Kazakhstan

Country Economic Update
Fall 2017

The Economy is Rising: It is Still All About Oil

WORLD BANK GROUP

Macroeconomics & Fiscal Management
Global Practice

KAZAKHSTAN

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Government Fiscal Year:	January 1 – December 31
Currency Unit:	Kazakhstani Tenge (KZT)
Currency Equivalents:	Exchange Rate Effective as of November 1, 2017 US$1 = 334.71 KZT
Weights and Measures:	Metric System

Abbreviations and Acronyms

CPSD	Country Private Sector Diagnostic
EMDEs	Emerging market and developing economies
FDI	Foreign direct investment
FX	Foreign currency
GCI	Global Competitiveness Index
ICT	Information and communication technology
NBK	National Bank of Kazakhstan
NPLs	Nonperforming loans
PISA	Programme for International Student Assessment
R&D	Research and development
SCD	Systematic Country Diagnostic
SMEs	Small and medium enterprises
SOEs	State-owned enterprises

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Foreword

This edition of the Kazakhstan Country Economic Update (CEU) is part of a semi-annual series designed to monitor socio-economic developments in Kazakhstan. It presents a concise analysis of political, economic and social developments, as well as a progress report on structural reform implementation, during the first nine months of 2017. It also includes a special focus section highlighting the findings of the Kazakhstan Systematic Country Diagnostic (SCD) and the Country Private Sector Diagnostic (CPSD) conducted by the World Bank Group in 2017.

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Overview

An increase in oil production boosted economic growth in the first nine months of 2017.

Real GDP growth accelerated in the first nine months of 2017, rising by 4.3 percent year on year (compared to growth of 0.4 percent in the same period of 2016). Growth improved on the back of the strengthening external environment, which has brought a recovery in the oil sector. The latter—supported by the production launch of the Kashagan offshore oil field in the Caspian Sea and higher oil prices—had positive spillover effects on the nonoil economy. It expanded on the back of dynamic output from the manufacturing, agriculture, transport, and trade sectors, supported by improved domestic demand. On the external balance side, while higher external demand and more favorable terms of trade led to an improvement in the trade balance, net foreign direct investment (FDI) inflows decreased substantially due to accelerated repayment of intra-company loans, putting additional pressure on the tenge and inflation.

The authorities continued adjusting the macroeconomic policy stance to the new normal.

Although the National Bank of Kazakhstan (NBK, the central bank) started cutting gradually its policy rate from 12 percent at the beginning of 2017 to 10.25 percent in August 2017, later in the year, it stopped loosening monetary policy further due to higher pressures on the tenge and domestic prices. The government continued its fiscal consolidation program by cutting the nonoil deficit further, excluding a one-off transfer for a bank bailout program. In the third quarter of 2017, the government injected the equivalent of US$6.5 billion (about 4 percent of GDP) into the Problem Loans Fund to accelerate the recovery of banks' balance sheets; the NBK provided an additional US$2 billion (1.3 percent of GDP) to support ailing banks.

Economic growth will remain lower than in the pre-crisis period, with potential downside risks.

Kazakhstan's real GDP growth estimate for 2017 has been revised upward, from 2.4 percent to 3.7 percent, reflecting the strengthened external environment, the resulting better-than-expected oil sector performance, and improved domestic demand—which has supported growth in the nonoil economy. Over the medium term, the GDP growth rate would hover at around 3 percent annually, as the oil sector's contribution to economic growth falls relative to 2017 when there was a structural shift in oil output. Risks to the outlook include a potential weakening of the external environment, escalation of problems in the banking sector, and a misuse of a window of opportunity to deepen structural reforms.

A deliberate implementation of structural reforms is needed to deliver more sustainable and inclusive growth.

Going forward, if the implementation of structural reforms is successful, it will assist in the diversification of the economy and would raise Kazakhstan's growth potential. The ongoing structural and institutional reforms (including those under the 100 Concrete Steps program and the privatization agenda) should aim at reducing the role of the state in the economy and facilitate the development of a vibrant, modern and innovative tradable nonoil sector. In this context, efforts to restructure and privatize state-owned enterprises (SOEs) would be expected to seek raising the efficiency in public administration and reducing fiscal risks. Prudent fiscal and monetary policies would support economic and price stability and encourage investment in the nonoil economy. Higher incomes will also have positive spillover effects on poverty reduction.

A. Recent Socio-Economic Developments

Recent political events

The economic modernization agenda remains a priority.

In the opening of the new session of parliament, on September 4, 2017, President Nursultan Nazarbayev stressed the importance of continuing efforts to modernize Kazakhstan's economy, political system, and national identity, and called for constructive collaboration between the legislative and the executive branches. Following the president's speech, Prime Minister Bakytzhan Sagintayev issued an order on the assignment of responsibilities for two newly-appointed members of the Cabinet. Deputy Prime Minister Erbolat Dossaev was put in charge of the economic transformation agenda ("Modernization 3.0"), while Deputy Prime Minister Askar Zhumagaliyev was assigned the oversight of the digitalization program.

The authorities continue to pursue constitutional reform.

Following recent changes to the Constitution, the authorities introduced amendments to lower-level legislation to operationalize the redistribution of powers among the three branches of government.[1] These amendments include the transfer of some of the president's economic, social and organizational functions to the lower levels of the executive branch, a vital step toward more effective governance. The authorities should view this process as an ongoing effort and gradually extend its scope to provide greater independence and responsibility to line ministries and local governments.

Growth and inflation

The GDP growth rate went up due to an increase in oil output.

Real GDP growth accelerated to 4.3 percent in the first nine months of 2017, up from 0.4 percent in the same period of 2016. On the supply side, the marked increase in the GDP growth rate is attributed mainly to an expansion of the oil sector, concentrated in the western part of the country (Figure 1). Oil output increased by 12.5 percent year-on-year in the first nine months of 2017, due to the production launch of the long-awaited Kashagan offshore oil field in October 2016. More favorable terms of trade—the result of a 24 percent year-on-year increase in oil prices in the first nine months of 2017—also contributed to the improved performance of the oil sector. New capacity expansion projects in the oil industry drove growth in the construction sector. Supported by marginally higher domestic demand, activity in the manufacturing, agriculture, and trade sectors also improved.

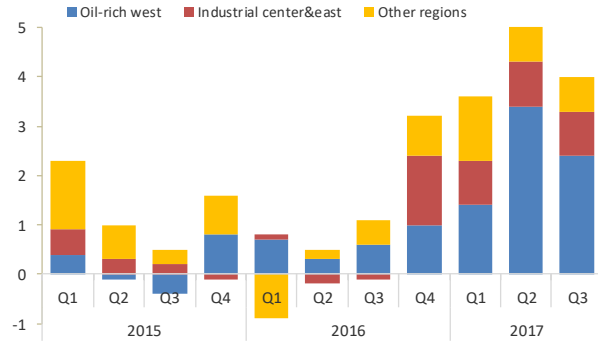
Higher oil exports and increased public investment contributed to the GDP growth acceleration.

On the demand side, while domestic demand improved marginally, net exports' contribution to GDP growth increased substantially (Figure 2). The latter was the result of a material recovery in exports of oil. The ongoing economic recovery in the Russian Federation and higher demand for oil from the EU countries supported an improvement in external demand. Meanwhile, the growth slowdown in China continued to weigh negatively on external demand for Kazakhstani commodities (oil and metals). On domestic demand, private consumption growth continued as lower inflation improved

[1] These include amendments to the Law on the President, the Law on the Government, the Law on the Judicial System and Judges' Status, the Land Code, the Water Code, the Budget Code, the Entrepreneurship Code and 22 other laws.

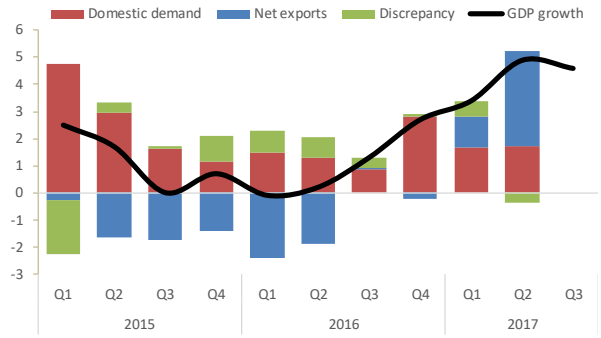
consumer confidence while government transfers to households—mainly in the form of pensions and other social transfers—increased. After two years of cuts in capital spending, public investment increased by more than 13 percent year-on-year (in real terms) in the first nine months of 2017, ignited by the launch of the EXPO-2017 event held during summer of 2017.[2] At the same time, government transfers to SOEs (excluding one-off recapitalization of the Problem Loans Fund) decreased materially, affecting private sector investment but contributing positively to the government's fiscal consolidation effort (see below).

Figure 1. The oil sector expansion drove the economy up in 2017
(contribution to growth in percentage points)



Source: World Bank staff calculations based on official data published by the authorities.

Figure 2. Extra oil supply was exported to EU, contributing to a higher GDP growth rate
(contribution to growth in percentage points)



Source: World Bank staff calculations based on official data published by the authorities.

The inflation rate declined but inflationary pressures increased in late 2017.

Headline inflation has more than halved, falling from over 17 percent in the third quarter of 2016 to below 8 percent during much of 2017. The pass-through effect from the currency devaluation began to ease in the last quarter of 2016 and continued through 2017. However, there has been a modest resurgence in inflation since mid-2017 when the tenge again began to depreciate (see next section). Indeed, annual inflation rose from a two-year low of 7 percent in August 2017 to 7.1 percent in September and 7.7 percent in October. Higher gasoline prices were the main contributors to headline inflation.[3] With the share of imported gasoline from Russia (priced in U.S. dollars) rising to 40 percent of the total, the currency depreciation led to higher domestic gasoline prices as well as temporary gasoline shortages in some parts of the country. The currency depreciation and higher gasoline prices drove up prices for other goods and services, with the rise in month-on-month inflation, accelerating from 0.3 percent in September 2017 to 1.2 percent in October.

[2] Central government expenditure on transport and communication (mainly due to roads and other transport infrastructure construction in Astana) increased by about 20 percent year-on-year (in real terms) in the first nine months of 2017. Government spending on entertainment also increased by more than 10 percent during this period.

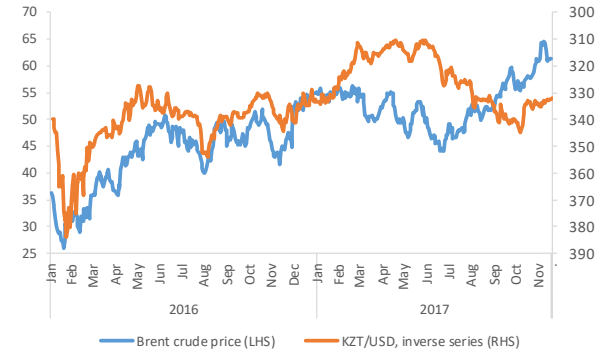
[3] The authorities lifted price control over gasoline in August 2015 (right after the tenge devaluation) to avoid shortages of gasoline imported from Russia. About a quarter of gasoline consumption in Kazakhstan is covered by imports of gasoline from Russia.

External sector

The external balance has deteriorated despite a reduction in the current account deficit.

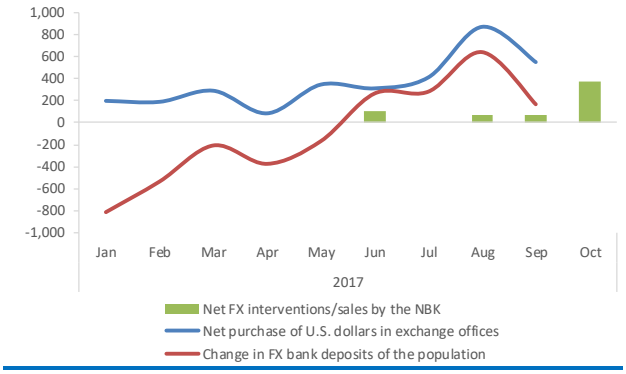
Despite the oil price recovery that helped to reduce the current account deficit in the first nine months of 2017, the overall balance of payments deteriorated (Table 1). The current account deficit narrowed by US$1 billion during this period (compared to the same period of 2016), mainly due to more favorable terms of trade, somewhat offset by profit repatriation of which more than half was reinvested as FDI into Kazakhstan. At the same time, the surplus on the capital and financial accounts declined by about US$6 billion (excluding Oil Fund transactions), pulled down by lower net inflows of FDI. Despite the reinvestment of profit by foreign companies in the oil sector, the NBK reported a significant increase in repayments of intra-company loans that more than offset FDI inflows. The latter was somewhat compensated by a positive balance of portfolio investment, dominated by the national oil company KazMunayGas that issued Eurobonds of US$2.75 billion in April 2017. The overall balance of payment turned negative due to the bailout of ailing banks that led to further drawdown of fiscal reserves in the Oil Fund. As a result, devaluation expectations increased, pushing down the value of the tenge (Figure 3).

Figure 3. The tenge has been depreciating, despite the oil price recovery
(in US$ per barrel; KZT/USD, inverse series)



Sources: United States Energy Information Agency (EIA); National Bank of Kazakhstan.

Figure 4. The de-dollarization trend has reversed since June 2017
(in US$ millions)



Source: World Bank staff calculations based on official data published by the National Bank of Kazakhstan.

A pick up in the currency depreciation led to a reversal in the de-dollarization trend.

In August 2017, net purchases of U.S. dollars in exchange offices increased more than four-fold compared to usual levels of about US$200 million a month during the first half of 2017. Although this surge in foreign currency (FX) demand can be partly attributed to the summer holiday season (at least half of it), a parallel increase in FX deposits in the banking system suggests rising devaluation expectations, despite the NBK adherence to the floating exchange rate regime. The NBK also reported an increase in residents' short-term savings abroad. The de-dollarization trend observed between January and May 2017 reversed in June, forcing the NBK to intervene in the foreign exchange market, to avoid sharp swings in the exchange rate. Net FX interventions by the NBK totaled US$240.7 million between June and September 2017. However, this was not sufficient to satisfy the FX demand, raising devaluation expectations further. The NBK responded by increasing net FX interventions to US$379.8 million in October 2017 (Figure 4). Presumably, net FX interventions continued in November 2017, leading to

some appreciation of the tenge to levels below 333 KZT/US$, falling from a peak of about 345 KZT/US$ in October. The continued recovery of oil prices must also have helped to calm down the devaluation expectations.

Table 1. Balance of Payments and Official Reserves, 2015–17
(In US$ billions)

	2015	2016	2016 Jan-Sep	2017 Jan-Sep
Current account balance	**-5.1**	**-8.9**	**-6.0**	**-5.0**
Merchandise trade	12.7	9.2	6.8	12.0
Exports f.o.b.	46.5	37.3	26.8	35.1
Of which: Oil and gas	31.1	22.3	15.5	21.0
Imports f.o.b.	33.8	28.1	20.0	23.1
Services	-5.1	-4.8	-3.4	-3.4
Primary income	-11.1	-13.0	-9.1	-13.2
Income of direct investors, net	-8.6	-11.0	-7.6	-11.5
Secondary income	-1.6	-0.4	-0.3	-0.4
Capital and financial account balance /1/2	**-5.4**	**6.5**	**7.4**	**1.3**
Direct investment	2.9	13.5	11.6	3.3
Portfolio investment /1	-3.9	-2.9	-1.6	4.3
Medium- and long-term investment	4.3	4.2	3.1	0.0
Short-term investment	-3.7	-8.4	-4.8	-5.1
Errors and omissions	-5.1	-0.2	-1.1	-1.4
Overall external balance	**-10.6**	**-2.4**	**1.4**	**-3.7**
Change in FX assets in the Oil Fund	-9.8	-2.2	1.1	-4.2
Change in FX reserves at the NBK	-0.8	-0.3	0.2	0.4
Memorandum items:				
Stock of official reserves	**91.3**	**90.7**	**95.8**	**89.3**
Stock of FX assets in the Oil Fund	63.4	61.2	64.5	57.1
Stock of FX reserves at the NBK	20.3	19.9	20.6	20.2
Gold reserves	7.6	9.6	10.6	12.0
Terms of trade (2015=100) /3	100.0	117.2	117.2	132.8
Nominal GDP	184.4	137.3	91.0	107.7

Source: World Bank staff calculations based on data published by the National Bank of Kazakhstan.
Note: Some sums may not add up exactly due to rounding; 1/ Excluding net investment of the Oil Fund; 2/ Including errors and omissions; 3/ Annual estimates.

Financial sector

Banking sector lending activity remained stagnant.

Lending to the nonfinancial sector during the first nine months of 2017 remained broadly flat, continuing a shift away from FX credit (which saw a 13.8 percent drop over the period) and short-term credit (down 9.5 percent). FX lending has been in steady decline since its peak in January 2011 at 42 percent of the total lending portfolio and 10 percent of lending to individuals; as of September 2017, FX lending represented 28 percent of the total lending portfolio and 3 percent of lending to individuals. Credit to small and medium enterprises (SMEs) was nearly flat during the first nine months of 2017, with a slight increase in the share of long-term and local-currency lending and a decline in short-term FX lending to this segment.

Official statistics revealed problem loans that were masked before.

After falling markedly in recent years, the share of officially-reported nonperforming loans (NPLs) to total loans more than doubled between end-2016 and September 2017, from 6.7 percent to 12.7 percent, respectively.[4] An alternative estimate by Moody's suggested that NPLs were much higher than the official estimate as it masked NPLs of BTA Bank (see Special Focus section below).[5] Several large banks still hold the bulk of NPLs (Table 2). Kazkommertsbank's NPLs accounted for 40 percent of its portfolio as of September 2017.[6] Recently, the NBK revealed its estimate of NPLs at Bank RBK to account for 85 percent of its loan portfolio, while previously they were masked in formal reporting by Bank RBK that showed only 6.4 percent of NPLs as of September 2017. Among small-scale banks, nearly 100 percent of Delta Bank's portfolio represents NPLs.[7] Loan loss provisioning levels are mixed, but rose sharply in the first nine months of 2017, reflecting banks' expectations of further losses. As of September 2017, only Bank RBK and Delta Bank were cited as falling short of prudential requirements. The long-lasting NPL legacy still weighs negatively on lending activity of commercial banks, except those which are part of government's lending programs.

Table 2. Key Exposure Indicators of Top-10 Banks, as of September 2017

Top 10 banks by assets	Percent of system assets	Percent of system lending	Loans past 90 days	Percent of total individual deposits exposure
Halyk Bank of Kazakhstan and Kazkommertsbank /1	33.7	28.2	8.9 40.3	37.4
Tsesnabank and Bank CenterCredit /2	14.6	18.7	4.1 8.1	14.7
Sberbank of Russia	6.7	8.3	9.8	8.2
ForteBank	5.7	4.2	7.0	5.5
KASPI BANK	5.6	6.5	8.2	10.3
ATFBank	5.0	5.9	10.4	4.3
Bank RBK /3	4.0	5.2	6.4	2.4
Eurasian Bank	3.9	4.6	9.9	4.2

Source: National Bank of Kazakhstan.
Note: 1/ Halyk Bank acquired Kazkommertsbank in July 2017; 2/ Tsesnabank acquired Bank CenterCredit in April 2017; 3/ In mid-November 2017, the NBK Governor announced that actual NPLs at Bank RBK may account for 85 percent of its loan portfolio.

Bank recapitalization and NPL clean-up is still proceeding slowly.

In mid-2017, the NBK launched a program to improve the financial sustainability of ailing banks. The program seeks to maintain stability and confidence in the banking system and ensure that NPLs are adequately provisioned and do not pose a threat to the overall financial system. The authorities announced that, in addition to the government's KZT 2.1 trillion (4 percent as a share of GDP) for bailout of Kazkommertsbank that was acquired by Halyk Bank in June 2017, the NBK will allocate KZT 500-700 billion (1.3 percent of GDP) for the recapitalization of other ailing medium-

[4] The central bank defines NPLs as being 90 or more days overdue.
[5] BTA Bank was merged with Kazkommertsbank in July 2014 and its NPLs fell out of official statistics due to an exceptional treatment.
[6] Although Kazkommertsbank was acquired by Halyk Bank in June 2017, it continues to compile prudential indicators.
[7] The NBK withdrew Delta Bank's banking license in early November 2017.

size banks.[8] The banks will receive capital injections from the NBK via subordinated bonds (with a maturity of 15 years), which are classified as available-for-sale financial instruments. The NBK will finance two-thirds of the recapitalization, requiring bank shareholders to contribute the remainder in the coming years. The authorities have estimated that the proposed recapitalization package should be sufficient to clean up NPLs and enable banks to resume financial intermediation.

Social indicators

Poverty levels remain susceptible to oil price shocks.

Income from wage employment has been the primary driver of poverty reduction in Kazakhstan. Supported by low unemployment rates and rising wages, growth-driven welfare improvements for the bottom 40 percent exceeded the national average between 2006 and 2015. Redistribution efforts were responsible for few of the observed welfare gains during this period. Pensions, agriculture and self-employment income also rose between 2006 and 2015, resulting in further modest reductions in the poverty rate. Although poverty has fallen steadily over the long term, this trend has been interrupted several times, mainly by macroeconomic shocks. For example, the poverty rate increased by about two percentage points in 2009 during the global financial crisis and by nearly six percentage points in 2015, when the collapse in global oil prices resulted in a sharp economic contraction. In 2015, there was an increase in the total number of people classified as poor, from about 1.1 million or 6.2 percent of total population in 2014 to close to 1.4 million or 7.8 percent in 2015 (Figure 5).[9]

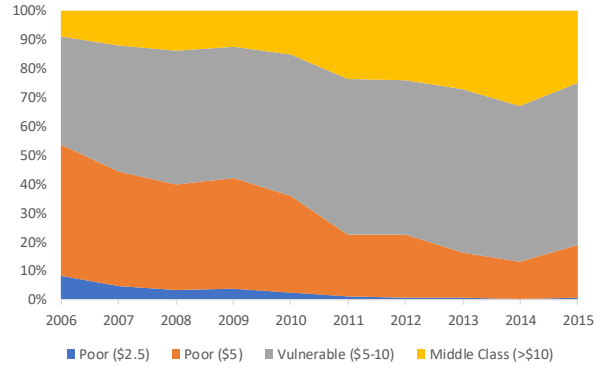
Higher poverty rates have been driven by declines in real wages.

At the individual level, the increase in poverty in 2015 was primarily a result of declining real wages and was not fully offset by the social safety net. While the number of unemployed rose modestly in 2015, the overall unemployment rate was low preceding the economic slowdown (at about 5 percent) and did not rise substantially following the slowdown. The fact that unemployment did not increase significantly in 2015 indicates that most of the poverty-increasing effect occurred as a result of declining real wages rather than substantial job losses. The number of working poor increased from about 1.1 million (12.6 percent of those in employment) in 2014 to over 1.3 million (15.7 percent of those in employment) in 2015. The increase in poverty in 2015 highlights the country's exposure to economic shocks due to its reliance on oil exports and the extent to which all regions—regardless of their dominant economic structure—are vulnerable to oil price shocks (Figure 6).

[8] The government injected budgetary funds into the state-owned Problem Loans Fund to address the legacy of NPLs in BTA Bank and thus facilitate the acquisition of Kazkommertsbank by Halyk Bank. The NBK's additional bailout package will target an improvement of financial health of ATFBank, Eurasian Bank, Tsesnabank, Bank CenterCredit, and Bank RBK.

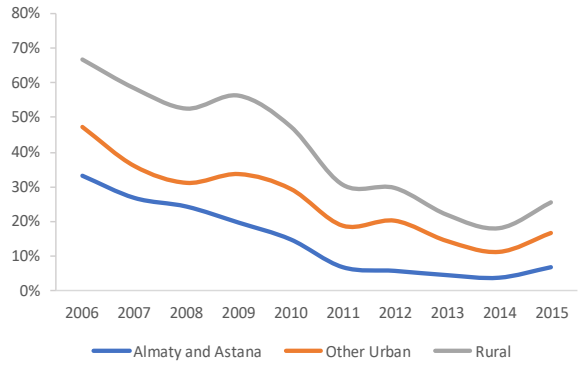
[9] In the fall of 2017, the World Bank Group changed the international poverty line for middle-income countries, from $5.0/day, 2005 PPP to $5.5/day, 2011 PPP.

Figure 5. The share of the vulnerable increased in 2015
(in percent of total population)



Source: World Bank staff calculations based on official data published and provided by the authorities.

Figure 6. Poverty in rural areas remained high and more vulnerable to shocks
(in percent)



Source: World Bank staff calculations based on official data published and provided by the authorities.

B. Macroeconomic Policies and Structural Reforms

Assessment of fiscal and debt policies

The fiscal adjustment is underway.

In 2017, the government continued fiscal consolidation of its core fiscal accounts. The government cut gradually its nonoil deficit of the Consolidated Budget (excluding one-off transfers to SOEs) from a peak of about 11 percent of GDP in 2014-15 to 10 percent in 2016 and an estimated level of 8.6 percent in 2017 (more than the budgeted 9.3 percent target). The government also cut its noncore transfers to SOEs by about 2 percentage points of GDP, bringing its core spending level down. The government will discontinue a one-off bank bailout program that was allocated additionally in the 2017 budget and is planning to normalize the total spending level in 2018 (Table 3).[10] Consequently, the nonoil deficit of the Consolidated Budget will be cut further to below 8½ percent of GDP in 2018. The 2018 budget will also see a substantial cut in Oil Fund consumption, from US$13.5 billion or 8.5 percent of GDP in 2017 to US$8.0 billion or 4.6 percent in 2018, bringing public spending and the nonoil deficit down to more normal levels.

The government is adjusting its oil fund rule and debt management practices.

The government adopted a new oil fund rule and shifted its debt management strategy toward a focus on domestic debt. The new oil fund rule, adopted in December 2016, targets the reduction of the nonoil deficit from an estimated 12.6 percent of GDP in 2017 to 7 percent by 2020 and 6 percent by 2025. Consequently, the government plans to lower its reliance on oil revenue and cut net borrowing (from external sources in particular) to finance the budget. The government has already begun working more proactively to lower the share of external debt in the total public debt portfolio by (i) refraining from tapping international capital markets; (ii) renegotiating borrowing plans with international financial institutions; and (iii) relying more on the domestic debt market.

[10] The authorities recapitalized the Problem Loans Fund by injecting KZT 2.1 trillion (the equivalent of around US$6.5 billion) to address NPLs held by BTA Bank.

Table 3. General Government Fiscal Accounts, 2013–18
(In percent of GDP, unless otherwise indicated)

	2013	2014	2015	2016	2017e	2018p
Total revenue and grants	**26.7**	**24.5**	**18.6**	**19.7**	**21.1**	**21.3**
Oil revenue	12.1	10.3	4.0	4.5	5.7	6.0
Oil Fund gross revenue /1	10.5	8.3	2.3	3.0	3.9	4.2
Customs duty on oil exports	1.6	2.0	1.7	1.5	1.8	1.7
Nonoil revenue	14.6	14.3	14.6	15.2	15.4	15.3
State Budget revenue /2	12.1	11.4	10.8	12.2	12.3	12.3
Other extra-budgetary funds' revenue /3	2.5	2.9	3.7	3.0	3.1	3.0
Expenditure and net lending	**21.1**	**23.0**	**24.7**	**24.1**	**25.8**	**21.3**
State Budget spending, excluding Oil Fund	15.8	16.3	14.9	15.3	16.5	16.0
Oil Fund consumption	4.6	6.1	8.6	6.8	8.5	4.6
Other extra-budgetary funds' spending /3	0.6	0.6	1.1	1.9	0.8	0.6
Overall fiscal balance	**5.6**	**1.5**	**-6.1**	**-4.4**	**-4.6**	**0.0**
State Budget deficit	-2.1	-2.9	-2.4	-1.7	-2.4	-2.0
Oil Fund net fiscal savings	5.9	2.2	-6.3	-3.8	-4.5	-0.4
Other extra-budgetary funds' balance /3	1.9	2.2	2.6	1.1	2.3	2.4
Nonoil deficit of the Consolidated Budget /4	**-8.3**	**-11.0**	**-12.7**	**-10.0**	**-12.6**	**-8.4**
One-off expenditure /5	-	-	1.8	-	4.0	-
Nonoil deficit, excluding one-off expenditure	**-8.3**	**-11.0**	**-10.9**	**-10.0**	**-8.6**	**-8.4**
Memorandum items:						
Stock of net financial assets	17.4	18.6	12.5	25.0	15.3	11.9
Stock of FX assets in the Oil Fund	29.9	33.1	34.4	44.6	33.5	30.5
Stock of total government debt /6	12.6	14.5	21.9	19.6	18.2	18.6
Stock of net financial assets (US$, billions)	41.4	41.7	37.0	33.6	24.8	20.2
Stock of FX assets in the Oil Fund (US$, billions)	70.8	73.2	63.4	61.2	53.7	52.9
Stock of total government debt (US$, billions) /6	29.4	31.5	26.3	27.6	28.9	32.7

Source: World Bank staff calculations based on data published by the authorities.
Note: Some sums may not add up due to rounding; e=estimate; p=projection; 1/ Excluding FX gains/losses; 2/ Excluding sale of state property and land; 3/ Excluding the Oil Fund; 4/ The Consolidated Budget comprises the State Budget and the Oil Fund consumption; 5/ One-off expenditure covers a US$2.7 billion transfer to the national oil company KazMunayGas in 2015 and a US$6.5 billion transfer to the Problem Loans Fund in 2017; 6/ Including state guarantees.

Assessment of monetary policy

The central bank adhered to its balanced approach toward monetary easing in 2017.

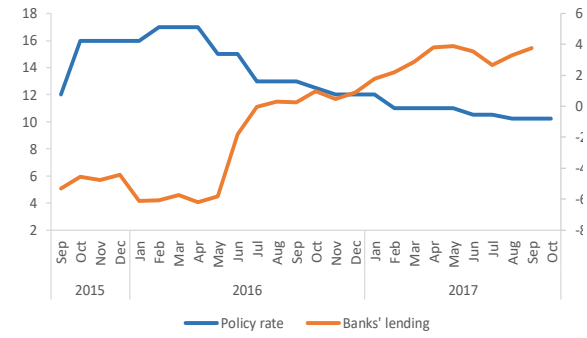
A weakening of inflationary pressures allowed the NBK to ease monetary policy in 2017; the policy rate was reduced from 12 percent at the beginning of 2017 to 10.25 percent in August, supporting lending to the economy (Figure 7). Nevertheless, in its September statement, the NBK reaffirmed its cautious approach to monetary easing in the remainder of 2017; the policy rate is likely to remain unchanged until year-end due to a resurgence of inflationary pressures, following the tenge depreciation (see above). The NBK continued enhancing its monetary policy framework by strengthening interest-rate transmission channels, building a reliable yield curve with the

Ministry of Finance, and improving its external communication of policy changes.[11]

The authorities should be firmly focused on inflation and careful against undue easing of monetary policy conditions.

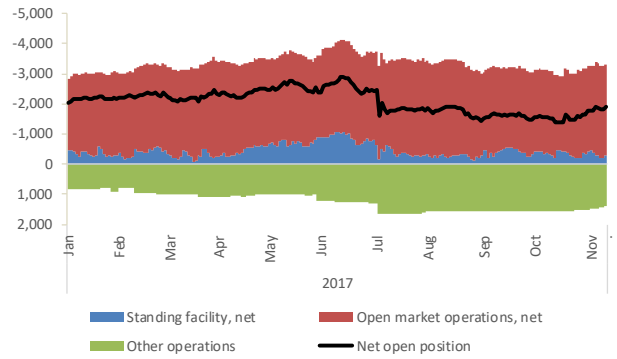
To address recent inflationary pressures, the regulator began mopping up excess liquidity in the banking system. Liquidity in the banking system is unequally distributed across banks, and the NBK's efforts to inject more liquidity into the financial system between July and September 2017 failed to translate into increased lending to the economy while, presumably, it leaked to the FX market. While large banks are quite liquid, reflecting their substantial holdings of government securities, liquidity in small banks is well below the system average. The recent expansion of net open-market liquidity operations suggests that the NBK has started absorbing excess liquidity in the system to address increased exchange rate and inflationary pressures (Figure 8).

Figure 7. The NBK continued monetary easing to foster credit revival
(percent; percent change year-on-year)



Source: World Bank staff calculations based on official data published by the authorities.

Figure 8. The NBK started mopping up excess liquidity in mid-October 2017
(KZT, billions)



Source: World Bank staff calculations based on official data published by the authorities.

Ongoing structural reforms

Kazakhstan's global competitiveness ranking slipped this year as a result of the weak macroeconomic environment.

Kazakhstan's ranking on the World Economic Forum's Global Competitiveness Index (GCI) for 2017–18 was negatively impacted by the country's macroeconomic performance. At 57 of 137 economies, Kazakhstan fell by four positions (Diagram 1). While the ranking for macroeconomic environment declined the most, owing to higher inflation and lower domestic savings, a general decline was observed in almost all areas; 8 out of 12 pillars registered a lower score than a year earlier. Innovation (84) was restrained by a reduction in private-sector spending on research and development (R&D) and public-sector purchases of high-tech products. There were, however, some positive developments highlighted by the index. For example, Kazakhstan improved significantly in the ranking for health and primary education, for market size, technological readiness, and higher education and training. Tackling structural weaknesses in financial market development and

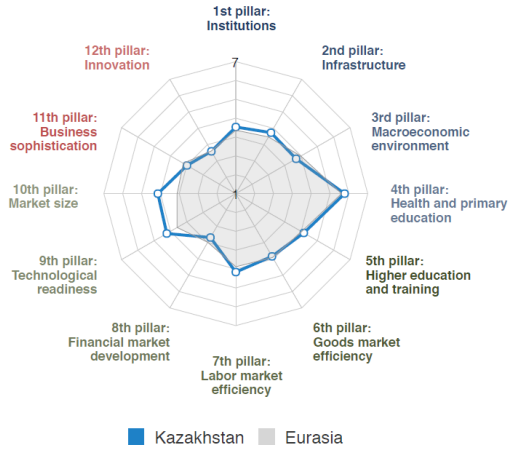
[11] The NBK has expanded substantially the list of official data and its research published in its websites while the number of public speeches by NBK management, newspaper interviews, and official press-releases has also increased noticeably.

business sophistication will be necessary to achieve higher economic growth following the downturn.

Diagram 1. Kazakhstan's ranking in the GCI declined for the second year in a row

Index Component	Rank/137	Score (1-7)	Trend	Distance from best
Global Competitiveness Index	57	4.3		
Subindex A: Basic requirements	69	4.6		
1st pillar: Institutions	60	4.0		
2nd pillar: Infrastructure	68	4.2		
3rd pillar: Macroeconomic environment	98	4.2		
4th pillar: Health and primary education	59	5.9		
Subindex B: Efficiency enhancers	56	4.3		
5th pillar: Higher education and training	56	4.6		
6th pillar: Goods market efficiency	72	4.3		
7th pillar: Labor market efficiency	35	4.6		
8th pillar: Financial market development	114	3.3		
9th pillar: Technological readiness	52	4.6		
10th pillar: Market size	43	4.5		
Subindex C: Innovation and sophistication factors	95	3.4		
11th pillar: Business sophistication	108	3.6		
12th pillar: Innovation	84	3.2		

Edition	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Rank	51 / 144	50 / 148	50 / 144	42 / 140	53 / 138	57 / 137
Score	4.4	4.4	4.4	4.5	4.4	4.3



Source: World Economic Forum, 2017–18 Global Competitiveness Index.

Efforts to strengthen the business environment have yielded mixed results.

Kazakhstan's ease of doing business ranking has improved in recent years, but scope remains for additional progress. However, Kazakhstan fell by one position in the World Bank's 2018 Doing Business ranking, to 36 of 190 economies globally. Despite the decline in the ranking, however, using a comparable methodology on the distance to frontier metric Kazakhstan's score rose from 74.38 in Doing Business 2017 to 75.44 in Doing Business 2018, which is good news. The authorities reformed in three areas captured by Doing Business in 2016/17. The registering property indicators recorded reforms improving transparency and dispute resolution mechanisms. Within the protecting minority investors indicator, set reforms were recorded in the areas of increasing shareholder rights, clarifying ownership, requiring greater transparency, and allowing greater access to information during court proceedings. Kazakhstan improved ranking for enforcing contracts following the introduction of respected time standards in civil court proceedings.

The privatization of SOEs and the sale of state holdings will be undertaken only after thorough preparation.

In February 2017, President Nazarbayev has urged the authorities to focus on effectiveness in SOE privatizations, rather than working to meet arbitrary deadlines. He also stressed the importance of informing and bringing foreign investors to participate in the privatization program. Kazakhstan's Comprehensive Privatization Plan for 2016–20 is proceeding slowly. The revised list of entities slated for privatization currently consists of 876 state-controlled entities, including 215 entities owned (partially or fully) by the state-owned conglomerate Samruk-Kazyna. To date, 329 entities have been privatized, 322 entities are in the process of sale or being prepared for sale, with the remaining assets were liquidated or reorganized.[12] Although the total value of privatized companies is estimated at KZT 133 billion (US$0.4

[12] Source: Website of the Ministry of Finance: http://privatization.gosreestr.kz/

billion) so far, the bulk of privatization-related revenue is expected to be generated by the privatization of state-owned national holdings/companies. The Samruk-Kazyna conglomerate includes 86 companies valued at US$6-7 billion which are in various stages of privatization. Except the six largest companies, which will be privatized through initial public offerings,[13] the remaining assets are scheduled to be sold by the end of 2018. Some experts believe that even if this program is successful, the public sector will still control much of the economic activities in Kazakhstan, with a little impact on the overall competition environment.

The focus of institutional reforms requires a shift toward implementation, monitoring, and evaluation.

The launch of the Modernization 3.0 initiative may give new impetus to the implementation of institutional reforms. Information technology is playing a central role in these reforms. New IT solutions in business regulation, administrative and criminal justice, legislative drafting, and revenue administration have been introduced; these have the potential to increase the transparency, accessibility, and quality of public services. The success of these new mechanisms, however, will depend on their proper functioning, use by the public, and data analysis to determine good practices and to adopt corrective actions. For example, although the Open Government initiative, launched in 2015, allows citizens to comment on draft regulations and budget execution reports and participate in an open dialogue with regulators, public participation and awareness have been low. Targeted actions are required to publicize the initiative, both among the public and civil servants, and simplify procedures for reviewing, processing, and considering budgetary documents, to increase citizen participation.

Tax legislation is being revamped to stimulate taxpayer compliance and improve tax collection.

The underlying objectives of the new Tax Code, a draft of which has been submitted to parliament, are to stimulate voluntary tax compliance and to simplify tax administration. The draft law introduces the concept of a prudent taxpayer, simplifies the special tax regime for SMEs and the agricultural sector, and seeks to stimulate investment in the oil-exploration industry. It also introduces measures to support the recovery of the financial sector, revises tax preferences to the real sector by eliminating ineffective benefits, and extends the scope of tax preferences to the automotive industry, special economic zones, financial leasing, modernization, and reconstruction. On the latter, the authorities should be careful of creating additional loopholes in the tax system and distortions for the private sector incentives. The focus should be on broadening the tax base and avoiding it further erosion, with a clear objective of increasing the neutrality of the tax system and raising tax revenue collections.

[13] The six largest state-owned enterprises are the national airline, Air Astana; the nuclear energy company, Kazatomprom; the energy company, Samruk-Energy; the oil and gas company, KazMunayGas; the national postal operator, Kazpost; and the railway operator, Kazakshtan Temir Zholy. Given unfavorable macroeconomic and market conditions, the timeline for the privatization of these entities was pushed back to 2020.

C. Economic Outlook and Risks

Global economic prospects

Global growth gained momentum in 2017.

Global economic growth is estimated to have strengthened to 3.0 percent in 2017 from 2.4 percent in 2016; momentum is expected to sustain global GDP growth at 3.0 percent in 2018. The recovery in the United States continued as expected, while the recovery in the euro area and Japan strengthened more than envisaged, supported by strong investment and trade flows. In the emerging market and developing economies (EMDEs), commodity exporters, such as Russia, have driven the recovery in 2017. Growth in commodity importers has also remained robust. China's economy is projected to grow by 6.7 percent in 2017, supported by strong exports. Global trade growth continued a broad-based recovery and global financial conditions remained benign with increasing capital inflows to EMDE countries as a share of GDP.

Growth rates in Kazakhstan's main trade partners will slow in 2018–19.

Average GDP growth in Kazakhstan's main trading partners is estimated to have accelerated to 3 percent in 2017, from 2.6 percent in 2016, underpinned by stronger economic activity in the euro area and China. However, GDP growth is projected to slow to 2.6 percent in 2018–19 as euro area growth moderates. Rebalancing in China will lead to a slight slowdown in economic growth in 2019–20 while the Russian economy is expected to remain stable. Global risks are tilted to the downside. Various events, including a deviation from monetary policy normalization, could spur a sudden and substantial reversal of fiscal loosening. Geopolitical tensions between large economies remain elevated in the Korean Peninsula and Ukraine; a further escalation could result in a deterioration of investor confidence and lead to bouts of global financial market volatility.

Oil prices are expected to remain stable, but with substantial risks.

Oil prices averaged US$53 per barrel between January to October 2017, an increase of 24 percent compared 2016, but with significant volatility. Despite an agreement with OPEC and non-OPEC countries to cut oil production, oil prices remained contained, due to a rebound in U.S. shale oil production and rising production from Libya and Nigeria, both of which are exempt from production targets. Oil prices are projected to rise modestly, to US$56 per barrel in 2018 and US$57 in 2019, amid a gradual unwinding of stocks and moderate EMDE demand growth. However, significant risks remain on both the upside and downside. Weak compliance to the agreed production cuts or stronger-than-forecast resilience of the U.S. shale industry could exert downward pressure on prices while supply disruptions among politically-stressed regions or stronger demand growth could accelerate price growth.

Kazakhstan's baseline scenario, risks and challenges

GDP growth will remain lower than in the pre-crisis period.

Kazakhstan's real GDP growth estimate for 2017 has been revised upwards from 2.4 percent to 3.7 percent (Table 4), reflecting the strengthened external environment, the resulting better-than-expected oil sector performance, driven by the launch of production at the Kashagan oil field and higher global oil prices. This is still lower than 6 percent growth observed in the pre-crisis period. Improved consumer confidence and higher domestic demand, as described above, have supported growth in the nonoil economy. Nevertheless, the current account deficit is projected to remain elevated at about 4 percent of GDP in 2017, owing to higher profit repatriation by foreign companies. The overall fiscal deficit is projected to remain high, reflecting the one-off bailout of the banking sector in 2017, but the government is expected to balance it by further pursing fiscal consolidation of its core fiscal accounts over the medium term.

Barring further external shocks, real incomes will recover and the poverty rate will decline.

Over the medium term, GDP growth is projected to hover around 3 percent annually, as the oil sector's contribution to economic growth declines relative to 2017 when there was a structural shift in oil output. More favorable terms of trade will drive improvements in the current account and fiscal balances. This baseline scenario assumes that net merchandise exports will be higher and profit repatriation by multinational companies would moderate in 2018, leading to a cumulative improvement in the current account deficit of about $4 billion. Moreover, fiscal consolidation efforts and the passing of one-off effects related to the bank bailout will help to narrow the fiscal deficit from 2018 onwards. However, more efforts would be required on fiscal consolidation to bring the nonoil deficit to a sustainable level (5-6 percent of GDP) that may allow avoiding further depletion of net financial assets of the government.[14] Finally, implementation of inflation targeting will help stabilize annual consumer price inflation at levels below 5 percent. As the economy recovers, real income growth, the primary driver of poverty reduction, is expected to rise. Based on the current growth forecast, the poverty rate is projected to decline to 6 percent by 2019 and after.

Table 4. Baseline Scenario: Selected Macro-Fiscal Indicators, 2017–20
(In percent, unless otherwise indicated)

	2017	2018	2019	2020
Real GDP growth	3.7	2.6	2.8	3.0
Oil sector	7.6	0.9	1.6	1.3
Nonoil economy	2.7	3.0	3.1	3.4
Consumer price inflation, period average	7.6	5.9	4.4	4.6
Current account balance (percent of GDP)	-4.0	-1.6	-1.1	-1.2
Overall fiscal deficit (percent of GDP)	-4.6	0.0	0.4	0.2
Nonoil fiscal deficit (percent of GDP)	-12.6	-8.4	-8.1	-8.0
Government's net financial assets (percent of GDP)	15.3	11.9	9.1	6.2
Poverty rate ($5.5 per day at PPP terms)	7.0	6.5	6.0	6.0

Source: World Bank staff calculations and estimates.

[14] World Bank. 2017. *Kazakhstan Public Finance Review: Enhancing the Fiscal Framework to Support Economic Transformation.* Washington, DC: World Bank.

Risks to the medium-term outlook include external and domestic factors.

The vulnerability of Kazakhstan's economy to external shocks remains the main challenge to achieving stable and sustainable development. External demand from China and Russia, Kazakhstan's main trading partners, as well as global oil prices and demand will remain the key external factors impacting Kazakhstan's economic performance. Domestic factors include the pace of implementation of structural and institutional reforms, especially in anticipation of a political transition over the medium term. A potential escalation of problems in the banking sector is also a concern. Unless the government demonstrates significant improvements to the rule of law, the investment climate, and the quality of human capital, the prospects of a sizeable expansion of the tradable nonoil sector's role in the economy will remain low.

The successful implementation of structural reforms will play a key role in economic development.

The ongoing structural and institutional reforms, including those considered under the 100 Concrete Steps program and the privatization agenda should aim to reduce the role of the state in the economy and facilitate the development of a vibrant tradable nonoil economy. The process of restructuring and privatizing SOEs should seek to increase efficiency in public administration and reduce fiscal risk. Prudent fiscal and monetary policies should support macroeconomic and price stability and encourage investment in the nonoil economy. Higher incomes will also have a positive spillover effect on poverty reduction. The following special focus section provides a summary of the recent analysis and findings of the Systematic Country Diagnostic (SCD) and the Country Private Sector Diagnostic (CPSD) conducted by the World Bank Group in Kazakhstan in 2017.[15]

D. Focus Section: Private Sector Development Agenda

The private sector development agenda in Kazakhstan plays an important role in government's efforts to build national production capacity and improve economic growth prospects. The expansion of the private sector will lead to job creation, income growth, and poverty reduction. Private-sector-led growth, however, is hampered by various factors, such as the dominance of SOEs in the economy, the lack of skilled labor, some sector-specific challenges, macroeconomic vulnerabilities, as well as weak regional economic cooperation. To support the development of vibrant tradable nonoil sectors, the authorities should maintain prudent macroeconomic policies, make progress in deepening structural and institutional reforms, and continue investing into human and physical capital.

The significant presence of SOEs limits opportunities for private sector development.

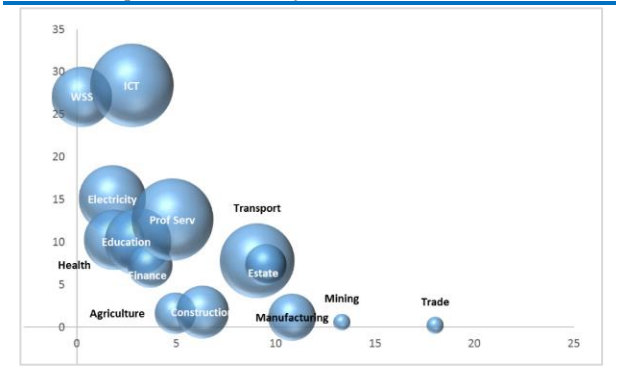
While Kazakhstan has undertaken some privatization of its assets over the last two decades, many key economic sectors remain under direct state control. The total value of SOE assets is estimated at approximately two-thirds of GDP and the gross value added by the SOE sector was 8.1 percent of GDP in 2014.[16] While the total number of SOEs registered in Kazakhstan is estimated at over 750, most of these enterprises are clustered in three big holding companies that

[15] The task team leaders of the SCD are Christos Kostopoulos (Lead Economist) and Thomas Farole (Lead Jobs Economist), and the task team leaders of the CPSD are Wolfgang Fengler (Lead Trade Economist) and Christopher David Miller (Senior Private Sector Development Specialist).

[16] Data in this paragraph are from OECD (Organisation for Economic Co-operation and Development). 2017. *OECD Development Pathways: Multi-Dimensional Review of Kazakhstan: Volume 2*. Paris: OECD.

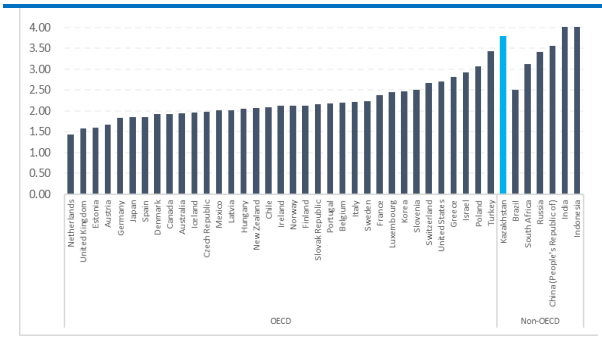
represent more than 90 percent of all SOEs assets.[17] Many SOEs dominate in the provision of public services including information and communication technology (ICT), railways, electricity and water supply, and education and healthcare (Figure 9). According to the OECD's Index of State Control, SOEs have a greater presence in Kazakhstan's economy than in every member of the OECD as well as most large non-OECD economies, including China and Brazil (Figure 10). The dominance of large SOEs in the economy suggests that they are likely to receive preferential treatment (primarily through access to subsidized loans), making it difficult for private sector firms to operate in some sectors.

Figure 9. Key sectors remain under state control
(SOE share of large and medium firms; sector value added as percent of GDP)



Source: Kazakhstan SCD 2017.

Figure 10. OECD State Control Index, 2013
(in percentage points)



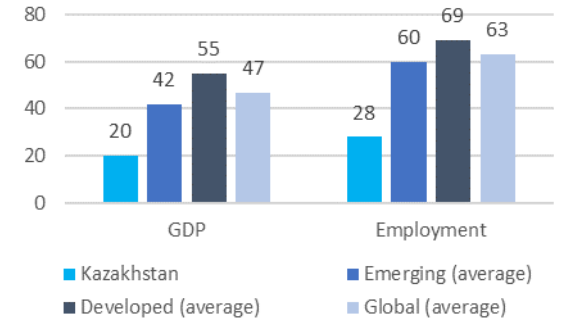
Source: Kazakhstan SCD 2017.

The private sector lacks dynamism.

The public sector in Kazakhstan plays a considerable role in providing employment while the private sector is regarded as underdeveloped. About a quarter of the workforce was employed by the public sector (including SOEs) in 2016. Forty-nine percent of Kazakhstan's workforce was classified as individual entrepreneurs and self-employed (with an average of 1.5 workers per entrepreneur). Foreign firms employed about 3 percent of the workforce. The rest of the private sector employed nearly 37 percent of the country's total workforce in 2016 (an average 11 workers per private sector firm). The majority (80 percent) of private sector firms in Kazakhstan are SMEs (including individual entrepreneurs and peasant farmers), but SMEs account for only one-third of total employment (Figure 11). By contrast, SMEs generate 51 percent of employment in Saudi Arabia and 86 percent in the United Arab Emirates. Data indicate that Kazakhstan's private sector lacks the dynamism to generate a sufficient number of new jobs (Figure 12).

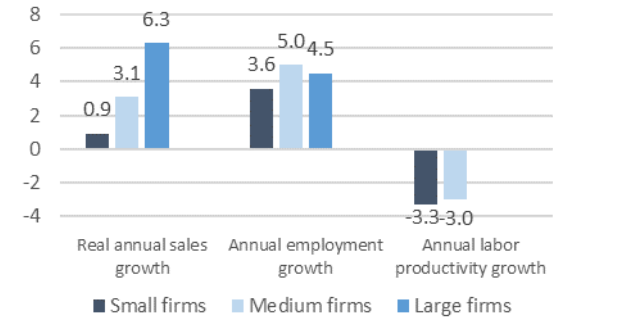
[17] These holding companies include Samruk-Kazyna, Baiterek, and KazAgro.

Figure 11. SMEs in Kazakhstan are lagging compared to other country groups
(SME share of GDP and employment in 2013)



Source: Kazakhstan SCD 2017.

Figure 12. Annual sales, employment, and productivity growth by firm size
(percent change)



Source: Kazakhstan SCD 2017.

Sector-specific challenges remain.

In the recently published Kazakhstan CPSD 2017, the World Bank found that the agribusiness as well as the transport and logistics sectors have relatively high desirability and greater feasibility to reduce constraints to private sector investment in the coming years (Figure 13). Energy and ICT follow with high feasibility but relatively low desirability. Each sector has its own distinct set of challenges and opportunities, political dynamics, and economic governance issues.

In the wheat sector, for example, the presence of SOEs and the involvement of social elites constrains investment in much-needed infrastructure, resulting in extremely low productivity. An over-reliance on traditional markets has resulted in lost opportunities to diversify into far larger, emerging markets such as China and India. Kazakhstan's livestock sector comprises thousands of small-scale family producers that lack technology and investment, resulting in large uncaptured economies of scale. Also, there are significant gaps in upstream value chains, making it difficult to meet quality standards.

Inefficient transport and logistics infrastructure limits access to regional markets. In addition to poor infrastructure, the transport and logistics sector suffers from insufficient economies of scale partly as a result of low demand. The high number of procedures required for cross-border trade is preventing Kazakhstan from becoming a preferred regional transit route.

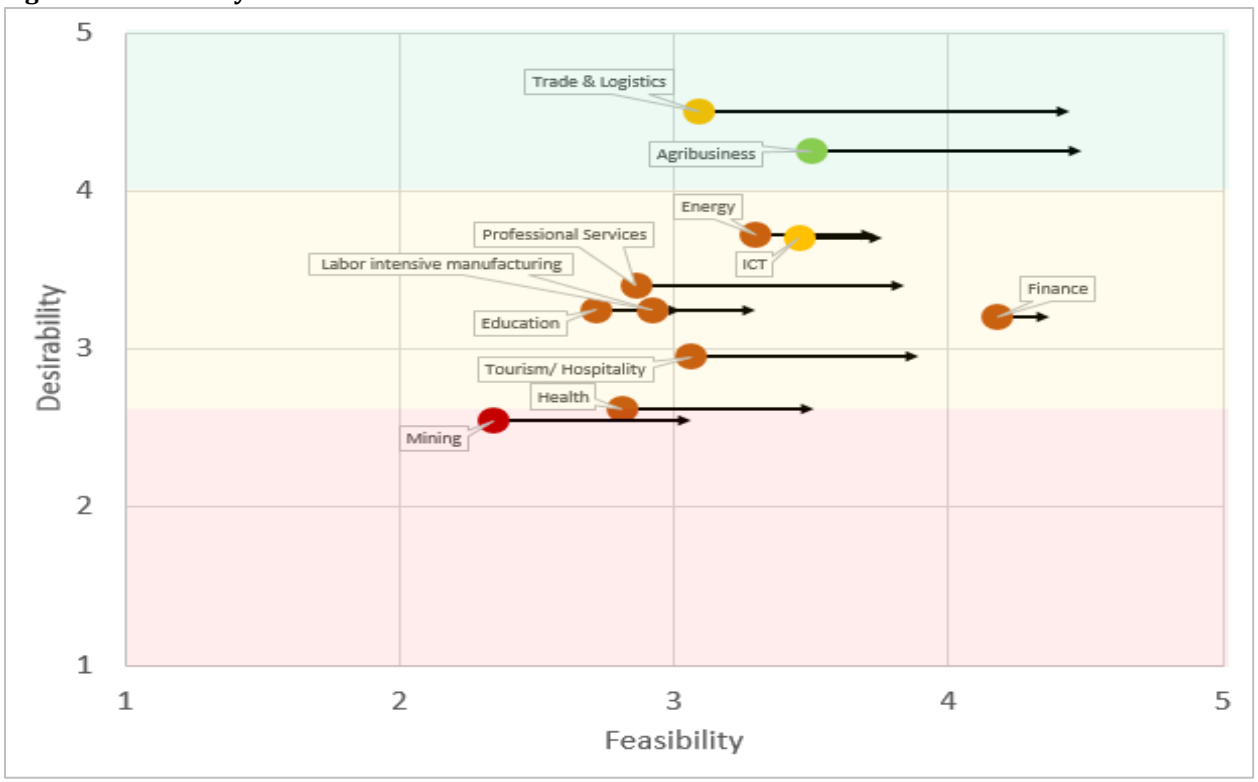
Reforms to improve the investment climate and increase the efficiency of the economy have been adopted

The government has strengthened its support of private sector development in recent years. Reform measures—such as improvements to competition law, the privatization of SOEs, and legislative and other regulatory changes to facilitate doing business—have also been introduced to strengthen Kazakhstan's business environment. Various government initiatives have also focused on improving support and access to finance for SMEs, including the Business Roadmap 2020 and the Productive Employment and Mass Entrepreneurship Program.[18] However, the impact of such initiatives has been relatively weak, partly as a result of poor coordination between agencies. For example, only 4.6 percent of active SMEs received support from the Entrepreneurship Development Fund DAMU (which implements Business

[18] These programs focus on support to SMEs in increasing their productivity via financial and nonfinancial support mechanisms, as well as sustaining and generating new jobs.

Roadmap 2020) in 2014. Closing reform implementation gaps remains a persistent challenge in the regulatory policy. Further progress is needed in wider and deeper use of Regulatory Impact Analysis as well as more transparent engagement of private sector in the lawmaking process. In addition, significant reforms are needed in business inspections in order to move away from current control and supervision practice to facilitation and support.

Figure 13. Summary of sector review results



Source: Kazakhstan Country Private Sector Diagnostic (2017).

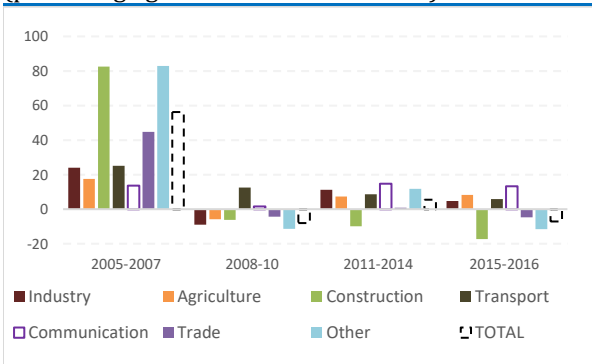
Facilitating access to finance is critical for private sector development.

Many factors are impeding sufficient investment in Kazakhstan's financial sector, including banking sector vulnerability and other market failures. Partly as a result of macroeconomic uncertainty and tightened lending policies in banks under NBK supervision, credit activity has been stagnant in recent years, as described above. The banking sector loan portfolio declined by 7 percent in the 2015–16 period (Figure 14). Lending to SMEs contracted more sharply than to larger firms during this period. The banking sector remains under stress and poses risks to the rest of the private sector (Figure 15).[19] At the same time, misaligned private sector incentives in the flow of public sector financing present impediments to long-term investment.[20]

[19] NBK definition includes only loans 90 days overdue for the banking system; Moody's definition captures retail and corporate loans, but based on survey of 9 banks which cover about 65.9 percent of the banking sector.
[20] In order to increase financing to the private sector households and SOEs, government and SOE holdings have sourced funds from international creditors, the Oil Fund, and the pension fund, through quasi-government entities at subsidized rates.

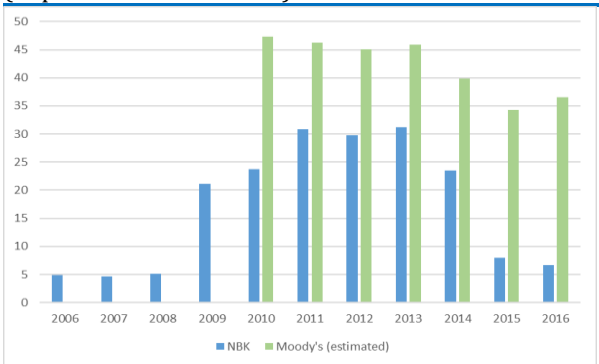
The government could work to create regulatory frameworks that facilitate financial sector sustainability. Measures could include increasing the capitalization of banks and strengthening their supervision, introducing stricter prudential regulation, and enhancing risk-assessment mechanism in large banks. Lastly, to improve access to finance for SMEs, the challenge lies in designing sound nonbank financial institutions that foster the development of financial intermediaries and provide access to basic financial services while remaining sustainable. So far, however, such institutions remain relatively small compared to financing needs. Banks' inability to assess SME risks correctly is also a limiting factor. Working with SMEs requires a different set of risk-assessment skills and incentives. Government's interest rate subsidizing programs should have more sophisticated incentive schemes to foster loans to new businesses, rather than supporting the existing ones.

Figure 14. Credit to the nonfinancial sector
(percentage growth in nominal terms)



Source: Kazakhstan SCD 2017.

Figure 15. Nonperforming loans remain high
(in percent of total loans)



Source: Kazakhstan SCD 2017.

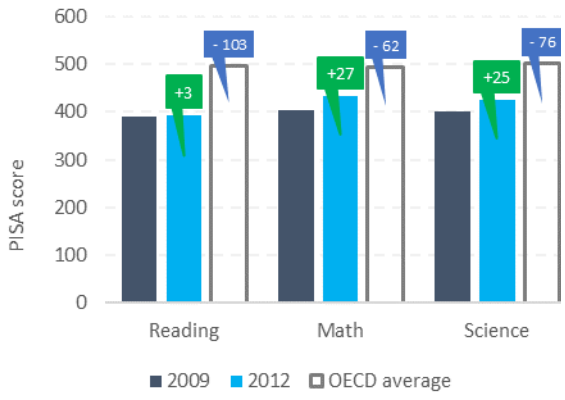
Matching skills and labor market needs are vital for Kazakhstan's competitiveness.

Kazakhstan has made great strides in enhancing the education sector, but significant challenges remain. First, educational quality can be improved. Kazakhstan's performance gap with the OECD remains significant, as evidenced by the Programme for International Student Assessment (PISA; Figure 16). Second, unequal access to education is a major challenge. Minority children typically lack equal access to quality education because of discrimination or because they live in regions with poor educational facilities. Third, there is a significant mismatch between the skills of young labor market entrants and the needs of the labor market. Although levels of educational attainment have risen sharply in recent years (Figure 17), the quality and relevance of education should also be improved to accommodate the needs of the labor market.

Improving educational outcomes is key to improving productivity. Private sector capital investment will be required to create more and better jobs and boost earnings. To reduce the current skills mismatch, particular attention should be paid to engaging the private sector in the development of skills standards and career guidance. Finally, improving labor market outcomes requires a greater focus on decent employment and sustainable job creation, particularly for young labor market entrants. A more literate and trainable labor force and investment in personnel skills development would not only

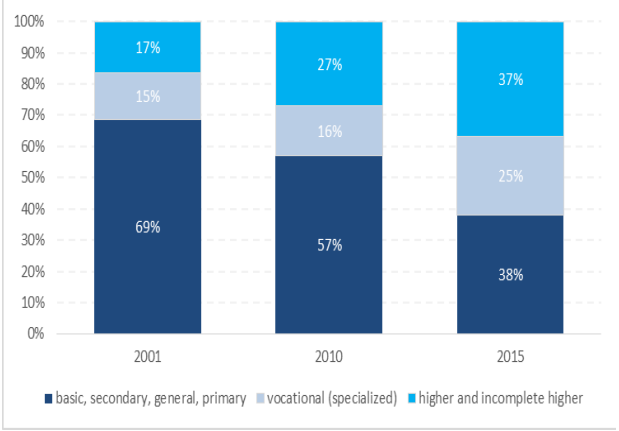
increase productivity in Kazakhstan, but would also make the country more attractive to international firms seeking to invest.

Figure 16. Summary of Kazakhstan PISA results (2009 and 2012)



Source: Kazakhstan SCD 2017.

Figure 17. Educational attainment of the youth population (ages 15-28)



Source: Kazakhstan SCD 2017.

Annex Table 1. Selected Macroeconomic and Social Indicators, 2014–20

	2014	2015	2016	2017e	2018	2019	2020
					Projections		
National Income and Prices	(Percent, unless otherwise indicated)						
Nominal GDP (billion tenge)	39,676	40,884	46,971	52,238	56,351	60,231	64,130
Nominal GDP per capita (US$)	12,807	10,510	7,715	8,881	9,481	10,066	10,690
Real GDP growth	4.2	1.2	1.1	3.7	2.6	2.8	3.0
Private consumption growth	1.4	1.8	1.2	2.5	3.0	3.0	3.0
Gross investment (percent of GDP)	25.8	27.9	27.1	26.6	27.1	27.2	27.6
Consumer price inflation, year-end	7.4	13.6	8.5	7.8	4.3	4.5	4.7
Consumer price inflation, average	6.7	6.6	14.6	7.6	5.9	4.4	4.6
GDP deflator	5.8	1.8	13.6	7.3	5.2	4.0	3.4
Real exchange rate change (KZT/US$)	-10.8	-13.9	-26.7	10.7	4.7	3.5	4.0
External Accounts	(Current US$ billions, unless otherwise indicated)						
Merchandise exports, *of which:*	80.3	46.5	37.3	47.2	50.0	53.0	54.8
Oil and gas exports	53.6	26.8	19.4	26.7	28.2	30.2	31.1
Merchandise imports	44.1	33.8	28.1	31.3	32.9	34.6	36.3
Current account balance	6.1	-5.1	-8.9	-6.4	-2.8	-2.1	-2.4
as percent of GDP	2.8	-2.8	-6.5	-4.0	-1.6	-1.1	-1.2
Foreign direct investment, net	4.6	2.9	13.5	5.3	5.4	5.3	5.4
Total official international reserves	102.4	91.3	90.7	85.6	85.4	86.8	89.5
Total external debt	157.6	153.4	163.8	172.4	178.3	182.6	186.4
excluding intra-company loans	78.0	71.4	72.5	76.2	78.2	79.8	81.0
as percent of GDP	35.2	38.7	52.8	47.5	45.1	42.8	40.4
General Government Fiscal Accounts	(Percent of GDP, unless otherwise indicated)						
Revenue	24.5	18.6	19.7	21.1	21.3	21.4	21.2
Expenditure and net lending	23.0	24.7	24.1	25.8	21.3	21.0	21.0
Overall balance	1.5	-6.1	-4.4	-4.6	0.0	0.4	0.2
Consolidated Budget nonoil deficit	-11.0	-12.7	-10.0	-12.6	-8.4	-8.1	-8.0
Net financial assets, stock	18.6	12.5	25.0	15.3	11.9	9.1	6.2
Monetary Accounts	(Percent, unless otherwise indicated)						
Base money growth	10.5	34.3	15.7	6.3	4.7	6.6	5.7
Real growth of credit to the economy	-3.3	-13.2	-10.2	-4.3	0.0	1.2	1.7
Policy rate, year-end	..	16.0	12.0	10.3	..	..	..
Social Indicators	(Percent, unless otherwise indicated)						
Population, total (millions)	17.3	17.5	17.8	18.0	18.3	18.5	18.7
Population growth	1.5	1.5	1.4	1.4	1.4	1.3	1.2
Poverty rate, international US$5.5/day	6.2	7.8	7.8	7.0	6.5	6.0	6.0
Poverty rate, national	2.8	2.7	2.6	..	..	..	..
Inequality – Gini coefficient	27.8	27.8	27.8	..	..	..	..
Official unemployment rate	5.0	5.1	5.0	..	..	..	..
Life expectancy at birth (years)	71.6	72.0	72.0	..	..	..	..

Sources: World Bank staff calculations and estimates based on official data published and provided by the authorities.

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