

**Republic of Kazakhstan: 2007 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2007 Article IV consultation with the Republic of Kazakhstan, the following documents have been released and are included in this package:

- the staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on April 26, 2007, with the officials of the Republic of Kazakhstan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 1, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF; and
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its June 27, 2007 discussion of the staff report that concluded the Article IV consultation.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

**Staff Report for the 2007 Article IV Consultation**

Prepared by Staff Representatives for the  
2007 Consultation with the Republic of Kazakhstan

Approved by David Owen and Scott Brown

June 1, 2007

- Article IV consultation discussions were held April 16–27 with Prime Minister Massimov, Deputy Prime Minister Mussin, National Bank of Kazakhstan (NBK) Governor Saidenov, other officials, and the private sector. The staff team comprised Messrs./Mmes. Husain (head), Laframboise, Ter Martirosyan, Vtyurina (all MCD), and Lohmus (MCM). Messrs. Khan, Owen (both MCD), Kiekens, and Saudabaev (both OED) joined the discussions.
- Kazakhstan accepted the obligations of Article VIII, Sections 2, 3, and 4 in 1996 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The exchange rate regime is a managed float; de facto flexibility against the dollar, after declining in the second half of 2006, has picked up again in 2007.
- The authorities subscribe to the SDDS and the provision of data is adequate for surveillance purposes.

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## EXECUTIVE SUMMARY

The 2007 Article IV consultation discussions with Kazakhstan focused on the appropriate policy response to mounting banking sector risks and continuing inflationary pressures.

### **Background**

Kazakhstan's key challenge is management of sharply rising oil revenues and capital inflows. Impressive macroeconomic performance continued in 2006, with real GDP expanding by 10.6 percent—the seventh consecutive year of growth near or above 10 percent. The fiscal position, supported by buoyant oil and nonoil revenues, is very strong, though tax cuts and an acceleration in spending will narrow the overall surplus in 2007. Banking sector risks are mounting and inflation remains relatively high. Credit growth has accelerated to almost triple digits, fueled by an increase of \$18 billion (22 percent of GDP) in banks' external obligations in 2006, and inflation looks likely to pick up again.

### **Authorities' views**

The authorities intend to continue raising policy interest rates gradually and will reassess reserve requirements in mid-July, with a view to raising them later in the year. They expect the exchange rate to strengthen further, helping dampen inflation.

They are also considering tightening prudential regulations further to stem risks. The Financial Supervision Agency's (FSA) powers have been enhanced and a sizable increase in its resources is expected shortly.

The fiscal stance in 2007 strikes a balance between increased spending—to meet pressing social and infrastructure needs—and saving for future generations. Steps to improve spending efficiency and quality are being taken.

### **Staff recommendations**

Monetary tightening and exchange rate appreciation are needed to contain risks and dampen inflation. Staff recommended early action to increase reserve requirements, possibly with a wider differential between requirements on external versus domestic liabilities. A stronger and more flexible tenge will also bring inflation down and curb speculative inflows.

Additional prudential tightening will help strengthen banks' capacity to manage risks and weather shocks. Staff suggested tougher provisioning regulations and/or higher risk weights. Banking supervision needs to be enhanced to ensure compliance with prudential regulations.

The fiscal position remains comfortable, but the acceleration of public spending in 2007 exacerbates the burden on monetary and exchange rate policies to keep inflation from rising. Further measures to enhance the efficiency of spending are needed.

## I. BACKGROUND

### A. Overview

1. **Kazakhstan has sustained very strong macroeconomic performance since the start of the decade.** Annual real GDP growth has averaged over 10 percent and per capita incomes have now reached about five times the 1999 level in dollar terms. Employment has expanded steadily and social indicators have improved. The fiscal position has remained very strong, permitting substantial increases in public expenditures, especially social and infrastructure spending, as well as an accumulation of large savings in the National Fund (NFRK) for future generations.

2. **The key near-term policy challenges facing Kazakhstan are mounting vulnerabilities in the banking sector and continuing inflationary pressures** as the authorities cope with sharply rising oil revenues and capital inflows. Accordingly, the discussions focused on:

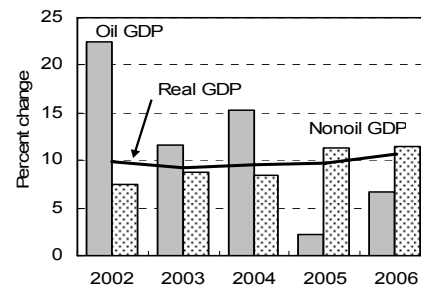
- the appropriate stance of monetary and exchange rate policies in order to slow the pace of bank credit growth and external borrowing, and dampen inflation;
- prudential measures to strengthen banking system stability and banks' capacity to absorb shocks; and
- the authorities' plans in the fiscal and structural areas.

3. **In previous consultations, the Fund has commended Kazakhstan's prudent policies.** It has called for tighter monetary policy and prudential regulations, as well as increased exchange rate flexibility and appreciation, to dampen inflation, mitigate risks in the banking sector, and support the authorities' fiscal policy plans. The authorities have implemented most of the recommendations, but more gradually than suggested.

### B. Recent Developments

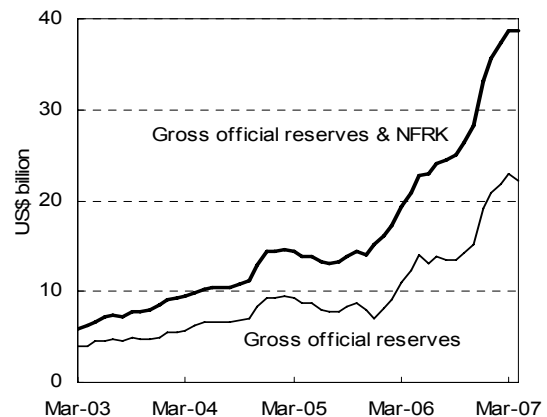
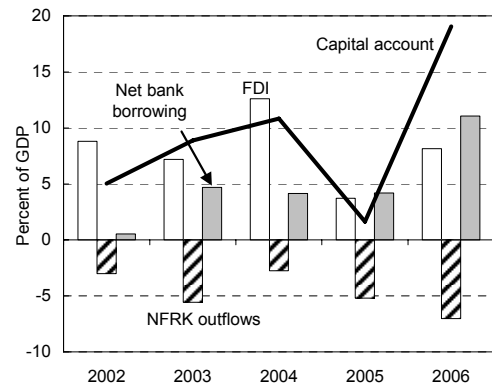
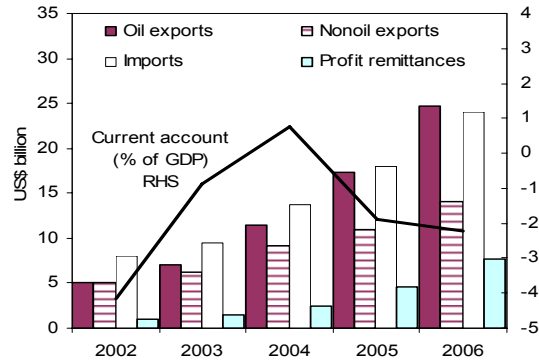
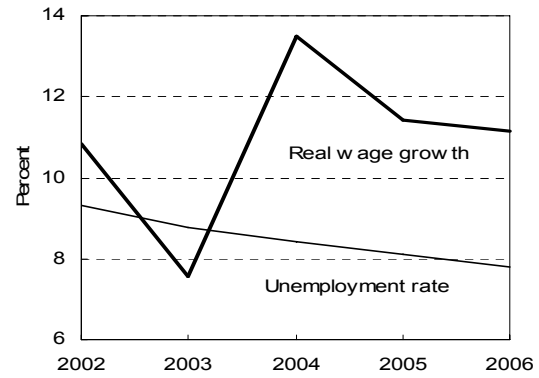
4. **Economic performance remained impressive in 2006, although relatively high inflation persists and vulnerabilities have increased.**

- Output expanded by 10 ½ percent in 2006 and early 2007, driven by construction and financial services (Table 1).<sup>1</sup>

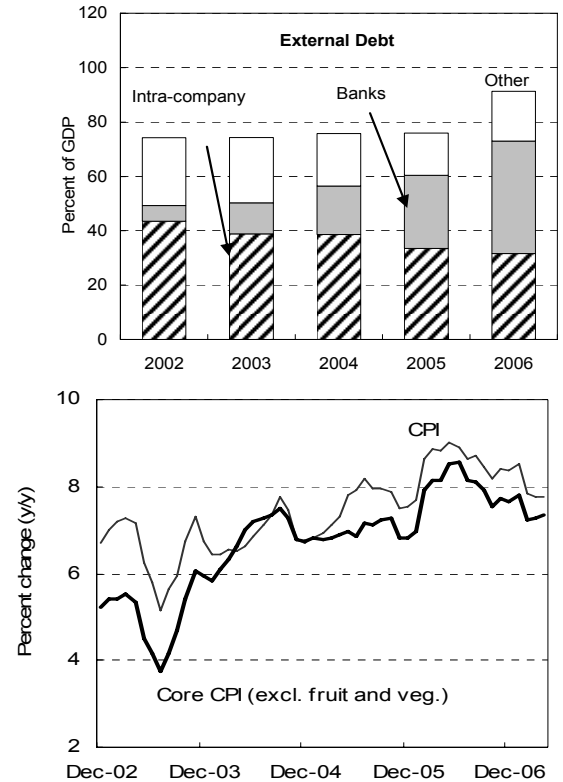


<sup>1</sup> Data for all text charts are from the Kazakhstan authorities, Bloomberg, and staff estimates.

- Employment continued to increase and wage growth was strong.
- Export growth remained buoyant, partly due to strong commodity prices (Table 2). Rapid import growth, including from investment in oil facilities, and sharply higher debt service payments and profit remittances by international oil companies kept the current account in moderate deficit.
- A jump in FDI and a surge in external borrowing by banks contributed to a large increase in the capital account surplus, despite a near doubling of capital outflows of the NFRK and bank lending abroad.
- As a result, official reserves and NFRK assets swelled...



- ... but external debt, particularly of the banking sector, also rose sharply. Consequently, vulnerabilities related to the increase in external indebtedness mounted.
- Inflation, which reached 9 percent (y/y) in May 2006, averaged 8½ percent through January 2007. During February–April 2007, CPI inflation eased to just below 8 percent because of slower food price increases and lower inflation in key trading partners, especially Russia.



## II. POLICY DISCUSSIONS

### A. Outlook

5. **Economic activity is expected to remain strong and the balance of payments robust.** Nonoil GDP growth should remain close to 10 percent in 2007. Inflation is projected to pick up again to above 8 percent because of abundant liquidity and the 30 percent increase in public sector wages granted in January. The current account deficit is projected to widen to 3.3 percent of GDP, mostly due to continued rapid import growth and higher interest payments. The financial account surplus is likely to decline as FDI inflows ease to trend levels and foreign borrowing by banks moderates during the course of the year.

6. **The baseline medium-term scenario is also favorable, although external debt has risen significantly.** Economic activity is expected to remain buoyant, notwithstanding some moderation in nonoil sector growth. The external position should remain strong, with continued substantial inflows of FDI. Kazakhstan's gross external debt, excluding intracompany obligations—the relevant measure for vulnerability analysis<sup>2</sup>—should remain manageable under

<sup>2</sup> About one-third of external debt comprises intracompany obligations (mainly in the oil sector) without a fixed repayment schedule. Public debt sustainability analysis was not undertaken in view of the very low level of gross public debt (6.5 percent of GDP at end-2006).

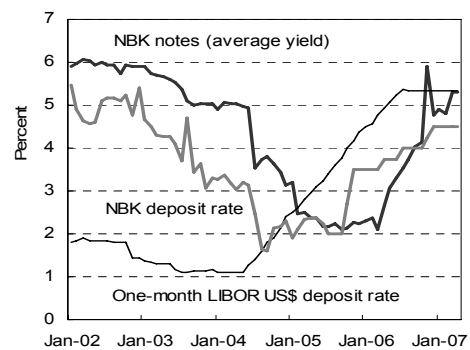
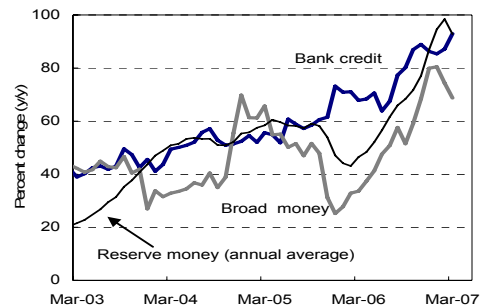
the baseline scenario of continued rapid economic growth and tenge appreciation in an environment of sustained high oil prices (Table 3 and Figure 1). External debt, which is almost entirely private but is much higher than a year ago, should also remain manageable under most shock scenarios.<sup>3</sup> However, a sharp exchange rate depreciation would push up debt to a relatively high level and, through its effect on household and corporate balance sheets, may result in a significant deterioration in the quality of banks' loan portfolios.

7. **The main risk to the outlook relates to vulnerabilities in the banking system.** The very rapid growth in bank credit in recent years could lead to a sharp deterioration in loan quality should the credit cycle turn. Moreover, the banking system's high reliance on external funding gives rise to refinancing risks over the medium term. In addition, a decline in external creditors' appetite for Kazakhstan exposure could have disruptive consequences for the real economy. Conversely, continued rapid external borrowing by banks would exacerbate the risks highlighted by the debt sustainability analysis.

## B. Monetary and Exchange Rate Policies

8. **Large foreign exchange inflows are complicating the task of monetary policy.**

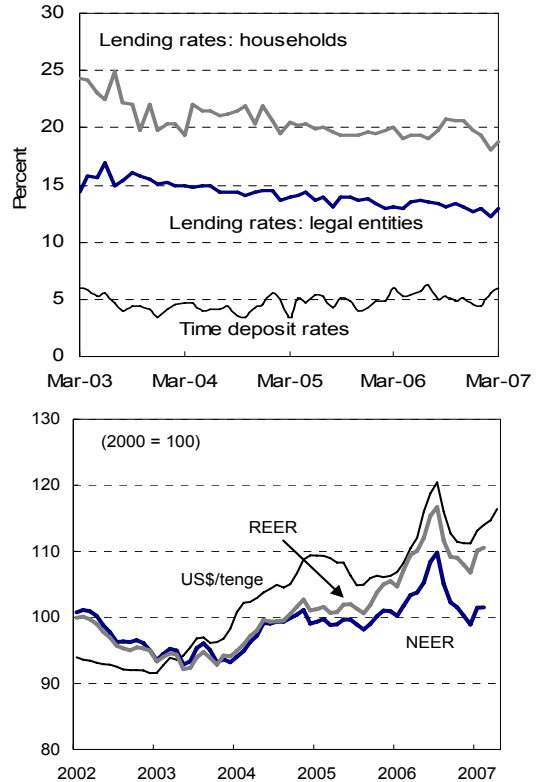
- Despite measures to tighten liquidity, money and credit aggregates have surged (Box 1 and Table 4). The NBK broadened and raised reserve requirements in mid-2006 and increased its deposit rate by 100 basis points during the year.
- The NBK also stepped up the issuance of central bank notes and, in 2007, began to lengthen their maturity structure, thereby pushing up effective yields. However, policy rates remain negative in real terms ....



<sup>3</sup> The impact of lower oil prices on exports is partly offset by lower profit remittances and intracompany debt amortization by international oil companies.

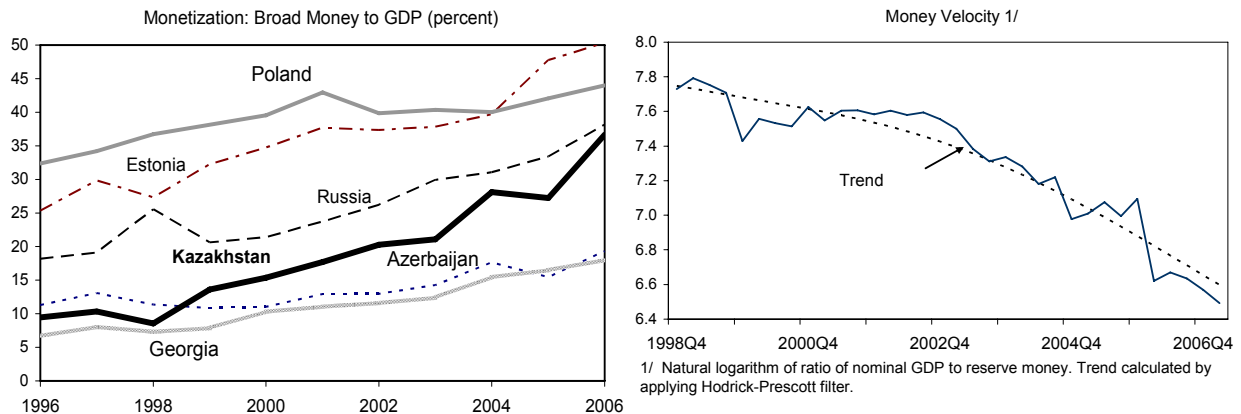


- ... and bank tenge lending rates, while relatively high, have edged down.
- After substantial nominal appreciation of the tenge in the first half of 2006, the NBK stepped up intervention in the second half and the exchange rate depreciated. On average, the tenge appreciated during 2006 by 7½ percent and 4 percent in real and nominal effective terms, respectively. The tenge resumed its upward trend in 2007, appreciating by about 6 percent against the dollar during January–April.



### Box 1. Monetization in Kazakhstan

A steady build-up of confidence in the banking system since the late 1990s has been reflected in strong money demand and rapidly rising monetization. Although monetization in Kazakhstan remains well below the level in Central and Eastern European (CEE) countries—suggesting that the process could have significantly further to run—the pace in Kazakhstan has been faster than in most CEE and CIS economies. Indeed, the decline in reserve money velocity over the past year has outpaced the trend, which itself has been accelerating. This may indicate some stabilization of velocity in the months ahead, which could be reflected in a pickup in inflation.



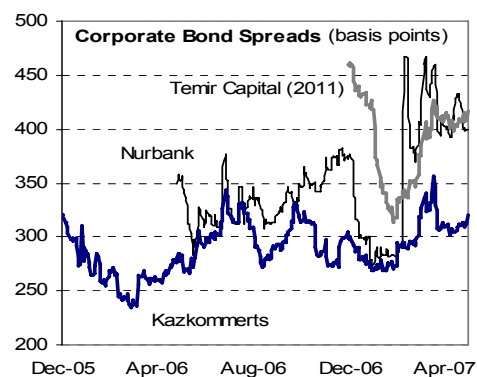
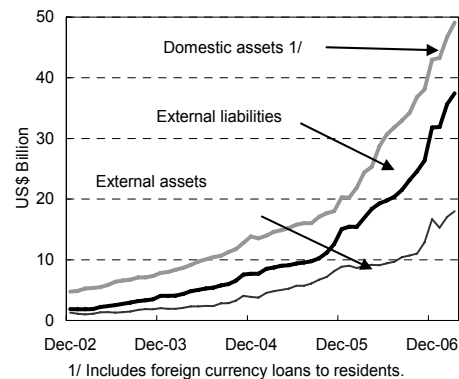
9. **The authorities noted that they have tightened monetary policy over the past year and would tighten further if inflation did not remain on a downward trajectory.** They observed that the broadening of reserve requirements last July had effectively resulted in a tripling of required reserves. The requirements would be reassessed in July with a view to further increasing them later in the year if needed. The authorities also expected interest rates on NBK notes to continue rising during the year, implying further gradual tightening of the monetary policy stance. They were concerned, however, that higher domestic interest rates could prompt more capital inflows and indicated that a substantial portion of outstanding NBK notes were being held by banks on behalf of foreign clients.

10. **The authorities expected the tenge to strengthen further, which would also help dampen inflation.** They considered exchange rate appreciation consistent with longer-term fundamentals and observed that recent NBK surveys indicated that even significant further appreciation would not impair exporters' competitiveness (Box 2). They were concerned, however, about speculative inflows related to perceptions of a "one-way bet" and agreed that flexibility of the tenge in both directions would help limit such flows.

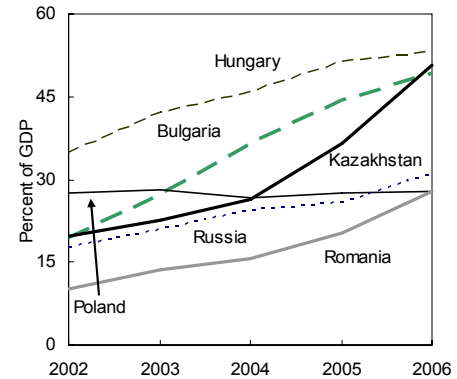
### C. Banking Sector Policies

11. **The accommodative monetary policy stance has contributed to a further acceleration in the already heady growth in bank assets.**

- Banks have used external funding—which is mostly of medium- and long-term maturity—and buoyant growth in domestic deposits to fund aggressive credit growth, including lending abroad (mainly to entities in Russia and other CIS countries). The share of foreign liabilities in total liabilities has increased to over one-half from one-quarter at end-2002.
- Banks' external borrowing accelerated further in early 2007. Kazakhstani banks issued \$5.6 billion in foreign currency bonds in the first quarter, about 15 percent of total emerging market corporate bond issuance during the quarter. This high issuance volume, together with global financial market turbulence in early 2007, led to marked widening of spreads in March, although so far bank issuance is proceeding apace.



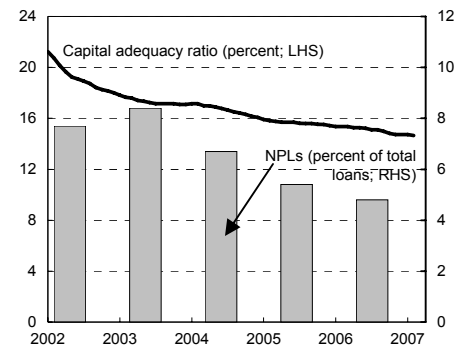
- Bank credit has now reached a high level relative to peer countries. The sector's credit portfolio has increased almost four-fold in the last three years (Box 3).
- The household and corporate sectors' foreign currency exposure has risen.<sup>4</sup> As regards the sectoral distribution of credit, mortgages, car loans, construction loans, and unsecured consumer credit have grown especially rapidly, although mortgage lending (4 percent of GDP) remains lower than in some peer countries (10–15 percent of GDP).
- Aggregate financial soundness indicators remain comfortable, but these tend to lag behind the credit cycle (Table 5). The aggregate capital adequacy ratio remains near 15 percent, bank profits are strong, and the share of NPLs is relatively low. However, the classified loans ratio (which includes doubtful loans that are being serviced) has risen, despite the rapid growth in total loans (the denominator).



Household and Corporate FX Exposure  
(in billions of dollars)

	2003	2004	2005	2006
Households, net	0.9	-0.1	-0.7	-2.7
FX deposits	1.4	1.4	2.1	2.6
FX loans	0.5	1.5	2.8	5.4
Corporate, net	-2.3	-1.6	-4.1	-6.6
FX deposits	1.0	2.8	3.1	5.9
FX loans	3.3	4.4	7.2	12.5
Total, net	-1.4	-1.7	-4.8	-9.4
(in percent of GDP)	-4.5	-3.9	-8.4	-12.0

Source: National Bank of Kazakhstan.



**12. Prudential regulations have been tightened in an effort to slow bank credit and external borrowing.** In the second half of 2006, limits on banks' short-term external borrowing were imposed, criteria on household debt service-to-income ratios were introduced, risk weights on cross-border loans to subinvestment grade borrowers were increased, and regulations on banks' foreign currency exposures were tightened. With bank credit and external borrowing continuing to grow rapidly, the FSA imposed further measures in April 2007, including limits on external borrowing,<sup>5</sup> tighter asset classification rules and differentiated risk weights, and stronger collateral requirements.

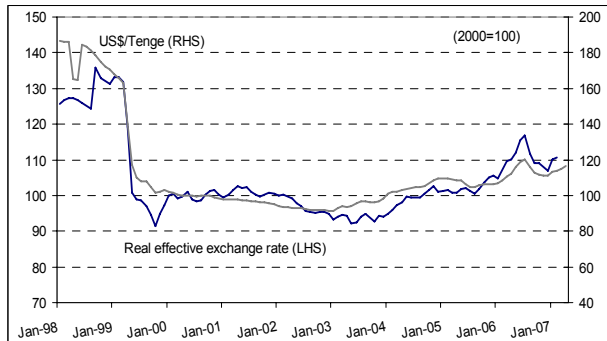
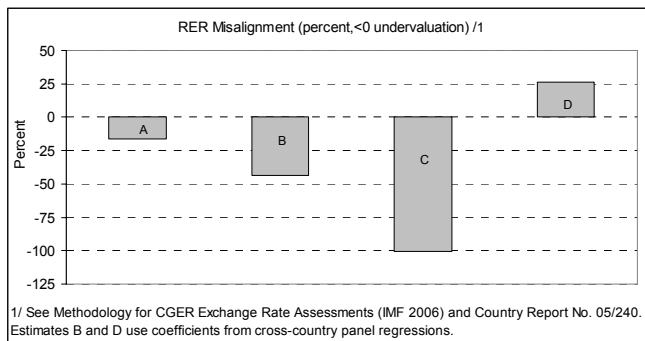
<sup>4</sup> In aggregate, banks' net foreign currency position is broadly balanced. However, they are exposed to significant indirect currency risk via their foreign currency lending to unhedged households and corporates.

<sup>5</sup> Banks' external borrowing is restricted to a multiple ranging from four to six of their regulatory capital. The upper end of the range applies to banks with the greatest capital.

## Box 2. Kazakhstan's Real Exchange Rate

Four approaches to assess the current valuation of the tenge's real exchange rate (RER) against its estimated equilibrium level indicate widely different results, but on balance appear to suggest that, as of end-2006, the tenge may have been up to 20 percent undervalued in real, trade-weighted terms from a medium-term perspective.

- A. The *purchasing power parity* approach estimates the deviation of Kazakhstan's RER from its "long-run level" based on an international comparison of price levels and productivity.
- B. The *equilibrium real exchange rate* approach estimates an "equilibrium" level based on fundamental RER determinants.
- C/D. The *external sustainability* and *macroeconomic balance* approaches provide estimates of the RER adjustment needed, respectively, to (i) stabilize the NFA/GDP ratio at its 2004 level; and (ii) eliminate the gap between an estimated current account "norm" and the projected medium-term current account balance for Kazakhstan.

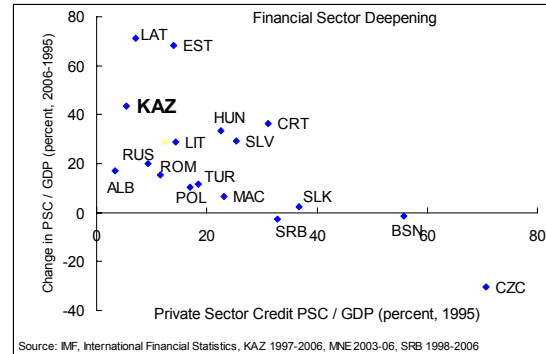


Estimate B warrants a high degree of caution because the assumption of a zero average misalignment over the sample period likely did not hold for Kazakhstan. Estimates C and D may also be misleading because they do not incorporate critical features of Kazakhstan's economy. Approach C does not capture Kazakhstan's untapped oil wealth (oil production is projected to triple over the next decade), but does include foreign debt incurred to extract the oil. Hence, the "true" NFA position in 2004 was much stronger, implying a substantially smaller undervaluation. Similarly, approach D fails to take into account Kazakhstan's relatively undeveloped, and mostly foreign-owned, oil production infrastructure. Future oil-related capital investment (imports) to increase oil production and large income payments to foreign owners of the oil production facilities imply a smaller current account surplus ("norm") than is predicted by the model, in turn suggesting much smaller overvaluation (or an undervaluation).

### Box 3. Kazakhstan's Credit Boom—Lessons from International Experience

Relative to country peers, the level of banking sector credit and the status of prudential indicators in Kazakhstan do not appear out of line, but the rate of growth of credit in recent years ranks among the fastest and raises concerns.

- The ratio of private sector credit (PSC) to GDP in Kazakhstan is below the predicted equilibrium level, based on cross-country regressions using fundamental determinants such as per capita GDP and real interest rates (see table). However, its rate of increase appears excessive, in comparison with its trend and when compared to a “predicted” level based on fundamentals, particularly by late 2006.
- Developments in the external current account and inflation are at present consistent with observed attributes of “good” credit booms, defined as those that do not lead to financial distress (see Country Report No. 06/19, Chapter IV). However, the estimated deviation of the PSC/GDP ratio from trend (albeit still below estimated equilibrium) and the large capital inflows (associated with the external funding of Kazakhstan’s boom) are more in line with credit booms that were followed by financial crises.
- Prudential indicators have deteriorated somewhat, but by less than in other countries experiencing rapid credit growth. The “distance to default” (the Z-score), which measures how much the banking system’s return on assets may fall before banks’ equity capital is exhausted, has declined. This implies an increase in solvency risk. However, the deterioration in the Z-score has been smaller than the average in other countries with similar rates of credit expansion.



PSC / GDP in selected countries

	Actual (2006)	Predicted 1/	Deviation
Estonia	82.2	80.8	1.4
Latvia	78.3	75.3	3.0
Romania	26.7	49.6	-22.9
Montenegro	24.0	30.6	-6.6
Kazakhstan	48.7	62.9	-14.3

Source: IFS, WEO, IMF staff calc. Based on OP No. 234 (2005)

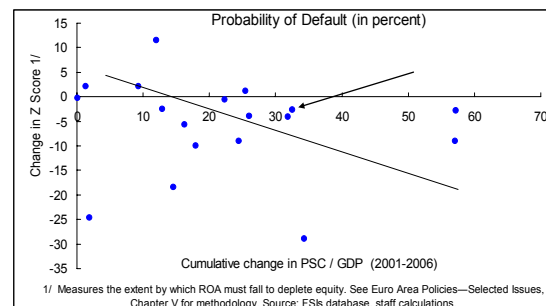
1/ Based on VECM of PSC/GDP (geometric average of two years), log of GDP per capita at PPP, and real interest rate.

Table 2. Kazakhstan: Change in PSC/GDP

	Actual Chg.	Predicted	Excess
2001	5.3	3.5	1.8
2002	2.2	3.7	-1.5
2003	3.0	3.1	-0.1
2004	4.2	2.8	1.4
2005	9.7	2.6	7.0
2006	13.2	1.7	11.5*

Source: IFS, WEO, IMF staff calculations.

\* Significant at 10 percent

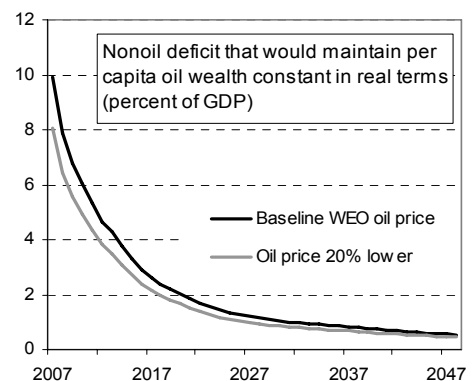
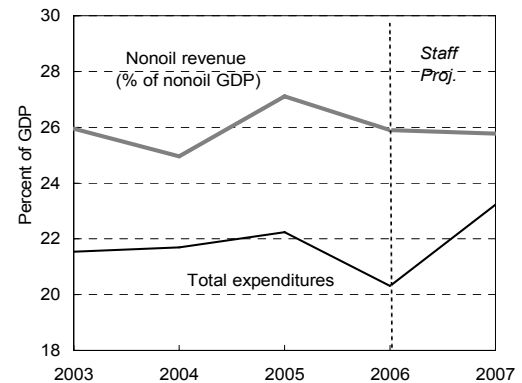
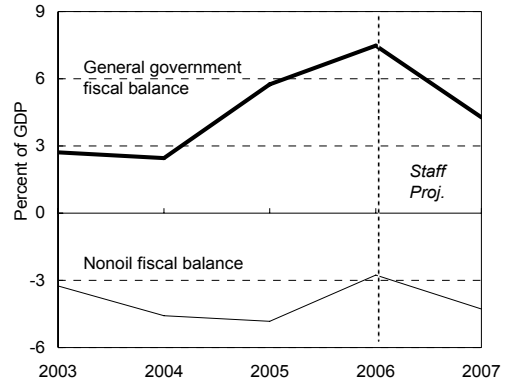


13. **The authorities observed that the prudential measures are having the desired effects.** The limits on short-term external borrowing had prompted banks to refinance their obligations to longer maturities, thereby reducing near-term rollover risk. Moreover, the announcement of capital-related limits on banks' total external obligations had induced several banks to increase their capital, and several more were expected to do so in the coming months. While the authorities agreed that the new limits still allowed significant room for the banking system in aggregate to further expand external borrowing, they believed that the limits would curtail balance sheet growth of banks with relatively weak capital positions and, therefore, greater vulnerability to shocks.
14. **While satisfied with the overall health of the banking system, the authorities are monitoring possible vulnerabilities closely.** They observed that the overall capital adequacy ratio remains comfortably above the 12 percent minimum requirement, and loan-loss provisions (5 percent of total loans) provide a reasonable buffer. Moreover, their latest stress test results, as well as illustrative scenarios analyzed by staff, indicate that even sizable exchange rate and interest rate shocks would have only a limited direct impact. Nevertheless, they are concerned about the continued rapid expansion of bank credit, especially consumer lending. To mitigate risks, they are considering further increasing provisioning requirements and/or risk weights, particularly for unsecured consumer credits. They also noted that compilation of household credit information by the credit bureau, which had recently started operations, would help reduce risks related to consumer lending.
15. **Banking supervision is being enhanced.** The authorities noted that recent legislation had strengthened the FSA's ability to supervise the banking system, including through consolidated supervision over banking-industrial conglomerates, increased power to suspend and/or revoke licenses, use of own assessments (as opposed to relying solely on information provided by banks) to monitor compliance, and removal of managers of institutions not complying with prudential regulations. Moreover, a sizable increase—amounting to 58 staff positions—in the FSA's resources was expected to be approved shortly. The FSA is also enhancing cooperation with supervision agencies in neighboring countries.
16. **Contingency plans to deal with the emergence of distress are in place.** Should a bank experience liquidity problems, the NBK would serve as lender of last resort and could, if needed, take over and/or liquidate banks in distress. The authorities observed that the recent liquidation of a mid-sized bank had proceeded in an orderly fashion under existing procedures. Although the authorities judge the likelihood of systemic distress to be low, a working group is nevertheless formulating early warning indicators and drawing up contingency plans and responsibilities of key agencies, including the role of the budget, to deal with such a scenario.

## D. Fiscal Policy

### 17. Fiscal policy remained prudent in 2006 and is likely to have kept inflation from rising further, but will increase the burden on monetary policy in 2007.

- The overall surplus rose to 7.5 percent of GDP in 2006 due to shortfalls in the execution of planned spending, continued strong oil income, and buoyant nonoil revenues—related mostly to improvements in tax administration (Table 6). The nonoil deficit-to-GDP ratio narrowed sharply.
- The nonoil deficit is expected to widen to 4.3 percent of GDP in 2007 due to an expansion in overall spending, including the recent public sector wage increase and supplementary spending currently being considered by parliament, and to significant changes in the tax regime, namely a cut in the VAT rate from 15 percent to 14 percent and the introduction of a 10 percent flat personal income tax with a higher minimum threshold. The overall surplus will narrow by more because of lower prices.<sup>6</sup>
- The projected 2007 nonoil deficit will remain well within the level needed to maintain oil wealth in per capita terms (10 percent of GDP), even under a 20 percent lower oil price scenario (8 percent of GDP).<sup>7</sup>



<sup>6</sup> Staff projections are based on a WEO oil price of \$60.8 per barrel in 2007. The budget oil price assumption is \$60 per barrel.

<sup>7</sup> See Box 3 in Country Report No. 06/244 for an analysis of the use of oil revenue in recent years.

18. **The authorities acknowledged that the fiscal stance in 2007 would not help dampen inflationary pressures**, but felt that it achieved the right balance between meeting pressing social and infrastructure development needs and saving for future generations. They are intensifying scrutiny over expenditure efficiency, and intend to conduct a review of public financial management with assistance from the World Bank. They plan to reduce the number of budgetary programs over the medium term, with a view to enhancing spending quality. While the authorities believe further tax cuts, especially a cut in corporate income taxes to levels more in line with those in neighboring countries, could speed up the economy's diversification, they intend to assess the effects of the 2007 tax reforms before proceeding with further changes in tax policy.

### **E. Structural Reform and Other Issues**

19. **A number of initiatives are underway to enhance diversification and improve the nonoil economy's productivity over the medium term.** The authorities envisage that Samruk and Kazagro—which have been formed to streamline and commercialize the operations of large state enterprises and agricultural enterprises—will play a key role. In addition, the Sustainable Development Fund (Kazyna) has been set up to oversee an expansion in the operations of development institutions, which provide long-term financing for infrastructure and projects in new industries. A program to privatize state enterprises presently run by various ministries has been launched. A new law on business licensing adopted in January streamlines the number of activities licensed from over 1000 to 350. The authorities also enacted a new law to regulate natural monopolies, directed particularly at utilities, that aims to increase competition. The authorities have established the Almaty Regional Financial Center (ARFC) to spearhead development of the securities market.

20. **Some progress has been made in enhancing the investment climate.** Negotiations for Kazakhstan's accession to the WTO are moving forward, and the authorities indicated that the main outstanding issues are trade-related investment measures and intellectual property rights. The authorities have made participation in the Extractive Industries Transparency Initiative (EITI) mandatory for all new contracts and aim to publish the external audit report by year-end. Kazakhstan achieved a ranking of 56 (out of 125 countries) in the World Economic Forum's 2006 global competitiveness index, with relatively high scores for macro economy and market efficiency. However, scores for institutions and health and primary education were markedly lower, and the EBRD's transition indicators and the World Bank's doing business survey show limited recent progress, particularly in governance, enterprise restructuring, competition policy, and reducing costs of trading across borders.

21. **Progress has also been achieved in improving macroeconomic data monitoring.** A recent IMF Statistics Department mission found that Kazakhstan is in observance of the Special Data Dissemination Standards and "observes" or "largely observes" all but two of the 132 best practices outlined in the Fund's Data Quality Assessment Framework. Over the past year, notable progress has been made in reconciling external debt data prepared by different agencies,



compiling external debt statistics on a remaining maturity basis, and constructing an aggregate debt service profile. Draft AML/CFT legislation has been prepared and is being considered by parliament.

### III. STAFF APPRAISAL

22. **Kazakhstan's rapid economic growth is continuing, but policy challenges to sustaining the strong performance have intensified.** While the positive external environment is likely to prevail in the near term, inflation remains at a relatively high level and the banking sector's vulnerability to shocks has risen. Policy measures to lower inflation and mitigate banking sector risks would help ensure a continued favorable macroeconomic outlook.

23. **Additional monetary policy tightening is needed to curb credit growth and mitigate risks.** The steps by the NBK to tighten monetary conditions over the past year are welcome, but money and credit growth remain excessive. An expeditious move to further increase reserve requirements will soak up banks' liquidity, thereby helping to dampen inflationary pressures. Moreover, a larger differential between requirements relating to external versus domestic liabilities should help slow external borrowing by making it less attractive than domestic funding. Higher policy interest rates will also help reduce liquidity. Although this could attract greater capital inflows, increased reserve requirements should offset such an effect.

24. **A stronger tenge and greater exchange rate flexibility would support monetary tightening in bringing inflation down.** Allowing the tenge to appreciate further will facilitate a scaling back of the NBK's intervention in the foreign exchange market, as in recent months, implying slower tenge liquidity growth. Greater exchange rate flexibility should help remove perceptions of a "one-way bet" that may have encouraged capital inflows and foreign currency borrowing. Furthermore, exchange rate appreciation will translate directly into lower tenge prices for imports, which will dampen inflation. Conversely, limiting nominal appreciation at the expense of higher inflation will not safeguard competitiveness and will make the eventual disinflation more difficult and costly.

25. **Additional prudential tightening is also needed to contain risks related to the rapid growth in bank credit and external debt.** The FSA has appropriately tightened regulations in a number of areas over the past year and, encouragingly, banks have responded by increasing the maturity structure of their external obligations and some have also raised their capital base. However, many banks still have considerable room to continue to borrow externally, as evidenced by their announced borrowing plans, and credit growth remains very high. Thus, vulnerabilities are likely to mount further, implying a need for additional prudential measures to strengthen the banking system's capacity to weather shocks. Measures could include a further tightening of provisioning regulations, more stringent collateral regulations, and higher risk weights, particularly for consumer loans, foreign currency loans to unhedged borrowers, mortgages with high loan-to-value ratios, and, if warranted, cross-border lending.

26. **Banking supervision should be intensified to ensure banks' compliance with prudential regulations.** The recent legislation enhancing the FSA's supervisory powers, plans to augment the FSA's resources, and efforts to boost cross-border supervisory cooperation are important steps. As a substantial increase in the frequency and depth of full-scale on-site inspections will take time, more frequent limited-scope inspections should be undertaken in the near term. In addition, inspections should seek to ensure that banks maintain, on a consolidated basis, adequate risk management and internal control systems and comply with prudential regulations. The FSA should be ready to deal with any violations of regulations expeditiously. The formulation of early warning indicators and contingency plans to handle the emergence of distress in the banking system are valuable proactive steps.
27. **Fiscal policy has been prudent, but the easing of the fiscal stance in 2007 will require additional monetary tightening and exchange rate appreciation to keep inflation from rising.** While the acceleration of public spending should help address Kazakhstan's still substantial social and infrastructure development needs, it underscores the need for steps to enhance spending efficiency. In this context, reducing the number of budgetary programs, along with other measures to strengthen public financial management that may result from the prospective review with the World Bank, will be useful.
28. **Intensified structural reforms will help sustain strong economic performance over the medium term.** Early WTO accession, customs administration reform, and further progress in reducing cross-border trade costs should secure productivity gains. The staff welcomes the program underway to privatize state enterprises, which should facilitate enterprise restructuring and enhance competition policy, areas where Kazakhstan's ranking in international structural reform indicators is relatively weak. Plans to boost the development of the securities market, which should result in enhanced corporate transparency and governance, are welcome, although increased availability of financing through development institutions could reduce the corporate sector's demand for funding through the issuance of equity and debt securities, thereby impeding the development of the capital market.
29. **Progress has been achieved in enhancing macroeconomic data monitoring, and further steps would be desirable.** Over the past year, important steps have been taken to improve external debt data, particularly its monitoring on a remaining-maturity basis. The assessment of vulnerabilities would be enhanced further by progress in disaggregating import data across the oil and nonoil sectors of the economy. The staff also urges expeditious completion of the project to broaden the concept of public debt to include obligations of state enterprises and development institutions. While public debt ratios are likely to remain low after this adjustment, it will present a more accurate and transparent picture of public sector indebtedness.
30. The staff welcomes the progress made in complying with the EITI and urges expeditious completion and publication of the external audit report. The staff also encourages early passage of AML/CFT legislation that meets international standards.

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

Table 1. Kazakhstan: Selected Economic Indicators, 2003–12

	2003	2004	2005	Prel.	Projections					
				2006	2007	2008	2009	2010	2011	2012
(Annual percent change; unless otherwise indicated)										
National accounts and prices										
Real GDP	9.3	9.6	9.7	10.6	9.5	9.0	9.0	8.2	8.7	7.5
Real oil	11.6	15.4	2.3	6.7	4.3	3.7	11.9	7.9	18.0	10.1
Real nonoil	8.9	8.4	11.3	11.4	10.5	10.0	8.5	8.2	7.0	7.0
Crude oil and gas condensate production	8.8	15.6	3.4	5.7	4.9	2.6	12.9	7.7	19.0	10.0
Consumer price index (eop)	6.8	6.7	7.5	8.4	8.5	8.0	7.5	7.0	6.5	6.0
Consumer price index (p.a)	6.4	6.9	7.6	8.6	8.5	8.0	7.5	7.0	6.5	6.0
Exchange rate (tenge per U.S. dollars; eop)	-8.0	-9.3	2.9	-5.1	...	...	...	...	...	...
Exchange rate (tenge per Russian rubles; eop)	-0.8	-4.0	-0.4	3.7	...	...	...	...	...	...
Real effective exchange rate (p.a) (+ appreciation)	-3.6	5.8	3.1	7.7	...	...	...	...	...	...
(In percent of GDP; unless otherwise indicated)										
General government fiscal accounts										
Revenues and grants	25.4	24.6	28.1	27.9	27.6	27.3	27.3	27.6	27.8	27.8
Of which: oil revenues	6.0	7.0	10.6	10.2	8.6	8.2	8.1	7.8	8.1	7.8
Expenditures and net lending	22.6	22.1	22.3	20.4	23.4	23.4	23.4	23.4	23.4	23.4
Overall fiscal balance	2.7	2.5	5.8	7.5	4.3	3.9	4.0	4.2	4.5	4.4
Statistical discrepancy	0.3	-0.2	-0.8	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-2.5	-2.6	-6.6	-6.5	-4.3	-3.9	-4.0	-4.2	-4.5	-4.4
Domestic financing, net	1.6	0.7	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.3
Foreign financing, net	0.2	-0.8	-1.7	0.0	-0.3	0.0	0.0	0.1	0.1	0.1
Privatization receipts	1.3	0.1	0.2	0.3	0.2	0.1	0.1	0.0	0.0	0.0
National Fund of the Republic of Kazakhstan (NFRK)	-5.5	-2.6	-5.3	-6.9	-4.3	-4.1	-4.1	-4.4	-4.8	-4.8
Non-oil fiscal balance	-3.2	-4.6	-4.8	-2.8	-4.3	-4.3	-4.1	-3.6	-3.6	-3.4
Nonoil fiscal balance (percent of nonoil GDP)	-4.3	-6.5	-7.5	-4.1	-5.8	-5.7	-5.4	-4.6	-4.7	-4.3
Expenditures (percent change)	31.5	24.2	30.7	22.0	33.8	10.8	14.9	13.5	14.5	12.3
(Annual percent change; unless otherwise indicated)										
Monetary accounts										
Reserve money	52.2	82.3	14.7	126.5	...	...	...	...	...	...
Broad money	27.0	69.8	25.2	79.9	...	...	...	...	...	...
Broad money velocity (annual average)	5.3	4.5	4.1	3.5	...	...	...	...	...	...
Credit to the economy	45.6	52.4	73.2	86.3	...	...	...	...	...	...
Credit to the economy (percent of GDP)	23.3	27.9	37.4	52.2	...	...	...	...	...	...
Interest rate on bank deposits with NBK (p.a)	4.0	2.6	2.4	3.9	...	...	...	...	...	...
Interest rate on NBK notes (eop; percent)	5.2	4.0	2.2	4.8	...	...	...	...	...	...
(In billions of U.S. dollars; unless otherwise indicated)										
External accounts										
Current account balance (percent of GDP)	-0.9	0.8	-1.9	-2.2	-3.3	-2.5	-1.8	-1.2	0.8	1.7
Exports of goods and services	14.9	22.6	30.5	41.6	44.6	49.5	54.4	58.5	65.4	70.7
Oil and gas condensate	7.0	11.4	17.4	24.6	24.1	27.0	30.2	32.6	37.7	41.3
Imports of goods and services	13.3	18.9	25.5	32.8	37.3	41.4	44.7	47.5	50.5	53.3
Foreign direct investments (net, percent of GDP)	7.2	12.6	3.7	8.2	5.2	4.0	3.2	2.7	2.0	1.8
NBK gross reserves (eop) 1/	5.0	9.3	7.1	19.1	25.6	27.2	29.0	30.3	32.0	35.5
In months of imports of goods and services	4.5	5.9	3.3	7.0	8.2	7.9	7.8	7.7	7.6	8.0
NFRK (eop) 2/	3.7	5.1	8.0	14.1	18.9	24.3	30.0	37.1	46.0	56.0
Public external debt, incl. guaranteed (percent of GDP)	11.8	7.8	4.1	2.8	2.0	1.8	1.6	1.4	1.2	1.1
Total external debt (percent of GDP)	74.3	75.8	76.0	91.3	91.5	89.6	85.9	82.7	78.0	75.8
(In percent of GDP)										
Final consumption	69.0	65.1	60.2	56.1	60.7	62.3	62.7	63.2	63.2	63.7
Net exports of goods and non-factor services	5.3	8.5	8.8	10.9	7.5	7.1	7.3	7.3	8.5	8.7
Gross capital formation = gross savings	25.7	26.3	31.0	33.0	31.8	30.6	29.9	29.6	28.3	27.5
Domestic savings	24.8	27.1	29.1	30.8	28.5	28.1	28.1	28.3	29.1	29.3
Government	8.8	8.3	10.7	12.5	10.3	10.0	10.0	10.2	10.5	10.5
Private sector	16.0	18.8	18.4	18.3	18.2	18.1	18.1	18.1	18.6	18.8
External savings	0.9	-0.8	1.9	2.2	3.3	2.5	1.8	1.2	-0.8	-1.7
Memorandum items:										
Nominal GDP (in billions of tenge)	4,612	5,870	7,591	10,139	11,850	13,133	15,093	17,125	19,615	22,023
Nominal GDP (in billions of U.S. dollars)	30.9	43.2	57.1	80.4	97.9	113.2	131.8	151.5	175.9	199.3
Crude oil and gas condensate production										
(in millions of barrels per day) 3/	1.06	1.22	1.27	1.34	1.40	1.44	1.62	1.75	2.08	2.29
Oil price (in U.S. dollars per barrel)	28.9	37.8	53.4	64.3	60.8	64.8	64.5	64.3	63.8	63.3

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

1/ Excludes deposits of the National Fund.

2/ Excludes transitory domestic currency deposits.

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

Table 2. Kazakhstan: Balance of Payments, 2003–12

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

	2003	2004	2005	Projections						
				2006	2007	2008	2009	2010	2011	2012
Current account	-273	335	-1,066	-1,797	-3,247	-2,850	-2,386	-1,871	1,361	3,478
Trade balance	3,679	6,785	10,322	14,642	13,015	13,689	15,500	16,851	20,717	23,115
Exports (f.o.b.)	13,233	20,603	28,301	38,762	41,112	45,344	49,866	53,588	60,021	64,891
Oil and gas condensate	7,023	11,417	17,395	24,645	24,111	26,984	30,220	32,567	37,738	41,272
Non-oil exports	6,209	9,186	10,906	14,117	17,001	18,361	19,646	21,021	22,282	23,619
Imports (f.o.b.)	-9,554	-13,818	-17,979	-24,120	-28,097	-31,656	-34,367	-36,736	-39,304	-41,776
Services and income balance	-3,787	-5,962	-10,975	-15,231	-15,115	-15,334	-16,621	-17,395	-17,961	-18,173
Services, net	-2,040	-3,099	-5,267	-5,912	-5,667	-5,623	-5,812	-5,828	-5,830	-5,701
Income, net	-1,747	-2,863	-5,707	-9,319	-9,448	-9,711	-10,809	-11,567	-12,131	-12,472
Of which: Income to direct investors	-1,448	-2,376	-4,633	-7,641	-7,029	-6,479	-7,240	-7,816	-8,271	-8,516
Current transfers	-165	-488	-413	-1,207	-1,147	-1,204	-1,265	-1,328	-1,394	-1,464
Capital and financial account	2,738	4,679	927	15,328	9,747	4,450	4,186	3,171	339	22
Capital transfers, net	-28	-21	14	33	34	36	38	40	42	44
Foreign direct investment	2,213	5,436	2,123	6,556	5,103	4,531	4,262	4,025	3,601	3,515
Amortization of intracompany liabilities	-2,266	-4,223	-4,412	-4,237	-3,711	-3,912	-4,152	-4,363	-4,771	-5,154
Portfolio investment, net	-1,891	-417	-3,953	-4,322	-2,118	-2,503	-2,497	-3,394	-5,769	-6,280
Of which: National Fund	-1,716	-1,189	-2,971	-5,648	-4,027	-4,437	-4,524	-5,574	-6,985	-7,668
Other investment	2,428	-272	2,855	13,062	6,728	2,386	2,384	2,501	2,465	2,743
Medium- and long-term loans and credits, net	2,188	1,977	2,203	13,684	6,800	2,500	2,200	2,000	1,800	1,700
Short-term and other capital, net	239	-2,248	652	-622	-72	-114	184	501	665	1,043
Errors and omissions	-932	-1,016	-1,804	-2,397	0	0	0	0	0	0
Overall balance	1,534	3,999	-1,944	11,134	6,500	1,600	1,800	1,300	1,700	3,500
Financing	-1,534	-3,999	1,944	-11,134	-6,500	-1,600	-1,800	-1,300	-1,700	-3,500
Net international reserves of the NBK (increase -)	-1,534	-3,999	1,944	-11,134	-6,500	-1,600	-1,800	-1,300	-1,700	-3,500
<i>Memorandum items: 1/</i>										
Current account (in percent of annual GDP)	-0.9	0.8	-1.9	-2.2	-3.3	-2.5	-1.8	-1.2	0.8	1.7
Exports in percent of GDP	42.9	47.7	49.5	48.2	42.0	40.1	37.8	35.4	34.1	32.6
Of which: Oil exports	22.8	26.5	30.5	30.6	24.6	23.8	22.9	21.5	21.5	20.7
Imports in percent of GDP	31.0	32.0	31.5	30.0	28.7	28.0	26.1	24.2	22.3	21.0
Annual growth rate (in percent)										
Exports	32.0	55.7	37.4	37.0	6.1	10.3	10.0	7.5	12.0	8.1
Non-oil exports	24.2	47.9	18.7	30.2	19.7	8.0	7.0	7.0	6.0	6.0
Imports	18.8	44.6	30.1	34.2	16.5	12.7	8.6	6.9	7.0	6.3
Exports of crude oil and gas condensate (in millions of tons)	44.3	52.4	52.4	57.0	59.0	62.0	69.7	75.4	88.0	97.0
NBK gross international reserves (in millions of U.S. dollars)	4,962	9,277	7,070	19,113	25,613	27,213	29,013	30,313	32,013	35,513
In months of imports of goods and nonfactor services	4.5	5.9	3.3	7.0	8.2	7.9	7.8	7.7	7.6	8.0
National Fund (including interest), end of period stock	3,663	5,131	8,015	14,086	18,863	24,266	30,027	37,132	46,009	56,022
External debt in percent of GDP excluding intra-company loans	74.3	75.8	76.0	91.3	91.5	89.6	85.9	82.7	78.0	75.8
Public external debt service in percent of exports of gnfs	3.2	3.3	4.1	1.1	1.2	0.4	0.3	0.3	0.3	0.3
World oil price (U.S. dollars per barrel)	28.9	37.8	53.4	64.3	60.8	64.8	64.5	64.3	63.8	63.3

Sources: Kazakhstani authorities; and Fund staff estimates.

1/ Estimates and projections are based on GDP at market exchange rates. Import data have been revised for the period 2003–04 in light of revisions to NBK's cif coefficients in March 2005.

Table 3. External Debt Sustainability Framework, 2003–12  
(In percent of GDP, unless otherwise indicated)

	Actual							Projections					Debt-stabilizing noninterest current account 5/ -7.4
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012			
<b>1 External debt, excluding intracompany debt</b>	35.5	37.2	42.3	59.8	63.8	64.4	63.4	62.7	60.6	60.3			
2 Change in external debt	4.8	1.7	5.2	17.4	4.0	0.6	-1.0	-0.7	-2.1	-0.3			
3 Identified external debt-creating flows (4+8+9)	-9.7	-15.9	-8.2	-17.0	-13.9	-11.6	-12.1	-11.3	-13.3	-12.3			
4 Current account deficit, excluding interest payments	-0.5	-2.1	-0.2	-0.9	0.5	-0.9	-1.7	-2.2	-4.1	-5.0			
5 Deficit in balance of goods and services	-5.3	-8.5	-8.8	-10.9	-7.5	-7.1	-7.3	-7.3	-8.5	-8.7			
6 Exports	48.4	52.4	53.4	51.7	45.6	43.7	41.3	38.6	37.2	35.5			
7 Imports	43.1	43.9	44.6	40.8	38.1	36.6	33.9	31.3	28.7	26.7			
8 Net nondebt creating capital inflows (negative)	-4.4	-5.0	-0.9	-7.0	-6.5	-5.5	-4.8	-4.3	-3.8	-3.5			
9 Automatic debt dynamics 1/	-4.8	-8.7	-7.1	-9.2	-7.9	-5.2	-5.6	-4.8	-5.4	-3.9			
10 Contribution from nominal interest rate	1.4	1.4	2.0	3.1	2.8	3.4	3.5	3.4	3.3	3.2			
11 Contribution from real GDP growth	-2.3	-2.4	-2.7	-3.2	-4.7	-5.0	-5.0	-4.5	-4.7	-4.0			
12 Contribution from price and exchange rate changes 2/	-3.9	-7.7	-6.4	-9.1	-6.0	-3.6	-4.1	-3.7	-4.0	-3.1			
13 Residual, including change in gross foreign assets (2–3)	14.5	17.6	13.3	34.4	17.9	12.2	11.1	10.6	11.2	12.0			
External debt-to-exports ratio (in percent)	73.2	70.9	79.2	115.6	139.9	147.4	153.7	162.4	163.1	170.0			
<b>Gross external financing need (in billions of U.S. dollars) 3/</b>					16.7	17.5	27.1	29.5	29.5	28.3			
in percent of GDP	13.6	12.5	17.7	15.7	17.1	15.5	20.5	19.5	16.8	14.2			
											Projected Average		
<b>Key Macroeconomic Assumptions</b>													
Real GDP growth (in percent)	9.3	9.6	9.7	10.6	9.5	9.0	9.0	8.2	8.7	7.5	8.5		
GDP deflator in U.S. dollars (change in percent)	14.7	27.6	20.7	27.3	11.2	6.1	6.8	6.3	6.8	5.4	6.3		
Nominal external interest rate (in percent)	5.7	5.4	7.2	10.3	5.7	6.2	6.3	6.2	6.1	6.0	6.1		
Growth of exports (U.S. dollar terms, in percent)	29.2	51.3	35.0	36.2	7.4	10.8	9.9	7.6	11.7	8.2	9.6		
Growth of imports (U.S. dollar terms, in percent)	14.9	42.2	34.6	28.9	17.1	18.0	8.0	6.2	6.3	5.6	7.4		
Current account balance, excluding interest payments	0.5	2.1	0.2	0.9	-0.5	0.9	1.7	2.2	4.1	5.0	2.7		
Net nondebt creating capital inflows	4.4	5.0	0.9	7.0	6.5	5.5	4.8	4.3	3.8	3.5	4.4		
											Debt-stabilizing noninterest current account 5/ -10.2		
<b>A. Alternative Scenarios</b>													
A.1. Key variables are at their historical averages in 2006–10 4/	<b>69.9</b>	<b>74.3</b>	<b>77.3</b>	<b>77.3</b>	<b>77.3</b>	<b>77.3</b>	<b>79.6</b>	<b>82.4</b>	<b>85.6</b>				
<b>B. Bound Tests</b>													
B.1. Nominal interest rate is at baseline plus one-half standard deviation	<b>65.0</b>	<b>67.0</b>	<b>67.2</b>	<b>67.2</b>	<b>65.0</b>	<b>67.0</b>	<b>67.2</b>	<b>67.7</b>	<b>66.7</b>	<b>67.5</b>	<b>-6.3</b>		
B.2. Real GDP growth is at baseline minus one-half standard deviations	<b>64.9</b>	<b>67.2</b>	<b>67.8</b>	<b>68.5</b>	<b>64.9</b>	<b>67.2</b>	<b>67.8</b>	<b>68.8</b>	<b>68.5</b>	<b>70.4</b>	<b>-7.0</b>		
B.3. Non-interest current account is at baseline minus one-half standard deviations	<b>65.2</b>	<b>67.1</b>	<b>67.3</b>	<b>67.3</b>	<b>65.2</b>	<b>67.1</b>	<b>67.3</b>	<b>67.7</b>	<b>66.6</b>	<b>67.3</b>	<b>-7.8</b>		
B.4. Combination of B1–B3 using 1/4 standard deviation shocks	<b>65.7</b>	<b>68.4</b>	<b>69.5</b>	<b>70.8</b>	<b>65.7</b>	<b>68.4</b>	<b>69.5</b>	<b>70.8</b>	<b>70.7</b>	<b>72.6</b>	<b>-6.8</b>		
B.5. One time 30 percent real depreciation in 2007	<b>97.3</b>	<b>99.6</b>	<b>99.6</b>	<b>100.2</b>	<b>97.3</b>	<b>99.6</b>	<b>99.6</b>	<b>100.2</b>	<b>99.6</b>	<b>102.3</b>	<b>-12.3</b>		
B.6. Permanent drop in oil price to \$20 pb in 2007	<b>77.2</b>	<b>77.6</b>	<b>75.7</b>	<b>73.8</b>	<b>77.2</b>	<b>77.6</b>	<b>75.7</b>	<b>73.8</b>	<b>71.5</b>	<b>70.7</b>			

1/ Derived as  $[r - g - r(1+g) + ea(1+r)]/(1+g+r)$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt;  $r$  = change in domestic GDP deflator in U.S. 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  $[-r(1+g) + ea(1+r)]/(1+g+r)$  times previous period debt stock.  $r$  increases with an appreciating domestic currency ( $e > 0$ ) and rising inflation (based on GDP deflator).

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

4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both noninterest current account and nondebt inflows in percent of GDP.

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

Table 3. Kazakhstan: External Debt Sustainability Framework, 2003–12 (concluded)  
(Percent of GDP unless otherwise indicated)

	Actual			Projections						
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>A. External debt, excluding intracompany debt</b>										
Baseline	35.5	37.2	42.3	59.8	63.8	64.4	63.4	62.7	60.6	60.3
Stress tests:										
1. Real GDP growth, nominal interest rate, dollar deflator, noninterest current account, and nondebt inflows are at historical average in 2006–11					69.9	74.3	77.3	79.6	82.4	85.6
2. Nominal interest rate is at historical average plus one-half standard deviation					65.0	67.0	67.2	67.7	66.7	67.5
3. Real GDP growth is at historical average minus one-half standard deviations					64.9	67.2	67.8	68.8	68.5	70.4
4. Noninterest current account is at historical average minus one-half standard deviations					65.2	67.1	67.3	67.7	66.6	67.3
5. Combination of 2–4 using 1/4 standard deviation shocks					65.7	68.4	69.5	70.8	70.7	72.6
6. One time 30 percent real depreciation in 2006					97.3	99.6	99.6	100.2	99.6	102.3
7. Permanent drop in oil price to \$20 pb in 2006					77.2	77.6	75.7	73.8	71.5	70.7
<b>B. Total external debt outstanding at year-end</b>										
Baseline	74.3	75.8	76.0	91.3	91.5	89.6	85.9	82.7	78.0	75.8
Stress tests:										
1. Real GDP growth, nominal interest rate, dollar deflator, noninterest current account, and nondebt inflows are at historical average in 2006–11					100.9	104.5	106.3	107.1	108.2	109.8
2. Nominal interest rate is at historical average plus one-half standard deviation					95.3	97.3	97.1	97.3	95.6	96.3
3. Real GDP growth is at historical average minus one-half standard deviations					93.3	93.6	91.9	90.9	88.2	88.4
4. Noninterest current account is at historical average minus one-half standard deviations					93.1	92.8	90.3	88.5	84.9	83.7
5. Combination of 2–4 using 1/4 standard deviation shocks					95.1	97.0	96.8	97.1	95.5	96.5
6. One time 30 percent real depreciation in 2006					142.5	141.4	137.4	134.4	129.9	129.4
7. Permanent drop in oil price to \$20 pb in 2006					110.9	109.2	104.7	100.2	96.0	93.5

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

Table 4. Kazakhstan: Monetary Survey, 2002–March 2007  
(In billions of tenge, end-period stocks unless otherwise indicated)

	2002		2003		2004		2005		2006		2007	
	Dec.	Dec.	Dec.	Mar.	Dec.	Mar.	Jun.	Nov.	Dec.	Jun.	Sep.	Mar.
<b>National Bank of Kazakhstan</b>												
Net foreign assets	489.2	715.3	1,205.6	1,228.8	1,083.1	1,055.4	945.5	1,422.2	1,552.3	1,712.1	2,427.3	2,668.5
Net domestic assets	-280.9	-398.2	-515.3	-601.5	-525.3	-433.1	-272.0	-370.7	-483.0	-510.1	-919.2	-1,074.5
Domestic credit	-111.4	-245.8	-444.8	-532.1	-448.2	-284.9	-188.4	-312.4	-519.0	-364.0	-728.7	-964.1
Net credit to government	-54.1	-49.6	-71.7	-146.4	-182.9	-117.9	-42.7	-134.2	-122.5	-124.5	-197.2	-120.3
Credit to banks	-24.6	-88.6	-187.8	-237.8	-166.2	-77.0	-82.6	-76.5	-312.6	-180.5	-332.5	-468.1
Credit to the rest of the economy	-32.7	-107.6	-185.3	-147.9	-99.2	-90.0	-63.1	-101.7	-83.8	-59.0	-199.0	-375.7
Other items (net)	-169.5	-152.4	-70.5	-69.3	-77.1	-148.2	-83.7	-58.4	35.9	-146.0	-190.5	-110.4
Reserve money 1/	208.3	317.0	577.8	546.1	550.6	609.7	663.0	1,040.4	1,059.0	1,196.2	1,501.5	1,584.0
Currency outside NBK	177.9	262.1	410.9	394.1	425.5	443.0	458.5	480.3	597.0	613.0	687.3	739.4
Deposits with NBK	30.4	54.9	166.9	152.0	125.2	166.8	204.5	560.10	461.9	583.2	814.2	844.5
<b>Banking system</b>												
Net foreign assets	402.8	426.5	734.5	743.2	579.3	453.5	116.2	404.4	327.0	127.3	511.5	262.9
Net domestic assets	398.9	658.7	1,108.5	1,155.9	1,359.5	1,662.9	2,027.4	2,034.8	2,465.5	2,989.5	3,407.0	4,052.3
Domestic credit	781.2	1,133.9	1,695.3	1,779.3	2,068.2	2,548.5	2,927.5	2,997.1	3,436.4	4,235.5	5,229.9	5,793.9
Net credit to government	40.6	55.2	53.1	-7.9	-42.6	6.4	86.4	0.7	-2.1	31.4	-59.6	15.7
Credit to the economy	738.8	1,075.7	1,638.8	1,783.7	2,097.5	2,539.5	2,838.4	2,993.7	3,436.0	4,202.3	5,287.8	5,776.5
Claims on local government	1.8	3.0	3.4	3.5	3.4	2.7	2.7	2.6	2.4	1.8	1.7	1.7
Capital accounts and other items net	-382.3	-475.2	-586.7	-623.5	-698.7	-885.7	-900.1	-962.3	-970.9	-1,246.0	-1,822.9	-1,741.6
Broad money	765	971	1,649	1,746	1,833	2,012	2,065	2,333	2,704	3,053	3,716	3,936
Currency in circulation	161.7	238.7	379.4	365.0	389.5	395.7	412.0	436.7	550.0	550.9	600.8	652.1
Deposits	603.3	732.5	1,269.9	1,380.6	1,443.1	1,616.5	1,653.0	1,895.9	2,154.1	2,502.2	3,115.2	3,283.5
Tenge deposits	241.7	387.1	720.5	771.0	846.7	921.1	960.3	1,178.7	1,423.3	1,578.6	2,027.7	2,327.7
Foreign exchange deposits	361.6	345.4	549.4	609.6	596.4	695.4	692.8	717.2	730.8	923.6	1,087.5	955.9
NBK notes outside the banking system	36.8	114.0	193.8	153.4	106.1	104.1	78.6	106.6	88.4	63.6	202.5	379.5
<b>Memorandum items:</b>												
Net international reserves (in millions of U.S. dollars)	3,140	4,961	9,276	9,272	8,011	7,874	7,058	11,073	13,081	13,470	19,113	22,857
NFRK (in millions of U.S. dollars) 2/	1,915	3,663	5,131	5,158	5,214	6,172	8,015	8,326	9,848	11,514	14,085	15,880
<b>Annual growth rates (in percent)</b>												
Broad money	34.1	27.0	69.8	65.7	50.2	31.3	25.2	33.6	47.6	51.5	79.9	68.7
Currency in circulation	23.3	47.6	58.9	49.0	38.4	14.3	8.6	19.6	41.2	32.8	45.8	49.3
Reserve money	19.1	52.2	82.3	67.7	41.7	24.6	14.7	90.5	92.3	86.2	126.5	52.2
Credit to the economy	34.9	45.6	52.4	55.6	60.7	61.5	73.2	67.8	63.8	80.1	86.29	92.95

Source: National Bank of Kazakhstan.

1/ Excludes other nonfinancial institutions.

2/ Transitory deposits in tenge not included.



Table 5. Kazakhstan: Selected Prudential Indicators of the Banking Sector, 2002–06

	2002	2003	2004	2005	2006
Percent, unless otherwise indicated					
Capital adequacy ratio (K2)	17.2	16.9	15.9	15.0	14.9
Tier I capital (K1, percent of assets)	9.0	9.0	8.0	8.2	8.9
Growth in banks' total assets	40.2	46.4	60.4	68.0	96.5
Off-balance sheet items (percent of total assets)	56.8	60.8	69.1	63.6	...
Growth in banks' loans	37.3	45.5	51.7	74.7	82.7
Growth of claims on private non-financial institutions	33.7	39.5	37.8	63.0	73.1
Growth of claims on households	87.5	107.5	148.1	120.0	130.5
Classified assets to total assets 1/ 2/	18.5	25.9	27.7	26.8	27.8
Classified loans to total loans 1/ 2/	26.7	39.3	43.8	41.8	47.3
Nonperforming loans (percent of total loans) 3/	7.7	8.4	6.7	5.4	4.8
Loans classified as loss ("unattended," percent of total loans)	2.0	2.1	2.9	2.2	1.6
Loan loss provisions (percent of total sum of loans)	5.9	6.2	6.7	5.6	5.0
Net foreign assets (percent of total assets)	6.1	1.7	-3.5	-1.2	-1.8
Net open position in foreign exchange (percent of Tier I+II)	7.7	4.5	12.8	1.4	1.5
Share of deposits denominated in foreign exchange	59.9	47.1	43.0	41.9	34.9
Share of loans denominated in foreign exchange	68.5	55.5	51.9	51.5	48.1
Securities (percent of total assets)	17.0	19.6	17.3	14.4	13.9
Liquidity ratio (short term)	0.87	0.87	1.03	0.95	1.18
Loan to deposit ratio, excluding deposits of nonresidents	111.5	133.4	116.8	156.8	152.0
FX loan to FX deposit ratio, excluding deposits of nonresidents	127.4	157.1	169.3	192.9	209.2
Return on assets, before tax (percent of assets end of period)	2.0	2.0	1.4	1.8	1.4
Return on equity, before tax (percent of equity)	13.8	14.2	11.2	14.1	10.9

Sources: NBK reports various issues, FSA, FSAP, and staff calculations.

1/ Loans classified as substandard and loss.

2/ New classification scheme introduced in early 2003.

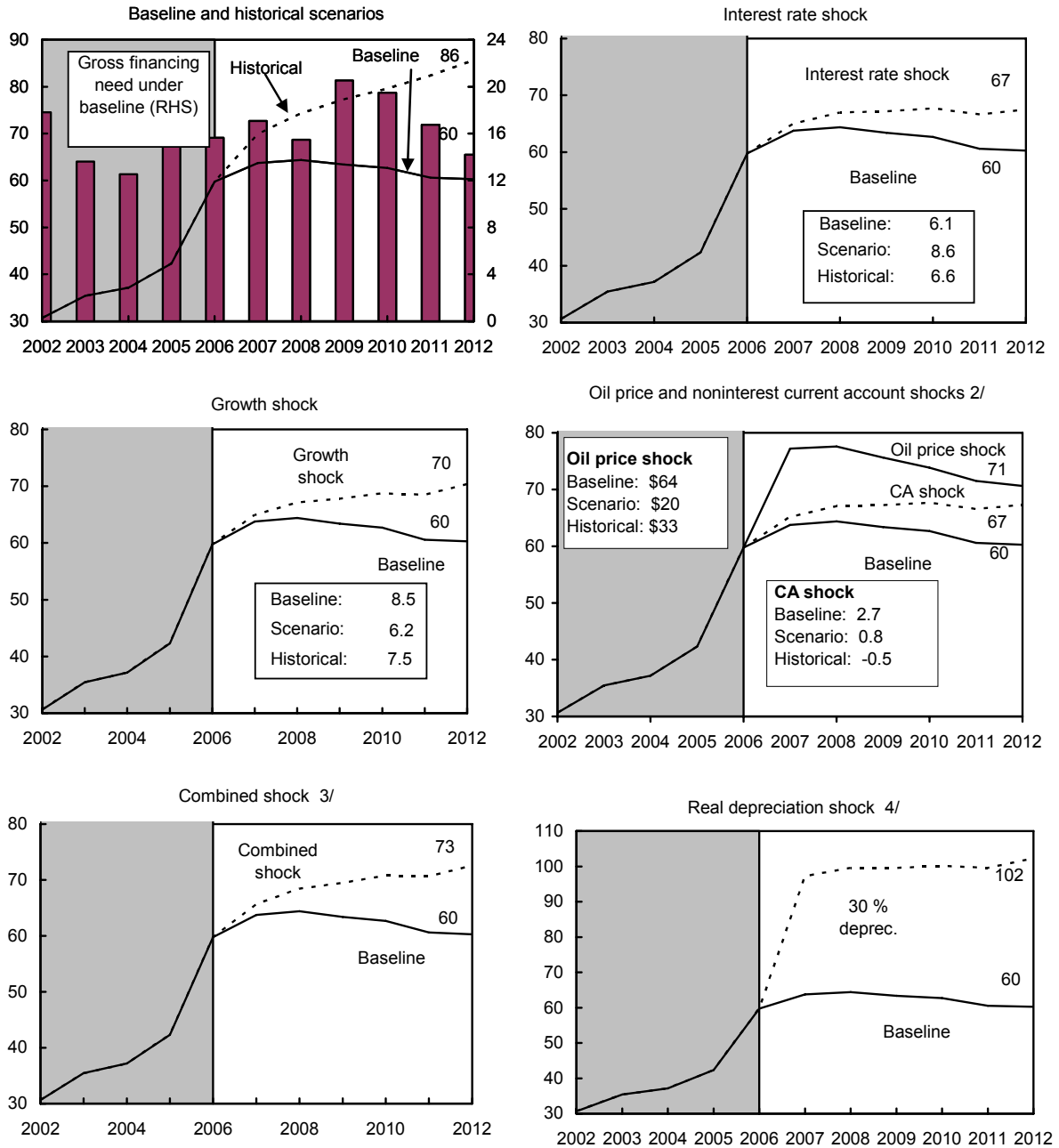
3/ Nonperforming loans consist of loans that are overdue plus those classified as "loss."

Table 6. Kazakhstan: General Government Fiscal Operations, 2003–12

	2003	2004	2005	2006	Projections					
					2007	2008	2009	2010	2011	2012
(in billions of Tenge)										
Total revenue and grants	1,169.2	1,441.1	2,131.7	2,826.8	3,274.1	3,581.8	4,123.2	4,719.6	5,459.9	6,123.1
Total revenue	1,169.2	1,441.1	2,131.7	2,826.8	3,274.1	3,581.8	4,123.2	4,719.6	5,459.9	6,123.1
Oil revenue	274.8	412.7	803.0	1,039.0	1,014.0	1,075.9	1,220.4	1,340.7	1,591.0	1,720.8
Nonoil revenue	894.4	1,028.4	1,328.7	1,787.7	2,260.2	2,505.8	2,902.8	3,378.9	3,868.9	4,402.2
Current revenue	1,156.7	1,420.6	2,099.7	2,785.2	3,225.5	3,527.9	4,061.3	4,649.4	5,379.5	6,032.7
Capital revenue	12.5	20.5	32.0	41.6	48.6	53.9	61.9	70.2	80.5	90.3
Tax revenue	1,070.9	1,306.9	1,998.3	2,720.2	3,111.8	3,370.4	3,867.4	4,417.1	5,099.5	5,697.3
Nonoil tax revenue	796.1	894.2	1,195.3	1,765.1	2,097.9	2,294.4	2,647.0	3,076.4	3,509.4	3,976.4
Nontax revenue	85.8	59.6	101.4	75.0	113.7	157.6	193.9	232.3	280.0	335.5
Income from capital transactions	12.5	20.5	32.0	41.6	48.6	53.9	61.9	70.2	80.5	90.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending and transfers	1,044.0	1,296.9	1,695.1	2,067.5	2,767.4	3,067.0	3,524.7	3,999.3	4,580.7	5,143.1
Total expenditure and net lending	1,044.0	1,296.9	1,695.1	2,067.4	2,767.4	3,067.0	3,524.7	3,999.3	4,580.7	5,143.1
Total expenditure	993.4	1,273.6	1,687.3	2,059.5	2,751.2	3,049.1	3,504.1	3,975.9	4,553.9	5,113.0
Current expenditure	763.6	954.5	1,319.4	1,562.0	2,054.2	2,276.6	2,616.3	2,968.6	3,400.2	3,817.6
Capital expenditure	229.7	319.2	367.9	497.5	697.0	772.5	887.8	1,007.3	1,153.8	1,295.4
Net lending	50.7	23.3	7.2	7.9	16.2	17.9	20.6	23.4	26.8	30.1
Overall budget balance	125.2	144.2	436.6	759.2	506.7	514.8	598.5	720.3	879.2	980.0
Statistical discrepancy	15.7	-9.2	-62.7	100.3	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-121.2	-153.4	-499.4	-658.9	-506.7	-514.8	-598.5	-720.3	-879.2	-980.0
Domestic financing, net	74.1	40.0	17.9	9.5	10.9	-4.2	9.0	19.6	26.1	65.2
Foreign financing, net	8.5	-46.3	-127.0	1.9	-33.6	6.2	4.8	10.2	23.5	11.5
Privatization receipts	59.1	7.1	14.7	31.9	22.3	15.6	10.9	7.7	5.4	3.8
National Fund of the Republic of Kazakhstan	-255.1	-154.2	-404.9	-702.2	-506.3	-532.5	-623.2	-757.8	-934.1	-1,060.5
(in percent of GDP)										
Total revenue and grants	25.4	24.6	28.1	27.9	27.6	27.3	27.3	27.6	27.8	27.8
Total revenue	25.4	24.6	28.1	27.9	27.6	27.3	27.3	27.6	27.8	27.8
Oil revenue	6.0	7.0	10.6	10.2	8.6	8.2	8.1	7.8	8.1	7.8
Nonoil revenue	19.4	17.5	17.5	17.6	19.1	19.1	19.2	19.7	19.7	20.0
Current revenue	25.1	24.2	27.7	27.5	27.2	26.9	26.9	27.1	27.4	27.4
Capital revenue	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Tax revenue	23.2	22.3	26.3	26.8	26.3	25.7	25.6	25.8	26.0	25.9
Nonoil tax revenue	17.3	15.2	15.7	17.4	17.7	17.5	17.5	18.0	17.9	18.1
Nontax revenue	1.9	1.0	1.3	0.7	1.0	1.2	1.3	1.4	1.4	1.5
Income from capital transactions	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
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 and transfers	22.6	22.1	22.3	20.4	23.4	23.4	23.4	23.4	23.4	23.4
Total expenditure and net lending	22.6	22.1	22.3	20.4	23.4	23.4	23.4	23.4	23.4	23.4
Total expenditure	21.5	21.7	22.2	20.3	23.2	23.2	23.2	23.2	23.2	23.2
Current expenditure	16.6	16.3	17.4	15.4	17.3	17.3	17.3	17.3	17.3	17.3
Capital expenditure	5.0	5.4	4.8	4.9	5.9	5.9	5.9	5.9	5.9	5.9
Net lending	1.1	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Overall budget balance	2.7	2.5	5.8	7.5	4.3	3.9	4.0	4.2	4.5	4.4
Statistical discrepancy	0.3	-0.2	-0.8	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	-2.6	-2.6	-6.6	-6.5	-4.3	-3.9	-4.0	-4.2	-4.5	-4.4
Domestic financing, net	1.6	0.7	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.3
Foreign financing, net	0.2	-0.8	-1.7	0.0	-0.3	0.0	0.0	0.1	0.1	0.1
Privatization receipts	1.3	0.1	0.2	0.3	0.2	0.1	0.1	0.0	0.0	0.0
National Fund of the Republic of Kazakhstan	-5.5	-2.6	-5.3	-6.9	-4.3	-4.1	-4.1	-4.4	-4.8	-4.8
<i>Memorandum items:</i>										
Nonoil balance (in billions of tenge)	-149.6	-268.5	-366.4	-279.8	-507.2	-561.2	-621.9	-620.4	-711.8	-740.9
(in percent of GDP)	-3.2	-4.6	-4.8	-2.8	-4.3	-4.3	-4.1	-3.6	-3.6	-3.4
Revenues to nonoil GDP (percent)	33.9	35.0	43.5	40.9	37.3	36.2	35.7	35.3	35.8	35.4
Nonoil revenues to nonoil GDP	26.0	25.0	27.1	25.9	25.8	25.3	25.1	25.3	25.4	25.5
Oil price (US\$ per barrel)	28.9	37.8	53.4	64.3	60.8	64.8	64.5	64.3	63.8	63.3

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

Figure 1. Kazakhstan: External Debt Sustainability: Bound Tests 1/  
(External debt, excluding intra-company debt, in percent of GDP)



Sources: staff estimates.

1/ Shaded areas represent actual data including estimates for 2006. 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/ Oil price shock is a permanent drop in oil price to \$20 per barrel in 2007. A feedback effect on real GDP growth is not incorporated.

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 2007.



INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

**2007 Article IV Consultation—Informational Annex**

June 1, 2007

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**Annex I. Kazakhstan: Relations with the Fund**  
(As of April 30, 2007)

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

**II. General Resources Account**

	<b>SDR Million</b>	<b>Percent of Quota</b>
Quota	365.70	100.0
Fund holdings of currency	365.70	100.0
Reserve position in the Fund	0.01	0.0

**III. SDR Department**

	<b>SDR Million</b>	<b>Percent of Allocation</b>
Holdings	0.85	n.a.

**IV. Outstanding Purchases and Loans**

None

**V. Financial Arrangements**

			<b>Amount Approved (SDR Million)</b>	<b>Amount Drawn (SDR Million)</b>
<b>Type</b>	<b>Approval Date</b>	<b>Expiration Date</b>		
EFF	12/13/99	3/19/02	329.10	0.00
EFF	7/17/96	7/16/99	309.40	154.70
Stand-by	6/05/95	6/04/96	185.60	185.60

**VI. Projected Obligations to the Fund**

None

**VII. Safeguards Assessments**

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

**VIII. Exchange Rate Arrangements**

The currency of Kazakhstan is the tenge, which was introduced in November 1993. The official exchange rate is determined on the basis of foreign exchange auctions that are held daily. Auctions are held for U.S. dollars, euros, and Russian rubles, and official rates are quoted for over 30 other currencies on the basis of cross-rates. Since late 1999, the exchange rate regime has been a managed float with no pre-announced path. On April 30, 2007, the tenge/U.S. dollar rate was 120.2. The exchange rates at numerous exchange bureaus are very

close to the auction rate, and the spread between buying and selling rates is very small. The exchange system is free from restrictions on payments and transfers for current international transactions.

#### **IX. Article IV Consultation**

Kazakhstan is on the standard 12-month consultation cycle. The last consultation was concluded on June 14, 2006 (see IMF Country Report No. 06/244).

#### **X. FSAP Participation and ROSCs**

Kazakhstan participated in the Financial Sector Assessment Program (FSAP) in 2000. The staff report on the Financial Sector Stability Assessment (FSSA) was issued on November 27, 2000 (FO/DIS/00/142). The FSSA included the following ROSC modules: Basel Core Principles for Effective Banking Supervision, Core Principles for Systemically Important Payment Systems, Code of Good Practices on Transparency in Monetary and Financial Policies, IOSCO Objectives and Principles of Securities Regulation, and IAIS Insurance Core Principles. An FSAP update mission took place in February 2004. The fiscal transparency module was completed in October 2002 and the final report published in April 2003. A data module mission took place in April/May 2002, and its final report was published in March 2003. An update of the data ROSC was undertaken in 2006 and the report is being finalized (see Annex 5).

#### **XI. Technical Assistance**

Kazakhstan has received technical assistance and training by the Fund in virtually every area of economic policy, including through about 75 technical assistance missions provided during 1993–2003 by FAD, LEG, MFD, STA, and the IMF Institute. In addition to short-term missions, the Fund has provided resident advisors to the National Bank of Kazakhstan, to the Agency of Statistics of the Republic of Kazakhstan, and to the Ministry of Finance. Other international agencies and governments, including the World Bank, EU TACIS, EBRD, UNDP, and OECD, also are providing a wide variety of technical assistance.

The following list summarizes the technical assistance provided by the Fund to Kazakhstan since 2002.

##### *Monetary and Financial Systems*

Technical assistance has enabled steady progress to be made in a number of areas related to monetary and exchange affairs, including banking legislation, central bank accounting, payments system reform, central bank organization and management, foreign operations and reserve management, banking supervision, monetary statistics, currency issuance, monetary operations, and money-market development.

1. December 2002: Sequencing of Capital Account Liberalization and Financial Sector Supervision

2. January 2003: Assessment of the CPSS Core Principles for Systematically Important Payment Systems and Transparency of Payment System Oversight
3. September 2004: Bringing Banking Prudential Regulation up to EU Standards
4. September 2004: Implementing Inflation Targeting: Next Steps

### *Fiscal Affairs*

The Fiscal Affairs Department of the IMF has given comprehensive advice to Kazakhstan in the areas of tax and expenditure administration, the establishment of a treasury system, and the introduction of a social safety net.

1. April 2003: Customs Administration
2. 1997–2004 Treasury Modernization
3. September 2004: Treasury Reform Process

### *Statistics*

The Fund's technical assistance program in statistics has focused on the development of the institutional framework appropriate to the needs of a market economy. The assistance has concentrated on establishing procedures for collecting and compiling monetary, government finance, balance of payments (including external trade), and national accounts.

1. November 2002: International Reserves Template
2. January 2006: Real sector and balance of payments statistics
3. August 2006: Real sector statistics.
4. December 2006: ROSC Update mission (and DQAF)

### *Legal Department*

December 2003: Draft Law on Mandatory Reporting on Certain Financial Transactions

### *IMF Institute*

Kazakhstani officials have participated in courses in Washington and at the Vienna Institute in the areas of macroeconomic management, expenditure control, financial programming, taxation, statistics, and other areas. In addition, the Fund's Institute has conducted courses in the region.

## **XII. Resident Representatives**

Position terminated in August 2003.



**Annex II. Kazakhstan: Relations with the World Bank Group**  
(As of April 30, 2007)

**Kazakhstan became a member of the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) in July 1992 and of the International Finance Corporation (IFC) in September 1993.** The Bank's lending program has been curtailed in recent years as a result of the country's reduced borrowing needs, but the program of economic research has expanded and in FY07 it amounts to US\$4 million, of which about 75 percent is directly financed by the authorities. The research under this umbrella focuses on issues of overall competitiveness, fiscal and expenditure management, human development, infrastructure, and the environment.

**At present, there are ten active projects (nine IBRD loans and one Global Environmental Facility (GEF) grant) with a total commitment of US\$648 million, of which US\$370 million has been disbursed.** In the active portfolio, there are five old loans (Uzen Oil Field Rehabilitation, Road Transport Restructuring, Electricity Transmission Rehabilitation, Syr Darya Control and Northern Aral Sea – Phase I, and Nura River Clean-Up) with a commitment of US\$454 million, one old GEF grant (Drylands Management) of US\$5 million, and four new loans which have gone to the board since FY06 (Agricultural Post-Privatization Assistance – Phase II, Agricultural Competitiveness, North-South Electricity Transmission, and Forest Protection and Reforestation) with a commitment of US\$189 million.

The Bank is also preparing seven new loans (Ust-Kamenogorsk Environment Remediation, Irrigation and Drainage—Phase II, Syr Darya Control and Northern Aral Sea—Phase II, Technology Commercialization, Customs Service Modernization, Health Sector Technology Transfer and Institutional Reform, and Territorial Development) with an expected financing envelope of about US\$368 million.

**Kazakhstan is IFC's largest client in Central Asia. IFC's net committed projects there, which amount to US\$277 million for its own account plus US\$75 million in syndicated loans, are concentrated primarily in the oil, gas, mining and financial sectors.** To date, US\$252 million have been disbursed. IFC has also been active in the promotion of small and medium enterprises, leasing, and the provision of Technical Assistance in the areas of corporate governance, housing, leasing, and SMEs.

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

**Annex III. Kazakhstan: Relations with the EBRD**  
(As of December 31, 2006)

**1. The EBRD is the largest investor outside the oil and gas sector in Kazakhstan.**

As of December 2006, the Bank has signed 50 projects (on a net cumulative basis) worth €2.8 billion, including EBRD financing of €1.4 billion. The EBRD's gross cumulative disbursements amounted to €1170.4 million. During 2006, the Bank provided direct financing of €242.0 million to Kazakhstan's private sector. The Bank continues to be actively involved across a number of sectors in private and public sector projects with a concentration in the financial sector. The Bank expects to sign new project agreements in Kazakhstan worth about €200 million per year. Operations in Kazakhstan are focused on building earning assets in the oil and gas sector and on development of the small and medium-sized enterprise (SME) sector. There is also a well-established, effective relationship between the Bank and the government for financings in the transport and general industry sectors. About 70 percent of all investments are now in the private sector.

Bank involvement in the country is guided by the Bank's most recent country strategy for Kazakhstan, approved in November 2006.

***Strategic priorities for 2007–2008***

The Bank's Strategic priorities comprise:

- Engaging actively in the further reform process by working with both private and public sectors.
- Broadening the Bank's operations and increasing its impact with a special focus on the corporate sector, including SMEs, to support the diversification of the economy and to promote competition.
- Continuing to finance infrastructure, with a strong emphasis on the transport and power sectors.
- Staying engaged in the financial sector, with a clear focus on enhancing competition and supporting nonbank financial services as well as capital markets.
- Promoting higher transparency and governance standards, and FDI.

In its operations, the Bank will continue to use traditional product instruments to achieve its strategic goals. However, to support the above-mentioned objectives, the Bank will emphasise innovation and the use of more sophisticated products, alongside traditional funding instruments, including:

- Capital market transactions, including equity funds and securitisation
- Energy efficiency related investments
- Adequately structured public private partnerships (PPP)s
- Equity and mezzanine financing
- Financing micro and small enterprises in the rural and agricultural sectors
- Local currency funding
- Cofinancing with domestic banks
- Expansion of TAM and BAS

2. **The Bank will continue to increase the presence and efficiency of the Bank's operations, improve the delivery of services, and enhance the policy dialogue by building up the Almaty Resident Office as the regional presence for Bank expertise in Central Asia.** This will include strengthening the skills and seniority of Bank staff based in Kazakhstan, including sector team presence and experience and possibly certain support functions, such as economists, located in the field.

***Strategic objectives for 2007–2008***

The Bank's main operational objectives comprise:

**Enterprise sector**—Support economic diversification and enhance competition by working directly with corporates across various sectors such as general industry, power, agribusiness, telecoms and property. Promote projects leading to higher energy efficiency and increase the capitalisation of enterprises through equity investments. Increase competition in the natural resources sector by working with smaller operators and on higher risk projects. Dedicate resources in order to directly finance smaller projects and to continue to provide micro financing and tailored capacity building using the Kazakhstan Small Business Programme (KSBP) and leasing facility. Promote high standards of corporate governance, integrity and transparency of ownership, including through FDI to Kazakhstan. Selectively support regional cross-border expansion of reputable companies to neighbouring markets.

**Infrastructure**—Increase support in transport, energy and telecommunication infrastructure development to satisfy the growing needs of the economy and promote respective sectoral reforms. The Bank will focus on nonsovereign projects. On a selective basis, it will take a leadership role in developing and actively engaging in appropriately structured public-private partnerships (PPPs) that involve competitive tender processes. Work with state holding company Samruk to find synergies between different parts of infrastructure and improve corporate governance in respective of state owned enterprises. Support further regulatory and tariff development that promotes investments and fair access to infrastructure. Given Kazakhstan's remoteness from major markets and low population density, the Bank will continue to work closely with the private sector, government authorities and other IFIs on sustainable solutions for infrastructure, and to promote regional cooperation.

**Financial sector**—To promote strategic FDI in the financial sector and to open up the capital base of local banks to reputable financial investors through initial public offerings (IPOs) or private placements. To continue working actively with existing shareholders of the Kazakh banks to achieve better transparency of ownership and corporate governance. Facilitate competition in the financial sector by providing debt and equity, particularly to medium size banks and nonbank microfinance institutions (NBMFIs), supporting additional micro, small and medium-sized enterprises (MSMEs). On debt products, in view of the developed access to capital markets, the Bank will be particularly attentive in developing projects with specific attributes which meet additionality concerns and contribute to transition. A special emphasis will be on the provision of financial resources outside the capital cities, as well as improving the efficient delivery of financing to the micro and small sectors. The Bank will support the development of financial services such as leasing, mortgages, insurance and pensions, and facilitate the securitisation of assets by Kazakh financial institutions. The Bank will assist the

Government in privatising the few remaining state-owned financial institutions concerned with pensions and mortgages.

**Policy dialogue**—Support the Government in their efforts to improve the investment climate and drive long-term economic diversification, leading to improved global competitiveness. Cooperate with newly created state holding companies Samruk and Kazyna to achieve corporate governance and operational improvements in state-owned enterprises. Promote adequate behaviour and transparent practices and fight corruption to improve the business environment. Promote adoption of the anti-money laundering (AML) legislation, especially in light of the government initiative to create the Regional Financial Centre in Almaty (RFCA).

***Main trends in the portfolio over the past year***

***Enterprise Sector:*** The most notable progress was made in the General Industry sector: Two new industry projects were signed: an equity investment in Steppe Cement (EBRD finance €1.9 million), and a loan to Bericap Kazakhstan (EBRD finance €1.9 million). An additional project in the enterprise sector was signed: a loan to Savola Kazakhstan (EBRD finance €3.0 million). Agricultural producers received an additional support through the Warehouse Receipts Program to Alliance Bank, totalling € 3.8 million.

***Financial Sector:*** The Bank has strengthened its efforts to improve transparency of ownership and integrity in Kazakhstan's banking sector. By supporting the financial sector in the development of SME credit lines, the Team continued to support MSMEs through financial intermediaries. The new Kazakhstan KSBP III program started with a specific focus on the rural and agricultural sectors. Two credit lines to new partners, Kazakhstan Loan Fund (KLF), and Alliance Bank have been committed totalling €6.9 million. An additional SME loan through Alliance Bank was signed for financing of €7.6 million. The Bank promoted further development of the market for residential mortgages by providing a mortgage loan to Alliance Bank for € 18.0 million.

3. **The Trade Facilitation Program (TFP) remained an important instrument in supporting a wide range of trade transactions of Kazakh enterprises, including long-term intra-regional imports.** A new TFP line of €12.2 million was opened to Alliance Bank. In 2006, the Bank started two new trade finance advisory services projects, funded by the Government of the Netherlands and the EU, under which foreign consultants support Kazakh banks in the development of their domestic and international factoring business and marketing of all type of trade finance services. In 2006, the team committed further loans and guarantees under the Regional Trade facilitation program in excess of €100 million.

***Energy sector:*** In 2006, the Bank financed a € 9.1 million loan to Bautino Atash Marine and Supply Base-Debt project. The project will respond to a wide range of off-shore oilfield operators' needs, such as fuel & water provision, base infrastructure, and services and crew change facilities.

4. **The overall quality of the Bank's portfolio in Kazakhstan remains excellent, with performing assets representing 100 per cent of operating assets.** The current portfolio in Kazakhstan has an average risk rating of 5.42. More than 70 per cent of all EBRD investments are now in the private sector. The private/public ratio of the portfolio is not expected to change much during the coming year. Although the focus of the Bank's activities is on the private sector, there are a few large public sector projects in the pipeline.

<b>EBRD Portfolio 31 December 2006</b>			
<b>€ million</b>			
Sector Business Group (SIC)		Commitments	Portfolio
Energy	P	82.5	70.6
	S	100.9	94.0
Financial Institutions	P	722.5	350.4
	S	1.6	1.6
General Industry	P	60.0	19.2
Infrastructure	S	220.1	135.9
Specialised Industries	P	146.9	71.0
	S	45.6	31.9
<b>Total</b>		<b>1379.9</b>	<b>774.6</b>

*\*P=Private S= State*

**Annex IV. Kazakhstan: Relations with the Asian Development Bank**  
(As of February 2007)

**Kazakhstan became a member of the Asian Development Bank (ADB) in 1994.** As of February 2007, total public sector loan commitments amounted to \$483 million, covering 14 loans in agriculture and natural resources, education, finance, transport and communications, and water supply, sanitation and waste management. Kazakhstan is no longer eligible for concessional resources from the Asian Development Fund. As of January 17, 2007, total loan disbursements amounted to \$435 million.

ADB's focal areas continue to be private sector development, environmentally sustainable development, and regional cooperation.

**Private sector operations, which commenced in 2005, are the forefront of current and future ADB operations in the country.** A Private Sector Operations Agreement between the Republic of Kazakhstan and ADB was signed in November 2004. It provided a basis for ADB's business opportunities in the Kazakhstani private sector. In 2006, ADB granted three private sector loans in the amount of \$225 million to boost financial sector development and SME support in Kazakhstan. These loans became ADB's first private sector financings without a government guarantee in the country.

**ADB operations for the private sector focus primarily on two sectors: (i) finance and capital markets, and (ii) infrastructure.** In the financial and capital markets sector, ADB assists private sector intermediaries in banking, leasing, venture capital financing, merchant banking, micro credit, small- and medium- enterprises (SME), housing finance, private equity funds, mutual funds, insurance, securitization, credit enhancement, and credit rating. In the infrastructure sector, ADB's focus is on telecommunications, power and energy, water supply and sanitation, ports, airports, toll roads, and support for subsovereign credit.

This new thrust towards private sector operations will be supported by public sector technical assistance, investments to create an enabling environment for the private sector, and selected public lending programs in rural water supply and water resources management aimed at improving livelihood in rural areas and reducing urban-rural gap.

The ADB has provided Kazakhstan with TA grants in several sectors, including agriculture, education, finance, pension reform, transportation, energy, water supply and sanitation, aid coordination and management, public investment programming, and poverty reduction planning and implementation. As of February 9, 2007, ADB's TA program (since it started in 1994) reached 63 technical assistance projects for a total of \$27 million.

## Annex V. Kazakhstan: Statistical Issues

**The quality and coverage of the economic statistics are generally adequate for surveillance.** Kazakhstan has made considerable progress since the 2002 data ROSC. On March 24, 2003, Kazakhstan became the 53<sup>rd</sup> subscriber to the Special Data Dissemination Standard (SDDS), marking a major step forward in the development of the country's statistical system. Among the countries of the Commonwealth of Independent States, it is the first country to graduate from the General Data Dissemination System to the SDDS and the second to subscribe to the SDDS. Measures have been taken to address delays in disseminating SDDS data for different data categories, including the official reserve assets and government finance statistics.

**Building on the progress achieved since 2002, IMF missions in February and in August 2006 assisted in developing a more analytically useful disaggregation of the national accounts and balance of payments into oil and non-oil sector components.** This should permit a better assessment of macroeconomic developments and policy formulation. STA also provided recommendations for improving the quarterly national accounts (QNA) data.

### *Sector specific issues*

In the area of **national accounts**, several weaknesses remain in both the quality of GDP estimates by sector produced by the National Statistical Agency (NSA), and the quality and timeliness of GDP estimates by expenditure. First, the quality of **GDP estimates by industry** is affected by the limited coverage of small businesses in selected activities such as retail and construction. Second, while some progress has been made in making **GDP estimates by final expenditure** consistent with output-based measures, data compilation and dissemination of quarterly GDP series data should be conducted on a discrete basis only. The 2006 Multitopic Statistics Mission on Oil Activities made recommendations in a number of other areas, including: deflators, data sources for intermediate consumption and inventories, adjustments for holding gains for intermediate consumption, methods for deriving constant price estimates of changes in inventories, taxes and subsidies, and retail trade, and methods for recording work in progress. In addition, a November–December 2006 data ROSC reassessment mission noted acute staff shortages in the National Accounts Department.

Overall, the NSA utilizes sound statistical techniques to ensure the accuracy and reliability of the **consumer price index (CPI)**. However, use of the geometric mean as elementary aggregate is recommended instead of the relative of average prices, as is the case for the producer price index. Also, there is scope for improving the imputation method used for some seasonal items in long time series for the CPI.

Progress has also been made in the **classification of the fiscal accounts** consistent with the Fund's *Government Finance Statistics Manual 2001 (GFSM 2001)*. However, as a result of the reorganization of the public sector, including the redefinition of budgetary units, difficulties have arisen with regard to the **recording and reporting of expenditure arrears**. Since 1997, the authorities have reported detailed data for publication in the *GFS Yearbook*. The latest data reported for publication cover consolidated general government and are

presented using the new template consistent with the *GFSM 2001*. The Ministry of Finance also provides monthly indicators covering the general government for publication in *International Financial Statistics (IFS)*.

The existing framework for compiling **monetary statistics** generally conforms to recommended Fund methodology, and data are compiled on a timely basis. Steps are being taken by the National Bank of Kazakhstan (NBK) to further improve the quality and coverage of data. In particular, **the chart of accounts for commercial banks** has been revised to enable the NBK to distinguish sectors and financial instruments in accordance with the *Monetary and Financial Statistics Manual*. The NBK has extended **institutional coverage** to compile a financial sector survey that includes the Development Bank. The authorities have started implementing the recommendations of past money and banking statistics missions regarding the use of residency criteria as defined in the *Balance of Payments Manual*, fifth edition (*BPM5*), including classifying foreign branches and foreign companies' representatives as "resident."

There are also shortcomings in **external debt statistics**. Public and publicly-guaranteed debt excludes external debt of public enterprises and development institutions, which is instead included in private debt.

**In the area of balance of payments**, the overall quality and timeliness of data are satisfactory. Considerable progress has been made in implementing Fund technical assistance recommendations. In particular, the coverage of trade data has been improved through a survey to determine the volume of shuttle trade and travel expenses. The NBK has also worked closely with relevant agencies, including STA staff, to update the ratios used for adjusting c.i.f. imports to an f.o.b. basis, which resulted in a revision of import data from 2000 to 2004. Compilation of export and import price indices has been initiated, and historical data are also now available. However, foreign direct investment statistics are not fully in line with the standards set forth in *BPM5*, as local branch offices of foreign companies operating in the construction sector are considered nonresident entities. This leads to discrepancies with national accounts statistics where this activity is treated as domestic production.



**Kazakhstan: Table of Common Indicators Required for Surveillance**  
(As of May 17, 2007)

	Date of latest observation	Date received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Frequency of publication <sup>6</sup>	Memo Items	
						Data Quality-Methodological soundness <sup>7</sup>	Data Quality-Accuracy and reliability <sup>8</sup>
Exchange Rates	04/30/07	05/01/07	D	D	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	03/31/07	04/05/07	W	W	M		
Reserve/Base Money	03/2007	04/05/07	M	M	M	O, O, LO, LO	LO, O, O, O, O
Broad Money	03/2007	04/05/07	M	M	M		
Central Bank Balance Sheet	04/2007	05/07/07	M	M	M		
Consolidated Balance Sheet of the Banking System	03/2007	04/05/07	M	M	M		
Interest Rates <sup>2</sup>	03/2007	04/05/07	W	W	M		
Consumer Price Index	04/30/07	05/01/07	M	M	M	O, LO, O, O	O, O, O, O, O
Revenue, Expenditure, Balance, and Composition of Financing <sup>3</sup> —General Government <sup>4</sup>	03/2007	04/06/07	M	M	M	O, LNO, LO, O	O, O, O, LO, LO
Revenue, Expenditure, Balance, and Composition of Financing <sup>3</sup> —Central Government	03/2007	04/02/07	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	03/31/07	04/05/07	M	M	M		
External Current Account Balance	Q4/2006	04/01/07	Q	Q	Q	O, LO, O, O	LO, O, O, O, O
Exports and Imports of Goods and Services	Q4/2006	04/01/07	Q	Q	Q		
GDP/GNP	Q4/2006	02/13/07	Q	Q	Q	O, LO, O, LO	LO, LO, LO, LO, O
Gross External Debt	Q4/2006	04/01/07	Q	Q	Q		

<sup>1</sup>Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup>Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup>Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup>The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup>Including currency and maturity composition.

<sup>6</sup>Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); NA: Not Available.

<sup>7</sup>Reflects the assessment provided in the data ROSC published on March 18, 2003, and based on the findings of the mission that took place during April 16–May 3, 2002 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), or not observed (NO).

<sup>8</sup>Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
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July 5, 2007

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Executive Board Concludes 2007 Article IV Consultation with the Republic of Kazakhstan**

On June 27, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Kazakhstan.<sup>1</sup>

### **Background**

Economic performance has remained impressive over the past year, although relatively high inflation persists and vulnerabilities have increased. Output expanded by 10.6 percent in 2006, the seventh consecutive year of growth at around 10 percent. Employment continued to increase and real wage growth was strong. Despite buoyant export growth, the current account was in moderate deficit, driven by a rapid increase in imports. A jump in foreign direct investment and a surge in external borrowing by banks contributed to a large increase in the capital account surplus, leading to an US\$11 billion accumulation in official reserves. However, banks' external liabilities more than doubled in 2006 to 41 percent of GDP, implying greater vulnerability related to the increase in external indebtedness, and inflation remained relatively high.

Large foreign exchange inflows are complicating the task of monetary and prudential policies. Despite measures to tighten liquidity, including broadening and raising reserve requirements and increasing policy interest rates, money and credit aggregates have surged. Prudential

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

regulations have also been tightened in an effort to slow bank credit and external borrowing. Since mid-2006, limits on banks' short-term external borrowing were imposed, criteria on household debt service-to-income ratios have been introduced, regulations on banks' foreign currency exposures have been tightened, and, more recently, limits on bank's total external borrowing have been established. The tenge appreciated against the dollar by 4 percent in 2006 and a further 6 percent during January–April 2007.

Fiscal policy remained prudent in 2006 and helped prevent inflation from rising further. The overall surplus rose to 7.5 percent of GDP, of which more than 90 percent was saved in the National Fund. The surplus is expected to narrow to 4.3 percent of GDP in 2007 on account of lower oil prices and an acceleration in public spending.

### **Executive Board Assessment**

Executive Directors commended the authorities' prudent macroeconomic policies and sound oil revenue management, which have contributed to Kazakhstan's impressive economic performance. In 2006, real GDP growth remained robust, employment continued to increase, and social indicators improved further, while the fiscal position—supported by buoyant oil and non-oil revenues—remained very strong. At the same time, these successes have spurred investor interest and led to large capital inflows, with a consequent acceleration in credit growth and rise in inflationary pressures.

Looking ahead, Directors considered that economic prospects for Kazakhstan remain bright. They noted that, while the positive external environment would likely prevail in the near term, policy measures to lower inflation and mitigate mounting banking sector risks are needed to ensure a continued favorable macroeconomic outlook. Structural reforms to further enhance diversification and improve the investment climate will help sustain strong economic performance over the medium term.

Directors encouraged the authorities to take further steps to tighten the monetary policy stance. They welcomed the measures to tighten liquidity implemented over the past year, but noted that money and credit growth remains excessive. Directors recommended early action to further increase reserve requirements, possibly with a wider differential between requirements on external versus domestic liabilities, and to raise policy interest rates.

Directors noted that a stronger and more flexible tenge would support monetary tightening in bringing inflation down and restraining speculative inflows. They observed that real exchange rate appreciation would also be in line with longer-term fundamentals and suggested that nominal appreciation, rather than higher inflation, would better facilitate the adjustment.

Directors welcomed the recent prudential measures aimed at containing risks related to the rapid growth in bank credit and external debt—especially the capital-based limits on external borrowing, criteria on household debt service-to-income ratios, and tighter regulations on banks' foreign currency exposures.

With bank credit and external borrowing—and the associated risks—continuing to grow rapidly, Directors recommended that the authorities consider tightening prudential regulations further. They recommended, in particular, increasing provisioning requirements and implementing more stringent collateral regulations and risk weights for unsecured consumer credits.

Directors emphasized that vigorous supervisory effort is needed to ensure banks' compliance. They therefore welcomed the recent legislation enhancing the Financial Supervision Agency's (FSA) supervisory powers, as well as the plans to increase the FSA's resources. Directors viewed the authorities' progress in formulating early warning indicators and contingency plans as valuable proactive steps to limiting risks. Directors encouraged the authorities to move ahead with enhancing Anti-Money Laundry/Combating Financing of Terrorism legislation in line with international standards.

Directors noted that fiscal policy has remained prudent but emphasized that the easing of the fiscal stance in 2007 would require additional monetary tightening and exchange rate appreciation to keep inflation from rising. Observing that the acceleration of public spending is aimed at addressing Kazakhstan's still substantial social and infrastructure development needs, they underscored the benefits of enhancing spending efficiency. In this regard, Directors welcomed the authorities' intention to conduct a review of public financial management, with assistance from the World Bank.

Directors emphasized the importance of intensified structural reforms to improve competitiveness and underpin prospects for the non-oil sector. They noted that early WTO accession, customs administration reform, and further progress in enhancing regional trade would secure productivity gains. Directors welcomed the initiation of the program to privatize state enterprises, which should facilitate enterprise restructuring and enhance competition policy.

Directors commended the notable progress in improving external debt data, particularly its monitoring on a remaining-maturity basis. They noted that the assessment of vulnerabilities would be enhanced further by progress in disaggregating import data across the oil and non-oil sectors of the economy. Directors urged expeditious completion of the project to broaden the concept of public debt to include obligations of state enterprises and development institutions. They also welcomed the progress made in complying with The Extractive Industries Transparency Initiative and called for early publication of the external audit report.

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## Kazakhstan: Selected Economic Indicators

	2001	2002	2003	2004	2005	<u>Prel.</u> 2006	<u>Proj. 1/</u> 2007
	(Changes in percent)						
Real economy							
Real GDP	13.5	9.8	9.3	9.6	9.7	10.6	9.5
CPI (end-of-period)	6.4	6.6	6.8	6.7	7.5	8.4	8.5
	(In percent of GDP)						
Public finance							
Government revenue and grants	25.7	22.5	25.4	24.6	28.1	27.9	27.6
Government expenditures	23.0	21.0	22.6	22.1	22.3	20.4	23.4
General government balance 2/	2.7	1.4	2.7	2.5	5.8	7.5	4.3
General government non-oil balance	-3.9	-3.0	-3.2	-4.6	-4.8	-2.8	-4.3
General government debt (end-of-period) 3/	19.7	17.4	15.5	11.9	8.0	6.5	5.4
	(Changes in percent)						
Money and credit							
Base money	30.9	19.1	52.2	82.3	14.7	126.5	...
Broad money	42.8	34.1	27.0	69.8	25.2	79.9	...
Banking sector credit to the economy	78.9	34.9	45.6	52.4	73.2	86.3	...
Interest rate on NBK notes (end of period)	5.8	5.9	5.2	4.0	2.2	4.76	...
	(In percent of GDP)						
Balance of payments							
Trade balance 4/	5.3	8.1	11.9	15.7	18.1	18.2	13.3
Current account balance 4/	-5.4	-4.2	-0.9	0.8	-1.9	-2.2	-3.3
External debt	68.5	74.2	74.3	75.8	76.0	91.3	91.5
Gross international reserves							
In billions of U.S. dollars, end of period	2.5	3.1	5.0	9.3	7.1	19.1	25.6
In months of imports of goods and nonfactor services	2.8	3.3	4.5	5.9	3.3	7.0	8.2
	(Changes in percent)						
Exchange rate							
Tenge per U.S. dollar (end of period)	3.8	3.3	-8.0	-9.3	2.9	-5.1	...
Tenge per Russian ruble (end of period)	-3.0	-2.1	-0.8	-4.0	-0.4	3.7	...
Real effective exchange rate (p.a.) 5/	0.9	-3.8	-3.6	5.8	3.1	7.7	...

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

1/ Staff projections.

2/ Under this definition of the general government balance, privatization revenue is treated as a financing item and measured from below-the-line financing, which includes a statistical discrepancy.

3/ Gross domestic and external debt, including government guaranteed debt.

4/ Reported figures for 2001 have been adjusted for staff estimates of the underinvoicing of exports.

5/ A positive sign indicates appreciation.