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Republic of Kazakhstan: 2011 Article IV Consultation—Staff Report; Supplement; and Public Information Notice

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 2011 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 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 6, 2011, with the officials of the Republic of Kazakhstan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 1, 2011. 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 staff supplement of June 1, 2011 updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board.

The document listed below has been or will be separately released.

Selected Issues Paper

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

June 1, 2011

KEY ISSUES

Medium-term prospects. Removing impediments to trade and investment, building healthy financial institutions, and improving governance will help achieve inclusive and broad-based growth. Developing a comprehensive social safety net will complement these efforts.

Near-term growth outlook. The economy is recovering faster than anticipated, driven primarily by exports of oil and minerals, as well as public spending. The strong recovery is expected to continue in 2011, with growth becoming more balanced.

Recent macroeconomic policies. Consistent with the recommendations of the 2010 Article IV Consultation, the authorities have started a gradual withdrawal of crisis-related stimulus, and the official exchange rate band was abandoned. However, a transparent and comprehensive strategy to resolve banks' problem loans has not been implemented, and banks continue to be burdened by a large share of impaired assets.

Bank soundness. The authorities' new plan to reduce problem assets would benefit from a comprehensive forward-looking assessment of asset quality to determine possible recapitalization needs. Proper valuation and accounting of restructured loans, as well as resolution of tax and legal shortcomings, will be crucial to restoring the health of the system.

Inflation pressures. The surge in inflation is mainly driven by rising global food and fuel prices, but planned wage increases also pose risks. Inflation should be closely monitored, and further tightening is likely to be needed. The use of administrative measures to limit price increases should be phased out in favor of targeted assistance to low income groups.

Non-oil deficit reduction. A medium-term fiscal framework, with intermediate targets for non-oil deficit reduction, will be helpful. This framework should reflect the optimal balance between the use and saving of oil revenues, and incorporate the enlarged government, including public and quasi-public enterprises.

Greater exchange rate flexibility. Increased tenge flexibility would enhance the economy's responsiveness to external shocks and improve monetary policy traction.

Approved by
David Owen and David D. Marston

Article IV Consultation discussions were held on April 26–May 6, 2011 in Astana and Almaty.
Staff Team: A. L. Coronel (head), A. Al-Eyd, and D. Rozhkov (all MCD), N. Raman (SPR), and N. Saker (MCM). D. Owen (MCD reviewer) participated in key meetings. K. Sazanov (OED) joined some discussions.

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RECENT DEVELOPMENTS AND OUTLOOK

The recovery has gained speed, and the external and fiscal positions have strengthened with the rebound in commodity prices. Higher foreign inflows resulted in appreciation pressures on the tenge, but the central bank continued to limit its rise. Banks remain burdened by problem loans. Inflation pressures have emerged with rising food prices. Supported by favorable terms of trade, the economic outlook is promising, but subject to risks posed by changing external conditions, and a potential further deterioration of the financial system.

A. The Recovery is Gaining Momentum

1. **An early presidential election took place on April 3, 2011**. The snap election, which was not due until late 2012, followed the Constitutional Council's rejection of the parliament's proposal for legal changes to allow President Nazarbayev to remain in office until 2020. The president was re-elected to a new 5-year term, winning over 95 percent of the vote. The election was followed by modifications in the composition of the government, although the Prime Minister remained in office. Economic policies are not likely to change, and the policy agenda is now focused on the implementation of a medium-term plan—the Strategic Development Plan to 2020.

2. **The medium-term plan aims at achieving inclusive and broad-based growth**. It envisages diversification of the economy—with an increased share of manufacturing and agriculture in GDP—enhanced labor productivity across sectors, and higher living standards. Samruk-Kazyna (SK), the state investment holding company, now led by the President's son-in-law, has taken the lead role in facilitating infrastructure development, including by lending to priority sectors and securing external financing.

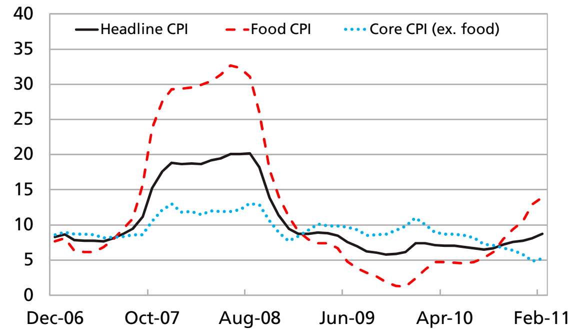
3. **The economic recovery gained speed in 2010.** Aided by favorable commodity prices and continuing public sector support, real GDP expanded by 7 percent, up from 1¼ percent in 2009. Growth was substantially higher than expected by the authorities, the Fund, and most market analysts.[1] The recovery continued to be driven by oil and minerals as well as related services, in particular transport and communications. Agriculture contracted due to a severe drought, while activity in construction and real estate remained flat.

4. **Unemployment was not affected by the crisis, and resumed a declining trend as the economy started to recover**. The authorities' efforts to create temporary jobs during the crisis likely contributed to the decrease in the official

[1] For the second year in a row, the annual growth number was largely determined by a strong surge in the fourth quarter of the year, which could be partially explained by higher hydrocarbon production.

unemployment rate to 5½ percent by end-2010. Notably, youth unemployment has declined significantly in recent years, from 13½ percent in 2005 to 5¼ percent by end-2010. However, there are concerns related to hidden unemployment[2] and self-employment. The latter accounts for over 30 percent of the labor force and includes many rural poor. The official poverty rate also continued to decline, but poverty remains relatively high in rural areas, contributing to the migration to large cities (Box 1).

Inflation
(Percent y/y)

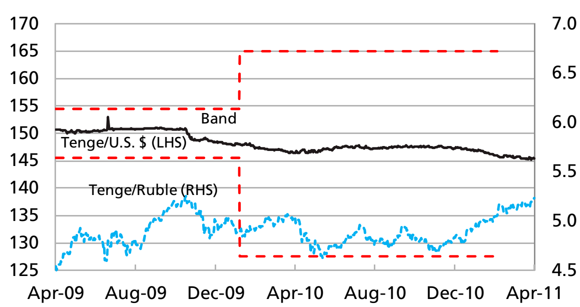


Source: Kazakhstani authorities

5. Driven largely by external factors, inflation pressures intensified. Inflation remained relatively contained during most of 2010 despite an accommodative monetary policy stance. Toward the end of the year, however, consumer prices picked up sharply, and annual inflation was 8½ percent at end-April 2011, exceeding the official objective range of 6-8 percent. The increase was primarily driven by global food prices (despite the use of administrative measures to limit the pass through to domestic food prices) as credit growth and demand-led pressures remained contained (see Chapter I of the Selected Issues Paper). As a result, standard measures of core inflation, excluding both food and energy, also remain subdued.

6. The external position strengthened, and foreign inflows began to pick up. The current account returned to surplus in 2010 (3 percent of GDP), as exports and imports rebounded in response to rising external and domestic demand. Trade with Russia expanded following the creation of the customs union; even though some of this trade may no longer be captured by the statistics (see Chapter II of the Selected Issues Paper). Part of this increase may reflect trade diversion, as the average tariff rate with countries outside of the union was nearly doubled. The capital account benefited from significant gross FDI inflows (albeit still 2½ percentage points of GDP lower than before the crisis) and from external sources of funding to the public sector. International reserves and assets in the oil fund rose by nearly $11½ billion during 2010, and reached $73 billion by end-April 2011. Credit default swap spreads declined faster than in other emerging markets.

Tenge Exchange Rates 1/



Source: Bloomberg
1/The band widened from T/$150 (+/- 3 percent) to T/$150 (+10/-15 percent) in February 2010, and was officially abandoned at end-February 2011.

[2] During the crisis, employers were reported to have stopped paying salaries to workers, without formally laying them off.

Box 1 Kazakhstan's Social Safety Net

Poverty and Inequality

Kazakhstan has succeeded in reducing the official poverty rate (the share of population with incomes below the subsistence level) from 40-50 percent in 1990s to 6½ percent in 2010. Nonetheless, the official subsistence level is low (KZT 15,338, or $105 a month), and poverty remains relatively high in rural areas. Inequality is on a declining trend, with the Gini coefficient falling by 24 percent since 2001.

General Assistance

A pay-as-you-go pension system was inherited from the Soviet era. This was replaced in 1998 by an accumulative pension system (including compulsory and voluntary elements) that covers the whole population. A minimum basic pension equal to 40 percent of the subsistence level is guaranteed by the government. The current pension age is 58 years for women and 63 years for men.

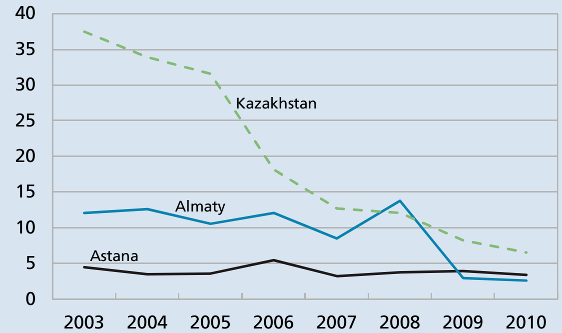
Targeted Assistance

Cash transfers to individuals or families with monthly incomes below 40 percent of the subsistence level, or $42. The amount provided is the difference between household income and 40 percent of the subsistence level times the number of people in the household. These transfers are currently received by 200,000 people, or 20 percent of the population with incomes below the subsistence level.

Housing assistance for low-income families with monthly expenses on housing (including utilities) above the maximum level, expressed as percentage of income. This benefit covers 200,000 families.

Unemployment benefits (equal to average monthly earnings of the last two years) cover employed and self employed residents, making them eligible after 6 months of coverage. The duration of the benefit depends on the period for which the insured was covered.

Share of Population with Incomes Below Subsistence
(Percent)



Source: Kazakhstani authorities

State social benefits provide periodical transfers to persons in need due to disability, loss of breadwinner, or old age. The size of benefits is tied to the minimum wage.

Other benefits include sickness, work injury and maternity benefits (paid by employers), as well as family assistance for the birth of a child and for caring for a child.

Is There Room for Improvement?

Government assistance would benefit from better coverage and more appropriate levels and organization. Reports from UNDP and the World Bank emphasize the need to improve the household income databases and increase awareness of existing social benefits, especially in rural areas. Targeting could also be improved, as some benefits (such as child support) are not dependent on income. The authorities recognize these issues, and are setting up local committees in rural areas to monitor the beneficiaries, verify the needs for targeted assistance, and improve awareness of the population.

7. **With market sentiment supportive of the tenge, the official trading band was abandoned in February 2011**. The rebound in global commodity prices and the related appreciation of the ruble resulted in strong appreciation pressures on the tenge. Nevertheless, the currency has gained little more than 1 percent in nominal terms since the start of this year as the National Bank of Kazakhstan (NBK)—focused on managing the effective exchange rate—has limited the bilateral appreciation of the tenge against the U.S. dollar through intervention amounting to around $7 billion (70 percent of total international reserve accumulation) in the first four months of 2011. The

NBK sharply increased its issuance of short-term notes to sterilize the inflow of capital.

8. The authorities are beginning to adjust policies to the increase in commodity prices and related inflows.

- Emergency support to the financial sector was significantly reduced. Nonetheless, deposits in the banking system, subsidized lending to priority sectors, and increases in wages and pensions continued in 2010. The overall fiscal balance returned to a surplus of 1½ percent of GDP.[3] Oil proceeds above the fixed budget transfer of $8 billion were saved in the oil fund, and the resulting budgetary gap was financed by domestic and external borrowing, including the $1 billion loan from the World Bank.

- Although the growth of monetary aggregates remained relatively contained—with reserve and broad money expanding at annual rates of 3 and 15 percent, respectively—the NBK raised its policy rate by 50 bps to 7½ percent in March, signaling a reversal of the easing cycle implemented during the crisis. Nevertheless, reserve requirements, at 1½ and 2½ percent on domestic and foreign currency deposits, remain at historical lows.

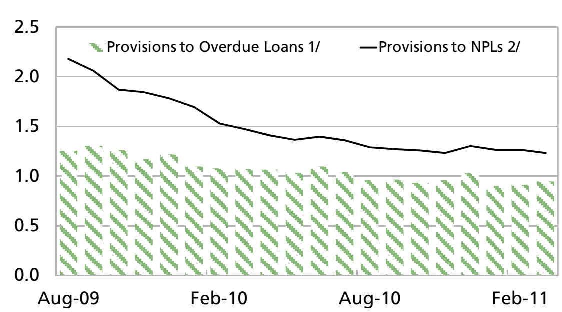
- The supervisory authorities have improved crisis management capabilities and strengthened prudential regulations to limit foreign exchange borrowing. The Financial Supervisory Agency (FSA) was integrated into the NBK to safeguard financial stability.

- The authorities are taking steps to improve the AML/CFT framework, which is undergoing a mutual evaluation of compliance with the FATF recommendations by the Eurasia Group.

B. Significant Challenges Persist

9. The banking and corporate sectors have not recovered from the crisis despite the return of strong economic growth. The sudden shut-off from international capital markets and the consequent forced deleveraging reduced the size of the banking system as a share of GDP. On average, banks' reported regulatory capital adequacy ratios improved to near pre-crisis levels following the restructuring of external liabilities and increased holdings of government securities.

Provisioning Coverage of Overdue Loans



Source: FSA
1/ Loans with overdue payments.
2/ Loans overdue on a 90-day basis.

[3] Staff estimates suggest that, even after excluding the effect of the oil prices, the structural balance improved by over 1 percent of GDP in 2010.

However, nonperforming loans (NPLs) on a 90-day overdue basis, heavily concentrated in the construction and real estate sectors, remain high at over 25 percent of total loans. Provisioning coverage of overdue loans declined and may be overstated by doubtful recoveries of restructured loans, reinforcing downside risks to banks' capital adequacy ratios. This has been reflected in the continued rise in accrued (but not received) interest income of banks, equivalent to about 60 percent of regulatory capital. Against this, banks have been reluctant to write off bad loans, given expectations of economic recovery, difficulties of managing collateral, and tax disincentives. The restructuring of external liabilities has been insufficient on its own to ensure the health of BTA and Alliance Bank as the continued decline in asset quality has led to negative equity positions (on an IFRS basis).

Banking Sector Vulnerability Indicators (in percent)

	2006	2007	2008	2009	2010	2011*	Trend	Sustainability
Assets to GDP	86.9	90.9	74.1	68.0	62.3	64.0	↓	More
Assets to capital 1/		8.2	8.2	na	9.1	9.6	↑	Less
Capital adequacy		14.2	14.9	-8.2	17.9	17.8	↑	More
Loans to deposits	159.8	197.9	173.7	146.8	126.5	124.9	↓	More
Foreign borrowing to deposits	83.0	140.3	102.2	70.1	37.5	32.3	↓	More
NPLs (90-day)	–	–	5.2	21.2	23.8	25.3	↑	Less
Accrued interest to regulatory capital 1/	–	–	27.2	na	57.8	59.9	↑	Less
Loan write-offs to total loans	1.2	0.8	1.1	4	15.4	15.0	↓	More
Provisioning coverage to NPLs	–	–	–	1.8	1.3	1.2	↓	Less

Source: FSC; and staff estimates
* End Q1 2011
1/ Reported capital was negative during 2009

10. Banks' lending activity remained weak, lagging the pace of economic recovery. Credit to the economy grew by just under one percent year-on-year at end-2010, reflecting ongoing balance sheet uncertainties, and constrained demand from highly indebted non-oil corporate borrowers. While the recent strengthening of the currency encouraged a modest shift into tenge-denominated deposits, the overall level of dollarization remained significant at around 40 percent, and the tenor of deposits is largely short-term in nature. The increase in deposits improved banks' aggregate liquidity position, but profitability remained weak and driven mainly by non-interest income derived from the release of provisions on restructured loans.

11. The levels of external and public debt remain sustainable. Total external debt declined from 100 to about 85 percent of GDP during 2010, partly as a result of the writing-off of banks' external liabilities. However, there are recent indications of significant borrowing activity by public enterprises.[4] This is mainly attributable to a $13 billion credit line from China, but also to the renewed issuance of international bonds by the SK developmental entities.

[4] Statistics on debt of public corporations are not available.

C. The Outlook is Broadly Favorable but not Without Risks

12. Staff projects strong real and external balances, but inflationary pressures may intensify. Growth of oil output is expected to decline as existing fields approach their capacity. The non-oil sector is projected to continue recovering, notably agriculture with an expected return to more normal weather, retail trade favored by improved incomes, and mineral and oil-related activities. The direct benefits of higher hydrocarbon prices on other domestic sectors are limited, as windfall revenues above the fixed budget transfer are saved (see Chapter III of the Selected Issues Paper). With global food prices remaining high and potential demand pressures beginning to emerge, inflation is likely to exceed the objective range, reaching 9-10 percent by the end of the year. The external current account balance and the oil fund assets are projected to strengthen further. In the medium term, growth is projected to remain at the estimated potential of 6 to 6½ percent, provided that the economic diversification plans are successful and that financial intermediation improves.

13. A deterioration of external and financial sector conditions presents the main downside risk to the outlook. Kazakhstan would be particularly affected by negative developments in major trade and financial partners (Box 2). A fall in commodity prices would undermine the improvement of the fiscal and external positions, and the recovery of incomes. Furthermore, renewed volatility in global financial markets could adversely affect the ability of banks and corporations to access international markets, impairing their ability to service maturing external liabilities (estimated at $13 billion for 2011). A potential deterioration of financial sector conditions would be another key risk to the outlook.

Selected Economic Indicators, 2010–16

	2010	2011	2012	2013	2014	2015	2016
	Actual			Projections			
Real GDP (percent, y/y)	7.0	6.5	5.6	5.9	6.1	6.3	6.4
Consumer price inflation (percent, p.a.)	7.4	8.8	7.6	6.8	6.4	6.1	6.0
Overall fiscal balance (percent of GDP)	1.5	2.6	2.6	2.7	2.7	3.1	3.1
Credit to the economy (growth, in percent)	0.9	6.7	13.4	13.3	14.0	13.9	14.3
Current account balance (percent of GDP)	3.1	7.1	5.6	5.2	3.9	2.8	2.0
NBK gross reserves (eop) 1/ 2/	28.3	38.8	45.7	50.7	50.7	48.7	44.8
NFRK foreign assets (eop) 2/	30.6	39.9	48.1	58.5	69.3	81.7	95.7
Nominal GDP 2/	139.9	169.0	188.5	208.3	230.7	257.5	294.7

1/ Does not include NFRK.
2/ In billions of U.S. dollars.
Sources: Kazakhstani authorities, and Fund staff estimates and projections.

Box 2 External Spillover Risks for Kazakhstan

China

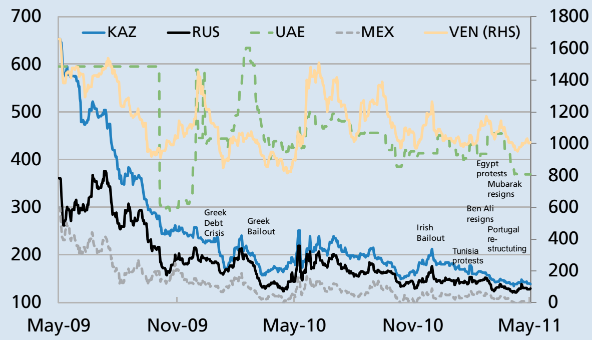
Economic linkages with China have grown in recent years. China is now Kazakhstan's biggest trading partner (24¼ percent of total trade) and the fourth largest foreign investor (nearly 10 percent of total foreign investment). It is also a strategic lender to projects in key sectors such as oil refining, energy generation, chemical production, transport and communications. Given the influence of Chinese demand on global commodity prices, a deterioration of economic activity in China would lower Kazakhstan's commodity-related investment and exports.

Euro Area

While Kazakhstan's financial exposure to the euro area periphery is limited, more widespread problems in Europe could have significant implications. Kazakhstani holdings of assets in Greece, Ireland, Portugal and Spain account for only 1½ percent of total assets abroad, and recent experience shows that the impact of adverse developments in these countries on Kazakhstan's spreads appears to be short-lived. However, the eurozone as a whole remains an important financial and trading partner. Kazakhstan's trade with the eurozone accounts for 23 percent of total trade, and euro area investors account for 33 percent of the stock of foreign investment in Kazakhstan. Furthermore, about 30 percent of foreign assets held by Kazakhstani residents are eurozone claims.

Therefore, more widespread problems in Europe could translate into weaker demand for Kazakhstani exports and higher borrowing costs at both the sovereign and corporate levels. In addition, intensified banking sector problems in the eurozone could undermine the foreign asset positions of Kazakhstani banks.

CDS Spreads
(basis points)



Source: Bloomberg

Russia

Kazakhstan's significant trade and financial linkages with Russia are expected to deepen. The customs union has begun to enhance the already strong economic ties between these countries, and the Common Economic Space (planned for 2012) will deepen the exposure of Kazakhstan to the impacts of commodity price developments on the Russian economy. This prospect is clearly reflected in the rapid convergence of Russian and Kazakhstani CDS spreads.

POLICY PRIORITIES

The main policy priority is to restore the health of the banking and corporate sectors. In parallel, there is a need to maintain macroeconomic stability by continuing to withdraw the accommodative bias in monetary policy, pursuing greater exchange rate flexibility, and strengthening the fiscal position. Over the medium term, structural reforms are needed to ensure broad-based and inclusive growth.

A. Financial Sector: Resolution of Problem Loans

14. The legacy of the crisis needs to be comprehensively addressed. Staff noted that the ongoing strategy of targeting assistance to specific economic sectors and entities is not succeeding in effectively resolving banks' problem loans, despite the economic recovery. Moreover, impaired balance sheets and uncertainty over capital adequacy will likely remain a constraint to credit growth, undermining the authorities' plans to sell the public stakes in banks and make the system compliant with Basel III standards by 2013. The authorities remain optimistic that the ongoing recovery and improved regulatory framework will help restore banks' health. Nonetheless, they are developing a new strategy to help improve banks' asset quality (Box 3).

Key Bank Ratios and Vulnerabilities (end-March 2011, in percent) 1/

	KKB	Halyk	BTA	BCC	ATF	Alliance
Systemic importance (assets in percent of total banks' assets, gross)	19.5	17.5	16.1	9.5	8.1	4.1
Systemic importance (deposits in percent of total banks' deposits)	19.7	21.2	9.8	10.7	7.1	2.9
Capital adequacy ratio (percent of risk weighted assets)	15.8	17.5	19.1	16.6	10.8	13.4
Contingent liabilities (in percent of total assets)	78.5	137.8	162.2	78.5	256.5	59.7
Loan-to-Deposit Ratio	160.5	79.1	231.5	96.4	167.8	262.4
Foreign borrowing to Capital	161.1	11.2	181.8	173.0	391.7	294.7
Real estate loans (including mortgages) as share of loans	13.6	47.1	28.4	52.2	45.1	59.2
Accrued interest to regulatory capital	79.4	47.8	84.9	49.9	73.3	123.4
NPLs (90 days basis) as share of total gross loans	23.5	16.5	39.2	9.0	32.2	64.0
Provisions as share of total gross loans	32.2	24.2	55.3	14.9	16.8	56.6
Provisioning ratio (Provisioning/NPLs)	137.0	146.4	141.0	165.0	52.2	88.5

Sources: FSA; and IMF staff estimates
1/ Kazakhstani accounting standards.

Box 3 New Conceptual Plan to Reduce Problem Loans in Kazakhstan

The Plan

The Council for Financial Stability has approved a new conceptual plan to improve the quality of banks' assets. The plan aims to remove NPLs with an approximate face value of $6 billion (about 37½ percent of the total) from banks' main balance sheets in order to facilitate a resumption of lending, while limiting costs and mitigating moral hazard. If successful, the plan is expected to be expanded, drawing the participation of both domestic and foreign investors. Although details remain preliminary, the plan is designed to proceed in three complementary directions:

- *Establishment by banks of special purpose vehicles to act as private asset management companies* (AMCs). These AMCs would receive problem assets related to real estate and land assets with a face value of around $4 billion.

- *Establishment of a distressed asset fund*. This fund would be owned by the NBK, and capitalized with $1 billion raised through a restricted domestic debt placement (among pension funds, banks, and the NBK). The fund will purchase and dispose of other NPLs worth $2 billion (with an assumed average discount of 50 percent). The interest rates on the bonds would vary, favoring pension funds as the senior bondholders.

- *Enhancement of prudential regulations and capital adequacy.* Regulatory standards would be harmonized with best international practice and the Basel III framework, including by strengthening core capital and reducing systemic risks through dynamic provisioning and enhanced capital buffers.

Institutional and Funding Structures

- The AMCs would be owned by banks, either singularly or collectively. No new funding would be involved.

- The distressed asset fund would be time-bound (with a maximum five year life) and consolidated into the balance sheet of the NBK.

Valuation

- Under both schemes, asset valuation would be undertaken by independent external advisors, including the big four accounting firms, and based on an assessment of cash flows and net realizable values.

Management

- The AMCs would be managed by both bank staff that is familiar with the loans and outside professionals.

- The distressed asset fund would be managed by external managers who would report to the NBK.

Governance

- Transparency of the bank level AMCs would depend on the extent to which they are consolidated into the main balance sheets of banks.

- The distressed asset fund would be audited, and the results made public.

Net impact

- Under the AMCs, assets would be transferred at an agreed valuation. However, they will be subject to more lenient provisioning requirements, which may boost capital positions under local accounting rules. Under IFRS accounting there would be no change. The better focused and more professional management of bad assets should allow a higher rate of recovery.

- Under the distressed asset fund, banks would swap provisioned NPLs for bonds at a value determined by independent assessors. To the extent that the valuation differs from the net book value, the balance sheet would be impacted. Banks would gain extra liquidity as they could use the bonds in repurchase agreements with the NBK.

15. The new strategy combines enhanced efforts by individual banks and a centralized distressed asset fund established by the NBK. The authorities acknowledged that this plan represents only a partial solution to the large stock of NPLs since it only deals with a subset of these assets. Moreover, enhanced bank efforts represent accounting adjustments rather than true economic restructuring. While recommending a more comprehensive approach, staff stressed the need for an accurate valuation of problem assets and full recognition of bank losses. This will require an independent and forward–looking diagnostic assessment of banks' asset quality. The authorities are confident that banks currently meet prudential norms, mitigating the need for an additional diagnostic assessment. They explained that asset valuation will be determined by independent professional appraisers, and that the improved prudential standards contemplated in the plan would help strengthen bank positions. Staff supported the authorities' plan to remove the existing tax impediments to the recognition and writing-off of problem assets. Staff also stressed that ownership and partial financing of the centralized fund by the NBK pose risks to the integrity of monetary policy, and may create conflicts with the NBK's new supervisory responsibilities.

16. A contingency plan needs to be put in place if bank capital is eroded by a fuller and proper recognition of losses. Rapid action should be taken to attract new capital if it is needed, ideally from existing shareholders and other private investors. Staff reiterated the complementary findings and recommendations of a recent MCM/LEG technical assistance mission that if private funds are insufficient to replenish any identified capital needs, contingency plans based on the use of budgetary funds rather than central bank resources should be implemented. The authorities hope to avoid additional public capital injections to banks following the government's crisis-related equity support of about 80 percent of system capital at April 2009.[5]

17. In tandem with rehabilitating banks' balance sheets, the system would benefit from a more effective prudential framework to minimize the risks of boom-bust cycles. To this end, staff emphasized enforcing existing regulations and refraining from regulatory forbearance; implementing prudential standards that limit banks' vulnerabilities (including macro-prudential measures to limit foreign currency borrowing and credit expansion); and assessing the new business models of the restructured state-owned banks to ensure their viability. This should be supported by additional legal and governance reforms. Coordinated action across government entities, led by the Council for Financial Stability, should facilitate these efforts and ensure independence between the operational aspects of regulation and supervision and monetary policy. In addition, it is crucial that supervisors have sufficient legal protection, enforcement capabilities, and the budgetary resources to credibly perform their role.

18. As the financial system's health is restored, the non-oil corporate sector should pursue an orderly deleveraging. While targeted government support has helped to ease some of the

[5] BTA stopped making principal payments on its external debt in April 2009, which was then followed by Alliance Bank, Temir Bank, and Astana Finance.

debt burden in the real estate and mortgage sectors, banks' exposure to the non-oil sectors remains considerable. Staff emphasized that successfully deleveraging corporations and attracting capital from abroad will require strengthening bankruptcy and insolvency regimes, as well as sequencing and harmonization with the resolution of the banking sector.

B. Fiscal Policy: Consolidation and Transparency

19. The authorities are planning a gradual fiscal consolidation in 2011 and over the medium term. The non-oil deficit is projected to decrease slightly in 2011.[6] Proceeds from higher export duties will be offset by a further 30 percent increase in public sector wages in the middle of the year and by rising expenditures on development programs. In 2012-13, a further reduction in the non-oil deficit by about 2 percent of GDP is planned, through better tax collection and administration, and restraint on all categories of expenditure. While off-budget spending is expected to continue to decline, public and quasi-public companies, led by SK, will maintain their large role in industrialization and modernization initiatives. In this regard, the authorities noted their interest in public private partnerships to help attract FDI and ease the burden on the budget.

20. The non-oil deficit needs to be brought back to the conservative path that prevailed before the crisis. To achieve their target of reducing the non-oil deficit from the current level of over 10 percent of GDP to 3 percent by 2020, the authorities intend to improve tax collection and impose expenditure restraint.[7] Staff broadly supported this goal, as well as the intention to improve the quality of expenditures. In particular, to achieve the targeted deficit reduction while ensuring the implementation of the development programs, the authorities should try to avoid further real increases of hard-to-reverse items, such as wages and pensions. Staff also recommended ensuring that the assistance provided through the existing social safety net reaches all low income groups, especially in rural areas, as the most effective way to maintain social stability and protect the population from the effects of rising inflation. This would allow the phasing out of current administrative measures to control price increases. The upcoming technical assistance from FAD on public financial management should be helpful in this regard.

21. Fiscal policy should be formulated within a credible and transparent medium-term framework. Staff strongly supported the prudent strategy of continuing to save a significant part of oil revenue in the oil fund. The optimal balance between the use of commodity revenues and their accumulation in the national fund, however, should be determined within a medium term framework

[6] Some elements of the off-budget anti-crisis spending (about 0.5 percent of GDP in 2010) are being discontinued in 2011, resulting in a greater improvement in the augmented fiscal position than indicated by the budget numbers.

[7] The 2020 target is equivalent to about 4 ½ percent of non-oil GDP, compared to the current level of almost 15 percent. Staff had estimated sustainable levels of non-oil fiscal deficit at 8 ½ - 10 percent of non-oil GDP.

containing intermediate targets for the non-oil deficit. This would allow flexibility in the size of the transfer of oil revenues to the budget, which would in turn ensure that the oil fund plays its role in stabilizing the economy against cyclical macroeconomic fluctuations. The authorities saw the benefits of this approach and indicated that the fixed annual transfer of $8 billion from the oil fund to the budget may be subject to revision. Nevertheless, they felt that setting a limit on the use of the oil fund was important to avoid use of fund resources for ambitious development projects or other spending demands.

22. **Staff stressed that the fiscal framework should incorporate the enlarged government, including all public and quasi-public enterprises**. With public and quasi-public enterprises continuing to be actively involved in many off-budget transactions, the position of the general government, as reflected in the budget, is a misleading indicator of the overall fiscal policy stance. Furthermore, the recent increase in borrowing activity of public corporations makes their inclusion in the public debt sustainability analysis desirable. Staff recommended enhanced disclosure and transparency of statistics, including on the consolidated balance sheet of SK and public enterprises' debt. The authorities agreed that off-budget transactions with public and quasi-public enterprises should be taken into account in formulating fiscal policy, and noted that they are planning to conduct a full assessment of quasi-public debt.

C. Monetary and Exchange Rate Policies: Inflation may Pose a Challenge

23. **Monetary policy will need to focus on keeping inflationary pressures under control.** Despite the recent small increase in the policy rate, the monetary stance remains accommodative. While evidence of second round inflationary effects is so far limited, planned public sector spending, prospects for increased foreign exchange inflows, and continued volatility of global commodity prices underscore the risks to both inflation expectations and more broad-based price pressures. Staff advised the NBK to closely monitor inflation and monetary aggregates and continue to gradually remove monetary policy accommodation, including by mopping up liquidity through short-term notes, if headline inflation keeps increasing or core inflation starts to rise. In doing so, it should stand ready to manage a possible increase in the inflow of short-term capital through enhanced liquidity management (in coordination with the treasury) and full implementation of the announced macro-prudential enhancements. The NBK reiterated its commitment to tighten policies, adding that for now it intends to keep the 6-8 percent inflation objective. Staff emphasized the importance of communicating clearly the causes and outlook for inflation to anchor expectations.

24. **The economy would benefit from greater exchange rate flexibility.** While the authorities have announced a switch to a managed float, in practice the NBK continues to intervene, limiting the movement of the tenge against the U.S. dollar within a narrow range. Given the prospect for medium-term capital inflows, staff estimates that the

real exchange rate is slightly undervalued, although there is no clear evidence that the tenge deviates significantly from its long-run equilibrium (Appendix). Staff highlighted the benefits of greater exchange rate flexibility to enhance the economy's response to external shocks, including commodity price movements and exchange rate developments of trading partners. In parallel, staff recommended that the NBK continue to assess the likely implications of this flexibility for the balance sheet exposures of banks and corporates, particularly given that large corporations in the extractive industries maintain high foreign currency to equity ratios. The NBK expressed agreement with this approach. Nonetheless, it indicated that its pursuit of relative exchange rate stability is aimed at preserving external competitiveness. The NBK also preferred to limit rapid appreciation to avoid excessive exchange rate volatility, and the chances of abrupt reversals caused by sharp movements in commodity prices.

25. The authorities remain interested in strengthening the transmission of monetary policy and promoting dedollarization through financial market development. Staff stressed that efforts to mobilize domestic deposits should be supported by those to strengthen the monetary toolkit, deepen domestic money markets, promote tenge term liquidity, and facilitate better risk management and hedging practices. The establishment of a well-functioning government benchmark yield curve, with full market determination of prices and interest rates, is crucial to these efforts. Progress in this direction, including by strengthening the transmission of monetary policy, remains contingent on banks' health and ability to effectively manage liquidity being fully restored.

D. Achieving Broad-Based and Inclusive Growth over the Medium Term

26. The key medium-term challenge is to achieve sustained growth and ensure that the oil wealth benefits the whole economy. The development of the non-oil sector critically depends on reforms to ensure that the domestic financial system effectively contributes to finance activities other than extractive industries, and on improvements in the business environment in order to boost competitiveness and productivity in the non-oil sectors. With these efforts, the public sector's role in the economy should decrease in favor of greater private sector involvement (Box 4).

27. Discussions on the medium-term focused on four key areas for improvement:

- Investing in human capital through education and health reforms.
- Improving infrastructure and removing barriers to trade, increasing the benefits of closer economic integration with Russia (including the single economic space by 2012), acceding to the WTO, and promoting trade with neighboring countries.

- Meeting the demands for a higher level of governance, greater predictability in the formulation and application of rules, and more transparency and accountability, as the economy becomes more sophisticated.

- Addressing existing inequalities by promoting employment creation and strengthening the existing social safety net.

Governance and Doing Business Indicators

(Percentile rank; a higher value indicates better performance)

	2005	2006	2007	2008	2009	2010	2011	Trend
Governance Indicators								
Government effectiveness	35.4	40.3	36.7	38.6	48.1	...	...	↑
Regulatory quality	37.1	33.7	36.4	38.2	38.6	...	...	→
Rule of law	28.6	18.6	23.8	24.9	34.9	...	...	↑
Control of corruption	18.0	20.9	17.9	15.0	19.0	...	...	→
Doing Business Indicators								
Ease of doing business	...	...	...	...	...	59.6	67.8	↑
Starting a business	...	...	...	...	...	53.6	74.3	↑
Protecting investors	...	...	...	...	...	68.9	76.0	↑
Trading across borders	...	...	...	...	...	0.5	1.1	→

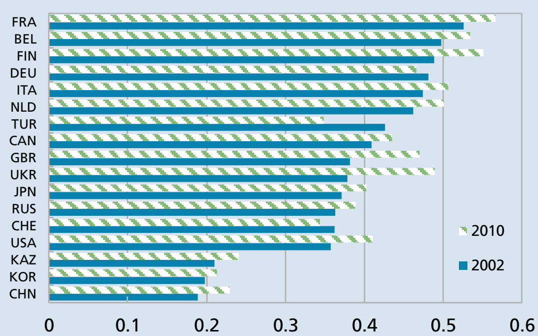
Source: Worlwide Governance Indicators, World Bank; Doing Business 2011, World Bank.

Box 4 The Role of the Public Sector in Kazakhstan's Economy

General Government

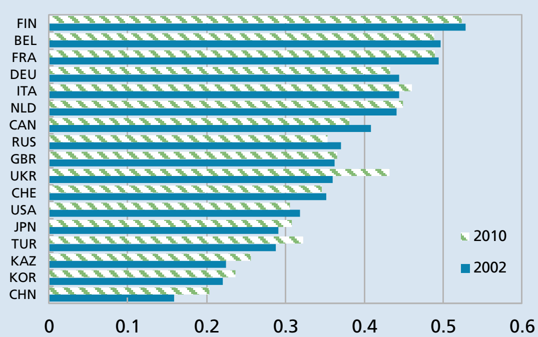
The role of the general government is relatively limited. Revenues and expeditures (including on social services) remain lower than in major trading partners. According to the World Bank, spending on education stood at 2¾ percent of GDP in 2007, below the median level of 4¾ percent among emerging economies. Similarly, spending on public health in 2009 stood at 2⅔ percent, lower than 4⅓ percent more typically seen in other emerging economies.

General Government Expenditure
(Percent of GDP)



Source: WEO

General Government Revenue
(Percent of GDP)



Source: WEO

Enlarged Government

Public and quasi-public enterprises dominate the economy. Samruk-Kazyna controls $77½ billion in assets, or nearly 55½ percent of GDP in 2010 (45 percent of GDP in 2007). Its holdings include interests in mining, finance, energy, transportation, property and construction. The agency is also the sole shareholder of the Development Bank of Kazakhstan.

Samruk-Kazyna

Samruk-Kazyna not only safeguards the public sector's interests in its companies, but also supports economic stabilization and development. It has engaged in significant quasi-fiscal spending since 2009, mainly by taking majority stakes in banks and placing significant deposits in the banking system. It also has a catalytic role in promoting economic diversification by supporting specific sectors. Through joint-ventures with investors from China, Russia, Korea and European countries, the agency plans to invest up to $40 billion in the coming years in strategic projects in transport, energy, oil refining, chemicals, pharmaceuticals and related infrastructure. Its national gas company has doubled its stake in the large Kashagan oil field project to almost 17 percent.

Looking Ahead

The president recently announced an increasingly commercial role for the agency, with partial privatization of some of the companies through the "People's IPO Program". A more ambitious privatization program**,** with a larger role for domestic and foreign private investors, has not been ruled out. The possibility of transferring the agency's development-related functions to line ministries and government departments has been under discussion.

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28. Following President Nazarbayev's re-election, the authorities' policy agenda is now focused on the implementation of a medium-term development plan. The objective of nearly doubling the income level to $15,000 per capita by 2015 is ambitious and commendable, but it is crucial that the gains are shared by all segments of the population. A combination of decisive action to resolve the financial sector difficulties, sound macroeconomic policies to address the emerging inflation and spending pressures, and structural reforms to encourage economic diversification are the key pillars for success of the development plan.

29. Driven by favorable external market conditions and an appropriate policy response, recent and near-term economic developments in Kazakhstan are promising. High global commodity prices boosted the recovery and strengthened the external accounts and the net foreign asset position in 2010, and are expected to continue to drive this year's economic growth. Rising oil revenues are also benefiting government finances and contributing to a marked improvement in the perception of Kazakhstan's sovereign risk. In response to high foreign exchange inflows, the authorities have appropriately started to adjust policies by tightening the fiscal stance, signaling a removal from monetary accommodation, eliminating the currency trading band, and improving the AML/CFT framework. A deterioration of external and financial sector conditions presents the main downside risk to the outlook.

30. Action to forcefully address banks' problem assets would add significantly to the pace of investment and growth. The stubbornly high level of NPLs is a matter of serious concern as it constrains credit growth, poses risks to financial sector stability, and undermines the achievement of the medium-term growth plans. The new conceptual plan for the resolution of problem assets is a step in the right direction. However, ownership and partial financing of the centralized distressed assets fund by the NBK pose risks to the integrity of monetary policy, and may create conflicts with NBK's new supervisory responsibilities. To be successful, the plan should ensure that loans are adequately provisioned and properly valued, bank losses on the balance sheets are appropriately recognized, restructuring is undertaken by independent professional managers, and tax impediments to the writing-off of bad loans are removed. For this scheme to be credible, bank balance sheets should be subject to appropriate stress testing. Crucially, this process should reflect international best practices, and be preceded by a forward-looking, independent and rigorous assessment of banks' balance sheets, accompanied by strong supervision, and followed by credible plans for any needed bank recapitalization.

31. Macroeconomic policies need to continue to adjust to changing conditions. The commodity price-driven trend in inflation presents an immediate challenge, given the large role of food and fuel in consumption. Although domestic demand-based price pressures appear relatively contained, the NBK should stand ready to respond to potential wider price pressures by further tightening policies. Given the prospect for medium-term capital inflows, staff estimates that the real exchange rate is slightly undervalued, although there is no clear evidence that the tenge deviates significantly from its long-run equilibrium. Looking forward, exchange rate flexibility should support monetary policy. In parallel, following three consecutive years of large public sector wage increases, fiscal management should give priority to investment and social outlays, including enhancing the existing safety net to protect the most vulnerable groups from the higher cost of living. This would also reduce reliance on administrative measures—such as export restrictions, price controls, and moral suasion—to contain price increases.

32. Efficient public financial management is a critical element of the authorities' growth strategy. A significant part of oil revenue should continue to be saved. Nonetheless, the balance between the use of oil resources and accumulation in the oil fund needs to be aligned with intermediate targets for the non-oil balance within the medium term framework. This would ensure that development needs are addressed, macroeconomic stability and fiscal sustainability preserved, and savings for future generations guaranteed. Such a strategy would also allow the government to meet its liquidity requirements while deepening domestic capital markets.

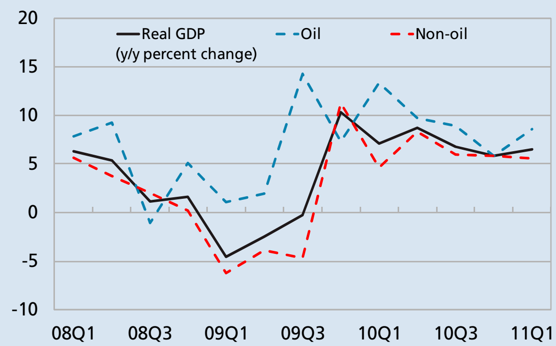
33. Looking ahead, structural reforms would allow Kazakhstan to benefit more from its mineral resource wealth, ensuring positive spillovers to the domestic economy. The needed diversification of the economy and higher reliance on private consumption and investment as sources of growth will require enhancements in the business environment. Improved governance and transparency and better institutions are key components of this strategy in several areas:

- In the banking and corporate sectors, greater transparency of shareholder structures and more stringent regulation of related party lending would allow banks to focus on sustainably financing productive activities.
- In the public sector, large companies should be commercially oriented and professionally managed, statistics transparently disseminated, and relevant operations properly consolidated into the enlarged government accounts.
- More generally, ensuring independence of central bank operations, uniformity of treatment across supervised institutions and taxpayers, and accuracy of economic data are key steps to attract domestic and foreign investment.

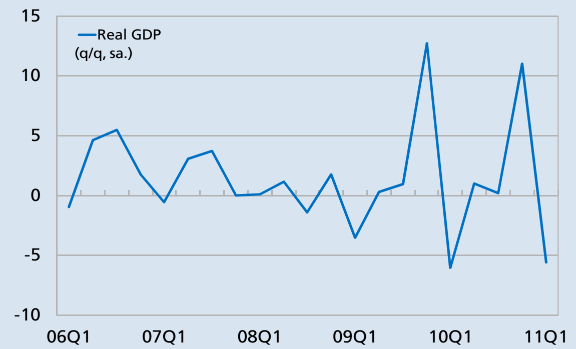
34. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1 Kazakhstan: Macroeconomic Developments

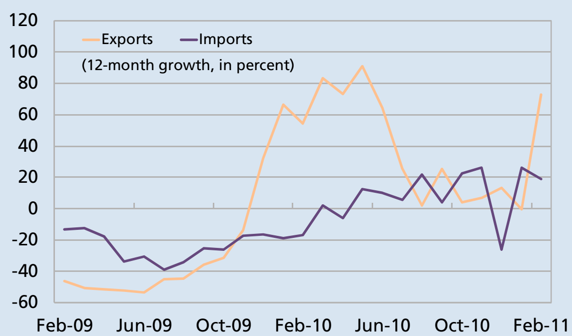
Led by oil, minerals and related services, real GDP rebounded strongly in 2010.



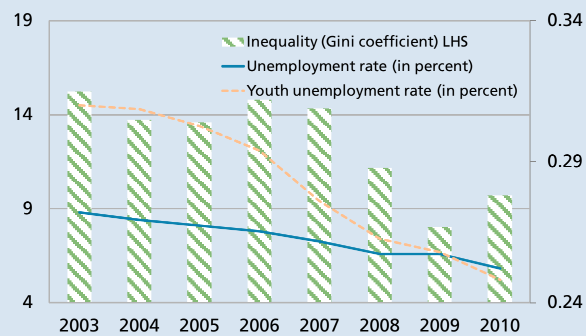
As in 2009, a strong surge at the end of the year contributed significantly to the annual growth.



Both exports and imports continued to recover, and the current account returned to surplus.

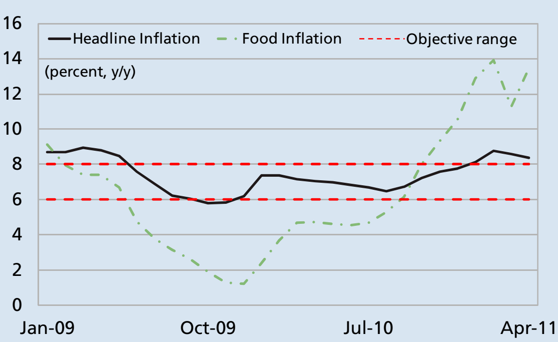


The official unemployment rate was not affected by the crisis, and remained on a downward trend.



Growth of real wages continued to outpace improvements in labor productivity...

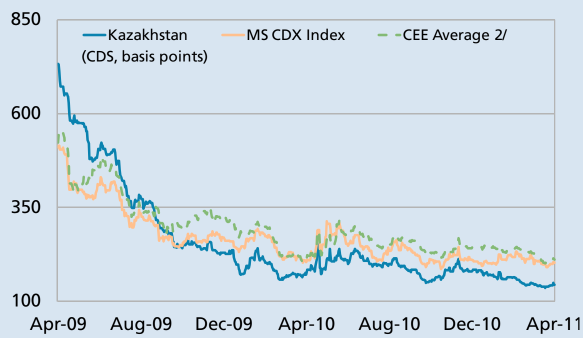
...and inflation surged, though mostly driven by external factors, such as global food prices.



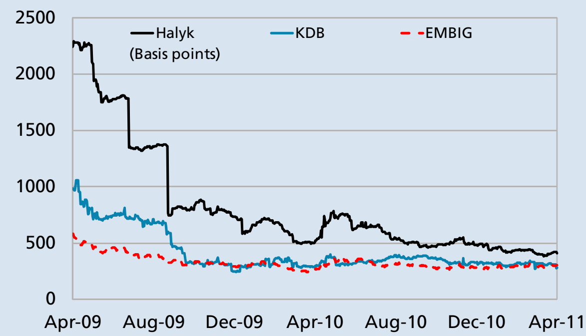
Sources: Kazakhstani authorities, and IMF staff estimates.

Figure 2 Kazakhstan: Financial Market Developments

Higher growth and commodity prices are supportive of improved sovereign risk indicators...

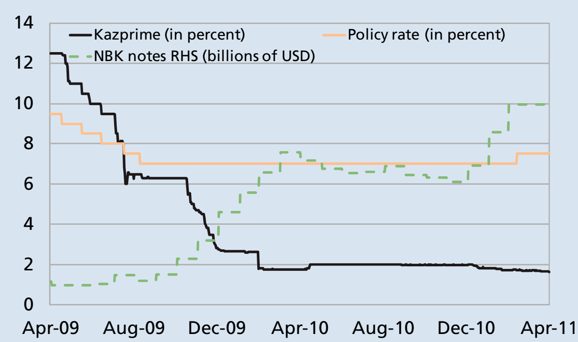


...contributing to narrower quasi-sovereign and corporate bond spreads.

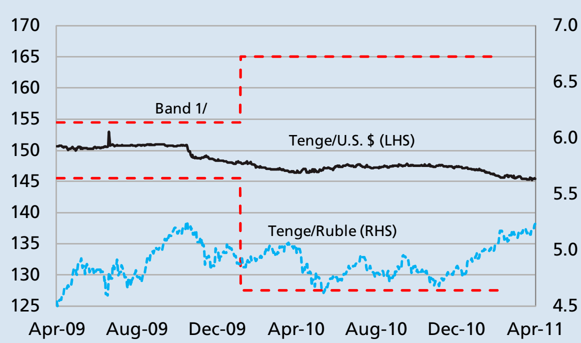


The equity market remains sensitive to market sentiment and shifts in global risk appetite.

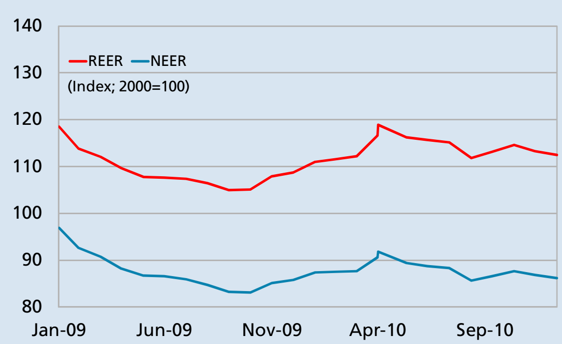
The monetary policy stance remains accommodative, but is offset by increased sterilization efforts...



...allowing the NBK to mitigate strong appreciation pressures on the tenge under the newly managed float.



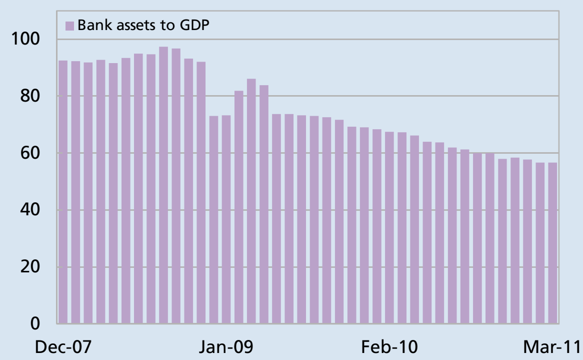
This has helped to preserve external competitiveness by limiting the appreciation of effective exchange rates.



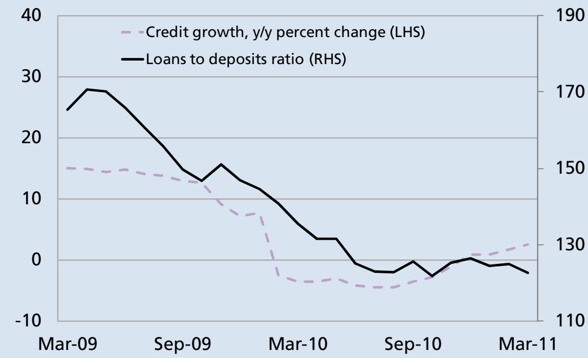
1/The band widened from T/$150 (+/- 3 percent) to T/$150 (+10/-15 percent) in February 2010, and was abandoned at end February 2011.
2/ Simple average of CDS spreads for Albania, Bosnia, Bulgaria, Croatia, Hungry, Lithuania, Latvia, Macedonia, Montenegro, Poland, Russia, Serbia, Turkey and Ukraine.

Figure 3 Kazakhstan: Banking Sector Developments

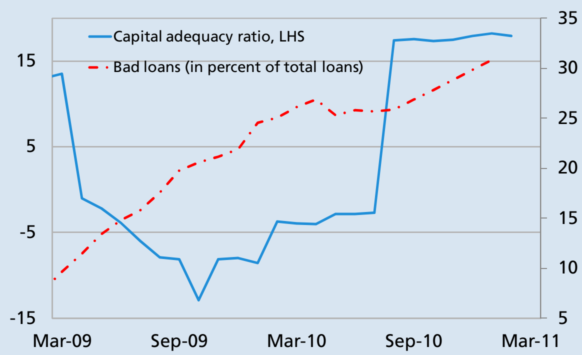
Forced deleveraging is bringing the size of the banking system to more sustainable levels…



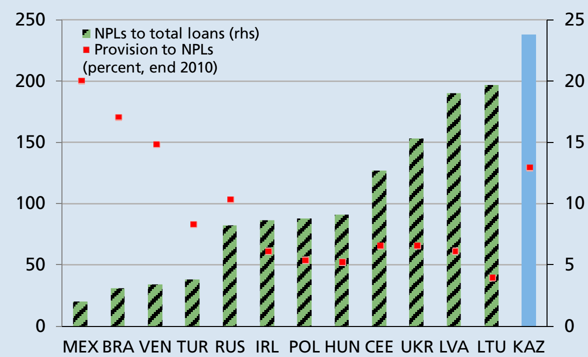
…and this continues to be reflected in weak credit activity and restricted sources of funding.



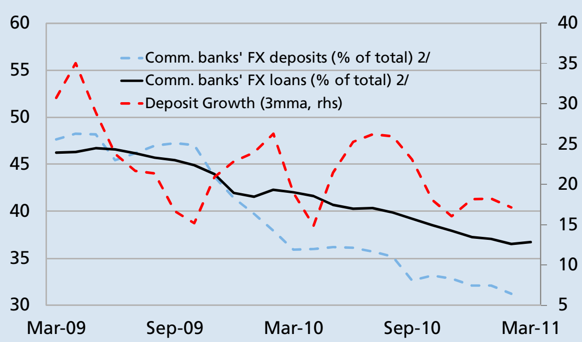
Capital adequacy has improved to near pre-crisis levels with the restructuring of BTA's external debt…



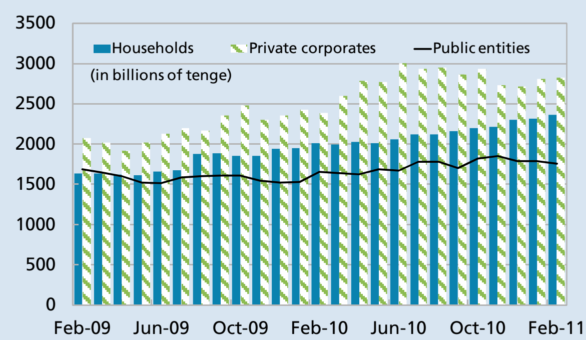
…but nonperforming loans remain high, and provisioning may be overstated, underscoring risks to capital.



Confidence in the tenge has supported a decline in deposit dollarization, but deposit growth is modest.



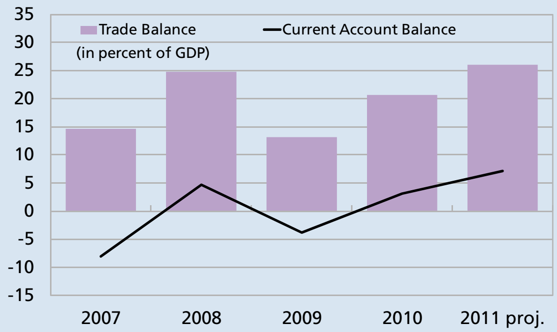
Large public sector deposits will remain an important source of support until balance sheets are fully repaired.



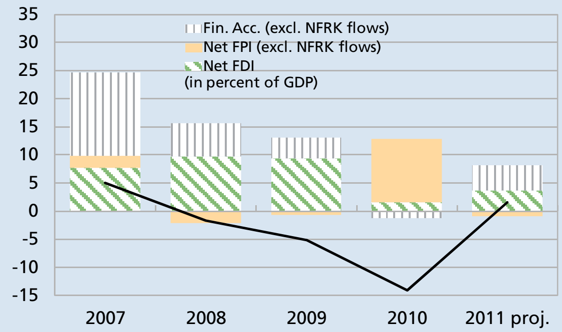
Sources: Kazakhstani authorities, GFSR, and IMF staff estimates.
1/ Excluding restructuring banks.
2/ Accounting for exchange rate valuation effects.

Figure 4 Kazakhstan: External and Fiscal Sector Developments and Outlook

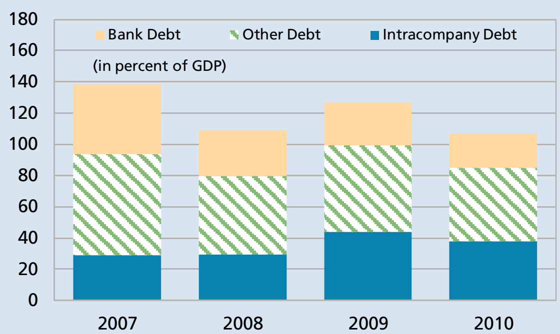
The current account returned into surplus in 2010, driven by a strong rebound in exports…



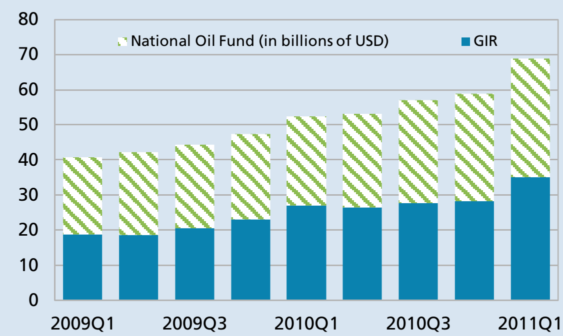
….and the capital account benefited from significant FDI inflows, albeit still lower than before the crisis.



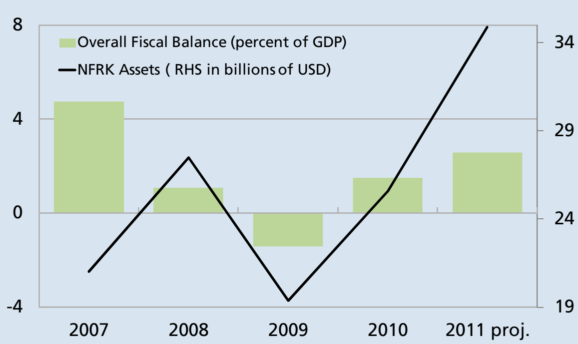
External debt declined, partly as a result of the write-off of banks' external liabilities.



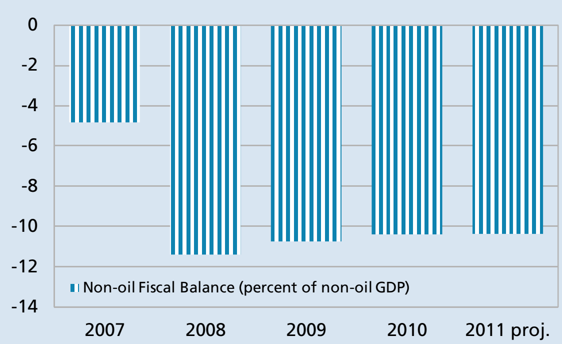
As oil prices recovered and inflows resumed, NBK reserves and oil fund increased rapidly…



… and the overall budget balance returned into surplus…



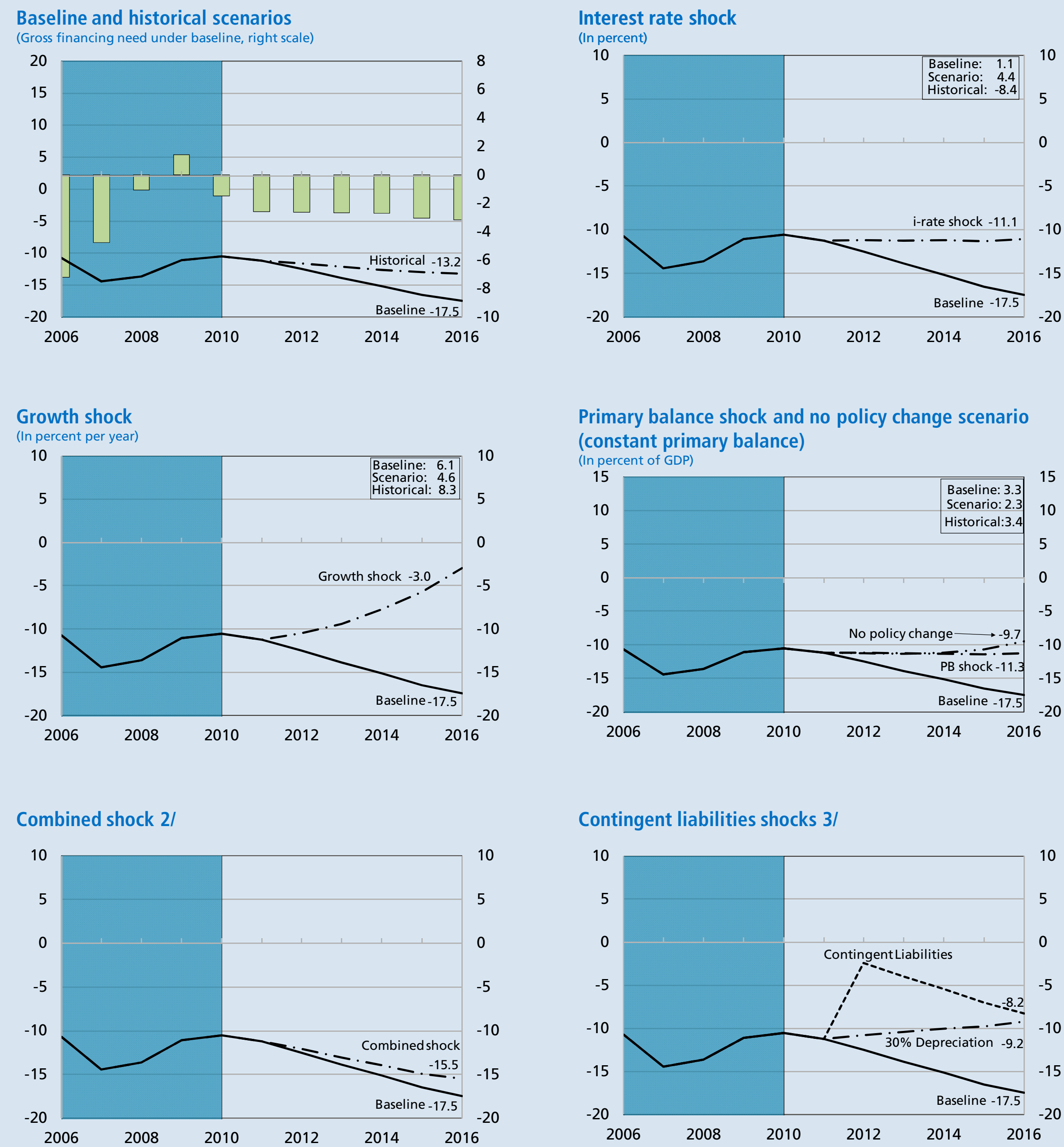
…while the non-oil deficit remains significantly higher than before the crisis.



Sources: Kazakhstani authorities and IMF staff estimates.

Figure 5 Kazakhstan: Public Debt Sustainability: Bound Tests 1/

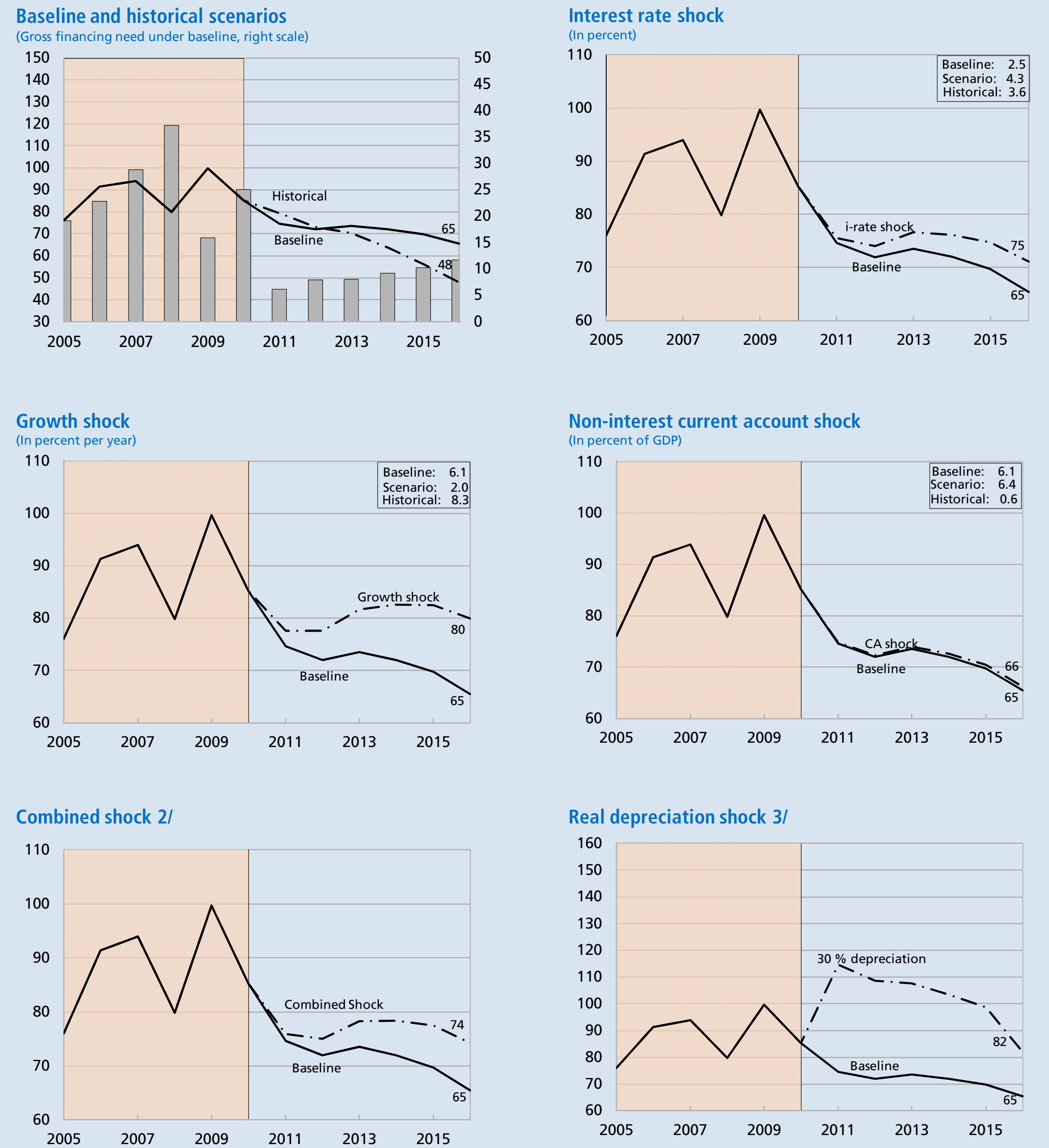
(Net Public debt in percent of GDP)



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 2012

Figure 6 Kazakhstan: External Debt Sustainability: Bound Tests 1/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks.
Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent ¼ standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2011.

Table 1 Kazakhstan: Selected Economic Indicators, 2008–16

	2008	2009	2010	2011	2012	2013	2014	2015	2016
						Projections			
					(Annual percent change, unless otherwise indicated)				
National accounts and prices									
Real GDP	3.2	1.2	7.0	6.5	5.6	5.9	6.1	6.3	6.4
Real oil	2.8	7.1	10.2	6.1	2.1	4.2	1.7	3.4	6.5
Real non-oil	3.2	0.5	6.6	6.5	6.0	6.1	6.6	6.6	6.4
Crude oil and gas condensate production (million tons)	71	75	82	87	89	92	94	98	104
Consumer price index (eop)	9.5	6.2	7.8	9.2	7.1	6.6	6.4	6.1	6.0
Consumer price index (p.a)	17.1	7.4	7.4	8.8	7.6	6.8	6.4	6.1	6.0
GDP Deflator	24.7	1.8	15.0	11.9	3.8	3.5	3.5	4.0	6.8
Exchange rate (tenge per U.S. dollars; eop)	0.4	22.9	-0.6	…	…	…	…	…	…
Exchange rate (tenge per Russian rubles; eop)	-16.5	19.7	-1.6	…	…	…	…	…	…
					(In percent of GDP, unless otherwise indicated)				
General government fiscal accounts									
Revenues and grants	27.9	22.5	25.3	26.4	26.5	26.8	26.9	27.3	27.3
Of which: oil revenues	12.4	9.3	11.8	12.3	12.0	11.6	11.1	10.9	10.8
Expenditures and net lending	26.9	23.9	23.8	23.8	23.9	24.1	24.2	24.3	24.1
Overall fiscal balance	1.1	-1.4	1.5	2.6	2.6	2.7	2.7	3.1	3.1
Financing	-1.4	1.6	-1.8	-2.6	-2.6	-2.7	-2.7	-3.1	-3.1
Domestic financing	1.9	2.9	1.9	2.9	1.8	2.3	2.0	1.8	1.6
Foreign financing	0.0	0.5	0.7	0.0	0.0	0.0	0.0	0.0	0.0
NFRK	-3.3	-1.7	-4.4	-5.5	-4.4	-5.0	-4.7	-4.8	-4.7
Non-oil fiscal balance (percent of GDP)	-11.4	-10.7	-10.3	-9.8	-9.4	-9.0	-8.4	-7.9	-7.6
Non-oil fiscal balance (percent of non-oil GDP)	-16.0	-14.0	-14.4	-14.0	-13.0	-12.0	-10.8	-10.0	-9.7
					(Annual percent change, unless otherwise indicated)				
Monetary accounts 1/									
Reserve money	4.2	60.7	5.0	14.5	14.7	12.9	11.8	11.5	11.7
Broad money	35.4	17.9	15.7	12.7	14.0	11.8	12.1	11.5	11.7
Broad money velocity (annual average)	2.6	2.3	2.4	2.6	2.4	2.4	2.4	2.3	2.4
Credit to the economy 2/	5.2	7.2	0.9	6.7	13.4	13.3	14.0	13.9	14.3
Credit to the economy (percent of GDP)	49.0	51.0	41.8	37.5	38.8	40.1	41.6	42.9	43.1
NBK refinance rate (eop; percent)	10.5	7.0	7.0	…	…	…	…	…	…
					(In billions of U.S. dollars, unless otherwise indicated)				
External accounts 3/									
Current account balance (percent of GDP)	4.7	-3.8	3.1	7.1	5.6	5.2	3.9	2.8	2.0
Exports of goods and services	76.4	48.2	65.1	89.5	93.9	99.2	105.0	112.7	124.2
Oil and gas condensate	43.5	26.2	37.0	53.9	55.0	55.9	56.4	57.6	61.4
Imports of goods and services	-49.6	-39.0	-43.3	-55.5	-62.0	-70.1	-79.5	-90.9	-103.7
Foreign direct investments (net, percent of GDP)	9.7	9.4	1.5	3.8	2.9	2.4	2.2	1.8	1.3
NBK gross reserves (eop) 4/	19.9	23.1	28.3	38.8	45.7	50.7	50.7	48.7	44.8
In months of next year's imports of goods and services	6.1	6.4	6.1	7.5	7.8	7.7	6.7	5.6	4.7
NFRK assets (eop)	27.5	24.4	30.6	39.9	48.1	58.5	69.3	81.7	95.7
Public external debt, incl. guaranteed (percent of GDP)	1.2	1.5	1.2	1.0	0.9	0.8	0.8	0.7	0.6
Total external debt	107.9	113.2	119.2	126.1	135.7	153.1	166.1	179.5	192.9
In percent of GDP	79.8	99.7	85.2	74.6	72.0	73.5	72.0	69.7	65.5
Excluding intracompany debt (percent of GDP)	50.1	55.5	47.2	38.6	35.6	37.1	35.8	34.4	32.0
Memorandum items:									
Nominal GDP (in billions of tenge)	16,268	16,759	20,616	24,563	26,915	29,489	32,373	35,787	40,649
Nominal GDP (in billions of U.S. dollars)	135.2	113.6	139.9	169.0	188.5	208.3	230.7	257.5	294.7
Crude oil, gas cnds. Production (millions of barrels/day) 5/	1.45	1.56	1.71	1.81	1.84	1.92	1.96	2.03	2.16
Oil price (in U.S. dollars per barrel)	97.0	61.8	79.0	106.3	105.3	101.8	99.5	98.8	98.5

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

1/ Reflects data available at the time of the mission.
2/ From the Monetary Survey of the Banking System. In 2009, credit growth would be -2.5 percent, if adjusted for the devaluation.
3/ The GDP in U.S. dollars is calculated using the period average exchange rate.
4/ Does not include NFRK.
5/ Based on a conversion factor of 7.5 barrels of oil per ton.

Table 2 Kazakhstan: Balance of Payments, 2008–16

	2008	2009	2010	2011	2012	2013	2014	2015	2016
				Projections					
				(In billions of U.S. dollars; unless otherwise indicated)					
Current account	6.3	-4.4	4.3	12.0	10.6	10.9	9.0	7.2	6.0
Trade balance	33.5	15.0	28.9	44.0	43.3	42.1	40.2	38.8	39.9
Exports (f.o.b.)	72.0	43.9	60.8	84.8	88.6	93.1	97.8	104.3	114.4
Oil and gas condensate	43.5	26.2	37.0	53.9	55.0	55.9	56.4	57.6	61.4
Non-oil exports	28.5	17.7	23.9	30.8	33.6	37.2	41.4	46.8	53.0
Imports (f.o.b.)	-38.5	-29.0	-32.0	-40.8	-45.3	-51.0	-57.6	-65.5	-74.5
Oil and gas condensate	-2.8	-1.4	-2.2	-3.3	-3.4	-3.5	-3.6	-3.8	-3.8
Non-oil, gas imports	-35.7	-27.5	-29.7	-37.5	-41.9	-47.5	-54.0	-61.7	-70.7
Services and income balance	-26.2	-18.6	-24.1	-31.5	-32.1	-30.5	-30.4	-30.9	-32.5
Services, net	-6.7	-5.8	-7.1	-10.0	-11.4	-12.9	-14.7	-17.0	-19.4
Income, net	-19.5	-12.8	-17.1	-21.6	-20.7	-17.6	-15.8	-13.9	-13.2
Of which: Income to direct investors	-17.0	-10.7	-14.9	-19.3	-18.2	-15.1	-13.5	-12.1	-12.0
Current transfers	-1.0	-0.7	-0.4	-0.5	-0.6	-0.6	-0.7	-0.8	-0.9
Capital and financial account	1.6	7.9	-1.0	-1.5	-3.7	-5.9	-9.1	-9.1	-9.9
Foreign direct investment	13.1	10.7	2.2	6.4	5.5	4.9	5.1	4.7	3.9
Amortization of intracompany liabilities	-5.9	-6.2	-7.4	-10.7	-11.5	-11.4	-11.6	-11.8	-12.6
Portfolio investment, net	-9.4	3.0	8.7	-10.7	-9.5	-11.1	-10.1	-9.7	-10.0
Of which: National Fund	-6.6	3.7	-7.1	-9.1	-7.9	-9.5	-9.3	-9.9	-10.2
Other investment	-2.3	-5.8	-19.8	2.6	2.2	0.2	-4.2	-4.3	-4.4
Errors and omissions	-5.7	-1.1	1.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.2	2.5	4.7	10.5	6.9	5.0	-0.1	-1.9	-3.9
Financing: Net international reserves of NBK	-2.2	-2.5	-4.7	-10.5	-6.9	-5.0	0.1	1.9	3.9
Memorandum items: 1/				*(In percent of GDP)*					
Current account	4.7	-3.8	3.1	7.1	5.6	5.2	3.9	2.8	2.0
Exports of goods	53.2	38.7	43.5	50.2	47.0	44.7	42.4	40.5	38.8
Oil exports	32.2	23.1	26.4	31.9	29.2	26.8	24.4	22.4	20.8
Non-oil exports	21.0	15.6	17.1	18.3	17.8	17.9	18.0	18.2	18.0
Imports of goods	-28.4	-25.5	-22.8	-24.1	-24.0	-24.5	-25.0	-25.4	-25.3
				(Annual growth rate, in percent)					
Exports	48.9	-39.0	38.5	39.4	4.5	5.1	5.1	6.7	9.7
Non-oil exports	40.7	-37.7	34.7	29.1	8.8	10.9	11.3	12.9	13.4
Volume on non-oil exports	39.2	-24.1	8.7	5.4	6.7	8.7	9.1	9.6	10.1
Average price of non-oil exports	1.1	-17.9	27.9	18.8	-1.1	-5.0	-5.7	-2.5	-10.2
Imports	15.6	-24.7	10.3	27.6	11.1	12.7	13.0	13.6	13.8
Oil and gas imports	51.8	-47.8	55.4	46.6	4.0	3.4	2.7	5.2	-0.3
Non-oil imports	13.5	-22.9	8.0	26.1	11.7	13.4	13.7	14.2	14.6
Volume on non-oil imports	12.7	-13.1	-9.1	12.0	12.0	12.3	12.6	13.0	13.5
Average price of non-oil imports	1.5	-11.9	18.4	13.1	-1.1	-2.8	-2.8	-0.9	0.4
Exports of oil and gas condensate (in MT)	60.7	67.3	67.4	77.5	79.5	83.0	84.0	86.5	92.5
NBK gross international reserves (in billions of U.S. dollars)	19.9	23.1	28.3	38.8	45.7	50.7	50.7	48.7	44.8
In months of next year's imports of g&n.f.s.	6.1	6.4	6.1	7.5	7.8	7.7	6.7	5.6	4.7
Excluding bank deposits in FX at NBK	18.7	21.7	…	…	…	…	…	…	…
National Fund (including interest), e.o.p.	27.5	24.4	30.6	39.9	48.1	58.5	69.3	81.7	95.7
External debt in percent of GDP	79.8	99.7	85.2	74.6	72.0	73.5	72.0	69.7	65.5
Excluding intra-company loans	50.1	55.5	47.2	38.6	35.6	37.1	35.8	34.4	32.0
World oil price (U.S. dollars per barrel)	97.0	61.8	75.3	77.5	80.3	82.0	83.5	85.5	86.5

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

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

Table 3a Kazakhstan: General Government Fiscal Operations, 2008–16

	2008	2009	2010	2011	2012	2013	2014	2015	2016
				Projections					
				(In billions of tenge)					
Total revenue and grants	4,542	3,766	5,223	6,489	7,139	7,899	8,707	9,774	11,091
Total revenue	4,542	3,766	5,223	6,489	7,139	7,899	8,707	9,774	11,091
Of which: Tax revenue	4,520	3,598	5,185	6,340	6,962	7,642	8,332	9,249	10,368
Oil revenue	2,024	1,563	2,425	3,028	3,241	3,429	3,591	3,918	4,375
Non-oil tax revenue	2,496	2,035	2,760	3,312	3,722	4,213	4,741	5,331	5,994
Of which: Income from capital transactions	35	26	49	58	64	70	77	85	96
Grants	0	0	0	0	0	0	0	0	0
Total expenditure and net lending and transfers	4,369	4,002	4,915	5,857	6,433	7,117	7,832	8,679	9,810
Total expenditure and net lending	4,369	4,002	4,915	5,857	6,433	7,117	7,832	8,679	9,810
Total expenditure	4,326	3,971	4,805	5,725	6,289	6,959	7,659	8,487	9,593
Current expenditure	3,336	2,975	3,625	4,319	4,732	5,237	5,749	6,355	7,146
Capital expenditure	991	997	1,180	1,406	1,556	1,722	1,910	2,132	2,446
Net lending	42	31	110	131	144	158	173	191	217
Overall budget balance	173	-236	308	633	707	782	876	1,096	1,280
Statistical discrepancy	-55	35	-68	0	0	0	0	0	0
Financing	-228	271	-375	-633	-707	-782	-876	-1,096	-1,280
Domestic financing, net	277	469	380	715	468	680	646	628	650
Foreign financing, net	0	76	148	-1	-3	-4	-3	-3	-3
Privatization receipts	24	17	12	8	6	4	3	2	1
NFRK 1/	-529	-290	-915	-1,355	-1,178	-1,463	-1,520	-1,722	-1,928
				(In percent of GDP)					
Total revenue and grants	27.9	22.5	25.3	26.4	26.5	26.8	26.9	27.3	27.3
Total revenue	27.9	22.5	25.3	26.4	26.5	26.8	26.9	27.3	27.3
Of which: Tax revenue	27.8	21.5	25.2	25.8	25.9	25.9	25.7	25.8	25.5
Oil revenue	12.4	9.3	11.8	12.3	12.0	11.6	11.1	10.9	10.8
Non-oil tax revenue	15.3	12.1	13.4	13.5	13.8	14.3	14.6	14.9	14.7
Income from capital transactions	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending and transfers	26.9	23.9	23.8	23.8	23.9	24.1	24.2	24.3	24.1
Total expenditure and net lending	26.9	23.9	23.8	23.8	23.9	24.1	24.2	24.3	24.1
Total expenditure	26.6	23.7	23.3	23.3	23.4	23.6	23.7	23.7	23.6
Current expenditure	20.5	17.8	17.6	17.6	17.6	17.8	17.8	17.8	17.6
Capital expenditure	6.1	5.9	5.7	5.7	5.8	5.8	5.9	6.0	6.0
Net lending	0.3	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Primary balance	1.4	-1.0	2.0	3.1	3.1	3.1	3.2	3.6	3.7
Overall balance	1.1	-1.4	1.5	2.6	2.6	2.7	2.7	3.1	3.1
Non-oil primary balance	-11.0	-10.3	-9.8	-9.3	-8.9	-8.5	-7.9	-7.4	-7.1
Non-oil overall balance	-11.4	-10.7	-10.3	-9.8	-9.4	-9.0	-8.4	-7.9	-7.6
Financing	-1.4	1.6	-1.8	-2.6	-2.6	-2.7	-2.7	-3.1	-3.1
Domestic financing, net	1.7	2.8	1.8	2.9	1.7	2.3	2.0	1.8	1.6
Foreign financing, net	0.0	0.5	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
NFRK 1/	-3.3	-1.7	-4.4	-5.5	-4.4	-5.0	-4.7	-4.8	-4.7
Memorandum items:									
Off-budget anti-crisis spending (percent of GDP) 2/	0.0	5.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Augmented overall balance (in percent of GDP) 2/	1.1	-6.7	0.8	2.6	2.6	2.7	2.7	3.1	3.1
Non-oil balance (in billions of tenge)	-1,851	-1,799	-2,117	-2,395	-2,534	-2,647	-2,715	-2,822	-3,093
Non-oil balance (in percent of non-oil GDP)	-16.0	-14.0	-14.4	-14.0	-13.0	-12.0	-10.8	-10.0	-9.7
Cyclically adjusted non-oil balance (to non-oil GDP)	-16.4	-13.7	-14.5	-14.7	-13.1	-11.6	-10.4	-9.4	-9.2
Non-oil revenues (in percent of non-oil GDP)	21.8	17.1	19.0	20.3	20.0	20.3	20.4	20.7	21.0
Non-oil revenues (in percent of GDP)	15.5	13.1	13.6	14.1	14.5	15.2	15.8	16.4	16.5
Wages (in percent of GDP)	2.9	3.5	3.3	3.2	3.2	3.1	3.0	2.9	2.7
Interest payments (in percent of GDP)	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6
Gross debt to GDP (percent)	6.7	10.4	11.3	12.4	13.0	14.2	14.9	15.2	15.0
Net liabilities (in percent of GDP)	-13.7	-11.1	-10.6	-11.2	-12.5	-13.9	-15.1	-16.5	-17.5
NFRK assets (in billions U.S. dollars) 1/	27.5	24.4	30.6	39.9	48.1	58.5	69.3	81.7	95.7
Use of oil revenues (in percent of GDP)	9.5	7.4	7.7	6.8	7.7	6.7	6.4	6.1	6.0
Nominal GDP (in billions KZT)	16,268	16,759	20,616	24,563	26,915	29,489	32,373	35,787	40,649

Sources: Kazakhstani authorities, and Fund staff estimates and projections.
1/ National Fund of the Republic of Kazakhstan. (-) is accumulation in the Fund.
2/ Includes expenditures financed by Samruk-Kazyna under the anti-crisis plan.

Table 3b Kazakhstan: Statement of Operations - General Government, 2008–16 1/

	2008	2009	2010	2011	2012	2013	2014	2015	2016
					Projections				
				(In billions of tenge)					
Revenue	4,542	3,766	5,223	6,489	7,139	7,899	8,707	9,774	11,091
Taxes	4,269	3,365	4,931	6,060	6,644	7,276	7,909	8,762	9,809
Oil tax revenue	2,024	1,563	2,425	3,028	3,241	3,429	3,591	3,918	4,375
Non-oil tax revenue	2,245	1,802	2,506	3,033	3,403	3,846	4,318	4,844	5,434
Social contributions	251	233	254	280	319	366	423	487	559
Grants	0	0	0	0	0	0	0	0	0
Other revenue	22	168	38	149	177	257	375	526	723
Expenditure	4,345	3,986	4,904	5,848	6,427	7,113	7,829	8,677	9,808
Expense	3,378	3,006	3,735	4,450	4,876	5,394	5,922	6,546	7,364
Compensation of employees	467	591	681	777	871	923	976	1,031	1,089
Use of goods and services	869	1,032	1,249	1,488	1,631	1,804	1,981	2,190	2,462
Interest	61	69	95	121	129	144	158	177	225
Other expense	1,981	1,313	1,710	2,064	2,245	2,524	2,807	3,148	3,587
Net acquisition of nonfinancial assets	967	980	1,169	1,398	1,551	1,718	1,907	2,130	2,445
Net operating balance	1,164	760	1,488	2,039	2,263	2,505	2,785	3,228	3,727
Net lending/borrowing	197	-220	320	641	712	786	878	1,098	1,283
Net acquisition of financial assets 2/	529	290	915	1,355	1,178	1,463	1,520	1,722	1,928
Net incurrence of liabilities	277	545	528	714	465	676	642	624	646
Domestic	277	469	380	715	468	680	646	628	650
Foreign	0	76	148	-1	-3	-4	-3	-3	-3
				(In percent of GDP)					
Revenue	27.9	22.5	25.3	26.4	26.5	26.8	26.9	27.3	27.3
Taxes	26.2	20.1	23.9	24.7	24.7	24.7	24.4	24.5	24.1
Oil tax revenue	12.4	9.3	11.8	12.3	12.0	11.6	11.1	10.9	10.8
Non-oil tax revenue	13.8	10.8	12.2	12.3	12.6	13.0	13.3	13.5	13.4
Social contributions	1.5	1.4	1.2	1.1	1.2	1.2	1.3	1.4	1.4
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	0.1	1.0	0.2	0.6	0.7	0.9	1.2	1.5	1.8
Expenditure	26.7	23.8	23.8	23.8	23.9	24.1	24.2	24.2	24.1
Expense	20.8	17.9	18.1	18.1	18.1	18.3	18.3	18.3	18.1
Compensation of employees	2.9	3.5	3.3	3.2	3.2	3.1	3.0	2.9	2.7
Use of goods and services	5.3	6.2	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Interest	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6
Other expense	12.2	7.8	8.3	8.4	8.3	8.6	8.7	8.8	8.8
Net acquisition of nonfinancial assets	5.9	5.8	5.7	5.7	5.8	5.8	5.9	6.0	6.0
Net operating balance	7.2	4.5	7.2	8.3	8.4	8.5	8.6	9.0	9.2
Net lending/borrowing	1.2	-1.3	1.6	2.6	2.6	2.7	2.7	3.1	3.2
Net acquisition of financial assets 2/	3.3	1.7	4.4	5.5	4.4	5.0	4.7	4.8	4.7
Net incurrence of liabilities	1.7	3.2	2.6	2.9	1.7	2.3	2.0	1.7	1.6
Domestic	1.7	2.8	1.8	2.9	1.7	2.3	2.0	1.8	1.6
Foreign	0.0	0.5	0.7	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Fiscal data in this table is presented in line with the *Government Finance Statistics Manual 2001 (GFSM 2001)*.

2/ Includes accumulation in the National Fund of the Republic of Kazakhstan.

Table 4 Kazakhstan: Monetary Accounts, 2007–12 1/

	2007	2008	2009	2010	2011	2012
					Projections	
	(End of period, in billions of tenge)					
Monetary Survey						
Net Foreign Assets	1,961	811	2,806	4,601	5,923	6,897
Net Domestic Assets	3,446	5,993	5,756	4,941	4,190	4,652
Domestic Credit	5,583	8,580	9,575	10,146	10,882	11,592
Net claims on central government	-2,649	223	-72	16	-17	-12
Net claims on other government	43	34	228	824	9	10
Credit to the private sector	7,574	7,970	8,544	8,619	9,200	10,430
Other claims on the economy	615	353	875	687	639	704
Other items, net	-2,137	-2,586	-3,819	-5,204	-6,692	-6,940
Broad money	4,630	6,267	7,386	8,546	9,633	10,986
Currency in circulation	740	858	914	1,148	715	815
Total deposits	3,890	5,409	6,473	7,398	8,918	10,171
Domestic currency deposits	2,646	3,493	3,644	4,808	5,474	6,359
Foreign currency deposits	1,244	1,917	2,828	2,590	3,444	3,812
Nonliquid liabilities	90	80	92	116	103	98
Statistical discrepancy	688	457	1,084	879	376	466
Accounts of National Bank of Kazakhstan						
Net foreign assets	4,648	2,402	3,475	4,153	5,449	6,507
Net international reserves 2/	2,121	2,403	3,448	4,211	5,531	6,506
Net domestic assets	-3,156	-264	-824	-1,542	-2,472	-3,086
Net domestic credit	-2,916	-41	-71	-662	-884	-1,596
Net claims on central government	-2,790	14	-313	-383	-567	-590
Net claims on other government	6	6	190	10	600	10
Net claims on the private sector	0	0	1	1	2	2
Net claims on banks	-133	-62	52	-290	-919	-1,019
Other items, net	-239	-223	-753	-879	-1,588	-1,489
Reserve money	1,464	1,525	2,451	2,573	2,946	3,380
Currency in circulation	860	987	1,048	1,306	1,225	1,352
Liabilities to banks	568	328	949	722	889	1,009
Required reserves	558	295	460	292	430	500
Other liabilities	10	33	489	429	459	509
Demand deposits	37	210	454	545	831	1,019
Other liquid liabilities	28	612	201	38	31	41
Deposit money banks						
Net foreign assets	-2,687	-1,591	-669	448	474	390
Net domestic assets	6,602	6,258	6,579	6,483	6,662	7,738
Domestic credit	8,500	8,621	9,646	10,808	11,766	13,189
Net claims on central government	141	209	241	399	550	577
Net claims on other government	37	28	38	814	459	460
Credit to the private sector	7,573	7,969	8,544	8,618	9,198	10,428
Banks' reserves	840	597	1,438	1,074	1,645	1,745
Net claims on other financial corporations	-92	-182	-615	-97	-87	-22
Other items, net	-1,898	-2,363	-3,067	-4,325	-5,104	-5,450
Banks' liabilities	3,916	4,667	5,910	6,931	7,136	8,128
Demand deposits	925	1,149	1,733	2,112	2,571	2,932
Other deposits	2,901	3,438	4,085	4,703	4,436	5,068
Other liabilities	90	80	92	116	129	129
Memorandum items:						
Reserve money (percent change, yoy)	-2.5	4.2	60.7	5.0	14.5	14.7
Broad money (percent change, yoy)	25.9	35.4	17.9	15.7	12.7	14.0
Credit to the economy (percent change, yoy)	55.2	5.2	7.2	0.9	6.7	13.4
Velocity of broad money	2.7	2.6	2.3	2.4	2.6	2.4
Money multiplier	3.2	4.1	3.0	3.3	3.3	3.3
Foreign currency deposits (in percent of total deposits) 3/	33	41	47	37	28	28
Foreign currency loans (in percent of total loans) 3/	43	44	47	42	41	40

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

1/ Reflects data available at the time of the mission.
2/ Does not include oil fund resources.
3/ Commercial banks only.

Table 5 Kazakhstan: Selected Prudential Indicators of the Banking Sector, 2007–11

	2007	2008	2009	2010	2011 Q1
Capital adequacy ratio (K2, percent of risk weighted assets)	14.2	14.9	-8.2	17.9	17.8
Tier I capital (K1, percent of risk weighted assets)	10.7	12.4	-11.6	11.6	11.2
Growth in banks' total assets	31.7	1.8	-2.8	4.1	2.7
Growth in banks' loans (credit to the private sector)	55.2	5.2	7.2	0.9	2.5
Growth of claims on private non-financial institutions	48.7	12.2	-1.8	5.8	4.3
Growth of claims on households	68.1	-8.0	-10.4	-3.4	-1.1
Classified assets to total assets 1/	45.9	44.4	67.4	58.9	58.4
Classified loans to total loans 1/	60.3	57.0	74.6	73.6	74.7
Percentage of doubtful category 5 and loss loans in total loan portfolio 2/	3.2	8.1	36.5	32.6	32.8
Percentage of loans that are 90 days past due in loan portfolio	–	5.2	21.2	23.8	25.3
Loans classified as loss (percent of total loans)	1.5	4.4	30.6	20.0	20.4
Loan loss provisions (percent of total loans)	5.9	11.1	37.7	30.9	31.1
Bad assets that are 100% provisioned (percent of total assets)	1.2	3.4	29.2	17.6	17.7
Net foreign assets (percent of total assets)	23.1	24.5	16.1	16.5	13.6
Net open position in FX (percent of capital)	2.1	3.9	–	0.8	1.3
Share of resident deposits denominated in FX 3/	30.3	40.0	43.9	35.6	31.8
Share of FX loans to residents 4/	42.0	43.5	48.1	42.4	41.2
Securities (percent of total assets)	6.5	6.9	14.1	12.4	15.0
Liquid assets to short term liabilities 5/	97.0	158.2	211.6	247.6	289.3
Loans-to-deposit ratio	89.6	201.5	160.5	132.8	126.1
Share of liabilities in foreign exchange to total liabilities	62.3	59.7	53.8	44.3	53.8
Loans-to-deposit ratio, excluding deposits of nonresident legal entities	237.1	206.5	165.3	134.7	128.4
FX denominated loans-to-FX denominated deposits ratio	336.0	254.2	192.7	179.2	182.5
Return on assets, before tax (percent of assets, e.o.p)	2.3	0.2	-24.1	12.0	9.7
Return on equity, before tax (percent of equity, e.o.p)	18.4	1.9	-1192.6	2920.8	201.1

Sources: FSA; and IMF staff calculations.

1/ Loans or assets classified as doubtful and loss.

2/ The share of 5th category of doubtful loans and the bad loans, percent

3/ Deposits of residents in foreign currency to total deposits, percent

4/ Loans to residents in foreign currency to total loans to residents, percent

5/ Calculation of this coefficient was changed from the 1-st of July, 2008 (excluding demand liabalities) (k4-3).

Table 6 Kazakhstan: Gross Financing Requirements and Financing, 2010–12

(In billions of U.S. dollars; unless otherwise specified)	2010	2011	2012
Gross external financing requirements	8.0	1.0	-0.7
Current account deficit (if surplus = -)	-4.3	-12.0	-10.6
Maturing short-term debt	1.7	3.8	3.2
Amortization of medium- and long-term debt	10.6	9.2	6.6
Medium and long-term to external private creditors	10.5	9.0	5.2
Medium and long-term to external official creditors	0.1	0.1	1.4
IMF	0.0	0.0	0.0
To other official creditors	0.1	0.1	1.4
Amortization payments by domestic private sector	0.0	0.0	0.0
Amortization payments by domestic public sector	0.1	0.1	1.4
Available financing	8.0	1.0	-0.7
Net FDI (including privatization receipts)	2.2	6.3	5.3
Roll-over of short-term debt	3.7	1.5	1.3
Medium- and long-term borrowing	14.2	8.1	9.4
Of which: bilateral financing 1/	11.0	3.5	1.5
Other net capital flows	-7.3	-4.5	-9.7
Exceptional financing	0.0	0.0	0.0
Reserve accumulation (decrease = +)	-4.7	-10.5	-6.9
Memorandum items:			
Gross international reserves in billions of U.S. dollars	28.3	38.8	45.7
in months of next year's imports	6.1	7.5	7.8

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

1/ Includes bilateral credit lines totalling $13.5 billion from Chinese state-owned entities, and the World Bank's Development Policy Loan approved in May 2010.

Table 7 Kazakhstan: Public Sector Debt Sustainability Framework, 2008–16

(In percent of GDP, unless otherwise indicated)

	Actual			Projections						
	2008	2009	2010	2011	2012	2013	2014	2015	2016	Debt-stabilizing primary balance 9/
Baseline: Net public sector debt 1/	-13.6	-11.1	-10.6	-11.2	-12.5	-13.9	-15.1	-16.5	-17.5	0.8
Change in public sector debt	0.8	2.6	0.5	-0.7	-1.3	-1.4	-1.3	-1.4	-1.0	
Identified debt-creating flows (4+7+12)	1.2	0.1	-0.4	-1.9	-2.7	-2.7	-2.8	-3.1	-3.0	
Primary deficit	-1.4	1.0	-2.0	-3.1	-3.1	-3.1	-3.2	-3.6	-3.7	
Revenue and grants	27.9	22.5	25.3	26.4	26.5	26.8	26.9	27.3	27.3	
Primary (noninterest) expenditure	26.4	23.5	23.4	23.4	23.4	23.6	23.7	23.8	23.6	
Automatic debt dynamics 2/	2.6	-0.9	1.6	1.2	0.4	0.4	0.4	0.5	0.7	
Contribution from interest rate/growth differential	2.6	-0.9	1.6	1.2	0.4	0.4	0.4	0.5	0.7	
Of which contribution from real interest rate	2.2	-1.0	1.0	0.6	-0.2	-0.3	-0.4	-0.4	-0.2	
Of which contribution from real GDP growth	0.4	0.2	0.6	0.6	0.6	0.7	0.8	0.9	0.9	
Contribution from exchange rate depreciation 4/	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-0.3	2.4	0.9	1.2	1.4	1.4	1.5	1.7	2.0	
Public sector debt-to-revenue ratio 1/	-48.9	-49.3	-41.6	-42.5	-47.1	-51.8	-56.3	-60.4	-64.0	
Gross financing need 6/	-1.1	1.4	-1.5	-2.6	-2.6	-2.7	-2.7	-3.1	-3.1	
in billions of U.S. dollars	-1.4	1.6	-2.1	-4.4	-4.9	-5.5	-6.2	-7.9	-9.3	
Key Macroeconomic and Fiscal Assumptions Underlying Baseline										
Real GDP growth (in percent)	3.2	1.2	7.0	6.5	5.6	5.9	6.1	6.3	6.4	
Average nominal interest rate on public debt (in percent) 8/	4.1	3.8	5.4	6.0	5.7	6.1	6.5	7.0	8.6	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-18.8	7.3	-9.6	-5.9	1.9	2.7	3.0	3.1	1.9	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-0.4	-18.6	…	…	…	…	…	…	…	
Inflation rate (GDP deflator, in percent)	23.0	-3.5	15.0	11.9	3.8	3.5	3.5	4.0	6.8	
Growth of real primary spending (deflated by GDP deflator, in percent)	14.0	-5.4	6.6	6.3	5.9	6.9	6.4	6.5	5.6	
Primary deficit	-1.4	1.0	-2.0	-3.1	-3.1	-3.1	-3.2	-3.6	-3.7	
A1. Key variables at their historical averages 7/			-10.6	-11.2	-11.6	-12.1	-12.6	-13.0	-13.2	1.9
A2. No policy change (constant primary balance) in 2012-16			-10.6	-11.2	-11.2	-11.3	-11.1	-10.7	-9.7	0.8
B. Bound Tests										
B1. Real interest rate is at baseline plus one half standard deviation			-10.6	-11.2	-11.2	-11.2	-11.2	-11.3	-11.1	0.1
B2. Real GDP growth is at baseline minus one half standard deviation			-10.6	-11.2	-10.5	-9.4	-7.7	-5.7	-3.0	0.1
B3. Primary balance is at baseline minus one half standard deviation			-10.6	-11.2	-11.2	-11.3	-11.3	-11.4	-11.3	0.5
B4. Combination of B1-B3 using 1/4 standard deviation shocks			-10.6	-11.2	-12.1	-13.1	-13.9	-14.9	-15.5	0.3
B5. One time 30 percent real depreciation in 2012			-10.6	-11.2	-10.8	-10.4	-10.0	-9.7	-9.2	0.4
B6. 10 percent of GDP increase in other debt-creating flows in 2012			-10.6	-11.2	-2.4	-4.0	-5.4	-7.0	-8.2	0.5

1/ Defined as net debt of the general government.

2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(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, 2008–16

(In percent of GDP, unless otherwise indicated)

	Actual				Projections						
	2008	2009	2010		2011	2012	2013	2014	2015	2016	
					I. Baseline Projections						
External debt	79.8	99.7	85.2		74.6	72.0	73.5	72.0	69.7	65.5	
Change in external debt	-14.1	19.8	-14.4		-10.6	-2.7	1.6	-1.5	-2.3	-4.3	
Identified external debt-creating flows (4+8+9)	-36.6	6.9	-29.0		-27.0	-17.8	-15.9	-14.9	-13.8	-13.6	
Current account deficit, excluding interest payments	-7.9	0.9	-4.9		-8.7	-7.2	-6.9	-5.5	-4.4	-3.6	
Deficit in balance of goods and services	-19.8	-8.1	-15.6		-20.1	-16.9	-14.0	-11.1	-8.5	-7.0	
Exports	56.5	42.4	46.5		53.0	49.8	47.6	45.5	43.8	42.1	
Imports	36.7	34.3	30.9		32.8	32.9	33.6	34.5	35.3	35.2	
Net non-debt creating capital inflows (negative)	-9.6	-12.2	-7.2		-5.3	-4.5	-3.8	-3.8	-3.5	-2.8	
Automatic debt dynamics 1/	-19.1	18.1	-16.9		-13.0	-6.1	-5.2	-5.5	-5.9	-7.2	
Contribution from nominal interest rate	3.2	2.9	1.8		1.6	1.6	1.6	1.6	1.6	1.6	
Contribution from real GDP growth	-2.3	-1.1	-5.7		-4.6	-3.7	-3.8	-4.0	-4.1	-3.9	
Contribution from price and exchange rate changes 2/	-20.0	16.3	-13.1		-10.1	-4.0	-3.0	-3.1	-3.4	-4.9	
Residual, incl. change in gross foreign assets (2-3)	22.5	13.0	14.6		16.4	15.2	17.5	13.3	11.5	9.4	
External debt-to-exports ratio (in percent)	141.3	235.1	183.2		140.9	144.5	154.4	158.2	159.2	155.3	
Gross external financing need (in billions of US dollars) 3/	21.6	28.4	19.9		10.3	14.9	16.7	21.2	26.4	34.5	
in percent of GDP	16.0	25.0	14.2	10-Year Standard Deviation	6.1	7.9	8.0	9.2	10.3	11.7	Projected Average
Key Macroeconomic Assumptions											
Real GDP growth (in percent)	3.2	1.2	7.0	3.3	6.5	5.6	5.9	6.1	6.3	6.4	6.1
Exchange rate appreciation (US dollar value of local currency, change in per	1.9	-18.4	0.1	12.5	1.4	1.8	0.9	0.9	1.0	0.8	1.1
GDP deflator in US dollars (change in percent)	27.0	-17.0	15.1	16.5	13.4	5.6	4.3	4.4	5.0	7.6	6.7
Nominal external interest rate (in percent)	4.5	3.1	2.2	1.3	2.3	2.4	2.5	2.4	2.5	2.6	2.5
Growth of exports (US dollar terms, in percent)	47.2	-37.0	35.1	18.8	37.6	4.8	5.7	5.8	7.4	10.2	11.9
Growth of imports (US dollar terms, in percent)	10.2	-21.3	10.9	17.0	28.3	11.7	13.0	13.4	14.3	14.1	15.8
Current account balance, excluding interest payments	7.9	-0.9	4.9	3.8	8.7	7.2	6.9	5.5	4.4	3.6	6.1
Net non-debt creating capital inflows	9.6	12.2	7.2	3.5	5.3	4.5	3.8	3.8	3.5	2.8	3.9
					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/					79.3	73.1	70.2	63.7	56.3	48.0	-15.7
B. Bound Tests											
B1. Nominal interest rate is at baseline plus one-half standard deviation					75.5	74.0	76.6	76.1	74.7	71.2	-9.0
B2. Real GDP growth is at baseline minus one-half standard deviations					77.6	77.6	81.6	82.6	82.5	79.9	-3.8
B3. Non-interest current account is at baseline minus one-half standard deviations					74.8	72.3	74.0	72.6	70.4	66.2	-9.2
B4. Combination of B1-B3 using 1/4 standard deviation shocks					75.9	75.1	78.3	78.3	77.5	74.3	-8.5
B5. One time 30 percent real depreciation in 2011					114.6	108.7	107.6	103.5	98.6	82.0	11.3

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.

Appendix 1. External Stability and Exchange Rate Assessment for Kazakhstan

External stability

Kazakhstan's current account returned to surplus in 2010, which will be sustained over the medium term. The surpluses reflect both higher prices and production of commodities, primarily oil. As the recovery in domestic demand takes hold, the current account surplus is projected to decline gradually to 2½ of GDP by 2016.

Following the restructuring of banks' foreign liabilities, external debt fell from nearly 100 percent of GDP in 2009 to 85 percent in 2010. Excluding inter-company obligations, debt declined from 55½ percent to 47¼ percent. Looking ahead, overall debt is projected to fall to 64 percent by 2016 (31¼ percent excluding inter-company debt). The external debt sustainability assessment indicates that debt is sustainable under all the shocks considered.

Exchange rate assessment

Staff's assessment points to some undervaluation of the real exchange rate, but there is no clear evidence that the tenge deviates significantly from its long-run equilibrium. Both the augmented CGER methodologies for oil exporters developed by the Middle East and Central Asia Department of the Fund and more standard CGER methodologies were used in this analysis. All models indicate some undervaluation, though the range of estimates varies somewhat. The results of the external sustainability methodology show a higher undervaluation, but should be interpreted with caution as it is based on the current account balance needed to stabilize the 2010 net foreign asset position, during which period a large proportion of Kazakhstan's external debt was restructured.

Kazakhstan: Methodologies to Assess Real Exchange Rate Misalignment

	Underlying Current Account Balance	Current Account Norm	Estimated over(+)/ under(-) valuation
	(Percent of GDP)	(Percent of GDP)	(Percent)
Macroeconomic Balance 1/ 2/	6.5	5.6	-3.8
Equilibrium Real Exchange Rate 1/ 3/	na	na	-2.4
External Sustainability			
Standard CGER specifications 2/ 4/	6.5	2.0	-16.1

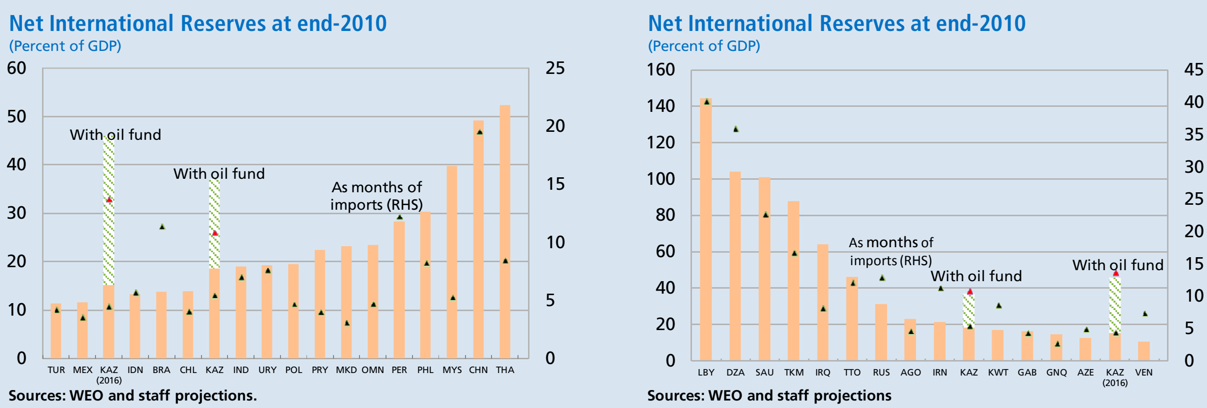
1/ Based on augmented specifications of "Methodology for CGER Exchange Rate Assessments," SM/06/283.
2/ Based on 2016 projections. The current account excludes net outflows in the income account.
3/ Based on medium term fundamentals (2016 projections).
4/ Norm and underlying current account positions exclude net income flows. The norm is the adjusted current account balance needed to stabilize the 2010 net foreign asset position.

Adequacy of international reserves.

The level of international reserves at end-2010 was in line with many other commodity exporting emerging market economies. However, once the oil fund is taken into account, Kazakhstan's foreign assets are closer to the largest reserve holders. Kazakhstan's international reserves rose by $5¼ billion in 2010, while the oil fund increased by $6¼ billion. Total official foreign assets stood at nearly $59 billion by the end of the year, equivalent to about 38½ percent of GDP and sufficient to finance about 11½ months of imports. At the end of April 2011, international reserves and the oil fund together amounted to over $73 billion.

Among oil exporters, Kazakhstan's total foreign assets are fairly typical and do not show any indication of unusual accumulation. Going forward, staff projects that as the current account surplus narrows in the medium term, reserve accumulation will slow and stabilize. However, inflows into the oil fund are expected to remain large. As a result, total official foreign assets are anticipated to rise to $131½ billion, and stabilize as a percentage of GDP over the medium term.

Figure 1 Kazakhstan: Measures of International Reserves Adequacy



Reserves as months of imports are based on reserves overs prospective imports of goods and services for 2011, except in the case of Libya, where the import data for 2010 was used.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KAZAKHSTAN

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 1, 2011

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

CONTENTS

ANNEX I. RELATIONS WITH THE FUND

(As of May 1, 2011)

Membership Status: Joined: 07/15/92; Accepted Article VIII, Sections 2, 3, and 4 in 1996 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The de jure exchange rate arrangement is a managed float, while the de-facto arrangement is classified as crawl-like.

General Resources Account

	SDR Million	Percent Quota
Quota	365.70	100.00
Fund holdings of currency	365.70	100.00
Reserve position in Fund	0.01	0.00

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	343.65	100.00
Holdings	344.55	100.26

Outstanding Purchases and Loans

None

Latest Financial Arrangements

In millions of SDR, (mm/dd/yyyy)				
Type	Arrangement	Date	Amount Approved	Amount Drawn
ECF	12/13/99	3/19/02	329.10	0.00
ECF	7/17/96	7/16/99	309.40	154.70
Stand-By	6/05/95	6/04/96	185.60	185.60

Projected Payments to Fund

None

Safeguards Assessments

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

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. From October 2007 the tenge was maintained within a narrow range against the U.S. dollar. In February 2009 the tenge was devalued by18 percent against the US dollar, and a trading band of T150/US$ +/- 3 percent was established. In February 2010, the trading band was widened and set at an asymmetric T150/US$ +10/-15 percent. In February 2011, the trading band was officially abolished, and the de jure exchange rate arrangement was changed from a pegged exchange rate within a horizontal band to a managed float. The de facto exchange rate arrangement is classified as crawl-like, because the tenge has been consistently tracking a trend against the U.S. dollar within a 2 percent margin. 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.

Article IV Consultation

Kazakhstan is on the standard 12-month consultation cycle, in accordance with the *Decision on Article IV Consultation Cycles* (Decision No. 14747-(10/96) (9/28/2010). The last consultation was concluded on July 12, 2010 (see IMF Country Reports No. 10/241 and 10/237).

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 (Annex V).

Technical Assistance

Kazakhstan has received technical assistance and training by the Fund in virtually every area of economic policy, including through about 85 technical assistance missions provided during 1993–2011 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, to the Ministry of Finance, and a peripatetic expert to the Financial Supervision Agency. 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 2004.

Monetary and Capital Markets Department

Technical assistance has enabled steady progress 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. September 2004: Bringing banking prudential regulation up to EU standards.

2. September 2004: Implementing inflation targeting: next steps.

3. November 2007: Strengthening banking supervision and risk assessment.

4. January 2009: Developing banking sector stress testing. As follow up, a peripatetic expert made a number of visits to the FSA over the course of 2009 and 2010.

5. November 2010: Reducing nonperforming loans in the banking system (joint with LEG).

Fiscal Affairs Department

The Fiscal Affairs Department has given 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.

6. April 2003: Customs administration

7. 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.

8. January 2006: Real sector and balance of payments statistics.

9. August 2006: Real sector statistics.

10. December 2006: ROSC Update mission (and DQAF).

11. April 2008: GFSM 2001 implementation.

12. January 2009: Monetary statistics

13. April 2011: BOP statistics .

Legal Department

14. April 2008: Reforms to tax law

15. April 2010: Anti-money laundering and combating the financing of terrorism (jointly with the World Bank and United Nations Office on Drugs and Crime).

16. November 2010: Reducing nonperforming loans in the banking system (joint with MCM).

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. In addition, the IMF Institute has conducted courses in the region. Seminars and training sessions have also been conducted by MCM and STA technical assistance missions.

Resident Representative

The position was terminated in August 2003, but the Fund maintains a local office in Almaty.

ANNEX II. RELATIONS WITH THE WORLD BANK

(As of April 1, 2011)

Kazakhstan became a member of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) in July 1992 and a member of the International Finance Corporation (IFC) in September 1993. In 2010 Kazakhstan became an IDA donor under the IDA 16 replenishment. Kazakhstan is the largest client of the IFC in Central Asia.

IBRD in Kazakhstan

The Bank's lending operations in Kazakhstan are wide-ranging and all fall within the key pillars of the Country Partnership Strategy adopted in 2004. As of April 2011, the IBRD loan program comprises fifteen projects with a total commitment of $2.7 billion, of which $519 million has been disbursed. Among the fifteen projects, implementation of three projects (Nura river clean-up, agricultural post-privatization assistance - phase II, and North–South electricity transmission) will be completed by the end of this calendar year and two projects (technical and vocational education modernization, and strengthening the national statistical system) are pending signing. The other ten active projects are: agricultural competitiveness, forest protection and reforestation, Ust-Kamenogorsk environmental remediation, technology commercialization, customs development, tax administration reform, health sector technology transfer and institutional reform, South West roads, Moinak electricity transmission, and Alma electricity transmission.

The Joint Economic Research Program (JERP) provides extensive analytical support to the Government's development needs. Analytical and advisory services (AAA) under the JERP remain in high demand and currently comprise 27 activities amounting to $2.8 million. Under the current FY11 program, the government increased its co-financing coverage to 77 percent of the total JERP budget, reflecting a greater emphasis by the government on advisory assistance. As in previous years, the current JERP is focused on the government's strategic priorities in: (i) enhancing competitiveness; (ii) mitigating macroeconomic risks; (iii) strengthening public finance management and administration; and (iv) improving human development.

IFC in Kazakhstan

Kazakhstan is the IFC's largest client in Central Asia. As of the end of February 2011, IFC's total committed portfolio in Kazakhstan amounted to $525 million, of which $460 million has been disbursed. IFC's efforts in Kazakhstan are directed to foster private sector led growth, particularly in the non-extractive sectors and frontier regions. The investment portfolio is mostly concentrated in the financial sector and general manufacturing, although recently IFC has begun making investments in the agribusiness sector. In the financial sector, IFC is focusing on: (i) further stabilization, diversification and extension of the maturity of the banks' funding base; and (ii) establishment of the best international corporate governance and regulatory environment. As a result of the financial sector crisis, the IFC has aimed to identify partner financial institutions to contribute to the stabilization of the financial sector and increase access to finance in priority sectors. In this regard, over the past two and a half years, the IFC has provided over $500 million in equity, quasi-equity, senior debt, and trade finance to several banks.

IFC's investment program has been expanding in recent years. Investments grew tenfold between FY05 and FY08 (to $110 million) and more than doubled again in FY09, with $243 million committed in seven projects despite the financial crisis. In FY10, IFC invested $353 million in six projects in the financial, agribusiness, and infrastructure sectors, with vast majority provided to commercial banks. Since the beginning of FY11, IFC has invested $78 million in three projects.

In addition, the IFC is providing advisory services in several key areas. These include Corporate Governance and Private Public Partnerships (PPPs), where IFC's Infrastructure Advisory team is in discussions to help the government structure PPPs in toll roads, solid waste, and urban transport solutions. A new advisory investment climate initiative has been launched to assist Central Asian countries, including Kazakhstan, in strengthening transparency of tax systems.

ANNEX III. RELATIONS WITH THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

(As of April 1, 2011)

The European Bank for Reconstruction and Development (EBRD) is the largest investor outside the oil and gas sector in Kazakhstan. As of April 1, 2011 the EBRD's total business volume in Kazakhstan, including co-financing, stood at €10.4 billion, with investments totaling €3.9 billion (both these figures include approximately €1bn in cumulative Trade Facilitation Program turnover). As of April 1, 2011, the EBRD's portfolio in Kazakhstan amounted to €1.8 billion. During 2010, the EBRD signed 21 projects, including regional ones, for a total amount of EBRD finance of €680 million. During the first quarter of 2011, the EBRD signed 5 operations with a total annual business volume (ABV) of €74 million.

In its country strategy, approved in 2010, the EBRD aims to assist Kazakhstan in promoting economic diversification and moving towards a more sustainable model of financial development. The EBRD's main operational objectives for 2011 are:

- **In the corporate sector**, support investment in the manufacturing and the agribusiness sectors to address immediate financing needs, while promoting the modernization and diversification of the economy, best business and environmental practices, and energy efficiency.

- **In the financial sector**, work with the Kazakhstani authorities and other IFIs to strengthen the country's financial sector; re-engage with partner banks; expand the partner banks group; and assist the authorities with resolving the banks' NPL problem and identifying and implementing policy reforms to promote de-dollarization, develop local capital markets, and increase the availability of sustainable local currency financing.

- **In the infrastructure sector**, restructure the national railway company and support its energy-efficiency improvement program; improve the infrastructure in Kazakh municipalities; expand activities into the solid waste and district heating sectors and support municipal sector reform, including innovative methods for developing and financing projects in the water segment.

- **In the power and energy sector**, support clean energy through the provision of financing to modern generating facilities, stemming losses in the distribution segment through rehabilitation of power lines and developing pilot renewable energy projects with private operators (subject to bankability and integrity).

EBRD Portfolio in Kazakhstan: April 1, 2011 In millions of euros			
Sector Business Group (SIC)		Commitments	Portfolio
Energy	Private	218	174
	State	258	221
FI	Private	1,864	424
	State	0	0
Industry, Commerce &Agribusiness	Private	696	370
	State	42	0
Infrastructure	Private	96	96
	State	680	544
TOTAL		3,855	1,830

Note: * Including € 1bn in cumulative Trade Facilitation Program lines

ANNEX IV. RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(As of April 1, 2011)

Kazakhstan became a member of the Asian Development Bank (ADB) in 1994. In the early years of transition from a centrally planned to a more market-driven economy, ADB focused on efforts to sustain a higher growth rate, promote environmental friendly development, support the private sector, and encourage regional integration.

As of 1 April 2011, cumulative public sector loan commitments to Kazakhstan totaled $2.25 billion, with $989 million disbursed**.** Commitments cover 19 loans in agriculture and natural resources, education, finance, transport and communications, water supply and sanitation, and irrigation. The loan operations were complemented with 64 technical assistance (TA) projects totaling about $28 million. Kazakhstan is no longer eligible for concessional resources from the ADB's Asian Development Fund.

In recent years, ADB operations focused on water distribution and irrigation, road transportation, budget support, private sector and SME. In supporting the government's State Drinking Water Sector Program, 2002–2015, ADB provided a $35 million loan in 2004 for basic water supply services and a capacity-building program to improve living/health conditions in Akmola and North and South Kazakhstan. After a slight pause from 2004, ADB's public sector operations in Kazakhstan resumed in 2008 with the signing of the $225 million loan agreement for the CAREC 1 Transport Corridor project under a $700 million Multi-tranche Financing Facility (MFF). The Transport Corridor project aims to improve a major transport corridor across Kazakhstan, linking it with its eastern and western neighbors, as well as opening up north-south routes. In 2010, ADB approved 3 loans totaling $608 million. An SME Investment Program Tranche 1 project to enhance efficiency and competitiveness of the financial sector and SMEs was approved as part of a $500 million MFF. The other 2 were the CAREC Transport Corridor 1 Tranche 3, and the CAREC Transport Corridor 2 Tranche 1.

In 2009, ADB supported Kazakhstan in mitigating the impact of the global financial/economic crisis with a $500 million loan. The loan supported the government's crisis-mitigation action plan and the employment-generation program and helped Kazakhstan finance its budget deficit. ADB also approved another loan totaling $187 million under the MFF for reconstruction of CAREC 1 Transport Corridor (Zhambyl Oblast sections) that year.

Recent technical assistance projects include**:** (i) preparation of the CAREC road projects in 2009 ($825,000); and (ii) capacity development to support SME development approved in 2010 (for $650,000). In 2011, an energy efficiency diagnostic study to identify investment priorities totaling $200,000 was also approved. Kazakhstan also participates in a number of ongoing regional TA projects.

Private sector operations of ADB in Kazakhstan began in 2006, and have focused on the banking sector, with 5 private sector financings totaling $375 million. Past experiences and lessons with the banking sector are being recognized and will need to be addressed and reflected in future operations. Near-term ADB private sector financing prospects are in private infrastructure.

Kazakhstan was one of the 4 founding partners of the CAREC Program in 1997 (together with China, Kyrgyz Republic, and Uzbekistan). Since then, six other countries have joined the partnership, and CAREC-related investments in the partner countries have totaled $15.3 billion, over the period 2001-2010. Four of the six CAREC road and rail corridors traverse Kazakhstan, and developing these Central Asian corridors is a priority in achieving the vision of land bridges connecting Europe and Asia.

A new country partnership strategy (CPS) to guide ADB operations during 2011-2015 is being prepared. The CPS proposes to support Kazakhstan to diversify the economy and become more competitive. It envisages to build on the pillars of regional cooperation, private sector operations, inclusive growth, and knowledge exchange. Under the CPS, ADB's support will focus on energy, finance, transport, and urban sectors. Important corporate level cross-cutting themes include regional cooperation, gender, environment and climate change, good governance, and private sector development and operations.

ANNEX V. STATISTICAL ISSUES

(As of May 2011)

I. Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings, but is broadly adequate for surveillance. The most affected areas are monetary and balance of payments statistics, with remaining deficiencies in national accounts.	
National accounts: The quality of GDP statistics is affected by the limited coverage of small businesses in selected activities such as retail and construction. While some progress has been made in compiling and reporting GDP by final expenditure consistent with output-based measures, dissemination of quarterly GDP series data is conducted on a discrete basis only.	
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. In addition, statistics on the enlarged government (including public enterprises) is not available.	
Monetary statistics: The monetary statistics based on the Standardized Report Forms (SRFs) complied by the central bank have a few inconsistencies, and a technical assistance mission in January 2009 provided several recommendations.	
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. The technical assistance mission in April 2010 addressed these issues.	
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 May 20, 2011)

	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	05/20/11	05/20/11	D	D	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	04/30/11	05/07/11	M	M	M		
Reserve/Base Money	03/31/11	04/27/11	M	M	M	O, O, LO, LO	O, O, O, O, O
Broad Money	03/31/11	04/27/11	M	M	M		
Central Bank Balance Sheet	04/30/11	05/07/11	M	M	M		
Consolidated Balance Sheet of the Banking System	03/31/11	04/25/11	M	I	I		
Interest Rates[2]	04/30/11	04/30/11	I	I	I		
Consumer Price Index	04/30/11	05/03/11	M	M	M	O, O, O, O	O, O, LO, O, O
Revenue, Expenditure, Balance, and Composition of Financing[3]—General Government[4]	03/31/11	04/27/11	M	M	M	O, LO, LO, LO	O, O, O, O, LNO
Revenue, Expenditure, Balance, and Composition of Financing[3]—Central Government	03/31/11	04/27/11	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q1/2011	04/20/11	Q	Q	Q		
External Current Account Balance	Q1/2011	04/30/11	Q	Q	Q	LO, O, O, O	O, O, O, O ,O
Exports and Imports of Goods and Services	Q1/2011	04/30/11	Q	Q	Q		
GDP/GNP	Q1/2011	04/30/11	Q	Q	Q	O, O, O, LO	LO, O, LO, O, O
Gross External Debt	Q1/2011	04/30/11	Q	Q	Q		
International Investment Position[6]	Q1/2011	04/30/11	Q	Q	Q		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] Reflects the assessment provided in the update of the data ROSC published in February 2008, based on the findings of the mission that took place during November 29–December 13, 2006 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

[9] Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

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IMF Executive Board Concludes 2011 Article IV Consultation with the Republic of Kazakhstan

On June 16, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Kazakhstan, and considered and endorsed the staff appraisal under the lapse of time procedure.[2]

Background

The economic recovery gained speed in 2010. Aided by favorable commodity prices and continuing public sector support, real GDP expanded by 7 percent, up from 1¼ percent in 2009. Growth was substantially higher than expected by the authorities, the Fund, and many economic analysts. The external position strengthened, with the current account returning to a surplus of 3 percent of GDP in 2010, and foreign inflows began to pick up. Driven largely by rising global food prices, inflation pressures intensified, and annual inflation was 8½ percent at end-April 2011, exceeding the official objective range of 6-8 percent.

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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.

[2] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

The official unemployment rate was not affected by the crisis, and resumed a declining trend as the economy started to recover. The official poverty rate also continued to decline, but poverty remains relatively high in rural areas, contributing to the migration to large cities.

The banking and corporate sectors have not recovered from the crisis despite the return of strong economic growth. Nonperforming loans on a 90-day overdue basis remain high at over 25 percent of total loans. Banks have been reluctant to write off bad loans, given expectations of economic recovery, difficulties of managing collateral, and tax disincentives. As a result, banks' lending activity remained weak, lagging the pace of economic recovery.

The authorities began to adjust policies to the increase in commodity prices and related inflows. The NBK raised its policy rate by 50 bps to 7½ percent in March, signaling a reversal of the easing cycle implemented during the crisis. The overall fiscal balance went back to a surplus of 1½ percent of GDP in 2010. Emergency support to the financial sector was significantly reduced, although deposits in the banking system, subsidized lending to priority sectors, and increases in wages and pensions continued.

Staff projects real GDP growth to remain strong at about 6½ percent in 2011 and the medium term. Growth is expected to become somewhat more balanced, as the non-oil sector continues to recover. With global food prices remaining high and potential demand pressures beginning to emerge, inflation is likely to exceed the objective range, reaching 9-10 percent by the end of the year. The external current account balance and the oil fund assets are projected to strengthen further. A deterioration of external economic conditions, particularly developments in major trade and financial partners and/or a fall in commodity prices, presents the main downside risk to the outlook.

Executive Board Assessment

In concluding the 2011 Article IV consultation with Kazakhstan, Executive Directors endorsed staff's appraisal, as follows:

Executive Directors welcomed the swift pace of economic recovery, which is now more broad based and mainly driven by favorable external conditions, but noted that a full recovery of non-oil sector activity remains restrained by banking sector difficulties.

Directors commended the authorities' appropriate response to the increase in commodity prices and related inflows by tightening the fiscal stance and signaling a move away from monetary accommodation toward a more neutral stance. A combination of decisive action to resolve banks' nonperforming loans, sound macroeconomic policies to address the emerging inflationary and spending pressures, and structural reforms to encourage economic diversification are the key pillars for success of the ambitious and commendable medium-term development plan.

Directors stressed the need for action to forcefully resolve banks' problem assets, which has become a protracted problem and poses risks to the outlook. They noted that the new plan to address this problem is a step in the right direction. However, it needs to ensure in a more comprehensive way that loans are adequately provisioned and properly valued, banks' losses are transparently recognized, restructuring is undertaken by professional managers, and tax impediments to the writing off of band loans are removed. This process should be based on a forward-looking, independent and rigorous assessment of banks' balance sheets, accompanied by strong supervision, and followed by credible plans for any needed recapitalization. Ownership and partial financing of the envisaged centralized distressed asset fund by the NBK poses risks to the integrity of monetary policy, and may create conflicts with its new supervisory powers.

Although domestic demand-based price pressures appear relatively contained, Directors urged the authorities to continue to keep inflation under control by gradually withdrawing monetary accommodation, and tightening policies more forcefully if headline inflation keeps increasing or core inflation starts to rise. They emphasized the importance of fully implementing the announced macro-prudential measures and enhancing liquidity management practices to manage a possible increase in capital inflows.

Directors noted that there is no clear evidence that the tenge deviates significantly from its long run equilibrium, although the real exchange rate appears slightly undervalued given the prospect for medium-term capital and oil related inflows. Looking forward, greater exchange rate flexibility would enhance the economy's ability to absorb shocks and support monetary policy. In the short term, however, the likely implications of further flexibility for the balance sheets of banks and corporates should be carefully assessed.

Directors supported the plans for fiscal consolidation through better tax administration and expenditure restraint. Fiscal management should incorporate the enlarged government, including all public and quasi public enterprises, while giving priority to investment and social outlays, including enhancing existing social safety nets. This would allow reduced reliance on administrative measures to contain price increases. Directors stressed the importance of efficient public financial management, and a medium term framework that ensures that the use of oil resources and accumulation in the oil fund are aligned with appropriate intermediate targets for the non-oil balance.

Directors welcomed plans for economic diversification, and noted the importance of structural reforms to ensure positive spillovers of Kazakhstan's mineral resource wealth to the domestic economy. These reforms include improving the business environment, removing barriers to trade, building institutions, and enhancing governance in the banking and corporate sectors. Similarly, large public and quasi public enterprises should be commercially oriented and professionally managed, and statistics transparently disseminated

Kazakhstan: Selected Economic Indicators, 2008–12

	2008	2009	2010	Proj. 1/ 2011	Proj. 1/ 2012
	(Changes in percent)				
Real economy					
Real GDP	3.2	1.2	7.0	6.5	5.6
CPI (end-of-period)	9.5	6.2	7.8	9.2	7.1
	(In percent of GDP)				
Public finance					
Government revenue and grants	27.9	22.5	25.3	26.4	26.5
Government expenditures	26.6	23.7	23.3	23.3	23.4
General government balance 2/	1.1	-1.4	1.5	2.6	2.6
General government non-oil balance	-11.4	-10.7	-10.3	-9.8	-9.4
General government debt (end-of-period) 3/	6.7	10.4	11.3	12.4	13.0
	(Changes in percent)				
Money and credit 4/					
Base money	4.2	60.7	5.0	14.5	14.7
Broad money	35.4	17.9	15.7	12.7	14.0
Credit to the economy 5/	5.2	7.2	0.9	6.7	13.4
NBK refinance rate (eop; percent)	10.5	7.0	7.0	...	...
	(In percent of GDP)				
Balance of payments 6/					
Trade balance	24.8	13.2	20.6	26.0	23.0
Current account balance	4.7	-3.8	3.1	7.1	5.6
External debt	79.8	99.7	85.2	74.6	72.0
Excluding intra-company loans	50.1	55.5	47.2	38.6	35.6
Gross international reserves					
In billions of U.S. dollars, end of period	19.9	23.1	28.3	38.8	45.7
In months of next year's imports of goods and nonfactor services	6.1	6.4	6.1	7.5	7.8
	(Changes in percent)				
Exchange rate 7/					
Tenge vs. U.S. dollar (end of period)	-0.4	-22.9	0.6	...	...
Tenge vs. Russian ruble (end of period)	16.5	-19.7	1.6	...	...
Real effective exchange rate (p.a) 8/	7.0	-6.1	1.5	...	...

Sources: Kazakhstani authorities; and Fund staff estimates and projections.
1/ Staff projections.
2/ Privatization revenues are treated as a financing item.
3/ Gross domestic and external government debt, including government guaranteed debt.
4/ Reflects data available at the time of the mission.
5/ Source: Monetary Survey of the Banking System.
6/ The GDP in U.S. dollars is calculated using the period average exchange rate.
7/ A positive sign indicates appreciation.
8/ IMF staff estimates.