Republic of Kazakhstan–Concluding Statement of the 2014 IMF Staff Visit

December 9, 2014

An IMF mission, led by Hossein Samiei, visited Astana and Almaty during December 3–8 to review economic and financial sector developments and policies. The mission thanks the authorities and other counterparts for their hospitality and productive discussions. At the conclusion of the visit Mr. Samiei issued the following statement:

A challenging external environment is weighing down on economic growth. Growth is slowing down from 6.0 percent in 2013 to a projected 4.3 percent in 2014, driven by weaker domestic and external demand (especially from Russia, China, and Europe), continued regional uncertainty, as well as falling oil prices. Despite the recently announced fiscal stimulus measures, sustained weakness in global outlook, including lower oil prices, as well as production delays in the Kashagan oil field are expected to keep growth at around 4½ -5½ percent in 2015-16. Risks to the outlook are predominantly on the downside, mostly related to oil prices and regional uncertainty.

Given slowing growth and large buffers, the augmented fiscal stimulus is justified, but strong and sustained commitment to fiscal sustainability and macro stability is essential. The stimulus, financed from the national oil fund and multilateral development banks (MDBs), could total up to 7 percent of GDP over the next 3-5 years and is expected to increase the economy's potential through modernizing physical infrastructures, promoting private sector development, and reviving the financial sector. To be successful, however, the stimulus requires consistency with (i) the authorities' commitment to the existing medium-term sustainable nonoil deficit target; (ii) the authorities' assurances of avoiding a pro-cyclical bias over the medium term, including by conditioning spending in 2017 on economic performance in the prior two years; (iii) ensuring macroeconomic and financial stability in light of potential absorptive capacity constraints; and (iv) guaranteeing high-quality spending through improved project appraisal and procurement policy with help from MDBs.

Strengthening the fiscal policy framework remains a key priority, especially in light of increased spending out of the oil fund. Despite important improvements introduced in the authorities' 2013 fiscal strategy, ample scope remains for further progress. In particular, it is essential to extend the budget coverage to all fiscal activity, including those related to the oil fund, and improve the budget integration within the broader macroeconomic framework. In this context, we welcome the authorities' willingness to take part in an upcoming IMF pilot study on improving the quality of revenue data collection from natural resources.

We strongly support the National Bank's plans to overhaul its monetary policy framework and operations. The medium-term objective is to adopt an inflation targeting framework. To this end, the authorities, in the immediate future, intend to introduce a new policy interest rate supported by open market operations to more effectively guide key money market interest rates, and better contain inflationary and exchange rate pressures. Recent volatile and rising money market rates underscore the need to move on this front without any further delay. Introducing a new policy rate should also allow for greater exchange rate fluctuations within the existing band, as well as widening of the band over time. To anchor expectations about policy intentions and operations, it is also critical to actively communicate the transition plans, including by publishing the monetary policy guidelines for 2015-16 expeditiously. The IMF stands ready to provide further technical assistance in all these areas.

Heightened external risks increase the urgency of ongoing efforts to bolster financial sector resilience. The large stock of non-performing loans (NPLs), while having fallen somewhat, remains a serious drag on banks' ability to properly intermediate credit. We commend recent legislative amendments in the tax regime (to help ease NPL resolution) and the recapitalization of the Problem Loan Fund, and urge the authorities to follow through expeditiously with their plans to attain the end-2015 NPL target of 10 percent, which hinges on a successful reduction of the KKB-BTA's NPLs. More generally, and especially in light of increased vulnerabilities associated with falling oil prices, we urge full implementation of the FSAP recommendations, including closely monitoring systemic risks with greater emphasis on risk-based supervision, and conducting a banking asset quality review.

We welcome the authorities' stronger emphasis on structural reforms, with support from the MDBs. Reforms should aim at improving the business climate, promoting job creation, bolstering human capital and institutions, and reducing state intervention in the economy. These efforts should also make the implementation of the announced fiscal stimulus measures more effective. In the context of regional and global economic integration, Kazakhstan is joining the Eurasian Economic Union, to be launched in January 2015, while extending cooperation with the OECD and the European Union, and finalizing WTO accession.