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**Republic of Kazakhstan: 2009 Article IV Consultation—Staff Report; Supplement; 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 2009 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 2009 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 15, 2009, 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 17, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 8, 2009 discussion of the staff report that concluded the Article IV consultation.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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REPUBLIC OF KAZAKHSTAN

# Staff Report for the 2009 Article IV Consultation

Prepared by the Staff Representatives for the
2009 Consultation with the Republic of Kazakhstan

Approved by David Owen and David D. Marston

June 17, 2009


## EXECUTIVE SUMMARY

**Kazakhstan continues to face significant challenges from the ongoing difficulties in the banking sector and the weak global backdrop**. The financial system remains highly stressed despite large-scale government support, NPLs are rising sharply, and the economy is expected to contract this year. Nevertheless, Kazakhstan is better placed than many emerging market economies to weather the crisis given its large official foreign currency assets, low public debt, and favorable medium-term prospects.

**Policies should remain focused on managing the impact of the crisis and establishing the basis for a resumption of growth**. Monetary, fiscal and financial sector policies should continue to complement each other in achieving these objectives.

**A clearer and more comprehensive strategy is needed to strengthen the banking sector**. A full and independent assessment of all systemically important banks should be carried out in tandem with the strengthening of regulation and supervision and the improvement of corporate governance. The authorities are advancing in a number of key areas, including bank restructuring and recapitalization. These efforts should continue in a transparent and equitable manner, and should be supported by clearly defined roles for the Distressed Asset Fund and the Deposit Guarantee Fund.

**A return to a more flexible exchange rate policy would be desirable when conditions in the financial sector improve**. The current dollar peg, however, is appropriate until problems in the financial sector are resolved. Following the devaluation in February, flows in the foreign exchange market should remain well balanced in the period ahead provided that confidence in the banking sector does not deteriorate further.

**Macroeconomic policies should remain supportive of growth**. Inflation pressures are well-contained and the current monetary policy stance is appropriate. There may be scope for additional monetary easing, but real interest rates should remain positive to support depositor confidence. Fiscal policy has provided considerable support to the economy. The focus now should be on effective policy implementation, although there is room for additional stimulus if growth slows more sharply than expected.

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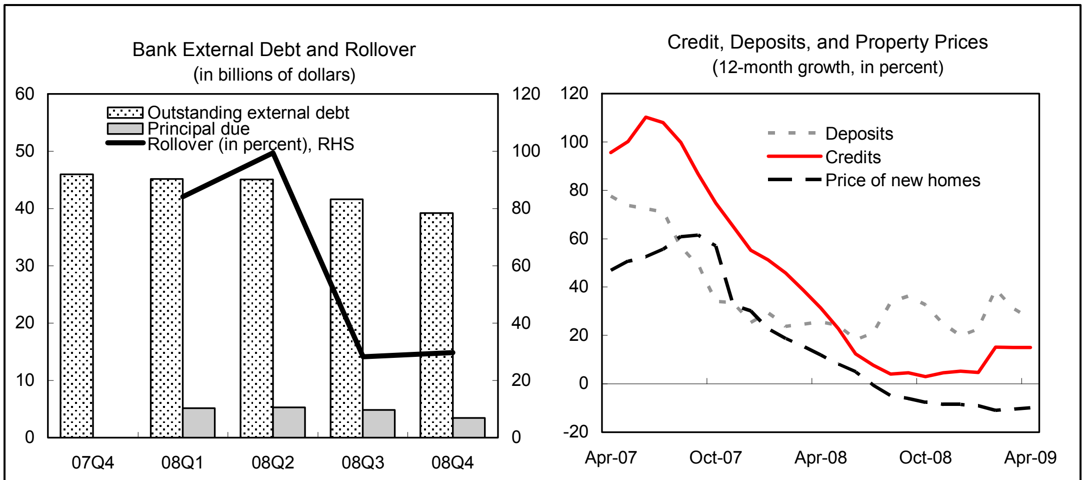
## I. Economic Contraction in the Face of Financial Crisis

1. **At the time of the 2008 Article IV consultation, Kazakhstan's economy was slowing after years of exceptionally strong growth** (Table 1). As conditions in international financial markets tightened in August 2007, local banks found it more difficult to raise external financing. Credit growth came to an abrupt halt and the property bubble burst. The run-up in oil prices during the first half of 2008, however, cushioned the impact of the sudden-stop of capital inflows. By mid-2008, growth had slowed to 6 percent from the 10 percent rates during 2000–07 (Figure 1). The surge in oil prices pushed the current account into surplus last year, from a large deficit in 2007, but inflation picked up sharply to a peak of 20 percent in June 2008 driven by rising food prices.

**Five Key features of the Kazakhstan Economy**

- Kazakhstan is resource-rich—oil output is expected to double by the middle of the next decade with the opening of the giant Kashagan field. Oil accounts for more than 50 percent of exports and 40 percent of government revenues.
- The government prudently built up an oil fund. Foreign currency assets in the fund peaked at $28 billion in January 2009 and currently stand at $23 billion (22 percent of GDP). These assets are largely invested in debt securities. Central bank foreign exchange reserves are $19.9 billion (6 months of imports). Public debt is very low.
- The banking system which is largely domestically-owned has relied heavily on external financing (Eurobonds and loans) and around one-half of domestic deposits and credits are in foreign currency. The top four banks account for 70 percent of sector assets.
- External debt is high at close to 100 percent of GDP. About 40 percent of this, however, is intra-company debt within the extractive sector.
- Kazakhstan remains an attractive investment destination. FDI in the energy sector remains strong, while a number of bilateral financing deals with China, Korea, Russia, and U.A.E. have recently been announced totaling $18 billion.

2. **The second wave of the global financial crisis and resultant worldwide recession has exacerbated Kazakhstan's difficulties**. With oil and commodity prices falling sharply and global financial markets freezing up, the economy has been hit hard, with GDP contracting by over 2 percent (y/y) in the first quarter of 2009. Regional spillovers, particularly from Russia, have aggravated the situation (Box 1: Spillovers to and from Kazakhstan). Financial market indicators have deteriorated substantially, although CDS spreads have recently fallen sharply from their peak levels, and the central bank devalued the tenge by 20 percent in early February (Figure 2). Despite a contraction in imports, the current



Source: Kazakhstani authorites; and IMF staff calculations.

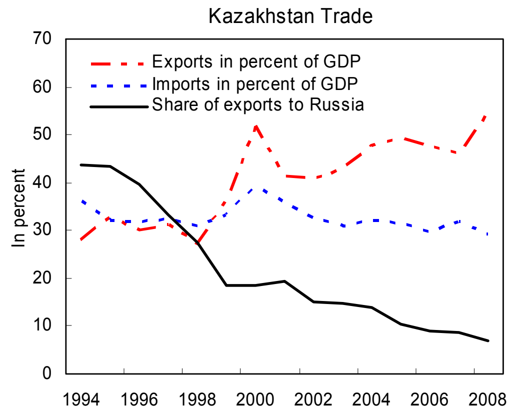
account moved back into deficit in early 2009 as exports slumped and national oil fund (NFRK) foreign currency assets fell sharply as funds were disbursed under the anti-crisis plan.

3. **The situation in the banking sector has deteriorated significantly, and risks and uncertainties remain high** (Figure 3, Table 3). The slowing economy and the exchange rate devaluation have added to pressures on the banks. NPLs are now rising sharply, reaching 9.6 percent on a 90-day overdue basis (although payments on over 50 percent of the loan book are overdue) and there are growing questions about the value of external assets, particularly at BTA, the largest bank, which has 40 percent of its assets in Russia. Capital adequacy is under pressure and several banks are facing solvency issues. Banks have nearly $40 billion (40 percent of GDP) of external liabilities, about a quarter of which mature this year (an estimated $3 billion was repaid in the first quarter). While in aggregate deposits are growing, this is largely due to inflows from public sector entities and valuation effects from the devaluation. Within the sector, banks perceived as healthy are benefiting at the expense of weaker institutions. Faced with increasing liquidity problems, two large banks (BTA and Alliance) and one smaller institution (Astana Finance) have stopped making principal repayments. Pension funds have also been significantly affected by the sharp fall in asset prices.

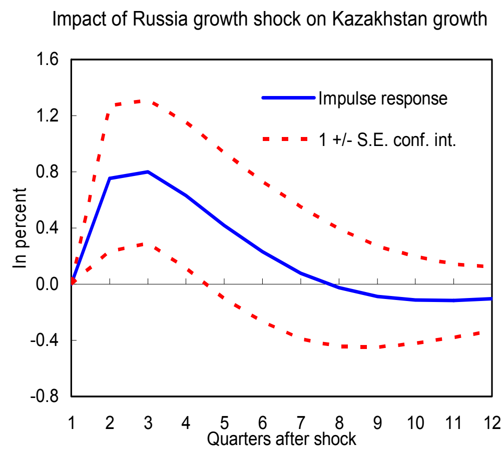
4. **Against this background, staff expects the economy to contract by 2 percent this year, before posting modest growth of 2 percent in 2010**. The contraction in the non-oil economy in 2009 will be more pronounced, at 3.3 percent. The staff's forecast is slightly more pessimistic than the consensus (-1.1 percent in 2009, 1.8 percent in 2010). The more modest contraction expected in Kazakhstan this year relative to a number of other emerging market countries can be attributed both to the scale of the policy response (see below) and the more drawn-out nature of the slowdown. Nevertheless, by end-2009, real GDP in Kazakhstan will be 20 percent below its pre-crisis trend level. Lower oil prices will push the current

## Box 1. Spillovers to and from Kazakhstan

**The slump in Russia is impacting Kazakhstan, among other countries, while the slowdown in Kazakhstan is in turn affecting the Kyrgyz economy**. While the 1998 Russian crisis is said to have "de-linked" the central Asian region from Russia—the declining share of exports to Russia, which had begun prior to 1998, continued after the crisis—growth in the region is still highly correlated with Russia.[1]




**The high growth correlation between Kazakhstan and Russia is increasingly explained by financial linkages, in addition to trade flows**—though oil price developments, which affect both countries, also play a role. Data since 2000 suggest a 1 percent change in Russian GDP growth is associated with a 0.8 percent change in Kazakhstan GDP growth.




**Kazakhstan's oil driven boom earlier in the decade also spilled over to the Kyrgyz Republic, through strengthening trade, labor and financial market linkages**. About 15 percent of Kyrgyz Republic's non-gold exports go to Kazakhstan; subsidiaries of Kazakh banks account for 50 percent of loans in the Kyrgyz Republic; and migrant remittances from Kazakhstan are more than 20 percent of total (data likely understate the true level). Not surprisingly, changes in Kazakh growth appear to have a near one-to-one spillover to Kyrgyz GDP growth (controlling for the effect of Russia).

[1] "How Russia Affects the Neighborhood: Trade Financial and Remittance Channels," by Nadeem Ilahi, Fahad Alturki, and Jaime Espinosa, *IMF Working Paper*, forthcoming, July 2009.

account back into deficit this year, although with energy-related foreign direct investment remaining strong and new bilateral financing emerging the overall balance of payments will remain robust (Figure 4, Tables 4, 5).[1] Inflation is expected to be around 8½ percent by year-end, broadly unchanged from current levels, as the weak demand environment limits the ability of producers to pass on higher import costs. The weakening economy and large "anti-crisis" spending will result in a fiscal deficit this year, the first since 2000 (Table 6).

[1] Balance of payments analysis is complicated by very large errors and omissions in recent years—about $6 billion in 2008, broadly the same size as the recorded current account surplus. Possible explanations include unrecorded capital outflows and lags in the recording of imports.

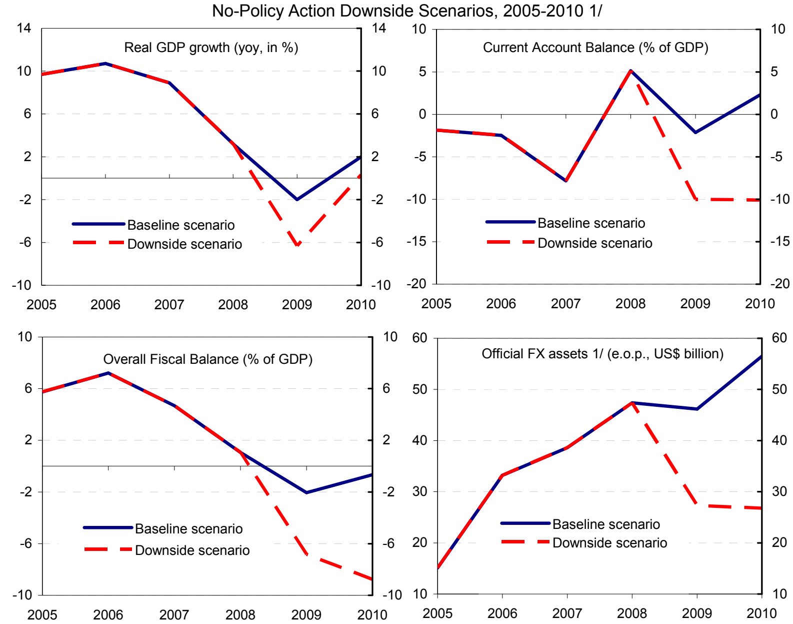
5. **Considerable uncertainties still surround the near-term outlook**. Higher oil prices could lead to stronger growth, particularly in 2010, while the failure to deal forcefully with the problems in the banking sector or a more protracted global recession would lead to a deeper and longer contraction. In turn, this would feedback into banks' asset quality, undermine confidence in the banks, and in a worse-case scenario lead to a deposit run (Box 2: A Downside Scenario for Kazakhstan).

## Box 2. A Downside Scenario for Kazakhstan

**The economic outlook for Kazakhstan is subject to several risks**. These risks to the baseline scenario (Tables 1–6) can be illustrated with a downside scenario, where a combination of negative factors affect the economy. In this scenario, global economic conditions begin to deteriorate sharply and oil prices fall to $35/barrel for a sustained period in the third quarter of 2009. Lower oil prices reduce the marginal profitability of investing in the oil fields, and part of the expected FDI is delayed beyond 2010. External financing to banks becomes minimal, with only half of the rollover rates as in the baseline. The worsening financial conditions trigger a loss of confidence in the banking system and in the currency, leading to a run on deposits and capital flight: 30 percent of the resident deposits in tenge are withdrawn and converted into foreign currency, half of which either leave the country or are kept outside the banking system. In addition, nearly 30 percent of the residents' foreign currency deposits are withdrawn and leave the country. The central bank uses its reserves to defend the exchange rate peg against the U.S. dollar.

**The squeeze on bank balance sheets in such a scenario would be the epicenter of an economic crisis, dissipating through the economy mainly through credit channels**. Assuming no change in policies, the severe contraction in credit would result in a deep recession, with real activity falling by over 6 percent (y/y) and the fiscal deficit deteriorating to nearly 7 percent of GDP by year-end. Lower export revenues would drive the overall current account deficit to around 10 percent of GDP for the two years, despite a significant fall in imports. Official foreign currency assets would drop sharply if the exchange rate peg were defended.

Kazakhstan: Selected Indicators Under the Baseline and No-Policy Action Downside Scenarios, 2005-2010 1/




Source: Kazakhstani authorities and staff estimates.
1/ Comprises central bank and national oil fund foreign currency assets.

## II. A Strong Policy Response, But Considerable Challenges Remain

6. **The authorities have introduced a range of measures to support the banking sector and the real economy**. At the center of the government's strategy is its $10 billion anti-crisis plan (Box 3: Kazakhstan's Anti-Crisis Plan). Additional support is also coming from tax cuts in the non-extractive sector and substantial liquidity injections provided by the central bank. The authorities emphasized that their prudent policies during the boom years—which resulted in the accumulation of a large stock of foreign currency assets and very little public sector debt—had enabled them to respond forcefully to the current crisis.

7. **With implementation of the anti-crisis plan now moving ahead, the authorities are confident that growth will pickup**. They currently expect the economy to expand by 1 percent this year, and strengthen slightly further in 2010. While acknowledging the downside risks, particularly if the global recession were deeper or longer-lasting than currently expected, they also believe there is upside potential if oil prices rise further and the anti-crisis plan successfully restores confidence.

### A. Dealing with Financial Sector Distress

8. **The authorities emphasized that they are taking a multi-pronged approach to dealing with the banking difficulties**. They have provided substantial support to the top four banks through the public development agency Samruk-Kazyna (SK) (Box 4: What is Samruk-Kazyna?). While recognizing that conditions in the banking sector as a whole will deteriorate further given economic conditions, their immediate priority is to deal with the two large banks (BTA and Alliance) with significant problems (Text Table 1). The Financial Supervision Agency (FSA) has given both banks until mid-July 2009 to present viable restructuring and recapitalization plans that will enable them to meet regulatory requirements. The authorities emphasized that if such plans are not presented, they will consider options regarding exit strategies.

- ***Loan loss provisions have been raised, but more needs to be done to reflect deteriorating asset quality***. The authorities noted that consistent with the recommendations in last year's staff report and the 2008 FSAP Update, the bank supervisors have stepped-up their analysis of bank balance sheets. As a result, banks had substantially raised their provisioning levels. Nevertheless, given the ongoing economic contraction, NPLs will undoubtedly rise further in the coming months, and the authorities expect that provisioning levels will need to increase further to 25–30 percent by end-2009 (compared to the current level of 16 percent). To cushion the impact of deteriorating asset quality, SK has injected capital into the top three banks, with a controlling share taken in BTA in February. Special audits commissioned by the authorities and carried out by international firms are being finalized at BTA and Alliance to assess the financial condition of the banks. However, the audits originally planned for Halyk Bank and KKB, the other two major banks that have received public money, have not taken place. Stress test scenarios indicate the likely need for further capital provision to the banking sector and/or the need for debt restructuring, although the size of these needs will depend on the extent of the deterioration in asset quality (Text Table 2).

## Box 3. Kazakhstan's Anti-Crisis Plan

**The authorities have introduced a range of measures to support the banking sector and the real economy**. At the center of the government's strategy is its $10 billion (9.5 percent of GDP) anti-crisis plan (ACP), which broadly entails: (i) provision of public support to the top four banks; (ii) steps to aid the completion of unfinished residential construction projects and spur housing demand; (iii) financial assistance to the SME and agricultural sectors; and (iv) increased public investment in the industrial sector. The ACP draws upon the combined efforts of the Government, NBK and FSA, with Samruk-Kazyna (SK) serving as the main vehicle for crisis relief (see Box 4).

**To date, approximately $6 billion of the ACP has been disbursed**.

- Direct equity support has so far focused on the top three banks. SK has acquired equity stakes in BTA (75 percent), Halyk (21 percent), KKB (20 percent), totaling $2.2 billion. Another $220 million is expected for additional equity in Halyk and $200 million has been set aside for a potential stake in Alliance. The remainder of the disbursed $4 billion in financial sector support is mostly in the form of deposits.

- $1 billion (of $3 billion) in construction and real estate support has been disbursed. Funds will be channeled to finance the completion of viable construction projects and to refinance mortgages—roughly 20 percent of all bank mortgages—with average interest rates of 10 percent, down from 20 percent.

**Summary of the Anti-Crisis Plan**

| | Amount (*$, bns*) Allocated | Disbursed | Comment |
|---|---|---|---|
| **Support to:** | | | |
| Financial sector | 4.0 | 4.0 | Capital and deposits provided. |
| Mortgage loan refinancing | 1.0 | 1.0 | Provided to banks to refinance existing mortgages. |
| Construction sector | 2.0 | 0.0 | To finish uncompleted housing projects. |
| Agriculture | 1.0 | 0.0 | Provided to KAZ Agro. |
| SMEs | 1.0 | 1.0 | Provided to banks for onlending. |
| Infrastructure/industry | 1.0 | 0.0 | |
| **TOTAL** | **10.0** | **6.0** | |
| **Financing From:** | | | |
| Oil Fund | 10.0 | 10.0 | $9bn already transferred to SK and $1bn to KazAgro. |
| Memo items: | | | |
| Distressed Asset Fund | 1.0 | 0.6 | Capital provided from budget. |
| Tax cuts | 4.0 | … | Implemented Jan 1, 2009. |
| Lower reserve requirements | 3.0 | … | |

Source: Kazakhstani authorities

- $1 billion earmarked for SME lending has been disbursed through the banking system at interest rates of 12.5 percent—down from recent average rates of 22 percent—with a maturity structure of up to 7 years. Approximately 70 percent is to refinance existing loans and 30 percent for new credit.

- To date, none of the $1 billion earmarked for agricultural development has been disbursed. This money is expected to be spread between microcredit and large-scale projects.

- To date, none of the $1 billion earmarked for the development of industrial innovation projects has been disbursed. Large infrastructure projects are expected to garner a large portion of these funds.

**Funding for the ACP has come largely from the NFRK**. To date, the NFRK has disbursed $10 billion, of which $9 billion has been made available to SK in the form of debt ($5 billion) and a capital injection ($4 billion), while the remaining $1 billion has been allocated to KazAgro National Holding—another state entity charged with administering support to the agriculture sector. The government could be exposed to some contingent liabilities from the ACP through SK.

## Box 4. What is Samruk-Kazyna?

**Samruk-Kazyna (SK) is a newly formed state entity reflecting the end-2008 merger of the state asset holding company (Samruk) and the sustainable development fund (Kazyna)**. The purpose of the merger is to strengthen the positions of these companies so that they can play a central role in helping Kazakhstan overcome the crisis. SK's overall strategic goal, however, is to effectively mange its ownership in state development institutions, national companies, and other legal entities. SK is not consolidated in the fiscal accounts.

**SK employs more than 260,000 people among 404 subsidiaries and associates** spread across key sectors of the economy, including energy, mining, telecoms, transportation and finance and banking. This diverse structure contains some of the largest companies in Kazakhstan, including full equity stakes in KazMunaiGas ($24 billion total revenue in 2008), the Development Bank of Kazakhstan (DBK, $230 million), and Kazakh Temir Zholy ($4.2 billion). This breadth leaves SK well-placed to administer anti-crisis policies, support domestic producers and implement longer-term development goals. It also provides a natural base of support to the banking sector through the placement of deposits by its companies. SK estimates that total deposits by its entities in the top 10 banks exceeds one third of the deposit base. While this has certainly helped support liquidity in the banking system, it also clearly carries risks. If the companies need to access their deposits for operational purposes, the stability of some banks would be adversely affected.

**At the end of 2007, SK had a consolidated balance sheet of approximately 5.6 trillion tenge ($46.9 billion), or 45 percent of GDP**.[1] Total market capitalization currently stands at just over $30 billion. While 2008 financial statements are not yet available, the $9 billion in NFRK funding suggests that SK's balance sheet is now more than 50 percent of GDP. Looking ahead, the expected realization by the DBK of $5 billion from the $10 billion Chinese development loan will make this share even larger.

**Samruk-Kazyna Consolidated Balance Sheet**

*In trillions of tenge*

| | 2007 | 2006 |
|---|---|---|
| **ASSETS** | | |
| Long-term assets | 3.5 | 2.7 |
| Current assets | 2.1 | 1.2 |
| **Total Assets** | **5.6** | **3.9** |
| **LIABILITIES** | | |
| Long-term liabilities | 1.4 | 1.1 |
| Current liabilities | 1.3 | 0.5 |
| Equity Capital | 2.9 | 2.3 |
| **Total Liabilities & Equity Capital** | **5.6** | **3.9** |

*Source: Samruk and Kazyna*

[1] This figure reflects the combination of the separate audited consolidated financial statements for Samruk and Kazyna. Fully audited and consolidated 2008 financials for SK are pending.

- ***Banks have received large-scale public liquidity support***. The NBK has continued to provide direct liquidity support, while SK has taken on an increasingly dominant role with deposits in the banks by companies under its umbrella. SK has also swapped BTA and Alliance bonds for its own bonds; the banks are able to use the SK bonds as collateral at the NBK. The banks are also channeling anti-crisis support to key sectors of the economy at below-market interest rates.

Text Table 1. Comparison of Key Bank Ratios
(In percent at end April 2009 unless otherwise stated)

| | BTA | KKB | Halyk | Alliance | ATF | BCC |
|---|---|---|---|---|---|---|
| Systemic importance (assets in percent of total banks' assets) | 27.3 | 19.3 | 13.7 | 8.5 | 7.9 | 6.8 |
| Capital adequacy ratio | 10.4 | 12.5 | 13.0 | 13.6 | 14.8 | 18.5 |
| Loan-to-deposit ratio | 374.4 | 203.9 | 119.4 | 340.1 | 269.5 | 163.2 |
| Share of loans to nonresidents (end February 2009) | 51.2 | 13.4 | 9.7 | 3.7 | 1.1 | 3.6 |
| Contingent liabilities (in percent of total assets) | 80.1 | 61.3 | 47.5 | 89.5 | 70.0 | 64.3 |
| Foreign borrowing/Capital 1/ | 214.4 | 379.0 | 86.3 | 301.8 | 73.3 | 193.7 |
| Construction and real estate loans as share of loans (end 2008) 2/ | 39.0 | 36.0 | 19.0 | 14.5 | 23.0 | 19.0 |
| Loan repayments in 2009 ($ bn) 2/ | 2.9 | 1.5 | 0.6 | 0.6 | 1.1 | 0.1 |
| Overdue loans (in percent of all loans) | 23.7 | 15.8 | 21.9 | 47.8 | 29.3 | 12.8 |
| NPLs (90 days basis) | 7.0 | 8.0 | 11.2 | 24.1 | 10.5 | 5.4 |
| NPLs 3/ | 21.3 | 18.2 | 12.9 | 11.9 | 13.2 | 9.7 |
| Provisions (in percent of all loans) | 19.5 | 20.8 | 15.3 | 15.1 | 12.1 | 10.8 |
| Provisioning ratio (Provisioning/Overdue loans) | 0.82 | 1.32 | 0.70 | 0.32 | 0.41 | 0.84 |

Source: FSA.
1/ Foreign borrowing via deposits of special purpose vehicles.
2/ Source is Visor Capital.
3/ Non-performing loans are calculated as the sum of loans classified as doubtful 5th category, bad loans and actual provisions for homogenous loans.

Text Table 2. Stress Test Scenarios 1/ 2/

| | March-09 (Actual) | Scenario 1 3/ | Scenario 2 4/ | Scenario 3 5/ |
|---|---|---|---|---|
| NPLs (90 Day Basis) (% of total loans) | 7.6 | 20.0 | 30.4 | 37.2 |
| NPA (% of assets) 6/ | … | 24.8 | 35.9 | 41.0 |
| Loss Provisions (% of assets) 6/ | 11.6 | 17.3 | 25.9 | 28.3 |
| Capital adequacy ratio (%) | 14.0 | 9.4 | -0.4 | -3.4 |
| Capital/GDP Ratio (%) | 10.9 | 6.5 | -0.2 | -2.1 |
| Number of banks below 12% capital adequacy ratio | 4 | 13 | 13 | 16 |
| Number of top 6 banks below 12% capital adequacy ratio | 2 | 3 | 3 | 5 |
| Number of banks with negative capital | 0 | 6 | 8 | 9 |
| Number of top 6 banks with negative capital | 0 | 1 | 3 | 3 |
| Capital adequacy ratio of banks below 12% requirement | 10.6 | 1.4 | -15.8 | -12.2 |
| Recapitalization requirements for return to 12% Ratio ($ bn) 7/ | 0.6 | 5.3 | 12.4 | 13.5 |
| In % of 2009 GDP | 0.5 | 4.6 | 11.7 | 12.7 |
| *Memo: Recapitalization requirements ($ bn)* | | | | |
| BTA | 0.5 | 1.8 | 6.8 | 6.8 |
| Alliance Bank | 0.0 | 0.4 | 2.4 | 2.4 |
| Other banks | 0.1 | 3.2 | 3.2 | 4.3 |

Sources: FSA and IMF Staff estimates
1/ Assumes that bad debt write offs are 25 percent of NPLs and there is a 40 percent recovery rate.
2/ Assumes 50% provisioning on NPLs and 100% on bad debts.
3/ Assumes 20 percent NPLs for all banks.
4/ Assumes 20 percent NPLs for all banks except BTA and Alliance, whose NPLs and recovery rates are adjusted upwards to reflect worse loan books.
5/ Assumes 30 percent NPLs for all banks except BTA and Alliance, whose NPLs and recovery rates are adjusted upwards to reflect worse loan books.
6/ Non performing assets (NPAs) include estimates include noncash assets that are subject to impairment.
7/ Assumes no restructuring of other bank liabilities

- ***Following the standstills, negotiations to restructure the debt of two banks are starting***. Leading investment banks (Goldman Sachs and UBS for BTA, and Lazards for Alliance Bank) and legal firms (White and Case) are acting as advisors in the restructuring processes. The authorities hope that the banks can reach agreements with creditors to restructure their debts.

- ***The deposit insurance fund (KDIF) has been strengthened***. The capital base of the KDIF has been increased fourfold to T 100 billion tenge (about 0.6 percent of GDP) and the deposit ceiling for individuals raised from T 0.7 million per depositor per bank to T 5 million tenge (approximately $33,333). Reserves of the KDIF are sufficient to cover deposits at the 23 smallest banks or 4 medium-sized banks, but not at the large banks. The KDIF has the right to borrow from the NBK.

- ***A distressed asset fund has been set up, but its role needs to be clarified***. Cognizant of the advantages of a centralized approach to cleaning up bad assets, the authorities established a distressed asset fund, but to date it has not begun operations as debates over the types of assets to be bought and their valuation have yet to be settled. Earlier this year, SK established a property fund with certain features of a distressed asset fund to buy unfinished construction projects from property developers at pre-bubble prices, who in turn will repay their outstanding loans to the banks. SK is expected to take responsibility for completing, managing, renting, and eventually selling these properties.

- ***The authorities have been strengthening the bank resolution framework***. The FSA has received new powers to intervene in a bank and the government has received new authority to acquire shares to cover capital deficiencies, powers it has subsequently exercised to intervene in BTA.[2] The amendments also allow for a "good bank-bad bank" approach, successful in many similar cases. New amendments to the banking law are underway and by mid-2009 the FSA should have the powers to undertake a more comprehensive bank resolution, including by creating bridge (or stabilization) banks and purchase and assumption transactions.

- ***The regulatory and supervisory framework is being strengthened***. The FSA is: raising bank capital requirements; limiting banks' ability to borrow in foreign wholesale markets; planning to curb new lending in foreign currency through provisioning requirements on loans to borrowers that do not have effective currency hedges; and raising the minimum holdings of state securities in pension fund portfolios. Measures are also being introduced to strengthen the fiduciary responsibilities of company directors.

- ***Contingency planning has helped manage the crisis***. Consistent with the 2008 FSAP Update recommendations, the authorities have developed a detailed contingency plan to be activated in the case of problems at a large bank or in the event of a systemic crisis (Text Table 3). The preparations proved very useful given recent developments, and key agencies are continuing to review, develop, and update the plan.

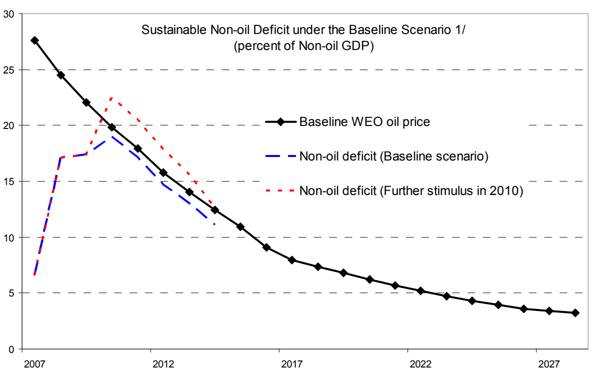
[2] Amendments and Additions to Laws Addressing the Stability of the Financial System, October 23, 2008.

| Text Table 3. Assessment of the Implementation of the Key Recommendations of the 2008 FSAP Update Mission (in the areas of banking and supervision) | |
|---|---|
| **Recommendation** | **Assessment of Implementation** |
| Strengthen the framework for bank resolution and crisis management.<br>Complete contingency plans, including by operationalizing the Memorandum of Understanding (MOU) between the NBK, FSA, and Government. | A comprehensive contingency planning framework/plan that defines the responsibilities of various agencies and a high level anti-crisis committee has been established, guided by the MoU. The bank restructuring/resolution framework has been strengthened by the increased legal powers given to the FSA. |
| Assess options to recapitalize the Kazakhstan Deposit Insurance Fund (KDIF). | The level of retail deposits guaranteed by the KDIF has been raised from 700,000 tenge to 5 million tenge and the KDIF has been recapitalized to partially cover this extra potential liability. |
| Complement ongoing efforts to improve financial surveillance, including with improvements to the Early Warning System (EWS) at the NBK and completion of a microeconomic EWS by the FSA. | Financial sector surveillance has been improved at both the NBK and FSA. Their Financial Stability Report is now more forward looking. However, more needs to be done on the modeling of risks at both the macro and micro levels. The FSA has begun strengthening its stress testing capabilities, though a lack of staff resources hampers progress. An MCM TA project to help the FSA with stress testing techniques is underway. |
| Ensure that individual banks prepare contingency plans to address possible systemic shocks and individual vulnerabilities. | On-going. |
| Collect better information about the composition of banks' assets and liabilities abroad, including with regard to maturity, pledges, and availability. | Data availability has improved. |
| Move further toward a modern, risk-based approach to supervision, paying greater attention to the need for effective corporate governance and risk management in the banks. | Still on-going. The FSA has introduced a number of new prudential measures, including tighter provisioning standards, and a new NPL definition in line with international norms. However, moves to a more risk-based approach have been slow, limited by capacity constraints. |
| Improve consolidated supervision, including cross-border supervision. | Limited progress. |

## B. Policy Stimulus: How, and By How Much?

9. **The authorities have allowed the automatic fiscal stabilizers to operate and have introduced additional spending through the anti-crisis plan and other initiatives**. Revenues have fallen with the weakening economy and the tax cuts in the non-extractive sector introduced at the beginning of the year. Expenditures have risen sharply in recent years as spending, directed through SK to mitigate the impact of the crisis, has increased. The authorities intend to maintain nominal expenditures broadly at the level set out in the budget,

and allow the fiscal position to move into deficit this year. The deficit will be financed from the oil fund. Specifically, the authorities intend to divert all the revenues that would usually accumulate in the oil fund during the year (and in 2010) to cover the revenue shortfall in the budget.



1/ Non-oil deficit that would maintain per capita oil wealth constant in real terms.

10. **Looking forward, if the economy weakens more than expected, a further stimulus would be feasible**. A stimulus in 2010 could be financed from the oil fund and, given the strong starting position, would not raise sustainability concerns.[3] Indeed the fiscal position is robust to a broad range of shocks (Figure 5, Table 7). The authorities stressed that in the near-term fiscal policy would remain flexible and respond to changing economic circumstances. Over the medium-term, however, there is a strong commitment to fiscal consolidation and the rebuilding of the oil fund, which has proved such an important buffer during the current crisis.

11. **The authorities are very concerned about the social impact of the crisis**. They have set themselves the goal of keeping the unemployment rate to below 8 percent (7.2 percent currently). Fiscal spending is being reallocated toward projects that have an immediate employment impact under the government's "Strategic Employment Program." The goal is to create 380,000 new jobs. Financial support is also being given to SMEs and the agricultural sector under the anti-crisis plan, while reforms are being introduced to ease regulatory and administrative burdens, particularly in the SME sector. The social safety net is also being strengthened. Pension payments and childcare allowances were raised at the beginning of the year. Recently, social benefits have been re-indexed with a higher inflation rate following the devaluation.

12. **Monetary policy has been eased as the economy has weakened and inflation pressures declined**. The central bank has reduced reserve requirements and in May and June 2009 cut its policy interest rate by a total of 100 basis points to 8.5 percent. Looking forward, the central bank will continue to face a balancing act between keeping inflation on a downward path and supporting the financial sector and the real economy.

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[3] A further stimulus in 2010 of 2 pp of GDP followed by fiscal consolidation over the medium term to bring the deficit back to 2007 levels would be sustainable given Kazakhstan's longer-term prospects for oil production.

### C. Exchange Rate Policy: Providing Stability in an Unstable World

13. **The February 2009 devaluation of the tenge appears to have stabilized exchange market pressures**. The tenge was pegged to the U.S. dollar in late-2007 when the global financial turmoil first hit Kazakhstan. This policy was sustained during 2008, although pressures on the exchange rate began to increase toward year-end as oil prices fell and the Russian ruble depreciated. In January 2009, reserve losses mounted, deposit dollarization rose, and some large banks saw significant deposit outflows. Following the 20 percent devaluation against the U.S. dollar (with a +/-3 percent band established around the central parity of T/$150), staff estimate that the real effective exchange rate is now broadly in line with fundamentals (Text Table 4).

Text Table 4. Kazakhstan: Methodologies to Assess Real Exchange Rate Misalignment 1/

| | Underlying Current Account Balance 5/ | Current Account Norm | Estimated over(+)/ under(-) valuation |
|---|---|---|---|
| Macroeconomic Balance 2/ | 13.4 | 13.1 | 0.3 |
| Equilibrium Real Exchange Rate 3/ | na | na | 3.9 |
| External Sustainability 4/ | | | |
| Constant Annuity to GDP | 10.8 | 12.5 | 6.0 |
| Constant Real Per Capita Annuity | 10.8 | 9.4 | -5.0 |

1/ Based on augmented specifications of "Methodology for CGER Exchange Rate Assessments," SM/06/283. Underlying current account balance excludes imports for oil sector development.

2/ Based on 2014 projections.

3/ Based on current fundamentals (2009). Medium term fundamentals are 2014 projections.

4/ The underlying CA and "norm" exclude income; estimates based on 2006 NFA and NPV of oil wealth.

14. **The central bank intends to keep the dollar peg until the global economic situation has stabilized, but they will revisit the exchange rate regime at the appropriate time**. The authorities noted that the step devaluation in February had been necessary to increase the competitiveness of import–competing industries and reduce depreciation expectations. They considered the move a success. The exchange rate is currently sitting comfortably in the middle of its band and the central bank has recently been buying dollars in the market. The central bank believes that the pick-up in oil prices, the debt standstill at some banks, and the large bilateral financing deals will all support the exchange rate. External debt, while high, remains manageable at the economy-wide level (Figure 6, Table 8). The authorities have announced their intention to seek WTO membership as a customs union, together with Russia and Belarus.

## III. Staff Appraisal

15. **The global recession and the ongoing difficulties in the banking sector are having a significant negative effect on Kazakhstan's economy**. Nevertheless, medium-term prospects remain favorable with a significant expansion in oil production expected over the next decade. Against this background, economic policies need to deal with the impact of the crisis and establish the basis for a resumption of growth. The general direction the

government is following under its Anti-Crisis Program and other policy initiatives is appropriate, and implementation of the plan is moving ahead quickly in a number of areas. The policy response—raising provisioning and capital levels in the banks, strengthening financial sector oversight, developing contingency plans, maintaining a stable exchange rate, and easing fiscal policy—are in line with the recommendations of the 2008 Article IV report.

16. **A clear and comprehensive solution to banking sector problems is urgently needed**. This will help restore confidence in the system, establish the basis for a sound financial sector going forward, and contribute to improving the investment climate. Without such a resolution, the risks of an extended period of poor economic performance will increase. With the economy contracting, a further deterioration in asset quality is inevitable, and a full assessment, including of the off-balance sheet and overseas assets/liabilities positions, of the large banks is needed. For BTA and Alliance Bank, the special audits should be completed promptly and the results used to assess the scope for developing business plans and the associated restructuring and recapitalization efforts that would make these banks robust to the vagaries of future economic cycles. This will involve working closely and cooperatively with creditors, who should be treated in a consistent and equitable manner in accordance with applicable law and international norms and best practices. At the same time, creditor negotiations should not dictate how the government uses its authority under the banking law to ensure a viable banking sector. A prompt resolution is important because the underlying businesses of these banks will deteriorate rapidly if uncertainties about their future linger. For the other large banks, a detailed independent assessment of their balance sheets would give the government a clearer picture of their financial situation, and whether any further action needs to be taken. As part of these overall efforts, additional government support may be needed to protect financial stability, but this should be designed to limit, to the extent possible, public costs.

17. **It is important that the authorities have a full complement of tools available to them to ensure an efficient restructuring of the banking sector and reduce the risk of spillovers across the sector if one institution fails**. The proposed amendments to the banking law will broaden the FSA's options for dealing with troubled banks, although the overall consistency and effectiveness of the bank resolution framework could still be improved further. The FSA needs to more actively use the full range of its enforcement powers when prudential standards are not met and avoid regulatory forbearance. The role envisaged for the Distressed Asset Fund should be clarified. It is essential that the KDIF is in a position to respond quickly and effectively if needed: its ability to tap a credit line from the NBK, as set out in the KDIF law, and other procedures should be clearly established.

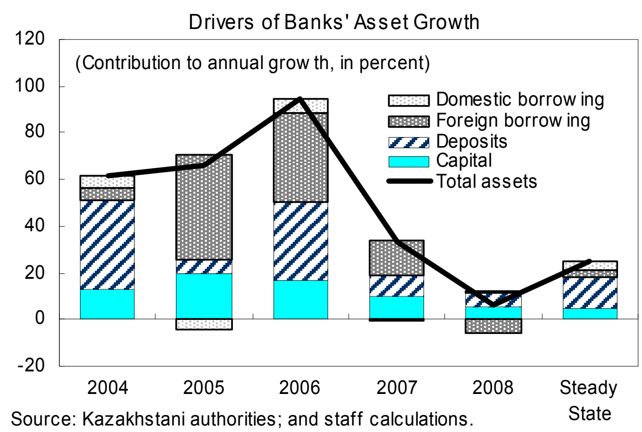
18. **Looking forward, the goal should be to develop a stable banking system that relies primarily on domestic financing, particularly tenge denominated deposits, rather than external borrowing in foreign currency** (Box 5: What Will the Banking Sector Look Like After the Crisis?). This will take time, as public confidence in the banks will need to be restored and the public convinced that deposits offer an attractive savings vehicle.

Government intervention in the financial sector will need to be carefully scaled back over time, including returning ownership to the private sector.

## Box 5. What Will the Banking Sector Look Like After the Crisis?[1]

**The on-going crisis in the banking sector provides an opportunity for the authorities to build a more sustainable financial system that can contribute to economic development**. Since the emergence of the current banking structure following the 1998–99 economic crisis, the system grew very rapidly with assets rising from 20 percent of GDP in 1999 to a peak of 92 percent in 2007. This was fuelled by a high level of foreign borrowing (the loan-deposit ratio reached over 200 percent in 2007), with around half of all lending conducted in foreign exchange, primarily to the nontradables sector. Structural features of Kazakhstan's economy create an environment conducive to boom-bust cycles in which fluctuations in global commodity demand and induced large-scale capital flows can create major swings in banks' balance sheets. This structure has proved to be inherently fragile given its vulnerability to sudden stops of foreign inflows, a high concentration of lending in the real estate/construction sectors, and the indirect credit risks from lending in foreign exchange.

**The banking system that emerges from the crisis is likely to be smaller than before, but with less risks**. Already the system is downsizing as a result of the deleveraging process and recognition of bad loans. Post-crisis, system asset growth will be constrained by three key factors: (i) the domestic deposit base which is small at about 30 percent of GDP; (ii) the capital base; and (iii) the more limited importance of foreign borrowings through wholesale markets. Bank funding will be tilted more toward domestic sources as new regulations now limit the size of foreign borrowing, and more generally foreign investors better appreciate the specific country and institutional risks. This suggests that credit growth will mainly be a function of banks' ability to mobilize the domestic deposit base and to raise new capital. Based on estimates of key parameters, including nominal GDP growth, financial deepening and deposit mobilization, system modeling suggests that, from a predicted post-crisis assets to GDP ratio of about 70 percent, the banking system in nominal terms would be able to grow sustainably by about 20–25 percent annually, compared to over 60 percent during 2000 to 2007. Given the lower share of overseas financing, there should be less dollarization with a higher share of tenge denominated funding and lending.



Source: Kazakhstani authorities; and staff calculations.

**As discussed in the main text, policies that would underpin a more viable banking sector include:** macroeconomic policies that deliver low inflation, positive real interest rates, and a more flexible exchange rate; a stronger regulatory and supervisory framework; and the development of financial markets to provide longer-term tenge financing and risk diversification.

[1] This box summarizes the accompanying Selected Issues Paper "Reducing the Risks in the Banking Sector."

19. **To underpin this process, financial sector regulation and supervision need to be strengthened and corporate governance at the banks improved**. In particular,

- The FSA needs the legal authority, independence, and resources to carry out its mandate and must be able and willing to intervene early and forcefully when it sees the financial condition of a bank deteriorating. To achieve this: (i) offsite supervisory capacities need to be further developed, including by conducting more rigorous stress tests; and (ii) the frequency and depth of onsite inspections increased. Adequate legal protection for the FSA and its supervisory staff also needs to be ensured.

- The steps being taken by the FSA to strengthen the regulatory system are welcome, although it is important that the timing of the introduction of these measures does not put undue pressures on banks in the near-term. At the right time, the FSA should also consider stronger restrictions on foreign currency lending to unhedged borrowers and clearer limits on off-balance sheet liabilities and exposures to related parties.

- Measures to strengthen the fiduciary responsibilities of company directors are welcome. The clear identification of the full ownership structure of a bank should be a requirement for receiving and maintaining a banking license. This will lay the basis for more effective implementation of connected lending limits.

- Over time, domestic capital markets need to be developed to provide alternate funding sources for borrowers. The limited ability to raise long-term tenge financing is an impediment for banks to provide longer-term local currency loans.

- Recent steps to strengthen the regulation and supervision of pension funds are welcome. The impact (and contingent cost) of government guarantees in the pension industry, however, should be fully assessed.

20. **Inflation has been well-contained since the February devaluation, and the current monetary policy stance is appropriate**. Given the weak demand environment, inflation should remain well-contained this year and then gradually decline during the course of 2010. When inflation is established on a downward path, there will be scope for some further easing of policy, although it is important to keep real interest rates at positive levels to support domestic deposits and help banks move toward a sustainable funding base.

21. **Regarding exchange rate policy, there will be benefits to allowing greater exchange rate flexibility over the medium-term**. While the dollar peg provides important stability, it also has limitations. A more flexible exchange rate would enhance the effectiveness of monetary policy, stem the build-up of unhedged foreign exchange exposures, and help the economy respond to commodity price movements, although here the primary burden of adjustment should fall on fiscal policy (Box 6: Exchange Rate Regime Options in Kazakhstan). A return to a managed float or a move to a basket peg would be appropriate. To prepare for a change in the exchange rate regime, in addition to adaptations to prudential arrangements, steps are needed to strengthen balance sheets. Recent initiatives to facilitate

the refinancing of foreign currency mortgage and SME loans into tenge are therefore welcome. The peg to the U.S. dollar, however, remains appropriate for now until the problems in the financial sector are resolved. The NBK should be able to keep the tenge within its announced +/- 3 percent band around the central rate of T/$150 in the period ahead provided that confidence in the banking sector does not deteriorate further. Staff encourages the authorities to continue to pursue trade liberalization through multilateral fora.

22. **Fiscal policy is providing considerable support to the economy**. With public debt low and financing readily available, allowing the automatic fiscal stabilizers to work and maintaining expenditures as the government is doing is appropriate. However, given the scale of the resources committed through the anti-crisis plan and the budget this year, the primary focus should now be on the effective implementation of this spending. In this context, regular progress reports on the implementation of the anti-crisis plan should continue and timely financial accounts for Samruk-Kazyna published.

23. **If the downturn is more protracted than currently expected, there is scope for fiscal policy to support the economy again in 2010**. Any additional spending should focus on strengthening the social safety net and supporting spending on development priorities such as infrastructure, health, and education. Once the current downturn has abated, however, it will be important that the non-oil fiscal deficit is put on a firm downward path and that financial resources are once again accumulated in the oil fund.

24. **The government has announced that one of its top priorities is to limit the increase in unemployment**. In this context, the intention to ease the burden of regulation on businesses, particularly in the SME sector, is welcome. Initiatives to broaden job retraining programs, together with a strengthening of the social safety net, will also help ease the burden of adjustment for those laid off.

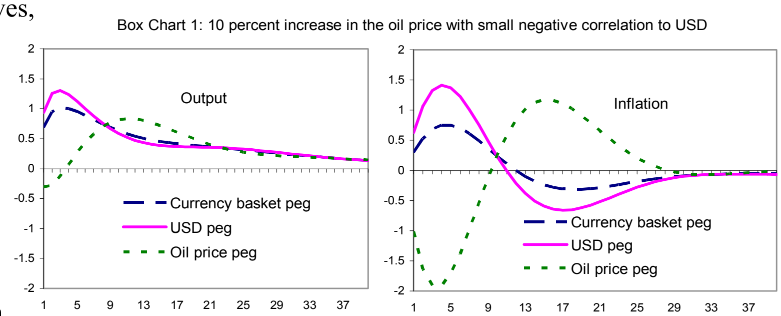
25. **The government's intention to meet all validation indicators of the Extractive Industries Transparency Initiative (EITI) and raise participation of Kazakhstan's oil companies in the initiative over the next three years is welcome**. This is an important further step to increase transparency in the oil sector. Staff also urges prompt passage of the latest draft of the AML/CFT legislation that is still pending parliamentary approval.

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

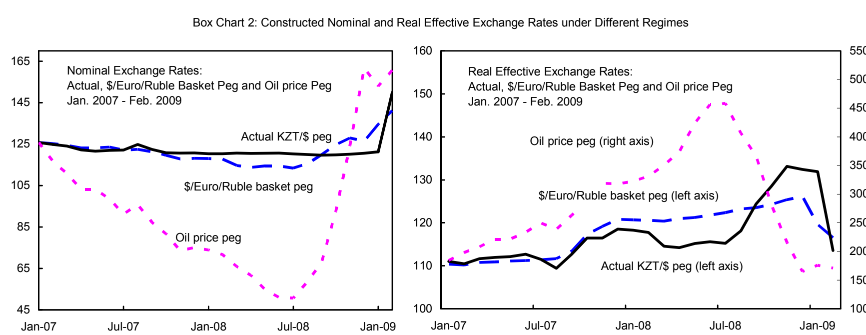
## Box 6. Exchange Rate Regime Options for Kazakhstan[1]

**After being operated as a heavily managed float, the tenge was pegged to the U.S. dollar** in October 2007 during the first wave of the financial crisis. Pegged regimes have considerable merit in providing stability, particularly in countries lacking a strong nominal anchor—and are prevalent in most oil exporters. However, "hard pegs" are prone to risks of a disorderly exit. Once conditions in financial markets stabilize, several options could be considered to allow greater exchange rate flexibility, including pegging to a basket of currencies, pegging to the price of oil, or moving to a managed float.

**Different exchange rate regimes help stabilize the economy against different shocks**. Results from a general equilibrium model for a commodity exporter with external debt suggest that the optimal exchange rate regime depends on the central bank's policy objectives, such as stabilizing output and inflation, and some key correlations such as between oil prices and the U.S. dollar. When compared to a single-currency peg or a commodity peg, pegging the tenge to a basket of the three currencies most relevant for Kazakhstan's trade –the U.S. dollar, the euro and the Russian ruble– appears to provide more stability in output and inflation for most shocks that Kazakhstan faces, such as an increase in the oil price that causes a small depreciation of the U.S. dollar against other major currencies (Box Chart 1).




**While an oil price peg may be useful in some cases, in practical terms it is likely to be difficult to implement**. A peg to the oil price, i.e. adjusting the tenge/dollar exchange rate to stabilize the price of oil in domestic units (*à la* Frankel) might better mitigate the effects of oil price shocks that have a large negative correlation with the dollar. However, with large and unpredictable swings in oil prices, fully adjusting the value of the tenge for oil price movements would have created large swings in the nominal and real exchange rates in the last few years (Box Chart 2). These swings would in turn have had adverse balance sheet effects and hindered the development of the non-oil sector. Opting for a partial oil peg instead would lead to a complex and less transparent regime, eliminating any credibility gains from having a peg.




**A currency basket or a managed float offer better options than a commodity peg for Kazakhstan**. A currency basket peg or a managed float would lessen the role of the exchange rate as a strict nominal anchor, but provide more autonomy to the central bank, and appear better suited for Kazakhstan as discussed further in the main text. In particular, a managed float would allow taking into account changes in commodity prices and trading partners' currencies.

**Finally, exchange rate policies need to be supported by appropriate oil revenue management**. To the extent that oil revenues are spent rather than saved, changes in the global price of oil will have an impact on the real economy, and employing the exchange rate to counter these effects can only be a partial solution. The first best option is to eliminate the procyclical bias in fiscal policy by saving a greater share of oil revenues.

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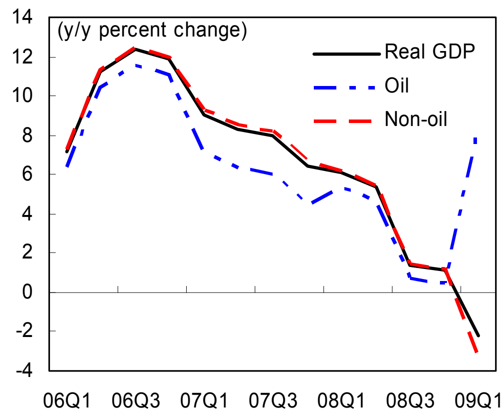
[1] This box summarizes the accompanying Selected Issues Paper "Options for Future Exchange Rate Regimes in Kazakhstan."

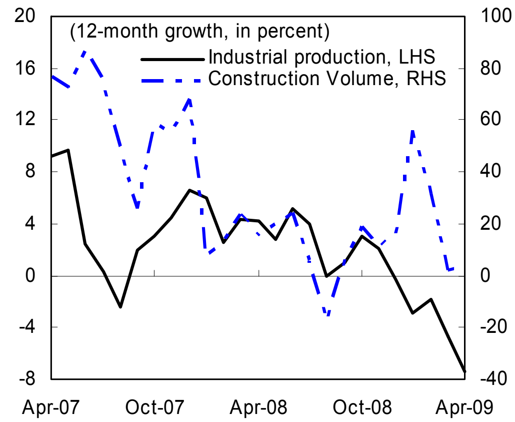
# Figure 1. Kazakhstan: Recent Macroeconomic Developments

*Kazakhstan's economy remains under severe pressure, with real GDP growth contracting by 2.2 percent (y/y) in the first quarter of 2009. Inflation has declined from its summer 2008 peak in response to the collapse in demand. Weak global demand and subdued commodity prices have contributed to falling exports. Imports are also contracting.*

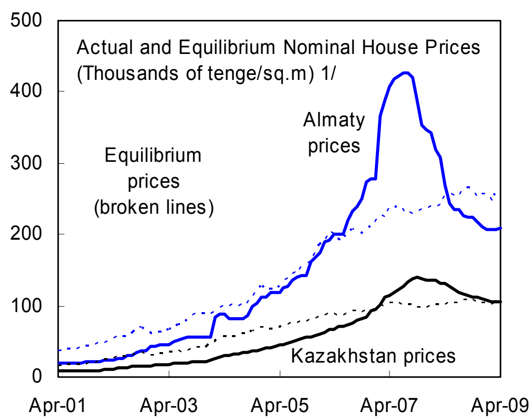
*Real GDP is now contracting…*



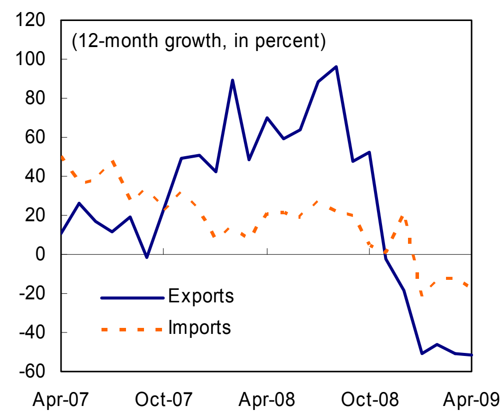

*…driven by (i) a sharp contraction in industrial production; ii) a slowdown in construction…*



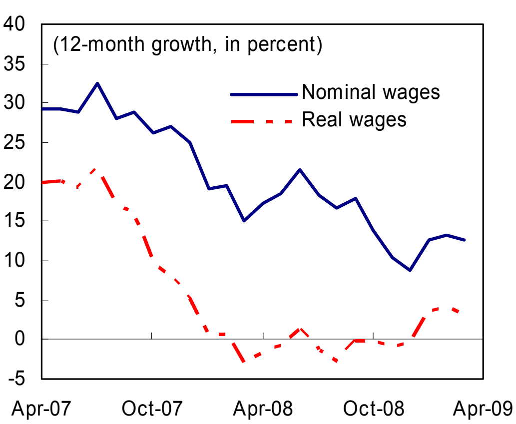

*…as the real estate bubble burst;…*



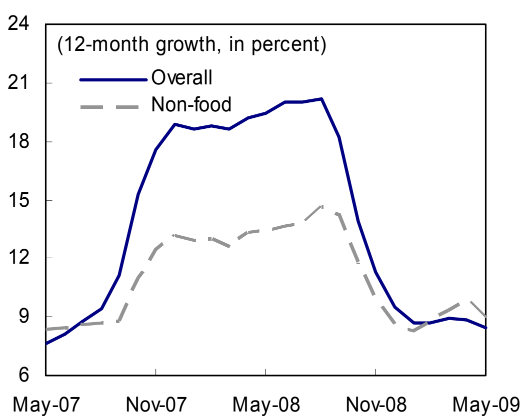

*…(iii) a collapse in external demand and terms of trade…*




*… and; (iv) a moderation in real wage growth which has affected consumption,…*




*…and has contributed to lower inflation despite the devaluation of the tenge.*

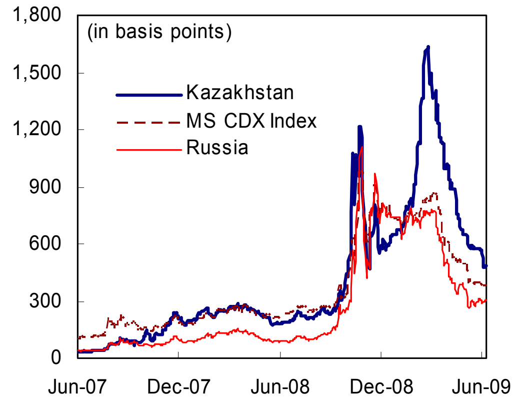



Sources: Kazakhstani authorities; and IMF staff estimates.
1/ Based on equilibrium user-cost approach (see SM/08/173).

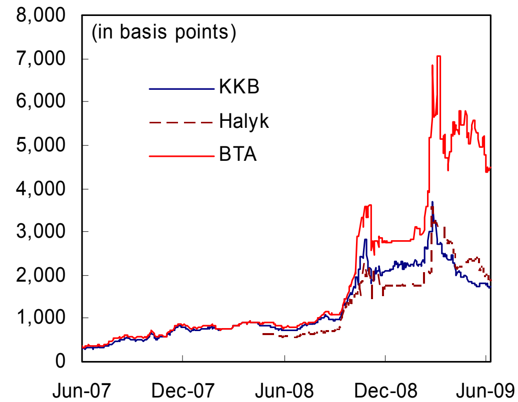
## Figure 2. Kazakhstan: Recent Financial Market Developments

*The crisis in global financial markets spilled over to Kazakhstan. Spreads and domestic equities markets have been severely affected, but are showing signs of recovery. Following the devaluation in February, the new peg is being maintained within a +/-3 percent band and to support liquidity the NBK cut reserve requirements and the policy rate.*

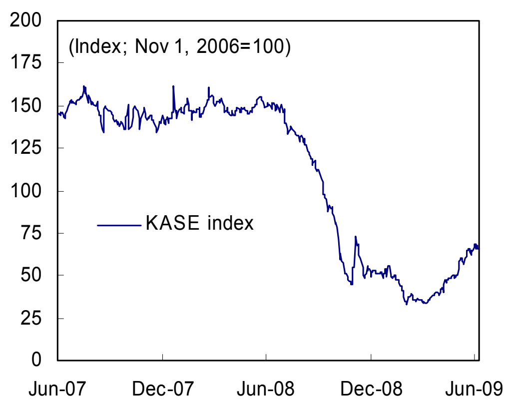
*Sovereign CDS spreads have recently come down in line with global trends…*



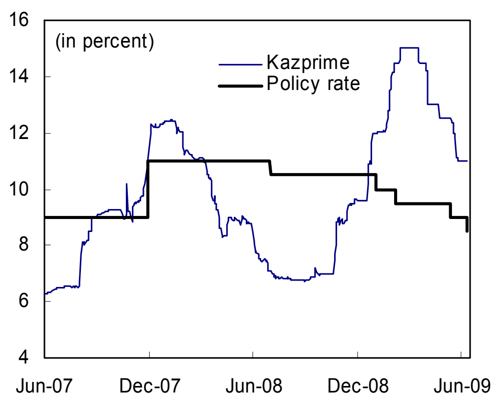

*…as have CDS spreads on banks.*



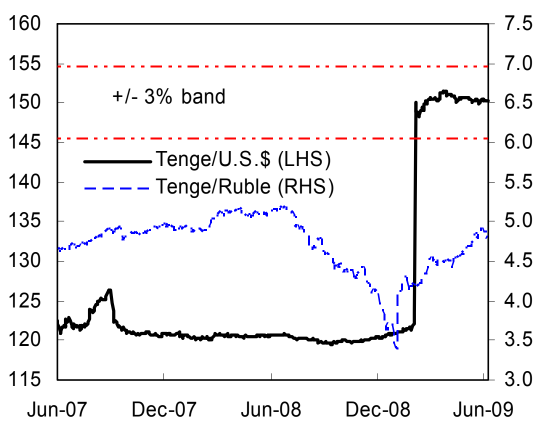

*Equity prices have declined significantly, but have recently displayed signs of recovery.*



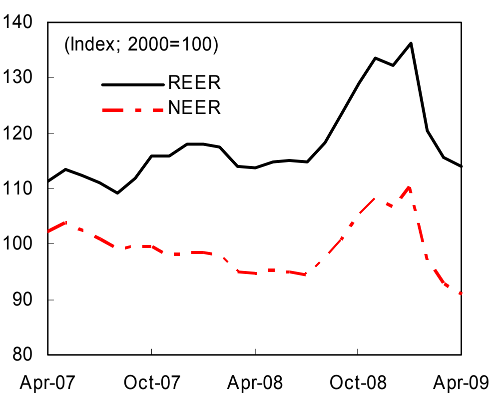

*The central bank has recently lowered its policy rate and liquidity conditions continue to improve.*




*The exchange rate remains well supported around the midpoint of the new band…*




*…bringing the effective exchange rates in line with levels preceding the depreciation of the ruble.*

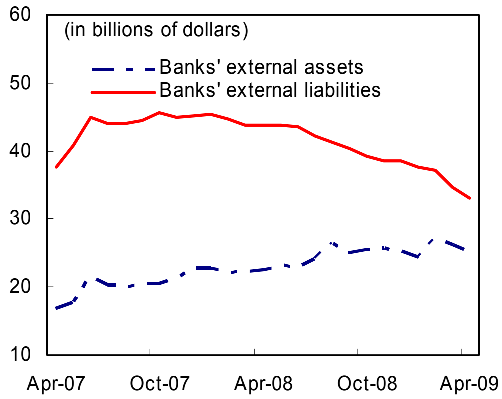



Sources: Kazakhstani authorities and IMF staff estimates.

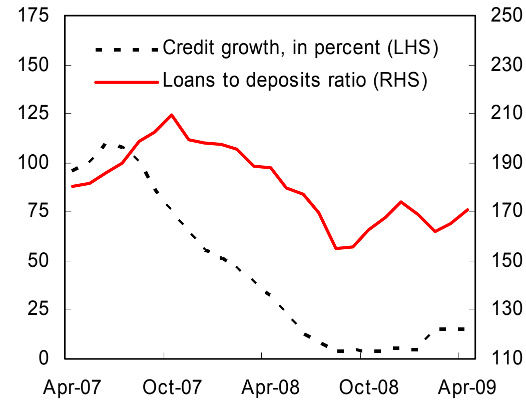
## Figure 3. Kazakhstan: Banking Sector Developments

*The banking system is undergoing a rapid adjustment to the sudden stop in capital inflows in August 2007 and the global crisis since September 2008. There is a severe credit crunch and slowing economic activity is affecting loan quality and capital adequacy. Dollarization is on the rise.*

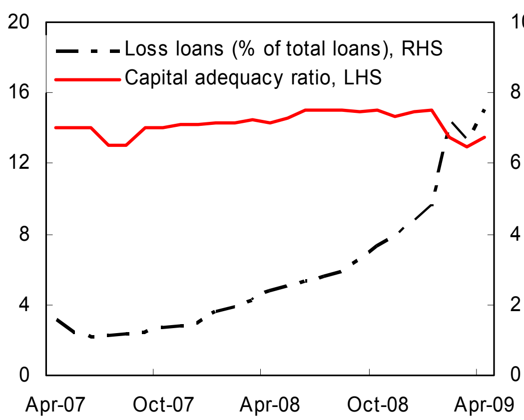
*Banks have been shrinking their balance sheets in response to the sudden stop in external financing…*



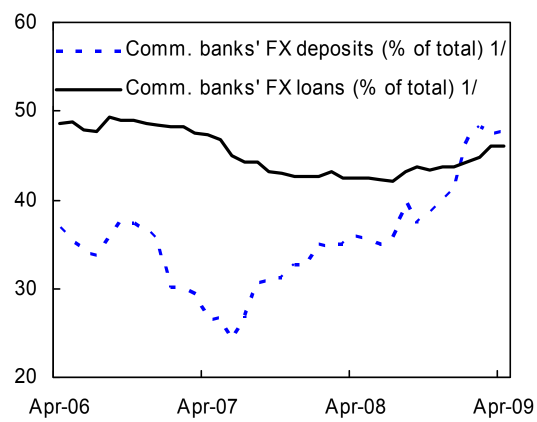

*…resulting in a sharp squeeze in domestic credit growth.*



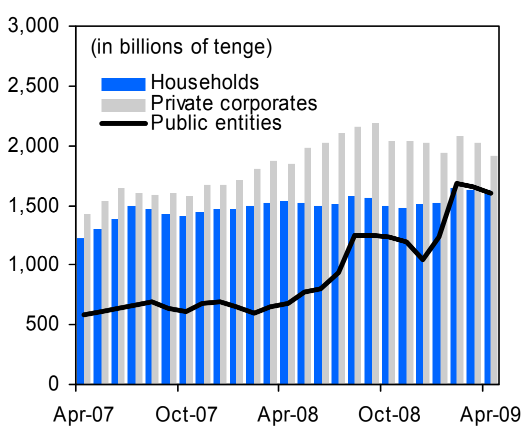

*NPLs are rising and higher provisions are eroding bank capital adequacy, forcing some to recapitalize.*



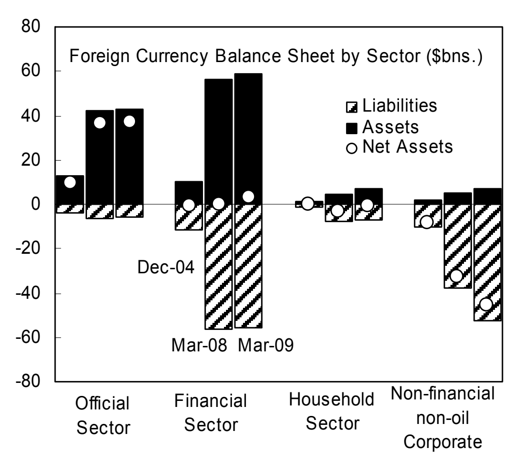

*Deposit dollarization has increased with exchange rate uncertainty.*




*With the implementation of the anti-crisis plan, deposits of public entities account for a larger share of the system's deposits.*




*The rise in corporate liabilities is a vulnerability, including for banks.*

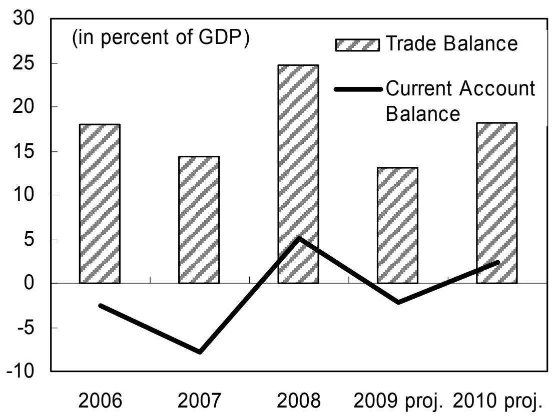



Sources: Kazakhstani authorities; and IMF staff estimates.
1/ Accounting for exchange rate valuation effects.

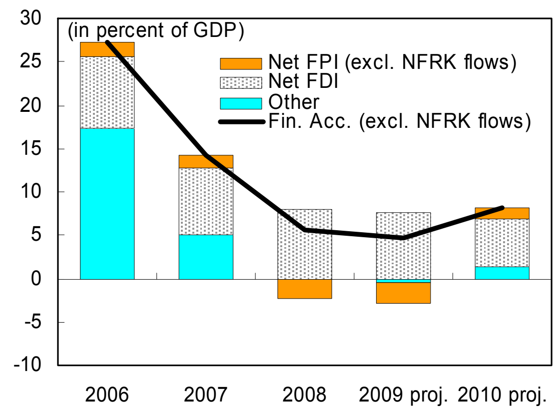
# Figure 4. Kazakhstan: External and Fiscal Sector Developments and Outlook

*Sustained FDI flows and the emergence of bilateral financing deals will support the external position even as the current account moves into deficit. Weak growth and tax changes will weigh heavily on non-oil revenues, dragging the overall fiscal balance into deficit. All incoming oil revenues will be diverted to the budget, covering the revenue shortfall from the non-oil sector.*

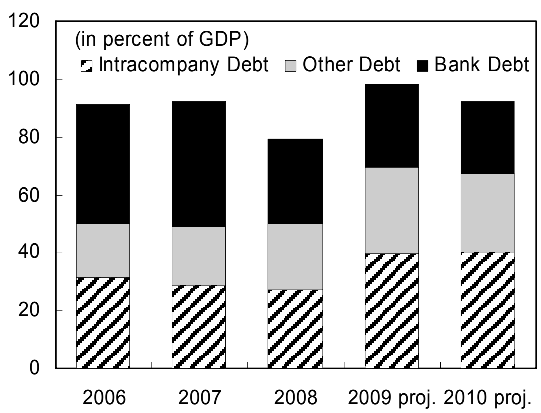
*Weak trade dynamics and subdued global commodity prices will contribute to a deterioration in the current account balance…*



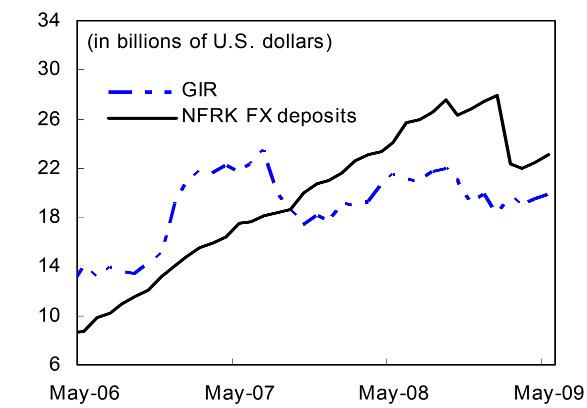

*…though healthy FDI flows primarily into the oil sector will strengthen the external financing position.*



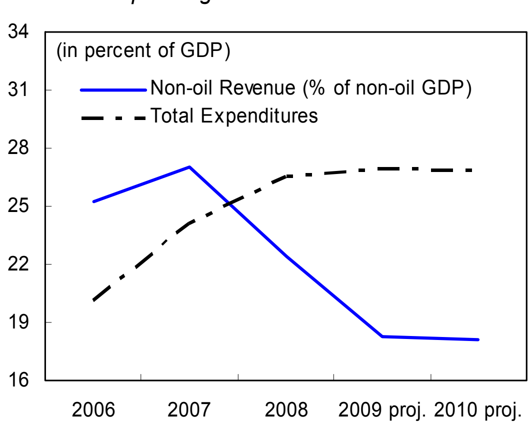

*External debt is close to 100 percent of GDP, but about 40 percent of this is intra-company debt.*



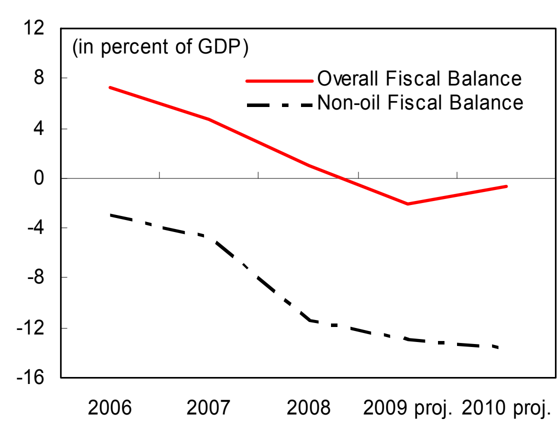

*The oil fund's (NFRK) foreign assets have been mobilized for the anti-crisis plan.*




*Non-oil revenue has plummeted in line with slowing growth and anti-crisis spending has increased…*

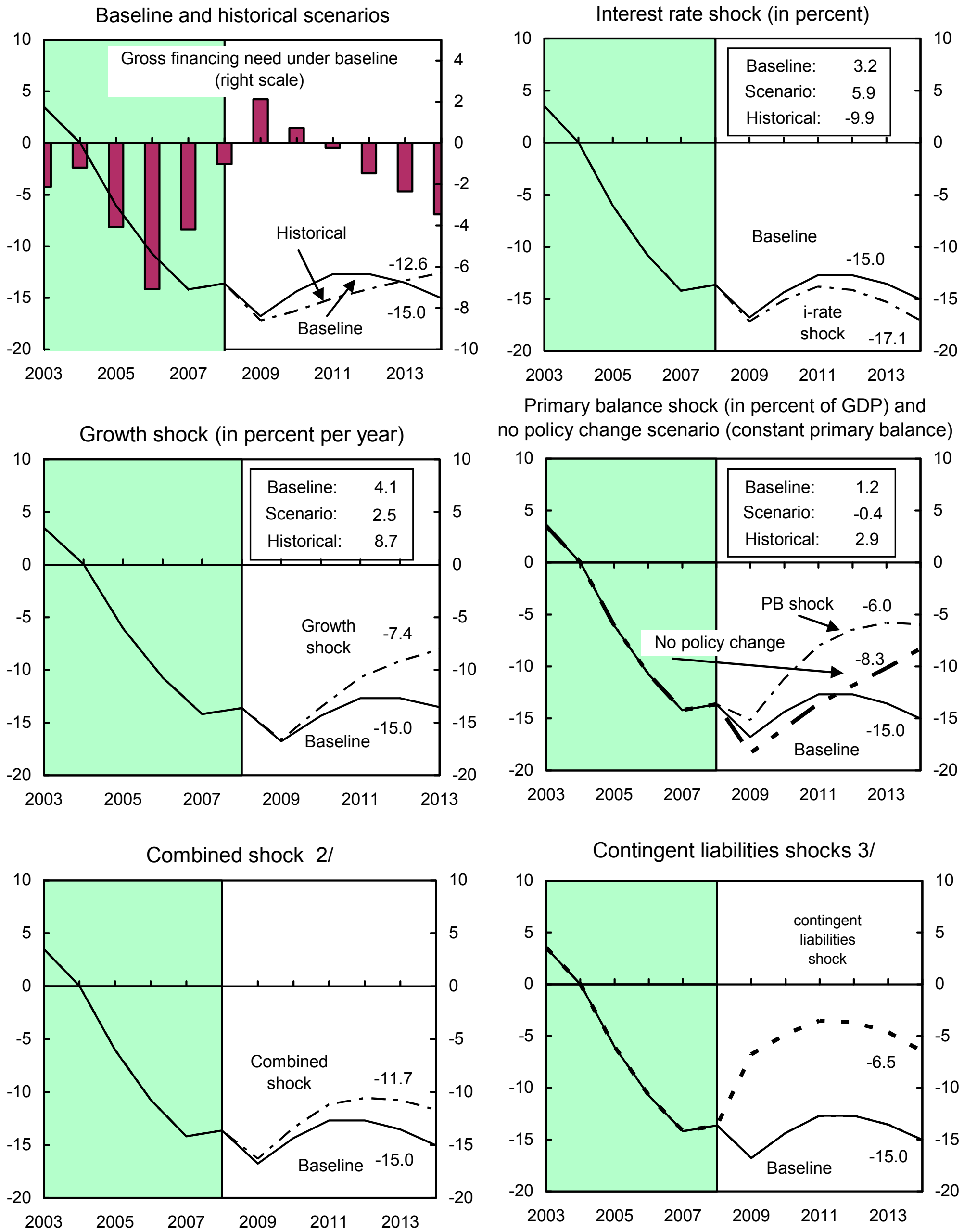



*...dragging the overall fiscal balance into deficit, which will be financed from the oil fund.*



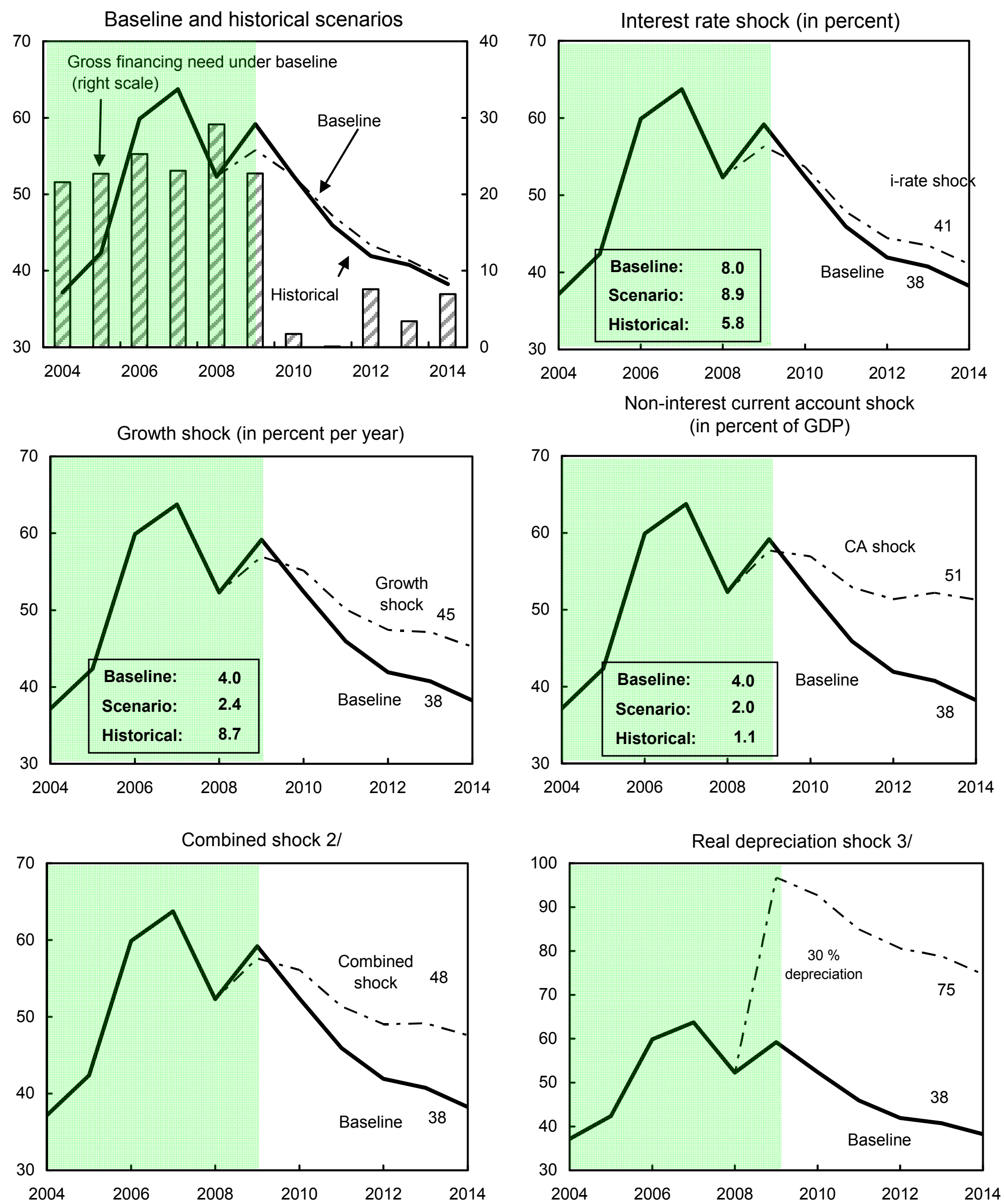

Sources: Kazakhstani authorities and IMF staff estimates.

Figure 5. Kazakhstan: Public Debt Sustainability: Bound Tests 1/
(Net public debt in percent of GDP)




Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ 10 percent of GDP shock to contingent liabilities occurs in 2009. This is consistent with the extent of needed capital support to the banks in Scenario 2 of Text table 2.

Figure 6. Kazakhstan: External Debt Sustainability: Bound Tests 1/
(External debt, excluding intra-company debt, in percent of GDP)




Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2009 (in addition to the mid-February depreciation).

Table 1. Kazakhstan: Selected Economic Indicators, 2006–14

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | | |
| | | | | *(annual percent change; unless otherwise indicated)* | | | | | |
| National accounts and prices | | | | | | | | | |
| Real GDP | 10.7 | 8.9 | 3.2 | -2.0 | 2.0 | 6.0 | 5.6 | 5.6 | 7.5 |
| Real oil | 9.9 | 6.3 | 2.5 | 8.7 | 7.0 | 1.0 | 2.9 | 2.5 | 11.0 |
| Real non-oil | 10.8 | 8.5 | 3.3 | -3.3 | 1.3 | 6.7 | 6.0 | 6.0 | 7.1 |
| Crude oil and gas condensate production | 65 | 68 | 71 | 76 | 81 | 82 | 84 | 86 | 95 |
| Consumer price index (eop) | 8.4 | 18.8 | 9.5 | 8.5 | 6.3 | 6.0 | 6.0 | 6.0 | 6.0 |
| Consumer price index (p.a) | 8.6 | 10.8 | 17.2 | 8.2 | 7.3 | 6.0 | 6.0 | 6.0 | 6.0 |
| GDP Deflator | 21.6 | 15.5 | 23.0 | -0.8 | 11.1 | 6.0 | 3.8 | 3.7 | 4.7 |
| Exchange rate (tenge per U.S. dollars; eop) | -4.4 | -5.6 | -0.2 | … | … | … | … | … | … |
| Exchange rate (tenge per Russian rubles; eop) | 3.6 | 1.4 | -15.8 | … | … | … | … | … | … |
| Real effective exchange rate (p.a) (+ appreciation) | 7.5 | 2.2 | 6.8 | … | … | … | … | … | … |
| | | | | *(in percent of GDP; unless otherwise indicated)* | | | | | |
| General government fiscal accounts | | | | | | | | | |
| Revenues and grants | 27.5 | 28.8 | 27.8 | 25.0 | 26.3 | 26.5 | 26.7 | 26.9 | 26.8 |
| *of which:* oil revenues | 10.2 | 9.4 | 12.4 | 10.9 | 12.9 | 12.6 | 12.3 | 12.2 | 11.9 |
| Expenditures and net lending | 20.2 | 24.2 | 26.8 | 27.0 | 27.0 | 26.2 | 25.2 | 24.5 | 23.3 |
| Overall fiscal balance | 7.2 | 4.7 | 1.1 | -2.1 | -0.7 | 0.3 | 1.5 | 2.4 | 3.5 |
| Statistical discrepancy | 0.0 | 0.1 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing | -7.2 | -4.6 | -1.3 | 2.1 | 0.7 | -0.3 | -1.5 | -2.4 | -3.5 |
| Non-oil fiscal balance | -3.0 | -4.7 | -11.3 | -12.9 | -13.6 | -12.3 | -10.8 | -9.8 | -8.4 |
| Non-oil overall fiscal balance (percent of non-oil GDP) | -4.3 | -6.6 | -16.5 | -17.4 | -19.0 | -17.2 | -14.7 | -13.0 | -11.1 |
| Expenditures (percent change) | 22.0 | 50.2 | 40.7 | -1.8 | 13.1 | 9.1 | 5.2 | 6.8 | 6.9 |
| | | | | *(annual percent change; unless otherwise indicated)* | | | | | |
| Monetary accounts | | | | | | | | | |
| Reserve money | 126.4 | -2.5 | 4.2 | 16.5 | 14.6 | 11.6 | 9.9 | 9.7 | 12.7 |
| Broad money | 78.1 | 25.9 | 35.4 | 12.2 | 24.4 | 17.9 | 9.9 | 9.7 | 12.7 |
| Broad money velocity (annual average) | 2.8 | 2.8 | 2.6 | 2.3 | 2.1 | 2.0 | 2.0 | 2.0 | 1.9 |
| Credit to the economy | 80.5 | 55.1 | 5.1 | 13.9 | 16.6 | 12.0 | 9.9 | 9.7 | 12.7 |
| Credit to the economy (percent of GDP) | 47.8 | 58.9 | 48.9 | 57.2 | 58.9 | 58.7 | 58.8 | 59.0 | 59.0 |
| NBK refinance rate (eop; percent) | 9.0 | 11.0 | 10.5 | … | … | … | … | … | … |
| | | | | *(in billions of U.S. dollars; unless otherwise indicated)* | | | | | |
| External accounts | | | | | | | | | |
| Current account balance (percent of GDP) | -2.5 | -7.8 | 5.1 | -2.1 | 2.3 | 3.3 | 3.5 | 3.4 | 4.4 |
| Exports of goods and services | 41.6 | 51.9 | 76.4 | 46.7 | 57.1 | 64.4 | 70.7 | 77.2 | 87.3 |
| Oil and gas condensate | 23.6 | 28.1 | 41.5 | 24.4 | 33.2 | 35.1 | 37.7 | 40.0 | 45.5 |
| Imports of goods and services | -32.9 | -44.9 | -49.5 | -37.5 | -40.2 | -45.6 | -50.3 | -55.3 | -60.7 |
| Foreign direct investments (net, percent of GDP) | 8.2 | 7.6 | 7.9 | 7.7 | 5.5 | 4.9 | 4.7 | 4.6 | 4.3 |
| NBK gross reserves (eop) 1/ | 19.1 | 17.6 | 19.9 | 23.9 | 33.6 | 43.6 | 53.1 | 60.2 | 67.4 |
| In months of next year's imports of goods and services | 5.1 | 4.3 | 6.4 | 7.1 | 8.8 | 10.4 | 11.5 | 11.9 | 12.1 |
| NFRK foreign assets (eop) | 14.1 | 21.0 | 27.5 | 22.3 | 22.9 | 27.3 | 33.4 | 41.6 | 53.0 |
| Public external debt, incl. guaranteed (percent of GDP) | 1.8 | 1.4 | 1.2 | 1.5 | 1.4 | 1.2 | 1.1 | 1.0 | 0.9 |
| Total external debt | 74.0 | 96.9 | 107.8 | 106.0 | 111.9 | 112.1 | 117.8 | 128.3 | 139.0 |
| in percent of GDP | 91.4 | 92.4 | 79.5 | 98.9 | 92.4 | 80.8 | 75.8 | 73.8 | 69.5 |
| excluding intracompany debt (percent of GDP) | 59.9 | 63.7 | 52.3 | 59.2 | 52.4 | 45.9 | 41.9 | 40.8 | 38.2 |
| *Memorandum items:* | | | | | | | | | |
| Nominal GDP (in billions of tenge) | 10,214 | 12,850 | 16,313 | 15,863 | 17,975 | 20,197 | 22,143 | 24,251 | 27,295 |
| Nominal GDP (in billions of U.S. dollars) | 81.0 | 104.8 | 135.6 | 107.2 | 121.0 | 138.8 | 155.4 | 173.8 | 200.0 |
| Crude oil, gas cnds. Production (Mbrl/day) 2/ | 1.34 | 1.39 | 1.45 | 1.56 | 1.66 | 1.68 | 1.73 | 1.77 | 1.95 |
| Oil price (in U.S. dollars per barrel) | 64.3 | 71.1 | 97.0 | 60.5 | 74.5 | 78.0 | 80.0 | 81.3 | 82.5 |

Sources: Kazakhstani authorities and Fund staff estimates and projections.

1/ Excludes deposits of the National Fund.
2/ Based on a conversion factor of 7.5 barrels of oil per ton.

Table 2. Kazakhstan: Monetary Accounts, 2004–10

| | 2004 Dec. | 2005 Dec. | 2006 Dec. | 2007 Dec. | 2008 Dec. | 2009 Apr. | 2009 Dec. | 2010 Dec |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Projections | |
| | | | | *(in billions of tenge)* | | | | |
| Monetary Survey | | | | | | | | |
| Net Foreign Assets | 1,192 | 1,200 | 2,296 | 1,961 | 4,054 | 5,075 | 5,650 | 7,673 |
| Net Domestic Assets | 647 | 1,126 | 2,394 | 3,446 | 2,696 | 2,440 | 2,376 | 2,070 |
| Domestic Credit | 1,099 | 1,822 | 3,592 | 5,583 | 5,265 | 5,869 | 7,702 | 8,176 |
| Net claims on central government | -609 | -998 | -1,914 | -2,649 | -3,075 | -4,246 | -3,229 | -3,176 |
| Net claims on other government | 26 | 47 | 34 | 43 | 34 | 630 | 638 | 638 |
| Credit to the private sector | 1,555 | 2,709 | 4,881 | 7,574 | 7,970 | 8,777 | 9,080 | 10,590 |
| Other claims on the economy | 126 | 64 | 592 | 615 | 336 | 708 | 1,214 | 125 |
| Other items, net | -451 | -696 | -1,199 | -2,137 | -2,569 | -3,429 | -5,326 | -6,106 |
| Broad money | 1,635 | 2,065 | 3,678 | 4,630 | 6,268 | 6,556 | 7,029 | 8,746 |
| Currency in circulation | 379 | 412 | 601 | 740 | 858 | 747 | 770 | 649 |
| Total deposits | 1,255 | 1,654 | 3,077 | 3,890 | 5,410 | 5,809 | 6,259 | 8,098 |
| Non-liquid liabilities | 9 | 30 | 129 | 90 | 80 | 104 | 111 | 111 |
| Statistical discrepancy | 196 | 231 | 883 | 688 | 403 | 856 | 885 | 885 |
| Accounts of National Bank of Kazakhstan | | | | | | | | |
| Net foreign assets | 1,672 | 2,027 | 4,219 | 4,648 | 5,645 | 6,298 | 6,740 | 7,818 |
| Net international reserves 1/ | 1,013 | 966 | 2,428 | 2,121 | 2,343 | 2,945 | 3,382 | 4,514 |
| Net domestic assets | -981 | -1,367 | -2,711 | -3,156 | -3,562 | -4,031 | -4,993 | -5,820 |
| Net domestic credit | -903 | -1,279 | -2,576 | -2,916 | -3,356 | -3,495 | -2,504 | -2,552 |
| Net claims on central government | -731 | -1,125 | -2,051 | -2,790 | -3,283 | -4,404 | -3,414 | -3,361 |
| Net claims on other government | 7 | 17 | 5 | 6 | 6 | 606 | 606 | 606 |
| Net claims on the private sector | 1 | 0 | 1 | 0 | 1 | 2 | 3 | 3 |
| Net claims on banks | -181 | -172 | -532 | -133 | -79 | 301 | 301 | 201 |
| Other items, net | -78 | -89 | -135 | -239 | -206 | -536 | -2,489 | -3,268 |
| Reserve money | 578 | 663 | 1,501 | 1,464 | 1,471 | 2,193 | 1,714 | 1,966 |
| Currency in circulation | 411 | 459 | 687 | 860 | 987 | 866 | 669 | 767 |
| Liabilities to banks | 164 | 197 | 797 | 568 | 328 | 737 | 767 | 767 |
| Required reserves | 85 | 110 | 665 | 558 | 295 | 561 | 159 | 197 |
| Other liabilities | 79 | 87 | 132 | 10 | 33 | 175 | 174 | 174 |
| Demand deposits | 3 | 7 | 17 | 37 | 211 | 590 | 279 | 432 |
| Other deposits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other liquid liabilities | 112 | 10 | 7 | 28 | 612 | 74 | 33 | 33 |
| Deposit money banks | | | | | | | | |
| Net foreign assets | -480 | -828 | -1,923 | -2,687 | -1,591 | -1,223 | -1,090 | -145 |
| Net domestic assets | 1,629 | 2,494 | 5,105 | 6,602 | 6,258 | 6,471 | 7,369 | 7,890 |
| Domestic credit | 2,002 | 3,101 | 6,168 | 8,500 | 8,621 | 9,364 | 10,206 | 10,728 |
| Net claims on central government | 122 | 127 | 136 | 141 | 209 | 158 | 185 | 185 |
| Net claims on other government | 19 | 30 | 28 | 37 | 28 | 24 | 31 | 31 |
| Credit to the private sector | 1,554 | 2,708 | 4,879 | 7,573 | 7,969 | 8,775 | 9,077 | 10,587 |
| Banks' reserves | 353 | 296 | 1,195 | 840 | 597 | 906 | 998 | 500 |
| Net claims on other financial corporations | -46 | -60 | -71 | -92 | -182 | -499 | -85 | -576 |
| Other items, net | -373 | -607 | -1,064 | -1,898 | -2,363 | -2,893 | -2,838 | -2,838 |
| Banks' liabilities | 1,149 | 1,666 | 3,182 | 3,916 | 4,667 | 5,248 | 6,279 | 7,745 |
| Demand deposits | 365 | 524 | 884 | 925 | 1,149 | 1,504 | 1,573 | 1,957 |
| Other deposits | 775 | 1,112 | 2,169 | 2,901 | 3,438 | 3,640 | 4,595 | 5,677 |
| Other liabilities | 9 | 30 | 129 | 90 | 80 | 104 | 111 | 111 |
| Memorandum items | | | | | | | | |
| Reserve money (percent change, yoy) | 82.3 | 12.5 | 131.0 | -2.5 | 0.5 | 43.0 | 16.5 | 14.6 |
| Broad money (percent change, yoy) | 68.2 | 26.3 | 78.1 | 25.9 | 35.4 | 35.1 | 12.2 | 24.4 |
| Credit to the economy (percent change, yoy) | 53.7 | 74.2 | 80.2 | 55.2 | 5.2 | 14.9 | 13.9 | 16.6 |
| Velocity of broad money | 3.6 | 3.7 | 2.8 | 2.8 | 2.6 | 2.4 | 2.3 | 2.1 |
| Money multiplier | 2.8 | 3.2 | 2.4 | 3.2 | 4.3 | 3.0 | 4.1 | 4.5 |
| Foreign currency deposits (in percent of total deposits) 2/ | 40 | 42 | 35 | 33 | 41 | 54 | 59 | 58 |
| Foreign currency loans (in percent of total loans) 2/ | 51 | 50 | 48 | 43 | 44 | 52 | 51 | 51 |

Sources: Kazakhstani authorities and Fund staff estimates.

1/ Does not include oil fund resources.

2/ Commercial banks only

Table 3. Kazakhstan: Selected Prudential Indicators of the Banking Sector 2004–09

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 April |
|---|---|---|---|---|---|---|
| Capital adequacy ratio (K2) | 15.3 | 14.9 | 14.8 | 14.2 | 14.9 | 13.5 |
| Tier I capital (K1, percent of assets) | 8.0 | 8.0 | 9.0 | 10.7 | 12.4 | 10.4 |
| Growth in banks' total assets | 60.4 | 68.5 | 96.5 | 31.7 | 1.8 | 15.8 |
| Off-balance sheet (OBS) items (percent of total assets) 1/ | 68.9 | 63.8 | 76.4 | 94.4 | 82.1 | 69.3 |
| Growth in banks' loans (credit to the private sector) | 53.8 | 74.2 | 80.2 | 55.2 | 5.2 | 14.9 |
| Growth of claims on private non-financial institutions | 40.5 | 63.9 | 64.4 | 48.7 | 12.2 | 12.4 |
| Growth of claims on households | 149.5 | 119.9 | 127.3 | 68.1 | -8.0 | 4.1 |
| Classified assets to total assets 2/ 3/ | 27.7 | 26.8 | 27.8 | 45.9 | 44.4 | 43.3 |
| Classified loans to total loans 2/ 3/ | 43.8 | 41.8 | 47.3 | 60.3 | 57.0 | 56.8 |
| Percentage of loans which are past due over 90 days in loan portfolio 4/ | … | … | … | … | 5.2 | 9.6 |
| Percentage of doubtful category 5 and loss loans in total loan portfolio | 6.3 | 5.3 | 4.9 | 3.2 | 8.1 | 15.2 |
| Loans classified as loss (percent of total loans) | 2.9 | 2.2 | 1.6 | 1.5 | 4.4 | 7.5 |
| Loan loss provisions (percent of total loans) | 4.1 | 5.6 | 5.0 | 5.9 | 11.1 | 15.9 |
| Net foreign assets (percent of total assets) | -17.1 | -17.1 | -19.2 | 23.1 | 24.5 | 25.2 |
| Net open position in FX (percent of Tier I capital) | -29.8 | -12.5 | -3.6 | 2.9 | 5.0 | -1.9 |
| Share of resident deposits denominated in FX | 43.0 | 41.9 | 35.2 | 30.3 | 40.0 | 51.8 |
| Share of FX loans to residents | 43.4 | 45.6 | 38.2 | 42.0 | 43.5 | 51.5 |
| Securities (percent of total assets) | 16.9 | 14.1 | 13.7 | 6.5 | 6.9 | 10.5 |
| Liquid assets to short-term liabilities 5/ | 102.7 | 95.0 | 117.8 | 97.0 | 158.2 | 225.1 |
| Loans in percent of deposits | 106.9 | 165.3 | 173.9 | 227.7 | 201.5 | 194.9 |
| Share of liabilities in foreign exchange to total liabilities | 60.6 | 67.9 | 62.3 | 62.2 | 59.7 | 60.6 |
| Loan to deposit ratio, excluding deposits of nonresident legal entities | 115.6 | 155.2 | 151.4 | 237.1 | 206.5 | 199.3 |
| FX loans in percent of FX deposits | 105.1 | 199.1 | 235.2 | 336.0 | 254.2 | 219.5 |
| Return on assets, before tax (percent of assets, e.o.p) | 1.2 | 1.6 | 1.4 | 2.6 | 0.2 | -2.9 |
| Return on equity, before tax (percent of equity, e.o.p) | 11.5 | 16.6 | 14.6 | 18.4 | 1.9 | -25.4 |

Sources: FSA and IMF staff calculations.

1/ Includes contingent claims, contingent liabilities, transactions in foreign exchange and precious metals, and derivatives.

2/ Loans or assets classified as doubtful and loss.

3/ New classification scheme introduced in early 2003.

4/ The category of NPLs on a 90 days basis was introduced in July 2008.

5/ Excludes demand deposits from July 2008.

Table 4. Kazakhstan: Balance of Payments, 2006–14
(In billions of U.S. dollars, unless otherwise indicated)

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | | |
| Current account | -2.0 | -8.2 | 7.0 | -2.3 | 2.8 | 4.6 | 5.5 | 5.9 | 8.9 |
| Trade balance | 14.6 | 15.1 | 33.5 | 14.2 | 22.0 | 25.0 | 27.2 | 29.1 | 34.3 |
| Exports (f.o.b.) | 38.8 | 48.4 | 72.0 | 43.2 | 53.2 | 59.9 | 65.7 | 71.4 | 80.5 |
| Oil and gas condensate | 23.6 | 28.1 | 41.5 | 24.4 | 33.2 | 35.1 | 37.7 | 40.0 | 45.5 |
| Non-oil exports | 15.2 | 20.2 | 30.5 | 18.8 | 20.0 | 24.9 | 28.0 | 31.4 | 35.0 |
| Imports (f.o.b.) | -24.1 | -33.3 | -38.5 | -29.0 | -31.2 | -35.0 | -38.5 | -42.2 | -46.2 |
| Oil and gas condensate | -1.8 | -2.5 | -2.7 | -1.9 | -2.3 | -2.6 | -2.8 | -3.0 | -3.1 |
| Non-oil, gas imports | -22.3 | -30.8 | -35.7 | -27.1 | -28.9 | -32.4 | -35.7 | -39.3 | -43.1 |
| Services and income balance | -15.4 | -21.2 | -25.6 | -15.5 | -18.1 | -19.1 | -20.3 | -21.6 | -23.6 |
| Services, net | -5.9 | -8.1 | -6.6 | -5.0 | -5.1 | -6.1 | -6.8 | -7.3 | -7.7 |
| Income, net | -9.5 | -13.1 | -18.9 | -10.5 | -13.0 | -13.0 | -13.6 | -14.3 | -15.9 |
| of which: Income to direct investors | -7.7 | -11.3 | -16.6 | -6.8 | -9.0 | -9.5 | -10.2 | -10.8 | -12.3 |
| Current transfers | -1.2 | -2.2 | -1.0 | -1.0 | -1.1 | -1.2 | -1.4 | -1.6 | -1.8 |
| Capital and financial account | 16.2 | 8.4 | 1.2 | 10.8 | 9.9 | 8.4 | 7.1 | 4.2 | 1.3 |
| Foreign direct investment | 6.7 | 8.0 | 10.7 | 8.2 | 6.6 | 6.8 | 7.3 | 8.1 | 8.6 |
| Amortization of intracompany liabilities | -4.2 | -5.6 | -5.6 | -4.9 | -5.3 | -5.3 | -5.3 | -5.0 | -5.0 |
| Portfolio investment, net | -4.5 | -4.6 | -9.5 | 2.9 | 1.6 | -3.1 | -4.5 | -6.3 | -9.1 |
| of which: National Fund | -5.8 | -6.1 | -6.4 | 5.6 | 0.1 | -3.0 | -4.4 | -6.2 | -9.0 |
| Other investment | 14.1 | 5.4 | -0.2 | -0.5 | 1.7 | 4.8 | 4.3 | 2.4 | 1.9 |
| Errors and omissions | -3.1 | -3.2 | -6.0 | -4.4 | -3.0 | -3.0 | -3.0 | -3.0 | -3.0 |
| Overall balance | 11.1 | -3.0 | 2.2 | 4.0 | 9.7 | 10.0 | 9.5 | 7.1 | 7.2 |
| Financing: Net international reserves of NBK | -11.1 | 3.0 | -2.2 | -4.0 | -9.7 | -10.0 | -9.5 | -7.1 | -7.2 |
| Memorandum items: 1/ | | | | *(in percent of GDP)* | | | | | |
| Current account | -2.5 | -7.8 | 5.1 | -2.1 | 2.3 | 3.3 | 3.5 | 3.4 | 4.4 |
| Exports of goods | 47.9 | 46.1 | 53.1 | 40.3 | 43.9 | 43.2 | 42.3 | 41.1 | 40.2 |
| Oil exports | 29.1 | 26.8 | 30.6 | 22.7 | 27.4 | 25.3 | 24.3 | 23.0 | 22.7 |
| Non-oil exports | 18.7 | 19.3 | 22.5 | 17.6 | 16.5 | 17.9 | 18.0 | 18.1 | 17.5 |
| Imports of goods | -29.8 | -31.7 | -28.4 | -27.1 | -25.8 | -25.2 | -24.8 | -24.3 | -23.1 |
| | | | | *(annual growth rate, in percent)* | | | | | |
| Exports | 37.0 | 24.7 | 48.9 | -40.0 | 23.1 | 12.7 | 9.6 | 8.6 | 12.7 |
| Non-oil exports | 38.9 | 33.5 | 50.8 | -38.2 | 6.0 | 24.4 | 12.7 | 12.0 | 11.5 |
| Volume on non-oil exports | 5.4 | 15.5 | 47.8 | -11.2 | 3.1 | 12.0 | 9.3 | 9.5 | 9.5 |
| Average price of non-oil exports | 31.7 | 15.6 | 2.0 | -30.4 | 7.9 | 5.9 | 3.1 | 2.3 | 1.8 |
| Imports | 34.2 | 37.9 | 15.6 | -24.5 | 7.5 | 12.0 | 10.1 | 9.7 | 9.4 |
| Oil and gas imports | 10.0 | 37.4 | 8.5 | -30.3 | 23.1 | 9.9 | 7.7 | 6.6 | 6.6 |
| Non-oil imports | 36.6 | 37.9 | 16.2 | -24.0 | 6.4 | 12.2 | 10.3 | 9.9 | 9.6 |
| Volume on non-oil imports | 17.2 | 24.1 | 12.3 | -4.4 | 1.6 | 7.8 | 7.2 | 7.3 | 7.3 |
| Average price of non-oil imports | 16.6 | 11.1 | 3.5 | -20.5 | 4.7 | 4.1 | 2.9 | 2.5 | 2.2 |
| Exports of oil and gas condensate (in MT) | 54.6 | 60.8 | 1.2 | 1.4 | 1.5 | 1.5 | 1.6 | 1.6 | 1.8 |
| NBK gross international reserves (in bill. USD) | 19.1 | 17.6 | 19.9 | 23.9 | 33.6 | 43.6 | 53.1 | 60.2 | 67.4 |
| In months of next year's imports of g&n.f.s. | 5.1 | 4.3 | 6.4 | 7.1 | 8.8 | 10.4 | 11.5 | 11.9 | 12.1 |
| excluding bank deposits in FX at NBK | 17.9 | 14.1 | 19.2 | … | … | … | … | … | … |
| National Fund (including interest), e.o.p. | 14.1 | 21.0 | 27.5 | 22.3 | 22.9 | 27.3 | 33.4 | 41.6 | 53.0 |
| External debt in percent of GDP | 91.4 | 92.4 | 79.5 | 98.9 | 92.4 | 80.8 | 75.8 | 73.8 | 69.5 |
| excluding intra-company loans | 59.9 | 63.7 | 52.3 | 59.2 | 52.4 | 45.9 | 41.9 | 40.8 | 38.2 |
| World oil price (USD per barrel) | 64.3 | 71.1 | 97.0 | 60.5 | 74.5 | 78.0 | 80.0 | 81.3 | 82.5 |

Sources: Kazakhstani authorities and Fund staff estimates.
1/ Estimates and projections are based on GDP at market exchange rates.

Table 5. Kazakhstan: Gross Financing Requirements and Financing, 2008–10

*(In billions of U.S. dollar; unless otherwise specified)*

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| Gross external financing requirements | 13.5 | 24.3 | 5.7 |
| Current account deficit (if surplus = -) | -7.0 | 2.3 | -2.8 |
| Maturing short-term debt | 11.8 | 10.6 | 2.8 |
| Amortization of medium- and long-term debt | 8.7 | 11.4 | 5.7 |
| Medium and long-term to external private creditors | 8.5 | 11.3 | 5.6 |
| Medium and long-term to external official creditors | 0.1 | 0.1 | 0.1 |
| IMF | 0.0 | 0.0 | 0.0 |
| To other official creditors | 0.1 | 0.1 | 0.1 |
| Amortization payments by domestic private sector | 0.0 | 0.0 | 0.0 |
| Amortization payments by domestic public sector | 0.1 | 0.1 | 0.1 |
| Available financing | 13.5 | 24.3 | 5.7 |
| Net FDI (including privatization receipts) | 14.5 | 10.9 | 9.6 |
| Roll-over of short-term debt 1/ | 12.2 | 10.2 | 3.7 |
| Medium- and long-term borrowing | 17.2 | 14.9 | 12.1 |
| *Of which:* bilateral financing | -- | 5.0 | 3.1 |
| Other net capital flows | -28.3 | -7.6 | -10.0 |
| Exceptional financing | 0.0 | 0.0 | 0.0 |
| Reserve accumulation (decrease = +) | -2.2 | -4.0 | -9.7 |
| *Memorandum items:* | | | |
| Gross international reserves in billions of U.S. dollars | 19.9 | 23.9 | 33.6 |
| in months of imports | 6.4 | 7.1 | 8.8 |

1/ Short-term debt rollover is high due to high rollover in the non-bank sector, debt standstill for two large banks in 2009, and related rollover assumptions for 2010.

Table 6. Kazakhstan: General Government Fiscal Operations, 2006–14

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | | |
| | | | | *(in billions of Tenge)* | | | | | |
| Total revenue and grants | 2,804 | 3,706 | 4,542 | 3,964 | 4,734 | 5,354 | 5,909 | 6,532 | 7,313 |
| Total revenue | 2,804 | 3,706 | 4,542 | 3,964 | 4,734 | 5,354 | 5,909 | 6,532 | 7,313 |
| o/w: Tax revenue | 2,709 | 3,393 | 4,520 | 3,829 | 4,524 | 5,041 | 5,555 | 6,129 | 6,842 |
| Oil revenue | 1,039 | 1,208 | 2,024 | 1,723 | 2,316 | 2,546 | 2,729 | 2,963 | 3,252 |
| Non-oil tax revenue | 1,670 | 2,185 | 2,496 | 2,106 | 2,209 | 2,495 | 2,826 | 3,166 | 3,589 |
| o/w: Income from capital transactions | 42 | 36 | 35 | 34 | 38 | 43 | 47 | 52 | 58 |
| Grants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total expenditure and net lending | 2,067 | 3,106 | 4,369 | 4,290 | 4,854 | 5,295 | 5,570 | 5,949 | 6,357 |
| Total expenditure | 2,060 | 3,098 | 4,326 | 4,272 | 4,833 | 5,271 | 5,545 | 5,921 | 6,325 |
| Current expenditure | 1,562 | 2,318 | 3,336 | 3,309 | 3,731 | 4,032 | 4,187 | 4,434 | 4,651 |
| Capital expenditure | 498 | 779 | 991 | 963 | 1,103 | 1,239 | 1,358 | 1,488 | 1,674 |
| Net lending | 8 | 8 | 42 | 18 | 21 | 23 | 26 | 28 | 31 |
| Overall budget balance | 736 | 600 | 173 | -326 | -120 | 59 | 338 | 583 | 956 |
| Statistical discrepancy | -1 | 9 | -235 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing | -738 | -591 | -206 | 326 | 120 | -59 | -338 | -583 | -956 |
| Domestic financing, net | -85 | 274 | 277 | 273 | 206 | 573 | 524 | 557 | 603 |
| Foreign financing, net | 2 | -45 | 23 | 2 | 1 | -1 | -3 | -4 | -3 |
| Privatization receipts | 48 | 60 | 24 | 17 | 12 | 8 | 6 | 4 | 3 |
| NFRK 1/ | -703 | -880 | -529 | 34 | -97 | -639 | -865 | -1,141 | -1,559 |
| | | | | *(in percent of GDP)* | | | | | |
| Total revenue and grants | 27.5 | 28.8 | 27.8 | 25.0 | 26.3 | 26.5 | 26.7 | 26.9 | 26.8 |
| Total revenue | 27.5 | 28.8 | 27.8 | 25.0 | 26.3 | 26.5 | 26.7 | 26.9 | 26.8 |
| o/w: Tax revenue | 26.5 | 26.4 | 27.7 | 24.1 | 25.2 | 25.0 | 25.1 | 25.3 | 25.1 |
| Oil revenue | 10.2 | 9.4 | 12.4 | 10.9 | 12.9 | 12.6 | 12.3 | 12.2 | 11.9 |
| Non-oil tax revenue | 16.3 | 17.0 | 15.3 | 13.3 | 12.3 | 12.4 | 12.8 | 13.1 | 13.2 |
| Income from capital transactions | 0.4 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Total expenditure and net lending | 20.2 | 24.2 | 26.8 | 27.0 | 27.0 | 26.2 | 25.2 | 24.5 | 23.3 |
| Total expenditure | 20.2 | 24.1 | 26.5 | 26.9 | 26.9 | 26.1 | 25.0 | 24.4 | 23.2 |
| Current expenditure | 15.3 | 18.0 | 20.4 | 20.9 | 20.8 | 20.0 | 18.9 | 18.3 | 17.0 |
| Capital expenditure | 4.9 | 6.1 | 6.1 | 6.1 | 6.1 | 6.1 | 6.1 | 6.1 | 6.1 |
| Net lending | 0.1 | 0.1 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Primary balance | 7.5 | 4.9 | 1.4 | -1.7 | -0.3 | 0.6 | 1.8 | 2.8 | 3.9 |
| Overall balance | 7.2 | 4.7 | 1.1 | -2.1 | -0.7 | 0.3 | 1.5 | 2.4 | 3.5 |
| Non-oil primary balance | -2.7 | -4.5 | -11.0 | -12.5 | -13.2 | -12.0 | -10.5 | -9.4 | -8.0 |
| Non-oil overall balance | -3.0 | -4.7 | -11.3 | -12.9 | -13.6 | -12.3 | -10.8 | -9.8 | -8.4 |
| Financing | -7.2 | -4.6 | -1.3 | 2.1 | 0.7 | -0.3 | -1.5 | -2.4 | -3.5 |
| Domestic financing, net | -0.8 | 2.1 | 1.7 | 1.7 | 1.1 | 2.8 | 2.4 | 2.3 | 2.2 |
| Foreign financing, net | 0.0 | -0.3 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Privatization receipts | 0.5 | 0.5 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| NFRK 1/ | -6.9 | -6.8 | -3.2 | 0.2 | -0.5 | -3.2 | -3.9 | -4.7 | -5.7 |
| *Memorandum items:* | | | | | | | | | |
| Augmented overall balance (in percent of GDP) 2/ | 7.2 | 4.7 | 1.1 | -6.7 | -4.8 | -3.3 | -1.7 | -0.5 | 1.0 |
| Non-oil balance (in billions of tenge) | -303 | -608 | -1,851 | -2,049 | -2,436 | -2,487 | -2,391 | -2,380 | -2,296 |
| Non-oil balance (in percent of non-oil GDP) | -4.3 | -6.6 | -16.5 | -17.4 | -19.0 | -17.2 | -14.7 | -13.0 | -11.1 |
| Non-oil revenues (in percent of non-oil GDP) | 25.2 | 27.1 | 22.4 | 19.0 | 18.9 | 19.4 | 19.6 | 19.6 | 19.6 |
| Non-oil revenues (in percent of GDP) | 17.3 | 19.4 | 15.4 | 14.1 | 13.5 | 13.9 | 14.4 | 14.7 | 14.9 |
| Wages (in percent of GDP) | 3.1 | 3.3 | 2.9 | 3.2 | 3.3 | 3.2 | 3.3 | 3.3 | 3.2 |
| Interest payments (in percent of GDP) | 0.3 | 0.3 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 |
| Gross debt to GDP (percent) | 6.7 | 5.8 | 6.6 | 8.6 | 8.7 | 10.6 | 12.0 | 13.2 | 14.0 |
| Net liabilities (in percent of GDP) | -10.7 | -14.2 | -13.6 | -16.8 | -14.4 | -12.7 | -12.7 | -13.5 | -15.0 |
| NFRK FX assets (in billions USD) 1/ | 14.1 | 21.0 | 27.5 | 22.3 | 22.9 | 27.3 | 33.4 | 41.6 | 53.0 |
| Use of oil revenues (in percent of GDP) | 3.3 | 2.5 | 9.4 | 11.1 | 12.3 | 9.4 | 8.4 | 7.5 | 6.2 |
| Nominal GDP (in billions KZT) | 10,214 | 12,850 | 16,313 | 15,863 | 17,975 | 20,197 | 22,143 | 24,251 | 27,295 |

Sources: Kazakhstani authorities, Fund staff estimates and projections.

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

2/ Treats purchases of Samruk-Kazyna bonds under the anti-crisis plan as expenditure.

Table 7. Kazakhstan: Public Sector Debt Sustainability Framework, 2005-14
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Debt-stabilizing primary balance 9/ |
| 1 Baseline: Net public sector debt 1/ | -6.0 | -10.7 | -14.2 | -13.6 | -16.8 | -14.4 | -12.7 | -12.7 | -13.5 | -15.0 | 0.6 |
| o/w foreign-currency denominated | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| 2 Change in public sector debt | -6.1 | -4.7 | -3.5 | 0.6 | -3.1 | 2.4 | 1.7 | 0.0 | -0.8 | -1.5 | |
| 3 Identified debt-creating flows (4+7+12) | -6.4 | -6.6 | -3.6 | 0.5 | 0.1 | 1.1 | -0.1 | -1.7 | -2.6 | -3.4 | |
| 4 Primary deficit | -6.2 | -7.5 | -4.9 | -1.4 | 1.7 | 0.3 | -0.6 | -1.8 | -2.8 | -3.9 | |
| 5 Revenue and grants | 28.1 | 27.5 | 28.8 | 27.8 | 25.0 | 26.3 | 26.5 | 26.7 | 26.9 | 26.8 | |
| 6 Primary (noninterest) expenditure | 21.9 | 20.0 | 23.9 | 26.4 | 26.7 | 26.7 | 25.9 | 24.8 | 24.2 | 22.9 | |
| 7 Automatic debt dynamics 2/ | 0.0 | 1.3 | 1.8 | 2.1 | -1.5 | 0.8 | 0.6 | 0.2 | 0.2 | 0.5 | |
| 8 Contribution from interest rate/growth differential 3/ | 0.0 | 1.3 | 1.8 | 2.1 | -1.5 | 0.8 | 0.6 | 0.2 | 0.2 | 0.5 | |
| 9 Of which contribution from real interest rate | 0.0 | 0.9 | 1.0 | 1.7 | -1.2 | 0.5 | -0.2 | -0.5 | -0.5 | -0.4 | |
| 10 Of which contribution from real GDP growth | 0.0 | 0.5 | 0.8 | 0.4 | -0.3 | 0.3 | 0.8 | 0.6 | 0.6 | 0.9 | |
| 11 Contribution from exchange rate depreciation 4/ | 0.0 | 0.0 | 0.0 | 0.0 | ... | ... | ... | ... | ... | ... | |
| 12 Other identified debt-creating flows | -0.2 | -0.5 | -0.5 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | |
| 13 Privatization receipts (negative) | -0.2 | -0.5 | -0.5 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | |
| 14 Recognition of implicit or contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| 15 Other (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| 16 Residual, including asset changes (2-3) 5/ | 0.3 | 1.9 | 0.2 | 0.1 | -3.2 | 1.4 | 1.8 | 1.7 | 1.8 | 1.9 | |
| Public sector debt-to-revenue ratio 1/ | -21.5 | -39.1 | -49.2 | -48.9 | -67.1 | -54.5 | -47.9 | -47.6 | -50.2 | -56.1 | |
| Gross financing need 6/ | -4.1 | -7.1 | -4.2 | -1.0 | 2.1 | 0.7 | -0.2 | -1.5 | -2.3 | -3.5 | |
| in billions of U.S. dollars | -2.3 | -5.7 | -4.4 | -1.4 | 2.3 | 0.9 | -0.3 | -2.3 | -4.1 | -6.9 | |
| Scenario with key variables at their historical averages 7/ | | | | | -17.2 | -16.2 | -15.1 | -14.1 | -13.3 | -12.6 | 2.1 |
| Scenario with no policy change (constant primary balance) in 2008-2013 | | | | | -18.4 | -16.0 | -13.6 | -11.8 | -10.2 | -8.3 | 1.2 |
| Key Macroeconomic and Fiscal Assumptions Underlying Baseline | | | | | | | | | | | |
| Real GDP growth (in percent) | 9.7 | 10.7 | 8.9 | 3.2 | -2.0 | 2.0 | 6.0 | 5.6 | 5.6 | 7.5 | |
| Average nominal interest rate on public debt (in percent) | 4.5 | 4.7 | 5.0 | 8.2 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | 8.0 | |
| Average real interest rate (nominal rate minus change in | -13.3 | -16.9 | -10.5 | -14.8 | 8.8 | -3.1 | 2.0 | 4.2 | 4.3 | 3.3 | |
| Nominal appreciation (increase in US dollar value of loca | -2.9 | 4.7 | 5.9 | 0.2 | ... | ... | ... | ... | ... | ... | |
| Inflation rate (GDP deflator, in percent) | 17.9 | 21.6 | 15.5 | 23.0 | -0.8 | 11.1 | 6.0 | 3.8 | 3.7 | 4.7 | |
| Growth of real primary spending (deflated by GDP deflat | 11.9 | 0.8 | 30.4 | 16.9 | -1.0 | 2.0 | 2.9 | 1.3 | 2.7 | 1.8 | |
| Primary deficit | -6.2 | -7.5 | -4.9 | -1.4 | 1.7 | 0.3 | -0.6 | -1.8 | -2.8 | -3.9 | |
| A2. No policy change (constant primary balance) in 2005-09 | | | | | -18.4 | -16.0 | -13.6 | -11.8 | -10.2 | -8.3 | 1.2 |
| B. Bound Tests | | | | | | | | | | | |
| B1. Real interest rate is at historical average plus one standard deviation | | | | | -17.2 | -15.1 | -13.8 | -14.1 | -15.3 | -17.1 | 0.3 |
| B2. Real GDP growth is at historical average minus one standard deviation | | | | | -16.6 | -13.5 | -10.7 | -9.2 | -8.0 | -7.4 | 0.2 |
| B3. Primary balance is at historical average minus one standard deviation | | | | | -15.2 | -11.2 | -8.0 | -6.5 | -5.8 | -6.0 | 0.2 |
| B4. Combination of B1-B3 using 1/2 standard deviation shocks | | | | | -16.3 | -13.4 | -11.2 | -10.6 | -10.8 | -11.7 | 0.2 |
| B5. One time 30 percent real depreciation in 2006 10/ | | | | | -16.8 | -14.4 | -12.7 | -12.7 | -13.5 | -15.0 | 0.6 |
| B6. 10 percent of GDP increase in other debt-creating flows in 2006 | | | | | -6.8 | -4.8 | -3.5 | -3.7 | -4.6 | -6.5 | 0.3 |

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; $\pi$ = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and $\varepsilon$ = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 8. Kazakhstan: External Debt Sustainability Framework, 2005–14
(excluding intra-company debt, in percent of GDP, unless otherwise indicated)

| | Actual | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | |
| | | | | | | | I. Baseline Projections | | | | | | Debt-stabilizing non-interest current account 6/ |
| 1 External debt | 42.4 | 59.9 | 63.7 | 52.3 | | | 59.2 | 52.4 | 45.9 | 41.9 | 40.8 | 38.2 | -5.8 |
| 2 Change in external debt | 5.2 | 17.5 | 3.9 | -11.4 | | | 6.9 | -6.8 | -6.5 | -4.0 | -1.1 | -2.6 | |
| 3 Identified external debt-creating flows (4+8+9) | -10.7 | -21.1 | -16.6 | -29.1 | | | 12.1 | -11.8 | -13.6 | -12.5 | -11.2 | -11.5 | |
| 4 Current account deficit, excluding interest payments | 0.1 | -0.2 | 4.1 | -8.4 | | | 0.3 | -3.3 | -5.0 | -5.4 | -5.1 | -5.5 | |
| 5 Deficit in balance of goods and services | -8.8 | -10.7 | -6.7 | -19.8 | | | -4.8 | -9.5 | -10.2 | -10.3 | -10.0 | -11.1 | |
| 6 Exports | 53.4 | 51.3 | 49.5 | 56.3 | | | 40.5 | 43.7 | 44.4 | 43.7 | 42.9 | 42.3 | |
| 7 Imports | 44.6 | 40.6 | 42.8 | 36.5 | | | 35.7 | 34.1 | 34.2 | 33.4 | 32.9 | 31.2 | |
| 8 Net non-debt creating capital inflows (negative) | -3.5 | -11.1 | -10.8 | -9.5 | | | -8.2 | -6.3 | -5.7 | -5.4 | -4.7 | -3.5 | |
| 9 Automatic debt dynamics 1/ | -7.4 | -9.8 | -9.9 | -11.2 | | | 20.0 | -2.2 | -2.9 | -1.8 | -1.4 | -2.5 | |
| 10 Contribution from nominal interest rate | 1.7 | 2.7 | 3.7 | 3.3 | | | 4.6 | 4.2 | 3.6 | 3.4 | 3.2 | 3.0 | |
| 11 Contribution from real GDP growth | -2.7 | -3.2 | -4.1 | -1.6 | | | 1.4 | -1.1 | -2.7 | -2.3 | -2.1 | -2.6 | |
| 12 Contribution from price and exchange rate changes 2/ | -6.4 | -9.3 | -9.5 | -12.9 | | | 14.0 | -5.3 | -3.8 | -2.9 | -2.6 | -2.8 | |
| 13 Residual, incl. change in gross foreign assets (2-3) | 15.9 | 38.6 | 20.4 | 17.7 | | | -5.2 | 5.0 | 7.1 | 8.5 | 10.1 | 8.9 | |
| External debt-to-exports ratio (in percent) | 79.3 | 116.6 | 128.7 | 92.9 | | | 146.1 | 119.9 | 103.5 | 95.8 | 95.1 | 90.2 | |
| Gross external financing need (in billions of US dollars) 3/ | 14.4 | 18.7 | 30.5 | 13.5 | | | 27.2 | 5.8 | 3.2 | 14.5 | 9.0 | 17.9 | |
| in percent of GDP | 25.3 | 23.1 | 29.1 | 10.0 | | | 26.1 | 5.0 | 2.4 | 9.6 | 5.3 | 9.1 | |
| Key Macroeconomic Assumptions | | | | | 10-Year Historical Average | 10-Year Standard Deviation | | | | | | | Projected Average |
| Real GDP growth (in percent) | 9.7 | 10.7 | 8.9 | 3.2 | 8.7 | 3.3 | -2.0 | 2.0 | 6.0 | 5.6 | 5.6 | 7.5 | 4.1 |
| GDP deflator in US dollars (change in percent) | 20.7 | 28.1 | 18.9 | 25.3 | 11.8 | 16.4 | -21.2 | 9.9 | 7.9 | 6.7 | 6.5 | 7.4 | 2.9 |
| Nominal external interest rate (in percent) | 6.1 | 8.9 | 8.1 | 6.6 | 5.8 | 1.7 | 6.8 | 7.9 | 7.9 | 8.3 | 8.6 | 8.5 | 8.0 |
| Growth of exports (US dollar terms, in percent) | 35.0 | 36.2 | 24.8 | 47.1 | 28.7 | 18.8 | -44.6 | 20.7 | 16.1 | 11.1 | 10.3 | 14.0 | 4.6 |
| Growth of imports (US dollar terms, in percent) | 34.6 | 29.1 | 36.5 | 10.2 | 21.4 | 17.0 | -24.6 | 7.0 | 14.5 | 10.3 | 10.5 | 9.6 | 4.5 |
| Current account balance, excluding interest payments | -0.1 | 0.2 | -4.1 | 8.4 | 1.1 | 3.9 | -0.3 | 3.3 | 5.0 | 5.4 | 5.1 | 5.5 | 4.0 |
| Net non-debt creating capital inflows | 3.5 | 11.1 | 10.8 | 9.5 | 6.6 | 3.4 | 8.2 | 6.3 | 5.7 | 5.4 | 4.7 | 3.5 | 5.6 |
| | | | | | | | II. Stress Tests for External Debt Ratio | | | | | | Debt-stabilizing non-interest current account 6/ |
| A. Alternative Scenarios | | | | | | | | | | | | | |
| A1. Key variables are at their historical averages in 2010-2014 4/ | | | | | | | 57.2 | 50.9 | 44.1 | 39.1 | 36.1 | 32.5 | -10.8 |
| B. Bound Tests | | | | | | | | | | | | | |
| B1. Nominal interest rate is at baseline plus one-half standard deviation | | | | | | | 57.8 | 55.6 | 49.7 | 45.9 | 44.6 | 42.0 | -5.7 |
| B2. Real GDP growth is at baseline minus one-half standard deviations | | | | | | | 58.5 | 57.1 | 52.0 | 48.9 | 48.4 | 46.3 | -5.3 |
| B3. Non-interest current account is at baseline minus one-half standard deviations | | | | | | | 59.2 | 58.9 | 54.8 | 52.7 | 53.3 | 52.1 | -6.3 |
| B4. Combination of B1-B3 using 1/4 standard deviation shocks | | | | | | | 59.2 | 58.9 | 54.8 | 52.7 | 53.3 | 52.1 | -5.9 |
| B5. One time 30 percent real depreciation in 2009 | | | | | | | 99.3 | 96.0 | 88.2 | 83.1 | 80.9 | 76.3 | 7.6 |

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
3/ 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 non-interest current account and non-debt inflows in percent of GDP.
5/ The implied change in other key variables under this scenario is discussed in the text.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL RELATIONS DEPARTMENT

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# IMF Executive Board Concludes 2009 Article IV Consultation with the Republic of Kazakhstan

On July 1, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Kazakhstan.[1]

**Background**

At the time of the 2008 Article IV consultation, Kazakhstan's economy was slowing in response to the tightening of global liquidity conditions in August 2007. Domestic banks' access to international financial markets declined, credit growth stalled, and property prices collapsed following years of rapid gains. High oil prices, however, initially cushioned the impact of the sudden stop in capital inflows, and the economy slowed down to 6 percent by mid-2008 from the double-digit growth rates of earlier years.

The second wave of the global financial crisis and lower oil prices in late 2008 slowed real activity further, and the economy began to contract. A deteriorating current account balance and banks' large external debt repayments put the currency under pressure, and the central bank devalued the tenge by 20 percent against the U.S. dollar in early February.

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

The slowing economy and the exchange rate devaluation have added to the pressures on bank balance sheets, and as asset quality inevitably deteriorates further, these pressures will only rise. Several banks are now facing solvency issues; two large banks and one smaller institution have stopped making principal repayments, and the banks are now in negotiations with their creditors to restructure their liabilities. The continuing drop in asset prices has also impacted the assets of the pension funds.

The authorities have responded to the growing economic problems with a $10 billion anti-crisis plan, funded from the National Oil Fund, that focuses on recapitalizing banks and supporting economic activity. The anti-crisis plan is being complemented by additional budgetary measures, liquidity support from the central bank, and regulatory measures by the financial supervisory agency. The large stock of public foreign assets built up during the boom years and low public debt put the authorities in a strong position to respond to the crisis. Central bank reserves have stabilized around $20 billion and pressures on the exchange rate have eased following the devaluation.

The economy is expected to contract by 2 percent this year, recovering modestly in 2010 to grow by 2 percent. Lower oil prices will push the current account balance back into a deficit, although with foreign direct investment remaining strong and new bilateral financing emerging the overall balance of payments will remain robust. CPI inflation will remain contained as the weak demand environment limits the ability of producers to pass on higher import costs from the devaluation earlier in the year. The weakening economy and large “anti-crisis” spending will push the fiscal position into a deficit this year, the first since 2000.

## Executive Board Assessment

## Kazakhstan Selected Economic Indicators, 2005-10

| | 2005 | 2006 | 2007 | 2008 | Proj. 1/ 2009 | Proj. 1/ 2010 |
|---|---|---|---|---|---|---|
| | (Changes in percent) | | | | | |
| **Real economy** | | | | | | |
| Real GDP | 9.7 | 10.7 | 8.3 | 3.2 | -2.0 | 2.0 |
| CPI (end-of-period) | 7.5 | 8.4 | 18.8 | 9.5 | 8.5 | 6.3 |
| | (In percent of GDP) | | | | | |
| **Public finance** | | | | | | |
| Government revenue and grants | 28.1 | 27.5 | 28.8 | 27.8 | 25.0 | 26.3 |
| Government expenditures | 22.2 | 20.2 | 24.1 | 26.5 | 26.9 | 26.9 |
| General government balance 2/ | 5.8 | 7.2 | 4.7 | 1.1 | -2.1 | -0.7 |
| General government non-oil balance | -4.8 | -3.0 | -4.7 | -11.3 | -12.9 | -13.6 |
| General government debt (end-of-period) 3/ | 8.1 | 6.7 | 5.8 | 6.6 | 8.6 | 8.7 |
| | (Changes in percent) | | | | | |
| **Money and credit** | | | | | | |
| Base money | 12.5 | 131.0 | -2.5 | 0.5 | 16.5 | 14.6 |
| Broad money | 26.3 | 78.1 | 25.9 | 35.4 | 12.2 | 24.4 |
| Banking sector credit to the economy | 74.2 | 80.2 | 55.2 | 5.2 | 13.9 | 16.6 |
| NBK refinance rate (eop; percent) | 8.0 | 9.0 | 11.0 | 10.5 | ... | ... |
| | (In percent of GDP) | | | | | |
| **Balance of payments** | | | | | | |
| Trade balance | 18.1 | 18.1 | 14.4 | 24.7 | 13.2 | 18.2 |
| Current account balance | -1.8 | -2.5 | -7.8 | 5.1 | -2.1 | 2.3 |
| External debt | 76.0 | 91.4 | 92.4 | 79.5 | 98.9 | 92.4 |
| Gross international reserves | | | | | | |
| In billions of U.S. dollars, end of period | 7.1 | 19.1 | 17.6 | 19.9 | 23.9 | 33.6 |
| In months of imports of goods and nonfactor services | 2.6 | 5.1 | 4.3 | 6.4 | 7.1 | 8.8 |
| | (Changes in percent) | | | | | |
| **Exchange rate** | | | | | | |
| Tenge per U.S. dollar (end of period) | 3.0 | -4.4 | -5.6 | -0.2 | ... | ... |
| Tenge per Russian ruble (end of period) | -0.8 | 3.6 | 1.4 | -15.8 | ... | ... |
| Real effective exchange rate (p.a) 4/ | 3.7 | 7.5 | 2.2 | 6.8 | ... | ... |

Sources: Kazakhstani authorities; and Fund 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, which includes a statistical discrepancy.
3/ Gross domestic and external debt, including government guaranteed debt.
4/ A positive sign indicates appreciation.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

**2009 Article IV Consultation—Informational Annex**

Prepared by the Middle East and Central Asia Department
(In Consultation with Other Departments)

June 17, 2009

Contents Page

## Annex I. Kazakhstan: Relations with the Fund
(As of June 3, 2009)

- ***Mission:*** Article IV consultation discussions were held May 5–15, 2009 in Astana and Almaty. The concluding statement of the mission is available at http://www.imf.org/external/np/ms/2009/051509.htm.
- ***Staff Team:*** Messrs./Mmes. Callen (head), Ilahi, Oner, and Al-Eyd (all MCD), Blavy (SPR), and Saker (MCM). Messrs. Kiekens and Orynbaev (both OED) joined the policy discussions.
- ***Country Interlocutors***: Prime Minister Massimov, National Bank of Kazakhstan Deputy Chairman Akishev, Minister of Finance Zamishev, Minister of Economy and Budget Planning Sultanov, Minister of Energy Mynbayev, Financial Supervision Agency Chairwoman Bakhmutova, and other officials, private sector participants, academia, and the press.
- ***Fund Relations***: 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 has been classified as a conventional peg (previously a managed float).
- ***Statistical Issues:*** The authorities subscribe to the SDDS and the provision of data is adequate for surveillance purposes.
- ***Outreach:*** The mission met with the local press and made a presentation on the regional outlook at Kazakh Economical University.

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

| **II. General Resources Account** | **SDR Million** | **% Quota** |
|---|---|---|
| Quota | 365.70 | 100.0 |
| Fund holdings of currency | 365.70 | 100.0 |
| Reserve position in the Fund | 0.01 | 0.0 |

| **III. SDR Department** | **SDR Million** | **% Allocation** |
|---|---|---|
| Holdings | 0.90 | n.a. |

**IV. Outstanding Purchases and Loans** **None**

**V. Financial Arrangements**

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

## VI. Projected Obligations to the Fund

None.

## VII. Safeguards Assessments

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. From late 1999 to October 2007, the exchange rate regime was a managed float with no preannounced path. Since October 2007 the tenge has effectively been pegged to the U.S. dollar. After a period of downward pressure, the peg was devalued on February 4, 2009. On June 3, 2009, the tenge/U.S. dollar rate was 150.22. 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 July 9, 2008 (see IMF Country Report No. 08/288).

## 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 and a second FSAP Update mission took place in March 2008. The fiscal transparency module was completed in October 2002 and the final report published in April 2003. A data module mission took place in April/May 2002, and its final report was published in March 2003. An update of the data ROSC was undertaken in 2006 and the report was published in February 2008 (see Annex V).

## 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 1993–2009 by FAD, LEG, MCM, STA, and the IMF Institute. In addition to short-term missions, the Fund has provided resident advisors to the National Bank of Kazakhstan, to the Agency of Statistics of the Republic of Kazakhstan, 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 Capital Markets*

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.
5. November 2007: Strengthening Banking Supervision and Risk Assessment.
6. January 2009: Developing Banking Sector Stress Testing. As part of this project, peripatetic experts will continue to visit the FSA over the course of 2009.

*Fiscal Affairs*

The Fiscal Affairs Department 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).
5. April 2008: GFSM 2001 Implementation.
6. January 2009: Monetary statistics.

*Legal Department*

December 2003: Draft Law on Mandatory Reporting on Certain Financial Transactions
April 2008: Reforms to Tax Law.

*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. Seminars and training sessions have also been conducted by MCM and STA technical assistance missions.

## XII. Resident Representatives

Position terminated in August 2003.

## Annex II. Kazakhstan: Relations with the World Bank Group

(As of June 1, 2009)

**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 was curtailed earlier in this decade as a result of the country's reduced borrowing needs, but in FY09 it was revived and four new projects were launched. In addition to lending activities, the Joint Economic Research Program (JERP) allows the Bank to transfer knowledge in support of the government's critical development needs. In FY09 the total financing of JERP amounts to just over $3 million, of which about 66 percent is financed by the Government. JERP is built around four pillars aligned with the government's strategic priorities: (i) reform of public administration and public finance; (ii) macroeconomic management and crisis mitigation; (iii) improvement in human development outcomes; and (iv) private sector development and improvement to business climate.

**At present, the Bank's program comprises twelve projects (IBRD loans) with a total commitment of $2,598 million, of which $279 million is disbursed and outstanding.** Six loans with total commitment amount of $299 million are disbursing (Syr Darya Control and Northern Aral Sea - Phase I, Nura River Clean-Up, Agricultural Post-Privatization Assistance - Phase II, Agricultural Competitiveness, North–South Electricity Transmission, and Forest Protection and Reforestation). Four projects with total commitment amount of $173.9 million were launched recently: Ust–Kamenogorsk Environment Remediation, Customs Development, Health Sector Technology Transfer and Institutional Reform, and Technology Commercialization. The World Bank has just approved the largest investment loan in its history in the amount of $2,125 million to support the reconstruction of the South Western transport corridor at a total cost of $6.7 billion, in which ADB, EBRD, IsDB and JBIC also participate. Four projects are under preparation: Irrigation and Drainage Improvement - Phase II, Vocational Education and Training, Tax Administration, and Syr Darya Control and Northern Aral Sea - Phase II, with an expected financing envelope of about $434 million. Two more loans covered by Government guarantees are under preparation with KEGOC, the National transmission company; these add up to $248 million.

**Kazakhstan is the IFC's largest client in Central Asia.** IFC's efforts in Kazakhstan are directed to foster private sector led growth, particularly in the non-extractive sectors and frontier regions. This includes ongoing support to the financial sector and when possible, investments to promote SME development as well as investments in manufacturing, infrastructure, and the service sector. Looking ahead, the IFC will focus on: (a) further stabilization, diversification and extension of the maturity of the funding base in the banking sector and (b) establishment of the best international banking and corporate governance and regulatory environment. As the global financial crisis has deepened, we have primarily focused on identifying partner financial institutions through which IFC could make a stabilizing impact on the financial sector in Kazakhstan and with which we can effectively increase access to finance in the priority sectors in the economy. As of early-May 2009, IFC's total committed portfolio in Kazakhstan was $345 million, which is mostly in the financial sector and general manufacturing. In the past year, IFC has increased its investment program in Kazakhstan to help alleviate problems with access to finance. IFC grew its activities tenfold in FY08 ($110 million) compared with FY05 ($11 million) and is expecting another significant increase in its investment commitments in FY09, despite the financial crisis. Already around $186 million have been committed during this fiscal year through early May 2009 and we have a significant pipeline of potential investment projects.

## Annex III. Kazakhstan: Relations with the EBRD
(As of May 1, 2009)

**The EBRD is the largest investor outside the oil and gas sector in Kazakhstan.** As of 31 April, 2009 the EBRD's total business volume, including co-financing, in Kazakhstan stood at €8.1 billion, with Bank investments totalling €2.3 billion. The Bank's portfolio reached €1,574 million. During 2008, the bank signed 19 projects, including regional ones, for a total amount of EBRD finance of €431 million. The sector allocation of business volume has shifted towards the corporate, power and energy sectors. 70 percent of all EBRD investments are in the private sector. The Bank's involvement in selected major infrastructure projects will slightly increase the public sector share of the portfolio going forward.

The EBRD involvement in the country remains guided by the Bank's most recent country strategy for Kazakhstan, approved in November 2006 and amended in 2008.

**The Bank's main operational objectives for 2009**

**Enterprise sector:**

The Bank will continue to pursue its main strategic objective to assist Kazakhstan in diversifying its economy. In the near term, this strategy will incorporate anti-crisis measures. To this end, the Bank's approach, which has traditionally emphasised capital expansion, will be enhanced to include rapid-response support for existing clients and creditworthy new borrowers, including provision of liquidity and balance-sheet restructuring.  While emphasising immediate measures to combat the crisis, the Bank will not lose sight of its fundamental objective to support sustainable growth of the private sector, and will thus continue to provide financing for sound long-term investment projects, and support companies which are well-positioned to expand and/or retool even in the time of crisis. Opportunities exist in general industry, agribusiness, telecom, as well as in selected segments of the natural resources sector (non-hydrocarbon extraction, services for the oil and gas sector). In the transport sector, the on-going restructuring of Kazakhstan's railways creates scope for working with private operators, including container, shipping and freight forwarding companies.

Additional opportunities in the enterprise sector are likely to be offered by energy-efficiency projects, delivery of which will be ramped up with the addition of a full-time Energy Efficiency and Climate Change (E2C2) advisor to the country-based staff, as well as by participation in existing and new investment funds.

The Kazakh state's involvement in the country's economy is not likely to abate in the current crisis conditions. With that in mind, it will be strategically vital to develop an appropriate level of co-operation with the National Welfare Fund Samruk-Kazyna (SK). While engagement at the holding company level will be difficult, the Bank will selectively pursue opportunities to co-operate with SK at the project level, including in the corporate sector, in situations where the projects are based on sound market principles, and subject to the usual integrity considerations. The EBRD will also selectively consider possibilities to co-finance with such SK-owned institutions as the Development Bank of Kazakhstan, as well as through co-investing with SK in investment funds.

**Financial sector:**

Support of the financial sector, which, *inter alia,* has served as the primary conduit for channelling funds to SMEs, will remain a leading priority for the EBRD in Kazakhstan, particularly during the financial crisis. Although the Bank will not act as a lender of last resort, it will seek to support its main partner banks throughout the crisis, including through the provision of equity and quasi-equity, senior debt, and trade finance facilities, and will position itself to assist its partner banks in consolidation of the sector, that may ensue. With the syndication market unlikely to recover in the near-term, a certain scaling-down of the magnitude of support that the EBRD can mobilise should be expected.

While support of SME's will continue to drive the use of the Bank's funds, additional opportunities to expand EBRD's relationship with its partner banks will be afforded by new products, such as the Kazakhstan Energy Efficiency Framework Facility. On the other hand, demand for products like mortgage financing is likely to decline in the near term.
The Government's temporary take-over of some of the leading banks may afford opportunities for the EBRD to engage in the medium term, once the key elements of the restructuring are in place.

The Bank will seek to engage with non-bank financial institutions in Kazakhstan, including leasing and insurance companies, and non-bank micro-lenders, and will consider the possibility of launching a micro-finance bank.

**Infrastructure and energy sectors:**

<u>Transport</u>

The Bank will pursue rehabilitation of key international road corridors (such as the TRACECA and CAREC corridors), for which sovereign support may be required, provided the financing package is accompanied by sector reform. To that end, the Bank will seek to co-finance with other IFIs and to coordinate police advice and technical assistance. In addition, the Bank will continue to seek right opportunities to engage in the financing of road PPP's. The Bank will continue to provide assistance and advice to the Ministry of Transport and Communications and the PPP Centre of Kazakhstan to ensure that potential concessions are in line with international best practice and deliver value for money. In parallel, the Bank will work with potential bidders to explore the possibility to provide financing to the concessionaire, in cooperation with other IFIs.

In the rail segment, the Bank will seek to replicate its existing successful transaction with Transtelecom, pursuing similar deals with other subsidiaries of Kazakhstan Temir Zholi (KTZ), such as Kaztemirtrans. In connection with the financing, the Bank will provide technical assistance to support KTZ's restructuring efforts based on the draft Rail Reform Strategy 2009–2014.

Municipal and Environmental Infrastructure (MEI)

Given the legal constraints to the Kazakh municipalities' ability to borrow or guarantee indebtedness of municipal companies, the Bank has historically not been very active in the sector in Kazakhstan. With the addition of a locally-based MEI banker to the country team, the Bank has pursued development of creative mechanisms for financing municipal projects in Kazakhstan, reflected in the currently pending transactions (Almaty Water, Almaty Electrotrans, Karaganda Water, Aktau Water, etc). In addition to urban transport and water/waste-water projects, the Bank will consider projects in the district heating segment, where historical underinvestment has created significant rehabilitation needs.

Power and Energy

In line with the "Sustainable Energy Action Plan" ("SEAP") signed in June 2008 with the Kazakh Government, the Bank will remain committed to financing bankable power and energy projects in Kazakhstan that have a positive systemic effect in the power sector – including use of best available technology, promotion of renewable sources, energy efficiency and environmental standards – for both state and private operators. These criteria will be key drivers for project selection going forward. The Bank will also through technical assistance support the development of a legal framework that supports their market penetration, and strengthen regulatory agencies and tariff environment.

***Main trends in Kazakhstan portfolio over 2008-2009***

- **The most notable progress was made in Infrastructure sector**

**KTZ Transtelecom Communication Infrastructure Modernisation:** In October 2008 the Bank successfully syndicated a $105 million A/B loan to Transtelecom, a subsidiary of the state railway company Kazakhstan Temir Zholi KTZ. The loan will finance the construction of a 4,600 km long fibre optic cable along the railway tracks, which will improve the telecommunication infrastructure in Kazakhstan. The transaction was the first in planned series of interventions with the KTZ Group, which also will support the ongoing railway sector reform.

**South-West Corridor Road Project:** In March 2009, the Bank signed a $180 million sovereign loan for the rehabilitation of West China - West Europe International Road Transit Corridor, a key international transport link connecting Europe with China. The EBRD financing will upgrade a 102 km section between the border with Russia and the city of Aktobe. Other sections of the corridor will be rehabilitated with loans provided by the World Bank, the Asian Development Bank, and the Islamic Development Bank, as well as with budget financing from the Government.

**Shymkent Vodokanal**: The EBRD provided a $8 million loan to the private water utility TOO Vodnye Resursy Marketing to improve the water and wastewater services in the city of Shymkent in Southern Kazakhstan. The investments will improve the efficiency and quality of the water supply and sewerage services. It includes the rehabilitation of the water network, the replacement of parts of the sewage system and the installation of frequency controllers. The feasibility study for the project was funded from the EBRD Shareholder Special Fund.

- **The Bank continues to focus on Kazakhstan Power and Energy sector of economy.**

At present the power sector is suffering from significant inefficiency and capacity underinvestment. As a response, the Bank initiated and implemented **Kazakhstan Sustainable Energy Finance Facility** program **(KAZSEFF).** Under this program the EBRD via bank-partners will support private sector investments in energy efficiency and renewables in Kazakhstan with a $75 million framework. Kazakhstan bank-partners will provide loans to local companies to promote energy efficiency investments. Bank Center Credit is the first recipient with a $10 million loan.

**In May 2009, the Bank** has approved two loans worth a total $100 million to ATFBank in Kazakhstan to support lending to small and medium-sized enterprises and to promote energy efficiency of Kazakh industrial companies.

**In March 2009,** the Bank approved its first equity investment in the power sector of Kazakhstan, the EBRD is investing up to KZT 9.2 billion (€46 million equivalent) to acquire a stake in the private power company Central-Asian Electric Power Corporation (CAEPCO). The capital injection will be used for the company's investment programme up to 2013, including the upgrade and rehabilitation of CAEPCO's generation and distribution assets to improve efficiency, reliability and performance.

- **The Bank continues its support and cooperation with Kazakhstan Bank-partners**

As of May 2009 the total Bank's investments in the Kazakh banking systems reached €1.5 billion including: Bank Equity €192 million; Bank Lending €674 million; non-bank financial institutions €47million; SME finance €319 million. In 2008, the EBRD committed loans and guarantees under the Regional Trade facilitation program was about €50 million.

- **During 2008-2009 the Bank made a significant progress in financing Corporate sectors, especially agribusiness sector**.

During 2008 the Bank signed 6 projects in the agribusiness sector for the total EBRD finance €85 mln. In 2009 the Bank supported the expansion of CCI (Coca-Cola Icecek of Turkey), the exclusive Coca-Cola bottler for selected countries in Central Asia, the Caucasus and the Middle East, by providing a € 19 million loan for the expansion of production, modernisation of Almaty Bottlers' production facilities and distribution networks in Kazakhstan.

***Priorities for the coming year***

**Power shortages** are becoming an important constraint on private sector development, especially in Southern Kazakhstan. To support the Government with regulatory improvements and tariff reform will be key for the Bank's operations in this area, leading to investments in power generation, transmission and distribution. The Bank will focus on implementation of the Sustainable Energy Action Plan, financing priority investments in power generation and supporting energy efficiency and the use of renewable energy. Continued technical assistance will be given to improve sector regulation.

The **transport and communication infrastructure** will be key to the country's long-term competitiveness and regional cooperation and integration. Kazakhstan has launched its first tenders for PPPs in the road sector, the successful implementation of which will require application of best practice. The Bank will support the Governments in structuring the PPPs and consider participating in the financing. In addition, the Bank will support the ongoing reform of the railway sector and financing improvements of railway infrastructure. Development of municipal and environmental infrastructure will be a priority.

In the **financial sector**, the Bank's assistance is needed in light of the global credit crunch, the resulting large repayment obligations of Kazakh banks, and the related slowdown of bank lending in Kazakhstan. The Bank will continue to provide long-term debt, to support the equity of banks, to facilitate the entry of strategic investors, and will aim to reconnect Kazakh banks to the international financial markets through arranging syndicated loans (A/B structure). For 2009, the focus will be on SME and micro lending, as well as the introduction of energy efficiency credit lines. In addition, the Bank will have an important role to play in working with private equity funds and non-bank financial institutions to promote the development of the local capital market as a complement to bank lending. Transparency of shareholding structures and the willingness to improve corporate governance will be a precondition to any future Bank financing in Kazakhstan.

| EBRD Portfolio 31 April 2009<br>Euros million | | | |
|---|---|---|---|
| Sector Business Group (SIC) | | Commitments | Portfolio |
| Energy | Private | 175 | 153 |
| | State | 228 | 208 |
| FI | Private | 916 | 473 |
| | State | 31 | 31 |
| Corporate | Private | 567 | 410 |
| | State | 45 | 0 |
| Infrastructure | Private | 25 | 25 |
| | State | 392 | 274 |
| **TOTAL** | | **2,379** | **1,574** |

## Annex IV. Kazakhstan: Relations with the Asian Development Bank
(As of May 7, 2009)

**Kazakhstan became a member of the Asian Development Bank (ADB) in 1994**. As of March 2008, 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 2008, 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 are at the forefront of current and future ADB operations in the country.** A Private Sector Operations Agreement between the Republic of Kazakhstan and the ADB was signed in November 2004. It provided a basis for ADB's business opportunities in the Kazakhstani private sector. During 2006–2007, seven private sector financings in the amount of $550 million were approved by the ADB for Kazakhstan to boost financial sector and SME development in the country.

**ADB's debut local currency bonds (in Tenge) in Kazakhstan were issued in August 2007.** The issue had a principal amount of 6 billion Tenge (equivalent to $49 million). Proceeds of the Tenge bond issue were used to finance ADB's private sector banking activities in the country (ADB's first local currency loan to JSC Bank Center Credit to support small- and medium-sized business was approved on August 7).

**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, micro credit, small- and medium-enterprises (SME), private equity funds, insurance, and securitization. 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.** The latter will be in rural water supply and water resources management to improve livelihood in rural areas and reducing urban-rural gap. After the successful completion of water resources management and land improvement project in South Kazakhstan Oblast in December 2006, the Government requested the ADB to assist with a second phase project to complete irrigation on the remaining 87,000 ha in the project area. ADB approved a Project Preparatory TA in December 2007.

## Annex V. Kazakhstan—Statistical Issues Appendix

(As of June 2009)

### I. Assessment of Data Adequacy for Surveillance

**General:** Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected areas are monetary and balance of payments statistics, with remaining deficiencies in national accounts.

**National Accounts:** 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, compilation and dissemination of quarterly GDP series data should be conducted on a discrete basis only. The 2006 Multi-topic Statistics Mission on Oil Activities made recommendations in a number of other areas.

**Government finance statistics:** Progress has been made in the classification of the fiscal accounts consistent with the Fund's Government Finance Statistics Manual 2001 (GFSM 2001). However, 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.

**Monetary statistics:** The monetary statistics based on the Standardized Report Forms (SRFs) complied by the central bank have internal inconsistencies, and a technical assistance mission in January 2009 provided several recommendations. A new automated banking information system implemented in November 2008 has caused delays in compiling the monetary statistics, and this new system does not provide sufficient details on financial derivatives. Only one of seven monetary statistics-related recommendations made by the 2006 data ROSC mission have been implemented.

**Balance of payments:** In general, the balance of payments is compiled in concordance with the fifth edition of the Balance of Payments Statistics Manual (BPM5). 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. In addition, the errors and omissions have been large and increasing, reaching 4½ percent of GDP.

### II. Data Standards and Quality

| | |
|---|---|
| Participant in the Special Data Dissemination System (SDDS) since March 2003. Metadata need to be updated. | Data ROSC published in 2002. |

# Kazakhstan: Table of Common Indicators Required for Surveillance

(As of June 3, 2009)

| | Date of latest observation | Date received | Frequency of Data[7] | Frequency of Reporting[7] | Frequency of publication[7] | Memo Items: Data Quality-Methodological Soundness[8] | Memo Items: Data Quality-Accuracy and Reliability[9] |
|---|---|---|---|---|---|---|---|
| Exchange Rates | 06/03/09 | 06/03/09 | D | D | M | | |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | 04/30/09 | 05/08/09 | M | M | M | | |
| Reserve/Base Money | 04/30/09 | 05/26/09 | M | M | M | O, O, LO, LO | O, O, O, O, O |
| Broad Money | 04/30/09 | 05/26/09 | M | M | M | | |
| Central Bank Balance Sheet | 04/30/09 | 05/15/09 | M | M | M | | |
| Consolidated Balance Sheet of the Banking System | 04/30/09 | 05/26/09 | M | I | I | | |
| Interest Rates[2] | 06/03/09 | 06/03/09 | I | I | I | | |
| Consumer Price Index | 05/30/09 | 04/30/09 | M | M | M | O, O, O, O | O, O, LO, O, O |
| Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4] | 05/01/09 | 05/27/09 | M | M | M | O, LO, LO, LO | O, O, O, O, LNO |
| Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government | 05/01/09 | 05/27/09 | M | M | M | | |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | 04/01/09 | 04/30/09 | Q | Q | Q | | |
| External Current Account Balance | Q4/2008 | 03/31/09 | Q | Q | Q | LO, O, O, O | O, O, O, O ,O |
| Exports and Imports of Goods and Services | Q4/2008 | 03/31/09 | Q | Q | Q | | |
| GDP/GNP | Q4/2008 | 04/30/09 | Q | Q | Q | O, O, O, LO | LO, O, LO, O, O |
| Gross External Debt | Q4/2008 | 03/31/09 | Q | Q | Q | | |
| International Investment Position[6] | Q4/2008 | 03/31/09 | Q | Q | Q | | |

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
[8] Reflects the assessment provided in the update of the data ROSC published in February 2008, based on the findings of the mission that took place during November 29–December 13, 2006 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[9] Same as footnote 9, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

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# IMF Executive Board Concludes 2009 Article IV Consultation with the Republic of Kazakhstan

On July 8, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Republic of Kazakhstan.[1]

**Background**

At the time of the 2008 Article IV consultation, Kazakhstan's economy was slowing in response to the tightening of global liquidity conditions that started in August 2007. Domestic banks' access to international financial markets declined, credit growth stalled, and property prices collapsed following years of rapid gains. High oil prices, however, initially cushioned the impact of the sudden stop in capital inflows, and the economy slowed down to 6 percent by mid-2008 from the double-digit growth rates of earlier years.

The second wave of the global financial crisis and lower oil prices in late 2008 slowed real activity further, and the economy began to contract. A deteriorating current account balance and banks' large external debt repayments put the currency under pressure, and the central bank devalued the tenge by 20 percent against the U.S. dollar in early February.

The slowing economy and the exchange rate devaluation have added to the pressures on bank balance sheets, and as asset quality inevitably deteriorates further, these pressures will only rise. Several banks are now facing solvency issues; two large banks and one smaller

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

institution have stopped making principal repayments, and the banks are now in negotiations with their creditors to restructure their liabilities. The continuing drop in asset prices has also impacted the assets of the pension funds.

The authorities have responded to the growing economic problems with a $10 billion anti-crisis plan, funded from the National Oil Fund, which focuses on recapitalizing banks and supporting economic activity. The anti-crisis plan is being complemented by additional budgetary measures, liquidity support from the central bank, and regulatory measures by the financial supervisory agency. The large stock of public foreign assets built up during the boom years and low public debt put the authorities in a strong position to respond to the crisis. Central bank reserves have stabilized around $20 billion and pressures on the exchange rate have eased following the devaluation.

The economy is expected to contract by 2 percent this year, recovering modestly in 2010 to grow by 2 percent. Lower oil prices will push the current account balance back into a deficit, although with foreign direct investment remaining strong and new bilateral financing emerging the overall balance of payments will remain robust. CPI inflation will remain contained as the weak demand environment limits the ability of producers to pass on higher import costs from the devaluation earlier in the year. The weakening economy and large “anti-crisis” spending will push the fiscal position into a deficit this year, the first since 2000.

**Executive Board Assessment**

Executive Directors noted that the Republic of Kazakhstan faces significant challenges from ongoing difficulties in the banking sector and the weak global environment. They commended the authorities for their policy response to help shield the economy from the impact of the global recession, including fiscal stimulus made possible by the prudent saving of windfall profits and eased monetary policy. Directors emphasized that the main challenge ahead is to resolve the weaknesses in the banking sector while maintaining an appropriate policy response to the crisis.

Directors believed that a comprehensive solution to the growing problems in the banking sector was needed in order to restore confidence in the system and improve the investment climate. They urged the authorities to promptly deal with the external debt standstills at Bank TuranAlem and Alliance Bank and called for independent assessments of the other large banks. While supporting recent measures to improve the banking resolution framework, Directors called for further action, including providing the Financial Supervision Agency with the legal authority, independence and resources needed to carry out its mandate to intervene early and forcefully when needed. They also emphasized the need to ensure effective operation of the deposit insurance fund. Looking forward, Directors called for strengthened financial sector regulation and supervision, including through improved on and off site supervision and further restrictions on foreign currency lending to unhedged borrowers.

With inflation pressures abating, Directors viewed monetary policy as appropriately geared toward supporting economic activity, including through the reduction in reserve requirements and policy rates, and provision of adequate liquidity. Going forward, they emphasized the importance of maintaining an appropriate balance between keeping inflation on a downward path and supporting the financial sector and economy.

Directors noted staff's assessment that the exchange rate is broadly in line with fundamentals. They agreed that in the current circumstances, and following the step devaluation in February, preserving a stable exchange rate is important for regaining depositor confidence, limiting the risks from the corporate sectors' large foreign exchange exposure, and helping reduce inflation. Nonetheless, Directors saw benefit in moving toward a more flexible exchange rate policy once conditions stabilize.

Directors supported the expansionary fiscal stance for 2009 given the current circumstances. They recommended focusing on effective implementation of spending under the Anti-Crisis Plan, and emphasized the need for transparent monitoring of disbursements through the Samruk-Kazyna Fund. Directors welcomed the intention to maintain a flexible fiscal policy as needed to respond to the crisis, as well as the commitment to return to a fiscal consolidation path in the future.

Directors welcomed the policy initiatives to improve the business climate and promote job creation. They supported the measures to strengthen social safety nets, and recommended directing any additional spending under the Anti-Crisis Plan to these areas, in addition to health, education and infrastructure.

Directors encouraged the authorities to continue working towards meeting their goals under the Extractive Industries Transparency Initiative. They urged the authorities to promptly pass the draft Anti-Money Laundering/Combating the Financing of Terrorism bill to help bring the Republic of Kazakhstan's legislation in line with international best practice

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## Kazakhstan: Selected Economic Indicators, 2005–10

| | 2005 | 2006 | 2007 | 2008 | Proj. 1/ 2009 | Proj. 1/ 2010 |
|---|---|---|---|---|---|---|
| | | | (Changes in percent) | | | |
| **Real economy** | | | | | | |
| Real GDP | 9.7 | 10.7 | 8.3 | 3.2 | -2.0 | 2.0 |
| CPI (end-of-period) | 7.5 | 8.4 | 18.8 | 9.5 | 8.5 | 6.3 |
| | | | (in percent of GDP) | | | |
| **Public finance** | | | | | | |
| Government revenue and grants | 28.1 | 27.5 | 28.8 | 27.8 | 25.0 | 26.3 |
| Government expenditures | 22.2 | 20.2 | 24.1 | 26.5 | 26.9 | 26.9 |
| General government balance 2/ | 5.8 | 7.2 | 4.7 | 1.1 | -2.1 | -0.7 |
| General government debt non-oil balance | -4.8 | -3.0 | -4.7 | -11.3 | -12.9 | .13.6 |
| General government debt (end-of-period) 3/ | 8.1 | 6.7 | 5.8 | 6.6 | 8.6 | 8.7 |
| | | | (Changes in percent) | | | |
| **Money and credit** | | | | | | |
| Base money | 12.5 | 131.0 | -2.5 | 0.5 | 16.5 | 14.6 |
| Broad money | 26.3 | 78.1 | 25.9 | 35.4 | 12.2 | 24.4 |
| Banking sector credit to the economy | 74.2 | 80.2 | 55.2 | 5.2 | 13.9 | 16.6 |
| NBK refinance rate (end-of-period; percent) | 8.0 | 9.0 | 11.0 | 10.5 | … | … |
| | | | (In percent of GDP) | | | |
| **Balance of payments** | | | | | | |
| Trade balance | 18.1 | 18.1 | 14.4 | 24.7 | 13.2 | 18.2 |
| Current account balance | -1.8 | -2.5 | -7.8 | 5.1 | -2.1 | 2.3 |
| External debt | 76.0 | 91.4 | 92.4 | 79.5 | 98.9 | 92.4 |
| Gross international reserves | … | … | … | … | … | … |
| In billions of U.S. dollars, end-of-period | 7.1 | 19.1 | 17.6 | 19.9 | 23.9 | 33.6 |
| In months of imports of goods and non-factor services | 2.6 | 5.1 | 4.3 | 6.4 | 7.1 | 8.8 |
| | | | (Changes in percent) | | | |
| **Exchange rate** | | | | | | |
| Tenge per U.S. dollar (end-of-period) | 3.0 | -4.4 | -5.6 | -0.2 | … | … |
| Tenge per Russian ruble (end-of-period ) | -0.8 | 3.6 | 1.4 | -15.8 | … | … |
| Real effective exchange rate (period average) 4/ | 3.7 | 7.5 | 2.2 | 6.8 | … | … |

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, which includes a statistical discrepancy.
3/ Gross domestic and external debt, including government guaranteed debt.
4/ A positive sign indicates appreciation.