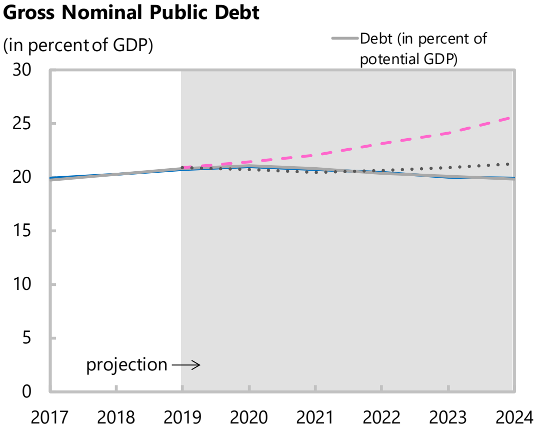
By Currency
(in percent of GDP)



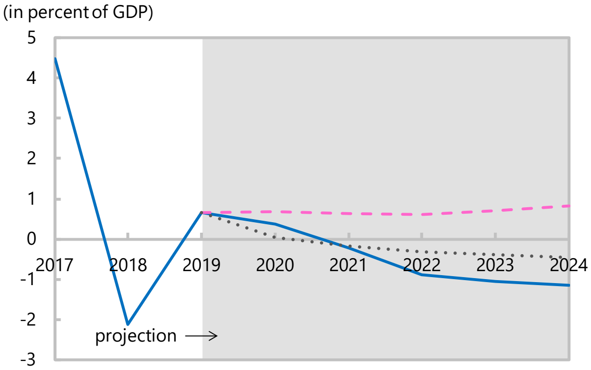
Alternative Scenarios

Baseline | Historical | Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	4.1	3.6	3.8	3.4	5.3	3.1
Inflation	5.0	4.4	4.4	5.1	5.2	5.4
Primary Balance	-0.1	0.2	0.7	1.2	1.4	1.5
Effective interest rate	6.5	6.3	5.9	5.4	5.5	5.6
Constant Primary Balance Scenario						
Real GDP growth	4.1	3.6	3.8	3.4	5.3	3.1
Inflation	5.0	4.4	4.4	5.1	5.2	5.4
Primary Balance	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Effective interest rate	6.5	6.3	5.9	5.5	5.8	6.0

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	4.1	4.1	4.1	4.1	4.1	4.1
Inflation	5.0	4.4	4.4	5.1	5.2	5.4
Primary Balance	-0.1	0.5	0.5	0.5	0.5	0.5
Effective interest rate	6.5	6.3	5.3	4.3	3.9	3.6

Source: IMF staff.

Annex III. Risk Assessment Matrix[1]

Risk	Likelihood/ Time horizon	Expected Impact if Risk Realized	Recommended Policy Response
Global risks:			
Rising protectionism and retreat from multilateralism.	**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, improving the business environment, and strengthening governance.
Sharp rise in risk premia.	**High/ Short Term**	**Low** Higher risk premia could cause higher debt service and refinancing risks, put pressure on leveraged firms and households, and ultimately depress growth.	Maintain fiscal sustainability by raising non-oil revenue and improving spending efficiency, strengthen financial stability, and ensure decisive implementation of structural reforms.
Weaker-than-expected global growth: • **U.S.** Structurally weak growth triggered by waning confidence and policy uncertainty. • **Europe.** Weak foreign demand and policy uncertainty, • **China.** Further escalation of trade tensions; growth slowdown.	 **Medium/ Short-Medium term** **High/ Short-Medium term** **High/ 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.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Risk	Likelihood/ Time horizon	Expected Impact if Risk Realized	Recommended Policy Response
• **Large stressed emerging economies.** Slow recovery generating negative spillovers and reducing global growth.	**Medium/ Short Term**		
Intensification of geopolitical tensions and security risks.	**High/ Short term**	**Medium** Disruptions in crude oil production may create upside risks for oil prices.	Allow the ER to adjust with the changes in economic fundamentals. Utilize the windfall oil revenue to strengthen fiscal space.
Large swings in energy prices.	**Medium/ Short-Medium Term**	**High** Volatile oil prices could cause external and ER pressures, as well as budgetary pressures, although the latter is somewhat mitigated by the NFRK transfer rule. Sharp drop in oil prices would also cause pressures on the financial sector via the ER and slower growth.	Allow the ER to adjust; use buffers to smooth short-term volatility if needed. Utilize available fiscal space to support activity, continue close monitoring of financial sector and SOE risks. Continue structural reforms to promote economic diversification.
Country-specific risks:			
Fiscal slippage, slowdown of reforms, and delays in privatization.	**Low-Medium/ Short-Medium Term**	**Medium** Loosening fiscal policy including due to potential further support to banks, 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. Implement safeguards to improve transparency and accountability.
Intensified geopolitical tensions.	**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.

Annex IV. Addressing Corruption Vulnerabilities and Improving the Rule of Law[1]

Governance gaps and corruption vulnerabilities may affect investment and growth in any country context. Kazakhstan has developed an ambitious reform agenda to address these challenges. In the context of the IMF's new Framework for Enhanced Engagement on Governance, this annex discusses anti-corruption policies and actions aimed at improving contract enforcement and protection of investor and property rights.

A. Corruption Vulnerabilities

1. **Economic developments worldwide and research have shown that governance weaknesses, including corruption, may involve significant costs and uncertainty, discouraging investment and hindering growth**.[2] Corruption may lead to higher direct costs for investors and the government, as well as delays and other indirect costs and inefficiencies.

2. **These detrimental effects are recognized in Kazakhstan's reform agenda**. The "100 Concrete Steps" reform initiative and the 2015–2025 National Anti-Corruption Strategy (NCAS) set out anti-corruption priorities. Responsibilities for detecting and preventing corruption are assigned to line ministries, the Accounts Committee, the National Bureau of Anti-Corruption (NBAC), and the Agency for Civil Service Affairs. The NBAC and the Prosecutor General (PGO) are primarily responsible for enforcement.

3. **While the legal framework for combatting corruption has evolved, harmonization would be helpful.** The primary anti-corruption laws are the 2015 Law on Combatting Corruption, the Criminal Code, and the Code of Administrative Offences. The Law on Combatting Corruption conceptualizes corruption, provides the mandate for relevant bodies, and articulates the main duties of public and private sectors in detecting and reporting corruption offenses, which are categorized in the Administrative and Criminal Codes. Delineation of administrative and criminal offenses could be made more precise to ensure consistent investigative approaches.

4. **Progress has been made in identifying vulnerabilities.** Financial disclosure is in place, covering candidates for public office, civil servants, heads of state-owned enterprises (SOEs), and spouses. Failure to submit a declaration or filing an incomplete or inaccurate declaration is an administrative offense. A move to universal declaration of income and property by all individuals is underway, and consideration is being given to some form of publication of declarations of high-level officials. The "100 Concrete Steps" includes actions on merit-based recruitment and promotion, performance-based salary increases, and establishment of a corruption-prevention unit.

[1] "Rule of law" is limited here to contract enforcement, investor protection, and protection of property rights.

[2] See, for example, IMF Staff Discussion Note, "Corruption: Costs and Mitigating Strategies" (2016), and The Bingham Centre for Rule of Law, "Risk and Return: Foreign Direct Investment and the Rule of Law" (2015).

Specific sectoral projects are underway in transport and education. The NBAC is conducting a risk assessment of Samruk Kazyna, the main state holding for SOEs. These efforts appear to be yielding positive results. A recent NBAC survey found that 54 percent of respondents reported lower corruption than the preceding year.

5. Preventive measures could be strengthened to reinforce civil service reforms. In particular, efforts should be made to target critical risks—notably, SOEs and subsoil contracts, with SOEs made subject to robust corporate-governance rules, compliance procedures, and fiscal regulations.

6. The definition of a bribery offense could be expanded. While bribery is the most frequently charged offense in corruption cases in Kazakhstan, definitional shortcomings may limit its applicability and constrain imposition of the full range of sanctions. The notion of a bribe in the Criminal Code is anchored to material or monetary advantages and not intangible benefits. Further, the offense is considered not completed without actual transfer of the bribe, limiting sanction or even liability.

7. Legal entities could be held more effectively liable for corruption. Under legal principles in Kazakhstan, legal entities may not be held criminally liable, although they may be held responsible for administrative infractions. The range of administrative corruption offences is narrow; administrative liability may apply only where actions do not contain evidence of a crime, and legal entities may be exempted from liability in instances where a criminal case is pursued. Finally, administrative liability is triggered only where an act was committed, authorized, or approved by an individual in a management capacity.

8. Enforcement actions often target lower-level officials. Some categories of high-level officials enjoy immunity (e.g., members of parliament). Nonetheless, there are instances of high-level officials who have been convicted (prime ministers, ministers and deputy ministers, presidential administration officials, heads of regional administrations).

9. Ensuring confiscation in corruption cases may facilitate recovery of proceeds. Progress has been made in clarifying the procedures for confiscation of criminal proceeds; however, confiscation is not mandated in corruption cases, but left to the discretion of the court.

10. AML/CFT tools should be better leveraged to support anti-corruption efforts. Pursuant to AML/CFT international standards, individuals, such as politically-exposed persons (PEPs), who may be exposed to corruption risks by their position or standing, should be subject to a higher degree of scrutiny by institutions of appropriate independence and capacity. The AML/CFT regime also promotes transparency of corporate ownership and calls for identification of ultimate beneficiaries of assets and financial transactions. However, Kazakhstan's legal framework only partially provides for the application of these tools. In addition, although the AML/CFT Law requires identification of beneficial owners of accounts and transactions, the availability of accurate and current beneficial ownership information is incomplete. Finally, provisions in the AML/CFT law requiring financial institutions to implement enhanced due diligence measures for domestic PEPs should be brought into line with international standards.

11. Recent actions may help address some issues, but further progress is needed. In late November 2019, President Tokayev signed a decree amending legal acts related to the civil service and corruption to introduce personal responsibility (up to resignation) of senior management (e.g., ministers, regional governors), in case their subordinates are convicted of corruption. In addition, anti-corruption centers are being opened—in three regions already, with more to follow. The centers are intended to facilitate dialogue between civil society and state bodies. These efforts notwithstanding, anti-corruption reforms remain focused on improving the effectiveness of public administration; further targeting of corruption vulnerabilities among the riskiest categories of officials and sectors would be welcome.

B. Rule of Law: Contract Enforcement and Property Rights

12. A reliable judicial system is key to enforcing contracts and protecting property rights. Investor behavior may be affected by protection of investor and property rights, including the predictability and timeliness of enforcement and the quality of the judiciary, in terms of technical capacity and independence from outside influence or interference. Strong contract enforcement may instill confidence in investors on protection of assets, enforcement of rights, and upholding of agreements.[3]

13. Kazakhstan has embarked on ambitious plans to modernize its judiciary. The "100 Concrete Steps" includes measures to ensure rule of law, including actions to strengthen qualification and selection of judges and to improve judicial accountability. The High Judicial Council (HJC) plays a key role in recruitment, appointment, and disciplining of judges. To improve recruitment, a digitalized scoring process has been introduced and the qualification exam made more rigorous. Judicial salaries have been increased. Following recommendations by the European Commission's Venice Council, the HJC has also enacted changes to separate performance evaluation from reversal rates and to develop objective criteria for assessment of judicial candidates and judges. Further efforts are needed to ensure that judges are well protected from undue influence or reversal, including the right to challenge any verdict issued by any court, civil or criminal.

14. Boosting foreign investment (FDI) is an important pillar of the reform agenda, and there have been important developments in dispute resolution in this area. Elements of the authorities' efforts to attract FDI include a Coordination Council on Investment Attraction under the Prime Minister, who also serves as Investment Ombudsman and Chairman of the Board of KazakhInvest, an investment promotion entity. A Foreign Investors' Council has served as a platform for dialogue between the state and investors for years. In 2018, the Astana International Financial

[3] See, for example, Hewko, John, "Foreign Direct Investment: Does Rule of Law Matter?" (2002).

Center (AIFC) was launched to support investment-promotion activities. AIFC incorporates important new dispute resolution mechanisms (court, arbitration). Although Kazakhstan's standing in international business environment and competitiveness assessments has improved significantly in recent years, judicial quality and integrity continue to be cited in surveys as important impediments.[4] Also, some high-profile international arbitration disputes involving foreign investors may have contributed to investor uncertainty.[5] Partly reflecting these concerns, AIFC has been tasked with serving as an additional interlocutor and platform for foreign investors; its dispute-resolution mechanisms are in place, but have not yet been thoroughly tested.

C. Recommendations

- The NCAS should include measurable benchmarks at the national, ministerial, and agency levels to facilitate monitoring.
- Risk assessment and analysis should prioritize high-risk activities, sectors, entities, and officials.
- The application of the Criminal and Administrative Codes should be clarified and harmonized, where needed. The legal framework should be updated to ensure public access to information and whistleblower protection, and bribery should be criminalized in line with international standards, including offering and solicitation of bribes and tangible and intangible benefits.
- Legal entities, including SOEs, should be held liable for the full range of corruption offenses, as well as money laundering, and regardless of proceedings against individuals. The level of authority of those whose conduct triggers liability should be flexible and not limited to managers, and liability should be triggered for failure to supervise or to implement adequate internal controls.
- Confiscation should be mandatory in corruption cases.
- The scope of immunity should be re-considered. Immunity from criminal prosecution should not apply when officials are acting outside of or misusing their positions to engage in corruption and financial crime.
- The AML/CFT should be further aligned with international standards, in particular, to ensure the implementation of enhanced due diligence measures for PEPs, and improve the transparency of the beneficial owners of assets.
- Enhance training and capacity building for judges on arbitration and commercial law.

[4] World Bank, "Kazakhstan Systemic Country Diagnosis: A New Growth Model for Building a Secure Middle Class" (2018). *See also* US State Department Investment Climate Statement 2019.

[5] https://investmentpolicy.unctad.org/investment-dispute-settlement/country/107/kazakhstan/investor.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

December 19, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

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

CONTENTS

RELATIONS WITH THE FUND ____ 2

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS ____ 6

STATISTICAL ISSUES ____ 7

RELATIONS WITH THE FUND

(As of October 31, 2019)

Membership status:

The Republic of Kazakhstan joined the IMF on July 15, 1992. It accepted the obligations of Article VIII, Sections 2, 3, and 4 in 1996.

General Resources Account:

	SDR Million	Percent of 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	352.41	102.55

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. Policy interventions by the National Bank of Kazakhstan (NBK) on the foreign exchange market are not systematic and are triggered exclusively by the need to smooth out sharp destabilizing fluctuations. The NBK started publishing monthly data on net foreign exchange interventions on a regular basis from 2016. Kazakhstan has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restriction on the making of payments and transfers for current international transactions.

Article IV Consultation:

Kazakhstan is on the standard 12-month consultation cycle. The last consultation was concluded by the IMF Executive Board on September 12, 2018 (see IMF Country Report No. 18/277).

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 the latest 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 1993-2019. 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 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 exchange rate 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.
14. November 2018: Forecasting and Policy Analysis System.
15. August 2019: Forecasting and Policy Analysis System.

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.
5. April-May 2019: Accrual budgeting.
6. September 2019: Improving Tax Compliance Risk Management.

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.
9. October 2018: National accounts statistics.
10. September 2019: 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 OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: https://www.worldbank.org/en/country/kazakhstan

European Bank for Reconstruction and Development: https://www.ebrd.com/kazakhstan.html

Asian Development Bank: https://www.adb.org/countries/kazakhstan/main

STATISTICAL ISSUES

(As of November 2019)

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 making the coverage of the business register more comprehensive. Annual estimates of the 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. It is also in the process of updating the method used to compile volume movements for taxes on products used to construct movements in real GDP. Despite further progress being made on both issues prior to and following the most recent TA mission in October 2018, a target date to publish discrete quarterly GDP estimates by June 2019 was missed, partly due to staff turnover; further TA is scheduled (March 2020) to assist in pushing developments forward.
Price statistics: Kazakhstan compiles consumer, producer, and import/export prices indices. The quality of the monthly consumer price index 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: While the nationally based budget data do not follow international standards, progress is gradually being made in the classification of the fiscal statistics to align with the Fund's Government Finance Statistics Manual 2014 (GFSM 2014). 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, State Social Insurance Fund, and the Compulsory Health Insurance Fund. Consequently, the authorities are now able to report annual data for the consolidated general government, including a financial balance sheet. However, statistics on the enlarged government (including public enterprises) are not available. Classification of assets and liabilities does not fully comply with GFSM 2014.

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. Kazakhstan reports data on several indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
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 NBK is reporting quarterly BOP and IIP data in line with the sixth edition of the IMF Balance of Payments Statistics Manual (BPM6) and the Reserves Template. It also participates in the World Bank's Quarterly External Debt Statistics (QEDS). 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 and introduces stronger reporting requirements for financial transactions. 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. 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 November 29, 2019)

	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	Nov/29/2019	11/29/2019	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct/2019	11/29/2019	M	M	M		
Reserve/Base Money	Oct/2019	11/25/2019	M	M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	Oct/2019	11/25/2019	M	M	M		
Central Bank Balance Sheet	Oct/2019	11/29/2018	M	M	M		
Consolidated Balance Sheet of the Banking System	Oct/2019	11/25/2019	M	M	M		
Interest Rates[2]	Oct/2019	11/25/2019	M	M	M		
Consumer Price Index	Oct/2019	11/4/2019	M	M	M	O, O, O, O	O, O, LO, O, O
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	10/1/2019	10/30/2019	M	M	M	O, LO, LO, LO	O, O, O, O, LNO
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	10/1/2019	10/30/2019	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	10/1/2019	10/25/2019	M	M	M		
External Current Account Balance	Q3/2019	11/8/2019	Q	Q	Q	LO, O, O, O	O, O, O, O ,O
Exports and Imports of Goods and Services	Q3/2019	11/8/2019	Q	Q	Q		
GDP/GNP	Q3/2019	11/15/2019	Q	Q	Q	O, O, O, LO	LO, O, LO, O, O
Gross External Debt	Q2/2019	9/30/2019	Q	Q	Q		
International Investment Position[6]	Q2/2019	10/10/2019	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.